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DIÁKHITEL

Diákhitel Központ Zártkörűen Működő Részvénytársaság

Individual Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by the EU
31 December 2018

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Individual Financial Statements prepared in accordance with International Financial Reporting Standards

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I. Statement of Comprehensive Income

figures in M HUF

	Note	31 Dec 2018	31 Dec 2017
Interest income calculated using the effective interest method	7	6,018	7,374
Interest expense	7	-4,121	-4,793
Nets interest expense		**1,897**	**2,581**
Insurance premium earned	8	487	712
Claims paid	9	-164	-161
Net trading result	10	0	-65
Other operating income	11	46	39
Change in insurance technical provisions	24	988	-1,666
Net operating profit before impairment loss on loans		**3,254**	**1,440**
Impairment loss on loans	4.1.2	222	4,342
Credit loss expense	3.7	-46	-892
Operating profit (loss), net		**3,430**	**4,890**
Other operating expenses	11	-2,510	-2,557
Pre-tax profit (loss)		**920**	**2,333**
Taxes paid/received	12	-725	-220
Profit (loss) for the year		**195**	**2,113**
Profit (loss) for the year (attributable to the shareholders)		**195**	**2,113**
Profit (loss) for the year		**195**	**2,113**
Other comprehensive income for the period including deferred tax		**195**	**2,113**
Comprehensive profit (loss) for the year		**195**	**2,113**
Comprehensive profit (loss) for the year (attributable to the shareholders)		**195**	**2,113**

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

Budapest, 21 November 2019

dr. Péter Magyar
Chief Executive Officer

II. Statement of Financial Position

figures in M HUF

	Note	31 Dec 2018	31 Dec 2017
Assets			
Cash and cash equivalents	14	478	229
Student loans	15	221,198	226,080
Insurance premium receivables	15	1,345	1,585
Current income tax assets		5	0
Other receivables	16	353	192
Other assets	17	4	3
Properties, plant and equipment	18	182	220
Intangibles assets	19	318	186
Total assets:		**223,883**	**228,495**
Liabilities			
Amounts payable to banks	21	191,554	183,395
Current tax liabilities		0	8
Other liabilities	22	430	577
Provisions	4	258	0
Bonds issued	23	11,447	31,377
Insurance technical provisions	24	2,996	3,984
Deferred tax liability	20	1,344	620
Total liabilities:		**208,029**	**219,961**
Equity			
Issued capital and capital reserve	25	2,500	2,500
Retained earnings	25	3,321	-3,999
Other reserves	25	10,033	10,033
Total equity:		**15,854**	**8,534**
Equity attributable to the shareholders		15,854	8,534
Total equity and liabilities:		**223,883**	**228,495**

Budapest, 21 November 2019

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III. Statement of Changes in Equity

figures in M HUF

Description	Share capital	Capital reserve	Retained earnings	Other reserves Other capital contribution	Total
Opening balance at 01.01.2017	**300**	**2,200**	**-6,112**	**10,033**	**6,421**
Profit/Loss for the year	0	0	2,113	0	2,113
Closing balance at 31.12.2017	**300**	**2,200**	**-3,999**	**10,033**	**8,534**
Effect of implementing IFRS 9 on equity	0	0	7,125	0	7,125
Adjusted opening balance at 01.01.2018	**300**	**2,200**	**3,126**	**10,033**	**15,659**
Profit/Loss for the year	0	0	195	0	195
Closing balance at 31.12.2018	**300**	**2,200**	**3,321**	**10,033**	**15,854**

Budapest, 21 November 2019

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IV. Statement of Cash Flows

figures in M HUF

	Note	31 Dec 2018	31 Dec 2017
Operating cash flows			
Pre-tax profit (loss)		**920**	**2,333**
Adjustments:			
Amortization of intangible assets/depreciation of tangible assets	11	129	156
Gains/losses on the disposal of tangible/intangible assets	11	0	20
Impairment loss on non-financial assets		0	1
Impairment loss on financial assets	4.1.2	-222	-4,342
Claims paid	9,11	209	1,053
Interest income, net	7	-1,897	-2,581
Changes in insurance technical provisions	24	-988	1,666
Corporate income tax paid/received	12	-725	-220
Student loans disbursed		-13,717	-12,843
Student loans repaid		26,953	23,887
Interest received		4,959	5,743
Interest paid		-3,622	-4,479
Net trading result		0	65
Changes in insurance premium receivables		336	397
Changes in other assets		-162	6
Changes in other liabilities		569	215
Operating cash flows, net		**11,822**	**8,744**
Investing cash flows			
Tangible assets acquisitions		-11	-143
Tangible assets disposals		0	1
Intangible assets acquisitions		-211	-110
Investing cash flows, net		**-222**	**-252**
Financing cash flows			
Proceeds of bonds issued		0	0
Repayment of bonds issued		-19,500	-18,136
Amount borrowed from banks		30,285	29,830
Repayment of amounts borrowed from banks		-23,056	-22,501
Financing cash flows, net		**-12,271**	**-10,807**
Net changes in cash and cash equivalents		**249**	**18**
Cash and cash equivalents as of 1 January	14	**229**	**211**
Cash and cash equivalents as of 31 December	14	**478**	**229**

Budapest, 21 November 2019

dr. Péter Magyar

Chief Executive Officer

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V. Notes to the Individual Financial Statements

1. Brief introduction of the Company

Diákhitel Központ Zrt. (hereinafter referred to as: "Company" or "Diákhitel Központ") 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 State.

Since 17 June 2010 the shareholder rights over the Company have been exercised by the Hungarian Development Bank (MFB) 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 the MFB, exercising the ownership rights, declared in the approval of the amended statutes of Diákhitel Központ Zrt. that the executive body of the Company is the Board of Directors, while the operative management of the Company's business activity and organisation shall be carried out by the Chief Executive Officer as general manager. The Supervisory Board oversees the operation of Diákhitel Központ Zrt., and it 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. In accordance with the provisions of Government Decree 1/2012 (I.20) on the student loan scheme, the Student Loan organisation may use its state-guaranteed funds exclusively for the disbursement of student loans, to fulfil its payment obligations incurred on securities issued with a state guarantee and other state-guaranteed financing, to cover its operating costs, and to fulfil its payment obligations incurred on issued securities and other funding.

The State of Hungary shall undertake a guarantee for payment obligations of Diákhitel Központ Zrt. incurred on account of loans drawn and bonds issued in and outside Hungary in order to finance the student loan scheme.

A joint and several state guarantee on used funds is ensured by the following laws:

Section 53 of Act L of 2018 on the Central Budget of Hungary for 2019. §

Section 52 of Act C of 2017 on the Central Budget of Hungary for 2018. §

The Company has no interests in subsidiaries, associates or joint ventures.

Section 9/A (2) of Act C of 2000 on Accounting governs which business entities have to prepare their annual financial statements in line with IFRS standards.
Pursuant to the above section, the Company is not obliged to compile IFRS financial statements.

The Company compiled separate financial statements on 21 March 2019 with a reporting date of 31 December 2018 in accordance with the Hungarian Act on Accounting, which was published in accordance with Act C of 2000 on Accounting.

2. Basis of preparation

2.1. Statement of compliance

The accompanying individual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. New IFRSs and interpretations not applied when preparing the financial statements are presented in Note 3.21.

These financial statements were authorised for issue by the Board of Directors on 21 November 2019.

2.2. Basis of measurement

At initial recognition, assets and liabilities are presented at cost, except for some financial instruments that shall be presented at fair value.

Except for the items listed below, the financial statements have been prepared on a historical cost basis:

- derivative financial instruments are measured at fair value;
  financial instruments measured at fair value through profit or loss are measured at fair value;
  other financial instruments are measured at amortised cost.

2.3. Functional and presentation currency

The functional and presentation currency of Diákhitel Központ Zrt. is the Hungarian forint. Data in the financial statements are presented in HUF million.

2.4. Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make professional judgements, estimates and assumptions that affect the accounting policies applied as well as the reported amounts of assets, liabilities, income and expenses. These estimates and the underlying 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. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period of the revision if the revision affects only the given year, or in the period of the revision and in subsequent periods, if the revision affects both the current and subsequent years.

The Company used estimates with respect to the following:

- ***Fair value measurement of financial assets and liabilities***

  If the fair value of financial assets and liabilities is not measured based on a quoted price in an active market, a valuation model shall be used. Determination of the fair value of financial instruments is presented in Note 6.

- ***Impairment of assets***

Accounting principles relating to the impairment of assets are detailed in Note 3.14, while impairment booked is presented in Chapter 4.

- ***Technical provisions***

The accounting principles of the estimates used by the Company are detailed in Note 3.6, while the amounts of estimates relating to the actuarial model are presented in Note 4.1.3.

- ***Provisions***

The principles underlying the estimates used by the Company are included in Note 3.15. Supplementary notes relating to the actuarial model in connection with the credit risk inherent in the loan commitments of the student loan transactions are detailed in Note 4.1.

2.5. Reclassifications and errors

The Company did not detect any errors after the 2017 annual financial statements were closed.

3. Summary of material accounting policies

Significant accounting policies applied in the preparation of the financial statements are presented below. The accounting policies were applied consistently for the periods covered by these financial statements.

3.1. Changes in accounting policies and disclosure

New and revised standards and interpretations issued by IASB and adopted by the EU, effective from this reporting period, which resulted in changes in the Company's accounting policies.
The Company applies the following standards for the first time in its financial statements for the year beginning on 1 January 2018.

- **IFRS 9 – Financial Instruments** was issued as part of the comprehensive project to replace IAS 39. The standard introduced new requirements regarding classification, measurement, impairment and hedge accounting. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The classification is based on the business model of the entity and the characteristics of contractual cash flows derived from the financial asset.

IFRS 9 adopts a new classification and measurement approach for financial assets, which partly depends on the business model selected – how the Company manages the assets – and partly on the characteristics of the cash flows.
The new standard does not use the IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale financial assets; it replaces them with the following categories:
• Financial assets measured at amortised cost (AC)
• Financial assets measured at fair value through other comprehensive income (FVOCI)
• Financial assets measured at fair value through profit or loss (FVTPL)
IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

The impairment methodology changed considerably; the 'incurred loss' model in IAS 39 was replaced by the "prospective" 'expected credit loss' model under IFRS 9. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The new standard requires to recognise loss allowances for all loans, debt instruments not measured at fair value, loan commitments and financial guarantee contracts based on the expected credit loss model.

The first adoption of IFRS 9 resulted in the change in the opening retained earnings figure for the Company as of 1 January 2018. The effect of transition is described in Note 3.22 Transition disclosures.

- **IFRS 15 – Revenue from Contracts with Customers**

The standard issued in May 2014 sets out a new five-step model for recognising revenue from contracts with customers.

Under IFRS 15, revenue shall be recognised in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the transfer of goods or services to the customer. IFRS 15 provides a more structured approach to the measurement and recognition of revenue.

The Company applies the new standard to account for all revenue derived from customer contracts, with the following exceptions:

- lease contracts that are within the scope of IAS 17 Leases,
- revenues that are within the scope of IFRS 9 Financial Instruments,
- revenue from insurance contracts, where the accounting procedures are within the scope of IFRS 4 Insurance Contracts.

In the case of the Company, most contracts with customers are financial instruments within the scope of IFRS 9, or revenue from insurance contracts within the scope of IFRS 4, therefore IFRS 15 has no significant effect on the Company's comprehensive income and financial indicators.

The services provided by the Company give rise to earned revenues, fees, commissions and other income in connection with mediation and other services, so they are within the scope of IFRS 15. These fees, commissions and other revenues are recognised by the Company based on IFRS 15 when the service is delivered to the customer, and at amounts it deems reasonable for the given service.

Upon transition the Company elected to apply IFRS 15 retrospectively, and to recognise the cumulative effect of the initial application of IFRS 15 as an adjustment to the opening retained earnings figure as of 1 January 2018 for the annual reporting period that includes the date of first adoption, but only for the contracts not yet performed as at the date of the first adoption.

3.2. Accounting for student loan products

The student loan contracts provided by the Company comprise a loan component and an insurance component. The insurance component exists because the entire debt is forgiven in accordance with Section 19 (1) of Government Decree 1/2012 (1.20) on the student loan scheme if the borrower retires under normal retirement, becomes permanently disabled or passes away. The forgiving of a loan debt upon normal retirement or death is equivalent to a financial benefit upon normal retirement or death, and therefore disbursed student loans partially qualify as insurance contracts that are within the scope of IFRS 4.

The Company accounts for 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 statement of cash flows.

Interest income from student loan contracts comprises three components: base interest, operating premium and risk premium. The base interest covers the interest of the original funds, the operating premium covers the operating costs and expenses, and the risk interest premium covers the non-

payment risk of the 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 contracts and the interest elements assigned to the loan component are recognised in the statement of financial position as student loans (cf. Note 3.10.2.a) and in the statement of comprehensive income as interest income (cf. Note 3.3). The interest elements assigned to the insurance component are recognised in the statement of financial position as insurance premium receivables (cf. Note 3.10.2.b) and in the statement of comprehensive income as insurance premium income (cf. Note 3.4).

Details on accounting principles for how the actuarial model works are contained in Notes 3.10 and 3.14, and on loss allowances in Notes 4.1.2 and 4.1.3.

3.3. Net interest income

Under interest income the Company recognises the part of the interest received, due for student loan contracts that relates to the loan component, using the effective interest method.

According to the General Terms and Conditions of the Company, if a borrower is late with payment or fails to pay, Diákhitel Központ charges default interest, which is recognised under interest income.

Default interest rate:

a) for loan contracts concluded before 1 May 2004 the transaction interest rate plus 4 percentage points,

b) for loan contracts concluded after 30 April 2004 the rate is defined pursuant to Section 6:48 of the Hungarian Civil Code.

The targeted interest subsidy (CKT) given to borrowing students in relation to any-purpose loans (Student Loan 1) is recognised under interest income. Pursuant to Section 18 of Government Decree 1/2012 (I.20), students are entitled to targeted interest subsidies for the period of entitlement to infant care benefit, child care benefit, and child care allowance (hereinafter: gyes).

The general interest subsidy (ÁKT), which students taking out limited-purpose loans (Student Loan 2) are entitled to for the duration of the loan contract, is recognised by the Company under interest income on the basis of Section 29 of Government Decree 1/2012 (I.20). Until 30 September 2017 the general interest subsidy is the amount exceeding the interest payable by the borrower based on the interest rate – 2% – as defined in Section 6 (7) of the government decree. Government Decree 290/2017 amended Government Decree 1/2012 from 1 October 2017, based on which the interest on limited-purpose loans is assumed from the borrower by the state for the duration of the loan contract, in the form of a general interest subsidy from the central budget. The rate of the general interest subsidy is the same as the interest calculated for limited-purpose loans.

The effective interest rate (EIR) is the interest rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument (or a shorter period if appropriate) to the net carrying amount of the financial asset or financial liability. The effective interest rate is determined at initial recognition of the financial asset and liability, and for fixed-rate instruments it is not adjusted subsequently, except in special cases, while for floating-rate financial instruments the effective interest is reset upon each re-pricing. When calculating the

effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses.

Based on Government Decree 1/2012 (I. 20) the Company may change the transaction interest rate on student loans for every six-month interest period in the manner set forth in Government Decree 1/2012 (I.20) (if and to the extent justified by financing costs, and changes to the loan risk premium and the premium on other administrative costs). The Company deems the interest on a student loan to be similar to a standard floating-rate arrangement, and therefore the EIR is determined for every six-month interest period based on the current transaction interest rate.

As a result of applying IFRS 9, for the purposes of expected credit loss calculations, in calculating interest income the Company applies EIR to the gross carrying amount in the case of Stage 1 and Stage 2 financial assets (for definition see Notes 3.14 and 4.1.2), while it applies EIR to the gross carrying amount less impairment for Stage 3 financial assets.

Under interest expense the Company recognises the amounts of interest payable on issued bonds and on liabilities to credit institutions (loans drawn) using the effective interest method.

3.4. Premium income, claim expenses

Under premium income the Company recognises the interest received, due on student loans that pertains to the insurance component. The Company recognises the 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 claim expenses the Company recognises the expenses derived from loan write-offs caused by insurance events such as normal retirement, permanent disability or death of the borrower.

3.5. Net trading income/expense

For financial assets and financial liabilities measured at amortised cost, the gain or loss arising on the derecognition of the given instrument or on remeasurement owing to exchange-rate differences is recognised in the profit or loss for the period, within net trading income/expense.

3.6. Technical reserves and changes thereto

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

Subsequent to initial recognition of a technical reserve, the Company remeasures the technical reserve in accordance with the current risk characteristics of the portfolio. The Company recognises any gains or losses on remeasurement – which contain the effect of the unwinding of the discount, the impacts of portfolio changes, and the actuarial gains or losses incurred owing to changes in actuarial assumptions and the difference between actuarial assumptions and reporting-period events – through profit or loss in the 'Changes to technical reserves' item. The Company recognises technical reserves (initial recognition and remeasurement) based on its actuarial model. Details on how the actuarial model works are contained in Note 4.1.3.

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

Since the reserve is remeasured on each reporting date, the Company complies with the minimum criteria for the liability adequacy test under IFRS 4.

3.7. Credit loss

Under credit loss the Company presents the amounts of student loan and insurance premium receivables that are rated unrecoverable, and those that are not rated unrecoverable but are forgiven.

Until the end of 2017 the credit loss was presented in the financial statements on a gross basis, and the derecognition of associated impairment was recognised under "Impairment / provisions booked / reversed on loans".

3.8. Other operating income and expenses

Other operating income includes among others gains and losses on the derecognition and sale of intangible and tangible assets, as well as amounts received subsequently for expired, forgiven student loan receivables.

Other operating expenses comprise costs incurred during operation, typically costs of services used. In addition, this item also includes depreciation, amortisation and booked impairment of tangible and intangible assets, provisions for litigations and other provisions, as well as costs related to employee benefits.

In its normal course of business Diákhitel Központ Zrt. makes defined contributions for the employees to voluntary pension funds, which amounts are accounted for as cost in 'Other operating costs'.

Apart from this, the Company does not provide any post-employment benefits to its employees.

3.9. Tax expense, income

Tax expense, income comprises current and deferred tax. Tax expense, income is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity or in other comprehensive income, when the tax effect is also presented there.

Current tax comprises the expected tax payable on the taxable income for the year calculated using tax rates enacted or substantively enacted at the end of the reporting period, as well as any adjustment to the tax payable in respect of previous periods.

Deferred tax is determined using the balance sheet method, providing for 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 the tax rates that are 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.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities can be offset only if there is a legally enforceable right to set off in respect of income taxes levied by the same taxation authority and the Company intends to settle them on a net basis.

3.10. Financial assets and liabilities

Financial assets and liabilities are recognised at settlement date. The settlement date is the date that an asset is delivered to or by the Company. Based on settlement date accounting, the Company

recognises an asset on the day it is received by the Company. An asset is derecognised and any gain or loss on disposal is recognised on the day that it is delivered by the Company.

At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue or acquisition of the financial asset or financial liability.

Classification, initial recognition and subsequent measurement of financial assets is based on the business model applied by the Company to manage financial assets, as well as the contractual cash flow characteristics of the financial asset.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial instrument is transferred together with all significant risks and rewards.

Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Classification and measurement

Except for impairment, measurement rules did not change as a result of transition to IFRS 9.

Comparative period:

For the comparative period financial assets and financial liabilities were classified into one of the following categories under IAS 39: "cash and cash equivalents", "available-for-sale securities", "loans and receivables", "other financial liabilities".

Reporting period:

IFRS 9 implemented a new approach to the classification of financial assets that is based on contractual cash flow characteristics and the business model applied to manage the asset.
Preliminary analyses were performed for business models and contractual cash flows on the major portfolio of the Company to identify the method of accounting for financial instruments.

The Company's business models are determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.
The Company's business model for managing financial assets is a matter of fact which is typically observable through the activities it undertakes to achieve the objective of the business model. When assessing the business model applied to manage financial assets the Company exercises consideration, and the outcome of the assessment is not based on a single factor or activity, but the Company takes all relevant evidence available at the date of assessment into account. Such relevant evidence includes among others:
a) how the performance of the business model and the financial assets held within the business model is evaluated and reported to key management personnel, the parent company;
b) the risks that affect the performance of the business model (and the financial assets held within the model), and particularly the method for managing these risks; and

c) the way managers of the business are compensated (for example, whether the compensation depends on the fair value of the assets managed or the contractual cash flows collected).

Based on the assessment, for the given portfolio the Company defined the following business models:

Business model	Description, features of the model	Applied to
Business model whose objective is to hold financial assets to collect contractual cash flows ("HTC")	• its objective is to realise the cash flows of the asset by collecting contractual payments made during its term • sales are not an integral part of the business model; instead, they are incidental to it • sales are not inconsistent with this business model	• Student loan transactions • Discounted T-bills • Employee loans
Business model whose objective is to hold financial assets to collect contractual cash flows and **sell** financial assets ("HTAS")	• both collecting contractual cash flow and selling financial assets are integral to the business model • This business model typically involves greater frequency and value of sales than in the HTC business model.	• not relevant
Other business model	• e.g. holding for trading • decisions regarding the given asset are primarily based on its fair value in order to realise potential gains resulting from changes in fair value	• not relevant

Assessment of contractual cash flows (SPPI test)
On initial recognition the Company examines the contractual cash flows of financial assets that are debt instruments, based on which it determines whether the contractual terms of the given financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding, furthermore, taking features connected to the transaction such as prepayment option, cases of extension of term into account (SPPI test passed) or not (SPPI test not passed). The SPPI test is performed and documented by type of financial instruments.

For the purposes of the above

- principal is the fair value of the financial asset at initial recognition;
- interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

The SPPI test is performed for financial assets that are debt instruments at initial recognition.

The above classification principles are not applied to financial assets that are equity instruments. Such assets are classified as measured at fair value through other comprehensive income at initial recognition.

Financial assets and liabilities are typically recognised at amortised cost, except when otherwise required by the standard, or when based on the fair value option the Company has elected recognition as measured at fair value through profit or loss.

Impairment
IFRS 9 replaced the incurred loss model used previously with an expected credit loss model that requires an earlier recognition of impairment. The standard requires entities to account for expected credit losses from when the financial asset is recognised. Accounting for impairment is detailed in Note 3.14.1.

3.10.1. Cash and cash equivalents

The Company recognises the following items as cash and cash equivalents in the statement of financial position and in the statement of cash flows in both the comparative and the reporting period: cash on hand, unrestricted balances on bank accounts held at the Hungarian State Treasury and all investments in debt securities maturing in no more than three months.

Cash and cash equivalents are recognised at amortised cost in the statement of financial position as at the end of the period.

3.10.2. Financial assets measured at amortised cost

(Comparative period: Loans and receivables IAS 39)

In the reporting period financial assets measured at amortised cost (in the comparative period loans and receivables) include financial assets with fixed or determinable payments that are not quoted in an active market.

Initially these assets are recognised at fair value plus direct transaction costs. Subsequent to initial recognition, financial assets are measured at amortised cost less impairment losses using the effective interest method.

Financial assets measured at amortised cost (in the comparative period loans and receivables) include student loans, insurance premium receivables and other financial assets within other receivables.

a) Student loans

Amounts disbursed under the student loan contracts and the interest assigned to the related loan component (cf. Note 3.2) are recognised in the statement of financial position as student loans, net of repayments and accumulated impairment losses. Loans are recognised when such are actually disbursed to the borrowers (settlement date). 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 substantially all of the risks and rewards of ownership are transferred. Student loans are initially recognised at fair value plus any directly attributable transaction costs; subsequently they are recognised at amortised cost using the effective interest method, less any impairment losses. Detailed information on the impairment of student loans is included in Note 3.14.1. 'Impairment of financial assets'.

b) Insurance premium receivables

The interest assigned to the insurance component (cf. 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 accumulated impairment losses. Insurance premium receivables are initially recognised at fair value plus any directly attributable transaction costs; subsequently they are recognised at amortised cost using the effective interest method, less any impairment losses. Detailed information on the impairment of insurance premium receivables is included in Note 3.14.1. 'Impairment of financial assets'.

c) Other receivables

Other receivables primarily include trade receivables, advances to employees and miscellaneous receivables.

Subsequent to initial recognition at fair value, other receivables are recognised at amortised cost in the statement of financial position.

Trade receivables are recognised based on IFRS 15. Revenue shall be recognised in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the transfer of goods or services to the customer.

For trade receivables and contract assets (that may result from transactions within the scope of IFRS 15) the Company always measures the loss allowance at an amount equal to lifetime expected credit losses if they do not contain a significant financing component or relate to contracts that have a duration of less than one year.

If these assets contain a significant financing component, based on its accounting policy choice and the option provided by the standard, the Company still uses the simplified method, i.e. measures the loss allowance at an amount equal to lifetime expected credit losses.

3.10.3. Financial liabilities measured at amortised cost

(Before 1 January 2018 - IAS 39 - Other financial liabilities)

This category includes liabilities other than financial liabilities measured at fair value through profit or loss. The Company classifies liabilities to credit institutions, issued bonds and financial liabilities within other liabilities into this category.

Financial liabilities measured at amortised cost are recognised initially at fair value. Subsequent to initial recognition these liabilities are measured at amortised cost using the effective interest method.

Under this method discounts and premiums (including fees, transaction costs and other premiums or discounts) are recognised over the remaining term of the related instrument using the effective interest rate of the instrument. For fixed-rate financial liabilities the effective interest rate determined at initial recognition does not change during the term, except in special cases, while for floating-rate financial liabilities the effective interest is reset upon each re-pricing.

a) Liabilities to credit institutions

The Company considers all drawdowns to be separate loan debts. The effective interest rate is determined separately for each drawdown. Thereafter, for fixed-rate financial liabilities the effective interest rate does not change during the term, except in special cases, while for floating-rate financial liabilities the effective interest is reset upon each re-pricing. If the initial fair value of

the drawn loan differs from the amount actually disbursed, thought must be given to recognising the difference. If the initial fair value of any loan drawn by the Company from the Hungarian Development Bank (MFB, which exercises the shareholder rights over the Company) is lower than the amount of the loan actually disbursed, then the Company recognises the difference under "Other reserves" as a capital contribution received.

b) Issued bonds

The Company also issues 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 cost of the bonds the Company also takes into consideration the issue discount or premium and the transaction costs arising during the issue.

c) Other financial liabilities

Under other liabilities the Company primarily recognises liabilities to suppliers and third parties, apart from tax-type liabilities.

3.11. Other assets

Under other assets the Company mainly recognises purchased packaging, promotional gifts and vouchers purchased for employees.

3.12. Tangible assets

Tangible assets, including leasehold improvements, are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditure related to tangible assets is capitalised only if this results in future economic benefits for the Company. All other subsequent costs are accounted for as expense in the period when incurred.

Depreciation is accounted for following the capitalisation of the asset and is calculated using the straight-line method based on the useful life. The useful lives for the individual tangible asset categories were the following in the periods covered by the financial statements:

Property	
Land	indefinite useful life, no depreciation
Leasehold improvements	~17 years
Plant, equipment, fittings, vehicles	
Technical equipment	~7 years
Administration equipment	~7 year
IT equipment	~3 years
Vehicles	5 years
Other equipment	
Office furniture and equipment	~7 years

Depreciation of tangible assets is included in the statement of comprehensive income under "Other operating expenses".

Tangible assets are subject to an impairment test if any event or changes in circumstances indicate that the carrying amount might not be recovered. The carrying amount of an asset is immediately written down to the recoverable amount if the asset's carrying amount is higher that its estimated recoverable amount. Accounting for impairment is detailed in Note 3.14.2.

Residual values and useful lives of assets are reviewed at each reporting date and are adjusted if necessary.

The net gain or loss on disposal or scrapping of tangible assets is recognised in "Other operating income" or "Other operating expenses", as appropriate, in the year of disposal or scrapping.

3.13. Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, which are used for providing services or administration purposes.

Intangible assets are recognised initially at cost, and subsequently at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are written down over their useful lives using the straight-line method from the date of first use.

Useful lives used for intangible assets in the reported periods were as follows:

Rights and concessions	5 years
Software	5 years

Amortisation of intangible assets is recognised in the statement of comprehensive income under "Other operating expenses".

Intangible assets are subject to an impairment test if any event or changes in circumstances indicate that the carrying amount might not be recovered. The carrying amount of an intangible asset is immediately written down to the recoverable amount if the asset's carrying amount is higher that its estimated recoverable amount. Accounting for impairment is detailed in Note 3.14.2.

Residual values and useful lives of intangible assets are reviewed at each reporting date and are adjusted if necessary.

The net gain or loss on disposal or scrapping of intangible assets is recognised in "Other operating income" or "Other operating expenses", as appropriate, in the year of disposal or scrapping.

3.14. Impairment

3.14.1. Impairment of financial assets

a) Reporting period accounting in accordance with IFRS 9

Effective from 1 January 2018, the Company applies IFRS 9 rules to impairment of financial assets. The Company has to recognise loss allowance for expected credit loss.
At each reporting date the Company examines and assesses whether the credit risk of the financial asset has increased significantly since initial recognition.

A new three-level model was established to comply with the requirements of IFRS 9. Under the new impairment methodology, financial instruments are categorised in order to determine a significant increase in the credit risk since initial recognition, and to enable identification of financial assets impaired under IFRS 9. For instruments that are credit impaired or for which credit

risk has increased significantly since initial recognition, lifetime expected credit loss (for definition see Note 4.1.2) is accounted for. If the credit risk has not increased significantly since initial recognition, the Company will account for 12-month expected credit loss (for definition see Note 4.1.2).

In this assessment the Company takes all available information into account, including forward-looking information, based on an expected credit loss model.

Impairment recorded and reversed is recognised in profit or loss as impairment loss/gain.

The Company determines impairment of student loans and other financial assets as set out below.

Impairment of student loans and insurance premium receivables

In line with IFRS 9, a specific impairment model had to be designed that meets the unique characteristics of student loans.
The most important of these characteristics from the perspective of the impairment model are as follows:

- The loans are disbursed over several years, and the loan repayments only start thereafter.
- The repayment instalment depends on the borrower's income and changes over time.
- When insurance events occur, the remaining loan debt is forgiven and written off. Such events include the death, permanent disability or retirement of the borrower.
- The amount of the credit facility for the entire term of the contract cannot be predicted in advance, which is an irrevocable obligation for Diákhitel Központ.

The impairment of live contracts is calculated in a stochastic model. This means that every contract follows a random path, and the portfolio-level results are the average of the large number of random paths.

The stability of the stochastic model depends on the number of contracts in the portfolio and the number of the random paths. A stable result per contract can only be obtained with unrealistic calculation capacity, which is why, based on IFRS 9 paragraph B.5.5.4, GPPC paragraphs 2.1.2.9-10 and 2.1.3.4, and based on EBA recommendation sections 49-53, homogenous portfolio groups were established in which the stochastic valuation for each group is considered to be stable. So impairment is calculated at group level.

When developing the impairment model we took into account the guidelines in paragraphs B5.5.49-51 of IFRS 9, according to which all relevant and available information was taken into account when calculating the impairment.

Methodology for classification into portfolios

To calculate the impairment, the entire portfolio was segmented into groups that are homogenous from a risk perspective but are sufficiently fragmented so that the grouping does not obscure individual behaviour. To determine relevant segmenting variables we examined the marginal impairment rates based on the different values of the individual variables, and the same for combinations of variables. On this basis, for those not yet repaying (those with borrowing and in waiting status) we segmented based on contract term and the amount of the loan drawn, while for those already repaying we also used the number of repayment months, the income category, and if

not in default, the in arrears indicator for the last 12 months (0-1, yes - no). In both cases, when creating the groups we took into account the stage classification of the contracts too, i.e. the stage classification of the contracts in a group is the same.

The model calculates rates for impairment, provisions and technical reserves for the groups created in this way. These grouping rules were recorded in the system of Diákhitel Központ as well, and every contract is classed into one of the defined groups based on the set rules. The impairment is then calculated for these groups, as a product of the loan debt and the impairment rate for the given group.

Expected loss calculation

Impairment is calculated at group level by an actuarial calculation model using stochastic valuations.

The model inputs can be divided into two groups: contract-level data and external assumptions. The former contains client data, study data, as well as data on repayments and arrears. The latter contains portfolio-level assumptions and parameters. This includes assumptions on mortality and morbidity, as well as general economic assumptions. The latter outline macroeconomic developments, including inflation forecasting, expected rises in real wages, and expected future cost of funds of Diákhitel Központ.

IFRS 9 requires that future economic trends be taken into account during the calculation of impairment, and that their impact be incorporated into the calculation method. In addition to the forward-looking economic assumptions mentioned in the previous paragraph, through labour market variables – such as wage growth dependent on age, scientific field and career path – as well as the inactivity rate indicators, future expectations are implemented in the model that make these expected trends part of the impairment.

The methodology for calculating the total expected loss is as follows:

$$Expected\ loss\ =\ Loan\ outstanding + Expired\ debt\ - \sum_t \frac{CF_t}{(1+EIR_t)^t}$$

where EIR_t indicates the effective interest rate of period t less the insurance premium, and CF_t is the expected cash flow elements for period t, which are as follows:

- Payment (normal, bullet, state interest-subsidy) (+)
- Write-offs due to insurance event (death, disability, retirement) (+)
- Recovery of expired debt and cancelled contract (repayment, bullet repayment) (+)
- Loan placement (-)
- Insurance premium (-)

On this basis, during the calculation of impairment and provisions the result of the insurance component (write-off from insurance event and the insurance premium) is separated.

Both lifetime expected loss and 12-month expected loss can be calculated using the above methodology.

Breaking expected loss down to impairment and provision

According to IFRS 9, the as yet unused amount of the (maximum) credit facility along with the related provision must be recorded. Similarly to the impairment calculated for outstanding receivables, a provision rate per portfolio group is determined for the unused portion of the credit facility.

On this basis the principal debt outstanding on the valuation date and the loan placements still expected are recorded separately in the impairment model. Thereafter, the expected loss is divided between impairment and provision in proportion to the outstanding principal debt and the disbursement still expected. Subsequently, the provision rate is determined based on the as yet unused portion of the maximum credit facility per contract.
When determining the impairment rate, the portion of expected loss pertaining to the impairment is divided by the loan debt for the category.

Modelling methodology for insurance component

For student loan products the insurance risks and the financial risks have to be separated and the insurance component shall be treated in accordance with IFRS 4. Accordingly, the following approach is followed in the actuarial model to record technical reserves prospectively for the risk of insurance components:

$$Technical\ reserve = \sum_t \frac{Claim\ payment_t}{(1+r_t)^t} - \sum_t \frac{Insurance\ premium_t}{(1+r_t)^t}$$

where

- r_t is the discount rate for period t;
- $Claim\ payment_t$ is the write-off in period t for insurance reasons (death, disability, retirement), including insurance write-offs for expired debt.
- $Insurance\ premium_t$ is the premium separated for the insurance risk in period t.

The insurance premium is separated from the risk premium in proportion to the insurance and financial risk during the premium calculation. This means the ratio of the present value of net write-offs from the entire insurance risk and the present value of financial net write-offs determines the ratio of the insurance premium and the premium pertaining to impairment within the entire risk premium.

IFRS Stage classification methodology

According to IFRS 9, the IFRS Stage classification can be based on the internal client rating system of the given entity. However, since law dictates that Diákhitel Központ is obliged to disburse loans to all students applying for a loan who meet the statutory requirements, no loan assessment process takes place in advance for clients. As a result, Diákhitel Központ does not employ an internal client rating system. There would be a significant extra cost to developing an internal client rating system

for Diákhitel Központ, a system that would not fulfil any other function. The possible introduction of a rating system would also be hampered by the fact that the information needed by law to set up the system is limited. Consequently, based on IFRS 9 B.5.5.16 and B.5.5.51, Diákhitel Központ does not apply rating categories for calculating impairment.
Based on the above, classification into IFRS 9 Stages can be based on all available information that describes the risk that is characteristic of the contract.

Information taken into account in the disbursement phase, which can indicate a significant credit risk later on, when entering the repayment phase:

- client's position in school ranking;
- client's studying conduct (missed semesters, transfers, active/passive status).

For contracts where repayment has started, classification into IFRS 9 Stages is based on the degree of default, i.e. the number of days in default, because dynamic classification is impracticable in the case of student loans. The applied threshold is 90 days.

The methodology for calculating the impairment for the individual Stage categories is presented in Note 4.1.2.

Impairment of other financial assets

IFRS 9 requires to recognise a loss allowance for expected credit loss at initial recognition of a financial asset.

The Company wants to use the practical expedient regulated by paragraphs B5.5.35 and 5.5.17 of IFRS 9.
To estimate the initial credit loss for these financial assets, the Company uses its historical experience. In subsequent periods it assesses the increase in credit risk individually. The Company uses the following objective evidence to identify an increase in initial credit risk:

- the partner has defaulted;
- the partner has entered bankruptcy;
- the partner has entered liquidation.

Impairment is accounted for in profit or loss.

b) Comparative period accounting in accordance with IAS 39

At each reporting date the Company assesses whether there is an indication that financial assets are impaired. A financial asset is considered impaired when there is objective evidence that one or more events have occurred after the initial recognition of the financial asset that have an adverse impact on the estimated future cash flows of the asset. When there is objective evidence of impairment, the Company accounts for impairment on individually significant assets individually, while impairment is assessed on an individual or portfolio basis for the other assets.

The Company determines impairment of student loans and other financial assets as set out below.

Impairment of student loans and insurance premium receivables

For student loans and insurance premium receivables the Company identified no items which were individually significant, and so for student loans impairment was assessed on a portfolio basis.

The Company defined the following portfolios:

Valid contracts

- ***Portfolio of student loans not in default*:** The Company classifies the following student loans and insurance premium receivables in the portfolio of student loans not in default

1. Contracts being disbursed and awaiting repayment
2. Contracts being repaid and not in arrears

- ***Portfolio of student loans in default*:** The Company's portfolio of contracts in default is as follows:

1. Contracts being repaid with arrears of 1-30 days
2. Contracts being repaid with arrears of 31-60 days
3. Contracts being repaid with arrears of 61-90 days
4. Contracts being repaid with arrears of 91-210 days
5. Contracts being repaid with arrears of 211-300 days
6. Contracts being repaid with arrears of 301+ days

Cancelled contracts

- **Portfolio of cancelled contracts:** *This contains the student loans cancelled by either the client or the Company, broken down as follows:*

1. Borrowers paying in instalments: student loans where the Company has agreed to instalments with the borrower. **
2. Portfolio of receivables transferred to tax authority for collection: student loans that have been transferred to the National Tax and Customs Authority (NAV) for collection.
3. Other cancelled contracts: Student loans that have not been repaid, no payment in instalments request has been received and they have not been transferred to the tax authority.

***Borrowers paying in instalments**

As a form of payment relief the Company can permit clients to pay in instalments. Payment relief is only possible for clients whose entire debt is due in one amount. In the event of payment relief, instead of collection by the tax authority the debt is paid directly to the Company based on an agreement on payment by instalments.

The length of any payment relief can be no more than 10 years. Over the period of the payment relief, the client is obliged to repay the debt together with interest. The debt can be repaid in monthly instalments. The monthly repayment instalment is calculated on an annuity basis with a minimum monthly amount and a maximum permitted term. Impairment is recognised based on the actuarial model in accordance with the calculation method for cancelled contracts.

The individual portfolios are treated separately from one another by the Company, and the level of impairment is also calculated separately. The impairment for the individual portfolios is determined using the actuarial model.

Portfolio-based impairment

Items for which there is no individual need to record impairment are subject to an impairment test, and impairment is assessed on a portfolio basis using credit risk characteristics. Portfolio-based impairment is recorded at the end of the reporting period for the expected losses that the Company might sustain owing to claims not yet identified. When determining this impairment the Company takes into account historical data on losses relating to portfolios with similar credit risk characteristics.
Portfolio-based impairment is assessed based on methodology that takes into account properly designed sub-portfolios, historical loss data and the expected loss on individual contract statuses. The Company determines the level of portfolio-based impairment based on expected cash flows projected on the strength of contract statuses and other credit risk characteristics.

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

Impairment of other financial assets

For this assets the Company assesses impairment individually. The Company uses the following objective evidence to identify whether an asset is impaired:

- the partner has defaulted;
- the partner has entered bankruptcy;
- the partner has entered liquidation.

Impairment of financial assets recorded at amortised cost is calculated as the difference between the carrying amount and the present value of estimated future cash flows. Impairment is accounted for in profit or loss.

3.14.2. Impairment of non-financial assets

If external or internal circumstances indicate that an asset may be impaired, the given asset is tested for impairment. Assets in respect of which depreciation or amortisation was accounted for are tested for impairment if there is any indication that their carrying amount will not be recovered.

An impairment loss is recognised if the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Value in use is based on the estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset that have not been considered in the cash flow estimates.

The Company annually assesses whether there is any indication that an impairment loss recognised previously may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount of that asset. An impairment loss recognised previously may be reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. An impairment loss shall be reversed only to the extent that the asset's carrying amount does not exceed the recoverable amount and the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Impairment is recorded and reversed against the "Other

operating expenses" and "Other operating income" items in the statement of comprehensive income.

3.15. Provisions

Under IAS 37 a provision shall be recognised if, as a result of a past event, the Company has a present obligation (legal or constructive), and it is probable that an outflow of resources embodying economic benefits will be required to fulfil the obligation, furthermore, the amount of the obligation can be estimated reliably.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation on the reporting date, taking risks and uncertainties surrounding the obligation into account. If a provision is measured using the cash flows expected to be required to settle the present obligation, the carrying amount of the provision equals the present value of those cash flows.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the receivable is recognised as an asset when it is virtually certain that reimbursement will be received and the amount of the receivable can be estimated reliably.

Present obligations under onerous contracts are recognised as a provision. The Company considers a contract onerous when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The provision for expected future liabilities is recognised under "Other operating expenses".

Under IFRS 9 a provision shall be recognised for the expected credit loss of loan commitments. The amount of the provision related to student loans is determined based on the actuarial model. The amount of the provision is recognised under "Impairment, provision booked on loans".

3.16. 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 less direct issue costs. Capital increases are recognised in equity from the date the value of the shares can be demanded from shareholders.

3.16.1. Capital reserve

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

3.16.2. Retained earnings

This reserve comprises the profits and losses of the reporting year and previous periods, and the impacts of changes to the accounting policies.

3.16.3. Other reserves

Other reserves comprise the difference between the initial fair value and the actual amount disbursed of the low-interest loan drawn from the MFB, as a capital contribution.

3.17. Government grants

The Company applies the rules for accounting for and disclosing government grants and disclosing other forms of government assistance in line with the provisions of IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs shall be recognised as income of the period in which it becomes receivable.

At its discretion, the Company applies the gross presentation method for presenting government grants related to assets, so they are recognised separately as deferred income that is amortised over the useful life of the asset.

3.18. Segment information

IFRS 8 "Operating Segments" stipulates how listed entities should present information in financial statements on their operating segments, the products and services they produce and their geographical breakdown. Application of the standard is compulsory if the entity's debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).

Since 2012, when limited-purpose loans were introduced, Diákhitel Központ Zrt. has been selling two types of student loans: Student Loan 1 and Student Loan 2. The proportion of the new product fell short of 10% in 2017 in terms of both revenues and assets, and the geographical breakdown of its product sales does not give the Company's management information that can be used for decision-making purposes.

Since in 2017 total revenue, profit or loss, assets and liabilities of the Company belong to a single identified operating segment, the Company does not disclose segment information.

Bonds issued by the Company were withdrawn from regulated market trading on 9 November 2018.

Following the withdrawal of the bonds, the Company is not obliged to present operating segment information as of 31 December 2018.

3.19. New IFRSs applied since 1 January 2018

New and amended standards and interpretations issued by IASB and adopted by the EU effective from this reporting period that did not change the accounting policies of the Company

- **Amendments to IFRS 2 Share-based Payment** – Classification and measurement of share-based payment transactions.
- **Amendments to IFRS 4 Insurance Contracts** – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

3.20. Early application of new standards

In its 2018 annual financial statements the Company did not apply early new standards; it plans to apply the new standards when they are effective.

3.21. New IFRSs 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 2018, and have not been applied in preparing these financial statements.

New and amended standards and interpretations issued by IASB and adopted by the EU that are not yet effective:

- **IFRS 16 Leases** was issued in January 2016; it requires lessees to recognise an asset and a liability related to the lease for most of leases. The new standard is effective for financial years beginning on or after 1 January 2019; however, early application is permitted if an entity also applies the new standard on revenue (IFRS 15 Revenue from Contracts with Customers).

The estimated impacts that the first application of IFRS 16 is expected to have on individual financial statements are presented below. The actual impacts of adoption the standard on 1 January 2019 may change because the new accounting policies under IFRS 16 are subject to change until the Group presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single accounting model for lessees, based on which the lessee recognises a right-of-use asset representing its right to use the underlying asset and an obligation to make lease payments, that is, a lease liability. Lessees shall recognise interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. In addition, lessees shall remeasure the lease liability if certain events occur (such as a change in the lease term, a change in future lease payments on account of changes in the indices or interest rates used to determine the lease payments). A lessee recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. There are recognition exceptions for short-term leases and leases for which the underlying asset is of low value. Lessor accounting is similar to the provisions of the current standard, so lessors still shall classify each of their leases as either a finance lease or an operating lease.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives,* and SIC-27 *Evaluating the Substance of Transactions involving the Legal Form of a Lease*. Moreover, IFRS 16 includes more extensive disclosure requirements than IAS 17.

The Company acting as a lessee

The Company will recognise new assets and liabilities for transactions previously considered operating leases. Operating lease payments were previously recognised in profit or loss on a straight-line basis over the term of the lease. The nature of expenses related to these leases will now change due to the transition to IFRS 16 since the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

For all the asset categories used at the Company, the non-lease components of the contracts are separated; these components are still accounted for as costs when incurred.

In line with the exemptions permitted by the standard, the Company decided not to apply the requirements of the standard for short-term leases and leases for which the underlying asset is of low value.

Based on information currently available, the Company is expected to recognise right-of-use assets amounting to HUF 527 million, and owing to the new requirements the carrying amount of lease liabilities is likely to increase as of 1 January 2019 by HUF 527 million. Owing to the new

requirements the depreciation charge is expected to rise by HUF 99 million, while the interest expense related to lease liabilities is likely to increase by HUF 14 million in 2019. The above amounts relate to the office building leased by the Company.

The Company had no finance leases as a lessee on transition to IFRS 16, and so the adoption of IFRS 16 will not have a significant impact in this respect.

The Company acting as a lessor

The Company has no lease transactions as a lessor, therefore transition to IFRS 16 is not expected to have significant effects.

Transition

The Company applies IFRS 16 for the first time as of 1 January 2019 and chose the modified retrospective approach to transition, meaning that the cumulative effect of the initial application of the standard is recognised as an adjustment to the opening balance of retained earnings at the date of first adoption.

The Company passed the following decisions in connection with transition to IFRS 16:

- At the date of initial application the Company reassesses whether the contract is a lease or contains a lease under IFRS 16.
- For leases previously classed as operating leases under IAS 17, the right-of-use asset recognised as of the date of initial application is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.
- The Company applies the expedients permitted by the standard for short-term leases. On transition to IFRS 16 the remaining term for all asset groups is less than 1 year.
- The Company excludes initial direct costs from the measurement of the right-of-use asset at the date of initial application.

- **Amendments to IFRS 9 Financial Instruments** – Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for reporting periods beginning on or after 1 January 2019);

- **Amendments to IAS 19 Employee Benefits** – Plan Amendment, Curtailment or Settlement – adopted by the EU on 13 March 2019 (effective for reporting periods beginning on or after 1 January 2019);

- **Amendments to IAS 28 Investments in Associates and Joint Ventures** – Long-term interests in associates and joint ventures – adopted by the EU on 8 February 2019 (effective for reporting periods beginning on or after 1 January 2019);

- **Amendments to some standards - Annual Improvements to IFRSs (2015-2017 Cycle)** –

Amendments resulting from the IFRS Improvement Project to individual standards (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily to eliminate inconsistencies and clarify guidance (effective for reporting periods beginning on or after 1 January 2019);

- **IFRIC 23 Uncertainty over Income Tax Treatments** – adopted by the EU on 23 October 2018 (effective for reporting periods beginning on or after 1 January 2019).

Standards and interpretations issued by IASB an not yet adopted by the EU:

- **IFRS 17 Insurance Contracts** was prepared to establish consistent, principle-based accounting rules for insurance contracts – it requires to measure insurance liabilities at a so called current fulfilment value; furthermore, it requires to apply a more standardised measurement and presentation procedure for all insurance contracts.
  IFRS 17 replaces IFRS 4 Insurance Contracts and related interpretations, and it is applicable to periods beginning on or after 1 January 2021. Early application is permitted if the entity already applies IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments.

  The Company is currently analysing the effect of the application of the standard on its financial statements.

3.22. Transition disclosures

The adoption of IFRS 15 as at 1 January 2018 did not result in any change in the opening retained earnings figure for the Company as of 1 January 2018. The other operating income items include the reporting-period revenue from contracts with customers calculated based on IFRS 15.

As at 1 January 2018 the Company transitioned to IFRS 9 from IAS 39, which resulted in changes in the classification and recognition of financial instruments as well as in the impairment methodology.

As at 31 December 2017 financial assets were classified into the loans and receivables category in accordance with IAS 39. As at 1 January 2018, based on the business model and SPPI test performed, under IFRS 9 financial assets were measured at amortised cost.

In the case of financial liabilities, financial liabilities categorised as at 31 December 2017 as other financial liabilities have been measured at amortised cost since 1 January 2018.

The Company has no assets or liabilities measured at fair value through profit or loss or at fair value through other comprehensive income, has no derivative transactions and it does not apply hedge accounting.

The following table shows reconciliation of closing balances of assets as at 31 December 2017 (in accordance with IAS 39) and the balances as at 1 January 2018 in accordance with new measurement and impairment requirements of IFRS 9. In these tables balances as at 31 December

2017 (in accordance with IAS 39) have been adjusted because of the application of the new measurement and impairment rules so that balances as at 1 January 2018 be determined in compliance with IFRS 9.

	31.12.2017	Measurement	01.01.2018
Assets			
Cash and cash equivalents	229	0	229
Student loans	226,080	7,300	233,380
Insurance premium receivables	1,585	51	1,636
Other receivables	192	0	192
Other assets	3	0	3
Tangible assets	220	0	220
Intangible assets	186	0	186
Total assets:	228,495	7,351	235,846
Liabilities			
Liabilities to credit institutions	183,395	0	183,395
Current tax liabilities	8	0	8
Other liabilities	577	0	577
Provisions	0	226	226
Issued bonds	31,377	0	31,377
Technical reserves	3,984	0	3,984
Deferred tax liabilities	620	0	620
Total liabilities:	219,961	226	220,187
Shareholders' equity			
Share capital and capital reserve	2,500	0	2,500
Retained earnings	-3,999	7,125	3,126
Other reserves	10,033	0	10,033
Total equity	8,534	7,125	15,659

As a result of transition to IFRS 9 impairment was reversed, due to the fact that initially 12-month expected credit loss was accounted for instead of accounting for lifetime expected loss applied previously under IAS 39. The amount of provision relates to the expected loan commitment related to the implementation of IFRS 9.

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
- prepayment 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 monitoring of changes in the risk environment.

Organisational framework for risk management related to financing

The financing activity of Diákhitel Központ is facilitated by the Government Debt Management Agency. The basic funding principles set forth in the financing strategy are used to prepare an annual Financing Plan in text format, and monthly plans in figures, with the help of the MFB; besides the Shareholder of the Company this is also approved by the Minister of Finance in the prevailing Budget Act. The Company's Financing Committee generally convenes once a month, and it makes decisions on all financing transactions within the annual framework approved by the Shareholder and the Minister at the same time as the Financing Plan, taking into account current data regarding core activities as well as market conditions.

Internal control system

The Company designs its internal controls in accordance with relevant legislation and the recommendations of the National Bank of Hungary on the design and operation of internal safeguards.

Part of the Company's internal control functions involves a risk management function that is aimed at ensuring 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 mitigate the risks.

4.1.2. Credit risk

Credit risk means the potential 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 and insurance premium receivables.

Management of credit risk

To forecast credit risks associated with student loans and insurance premium receivables the Company employs a credit risk and actuarial model designed by an independent, external actuary. Based on historical data from the student loan system, other demographic and higher education data as well as future expectations and forecasts, the model determines the risk premium to be charged to clients in the interest on student loans so that this covers the expected loss generated by credit risks and so the loan system functions in a sustainable manner.

Credit risks are partially managed by the Company's collections department, where soft collection methods are used to reach borrowers who are not paying properly. If the conditions set forth in legislation occur, the Company is entitled to cancel the contracts with the clients concerned and transfer their debts to the tax authority, after which they become collectible like taxes. The amounts collected by the tax authority are then forwarded to Diákhitel Központ.

Structure and operation of the model

In the interests of random event convergence the model does not use model points in groups, each contract is evaluated as a separate model point.
All model points follow a stochastic, random path in the model. This approach enables paths per contract, and the execution of various sensitivity analyses if there is a suitably large number of paths. The model calculates the loan placements expected each month, the income from repayments and targeted interest subsidies, the repayment of overpayments, financing costs and other operating costs, amounts recovered from cancelled contracts, as well as changes in balance sheet items (total loan amount, reserves, etc.). The level of impairment and the annual premium can be determined with the help of such projected profits and losses.

The actuarial model also calculates the provision to be recorded for the expected credit cover regarding the insurance reserve and the loan commitments.

Examination of non-payment odds, borrowers in arrears

Every month the models allocate a status to each model point, which together with other parameters – given in the model point table or as an input – determines the cash flows related to the model point in the given month. The contracts in the models are sorted into the following statuses: under disbursement, awaiting repayment, in repayment – not in arrears, in arrears (grouped according to level of arrears), cancelled (collection or payment relief), GYES, disability, repaid, death or retirement age reached. The model assumes that all status changes take place in the middle of the month and all cash movements occur at the end of the month. Depending on their nature, the transitions between the statuses can be deterministic, independent or stochastic. The transition from the waiting period to the repayment period is deterministic, meaning it happens if the contract reaches the pre-defined durations of individual periods. The probability of moving into the death, disability and GYES statuses is the same from all other non-absorbing statuses. The sizes of the transitions were determined on the basis of publicly available statistics for the entire population but

adjusted with expert estimates. The probabilities of transitions into arrears statuses and from there to cancellation or to paying status are determined by transition probabilities defined with multi-variable analysis. The transition probabilities between statuses are determined by the following model point parameters: gender, income, age, principal debt, area of science, number of months in default, and how long has the client been in the repayment status.

The following table shows the ratio of contracts cancelled in the calendar year owing to non-payment compared to the number of contracts under repayment at the start of the year.

	31 December 2018	31 December 2017
Student Loan 1	1.07%	1.30%
Student Loan 2	2.29%	3.40%

The table below presents the exposure of the Company to credit risk at the end of reporting periods:

Credit risk	31 December 2018	31 December 2017
Cash and cash equivalents	478	229
Student loans	249,927	263,100
Insurance premium receivables	1,556	1,892
Other financial assets	305	152
Loan commitments	179,485	166,005
Maximum value of assets exposed to credit risk as at 31 December	**431,751**	**431,378**

Presentation of impairment

2017 Measurement under IAS 39

The table below shows breakdown as at the end of 2017 of the Company's portfolio exposed to credit risk, for which impairment was assessed on a portfolio basis:

31 December 2017

Credit risk	Neither past due nor impaired	Not past due but impaired	Past due and impaired	Total
Cash and cash equivalents	229	0	0	**229**
Student loans	0	186,258	76,842	**263,100**
Insurance premium receivables	0	1304	588	**1,892**
Other financial assets	152	0	0	**152**
Maximum value of assets exposed to credit risk as at 31 December	**381**	**187,562**	**77,430**	**265,373**

Impaired loans

The Company does not assess impairment on student loans and insurance premium receivables per contract, but for portfolio groups created using a set methodology, i.e. on a portfolio basis.

Methods used for calculating impairment

- *Impairment of valid contracts:*
  a) For contracts that can be classified into one of the following categories at the time of the assessment:
     - Contracts being disbursed and awaiting repayment,
     - Contracts being repaid and not in arrears,
     - Contracts in arrears for no more than two months,

     The amount of impairment equals the difference between the provision recorded under Hungarian accounting rules and the technical reserve. Calculation of reserve recorded under Hungarian accounting rules: Difference between expected losses and the present value of expected cash flows calculated using the effective interest rate.

  b) For contracts in arrears for at least three months at the time of the assessment there is considered to be objective evidence regarding their impairment.

     The amount of the impairment is the difference between the outstanding loan debt and the present value of expected cash flows calculated using the effective interest rate. The effective interest rate is the loan interest rate less the risk premium for insurance risks.

- *Impairment of cancelled contracts:*

For contracts that can be classified into one of the following categories at the time of the assessment:

- borrowers paying in instalments (payment relief agreement)

- contracts transferred to the tax authority,
- other cancelled contracts (expected to be transferred to tax authority, or payment relief agreement)

The impairment of cancelled contracts contains missed recoveries from terminated contracts. This is also calculated by discounting expected cash flows with the effective interest rate above, and by calculating the difference between the present value thus determined and the debts. When calculating the expected cash flows, the model takes into account the time elapsed since the cancellation of the contract and the amount of the principal debt upon cancellation.

The following table presents impairment booked by the Company in 2017

31 December 2017

Student loans	Student Loan 1			Student Loan 2			Total		
	Gross value	Booked impairment	Net value	Gross value	Booked impairment	Net value	Gross value	Booked impairment	Net value
Valid contracts	**212,183**	**19,171**	**193,012**	**24,949**	**603**	**24,346**	**237,132**	**19,774**	**217,358**
Contracts being disbursed and awaiting repayment	37,430	4,380	33,050	16,993	76	16,917	54,423	4,456	49,967
Contracts being repaid, not in arrears	125,686	4,354	121,332	6,149	163	5,986	131,835	4,517	127,318
Contracts being repaid with arrears of 1-30	8,263	494	7,769	263	20	243	8,526	514	8,012
Contracts being repaid with arrears of 31-60 days	9,022	802	8,220	555	61	494	9,577	863	8,714
Contracts being repaid with arrears of 61-90 days	5,820	752	5,068	296	52	244	6,116	804	5,312
Contracts being repaid with arrears of 91-210 days	13,135	3,015	10,120	386	111	275	13,521	3,126	10,395
Contracts being repaid with arrears of 211-300 days	7,216	2,827	4,389	209	81	128	7,425	2,908	4,517
Contracts being repaid with arrears of 301+ days	5,611	2,547	3,064	98	39	59	5,709	2,586	3,123
Cancelled contracts	**25,793**	**17,159**	**8,634**	**175**	**87**	**88**	**25,968**	**17,246**	**8,722**
Borrowers paying in instalments	8,268	5,467	2,801	36	18	18	8,304	5,485	2,819
Receivables transferred to tax authority for collection	15,435	10,431	5,004	105	52	53	15,540	10,483	5,057
Other cancelled contracts	2,090	1,261	829	34	17	17	2,124	1,278	846
Total balance at 31 December	**237,976**	**36,330**	**201,646**	**25,124**	**690**	**24,434**	**263,100**	**37,020**	**226,080**

Insurance premium receivables	Student Loan 1			Student Loan 2			Total		
	Gross value	Booked impairment	Net value	Gross value	Booked impairment	Net value	Gross value	Booked impairment	Net value
Valid contracts	**1,656**	**162**	**1,494**	**34**	**0**	**34**	**1,690**	**162**	**1,528**
Contracts being disbursed and awaiting repayment	292	37	255	23	0	23	315	37	278
Contracts being repaid, not in arrears	981	37	944	8	0	8	989	37	952
Contracts being repaid with arrears of 1-30 days	65	4	61	0	0	0	65	4	61
Contracts being repaid with arrears of 31-60 days	70	7	63	1	0	1	71	7	64
Contracts being repaid with arrears of 61-90 days	45	6	39	1	0	1	46	6	40
Contracts being repaid with arrears of 91-210 days	103	25	78	1	0	1	104	25	79
Contracts being repaid with arrears of 211-300 days	56	24	32	0	0	0	56	24	32
Contracts being repaid with arrears of 301+ days	44	22	22	0	0	0	44	22	22
Cancelled contracts	**202**	**145**	**57**	**0**	**0**	**0**	**202**	**145**	**57**
Borrowers paying in instalments	65	46	19	0	0	0	65	46	19
Receivables transferred to tax authority for collection	121	88	33	0	0	0	121	88	33
Other cancelled contracts	16	11	5	0	0	0	16	11	5
Total balance at 31 December	**1,858**	**307**	**1,551**	**34**	**0**	**34**	**1,892**	**307**	**1,585**
Receivables related to student loan clients as at 31 December	**239,834**	**36,637**	**203,197**	**25,158**	**690**	**24,468**	**264,992**	**37,327**	**227,665**

2018 measurement under IFRS 9

Calculation of Stage 1 impairment

Under IFRS 9, if, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the loss allowance for that financial instrument shall be measured at an amount equal to 12-month expected credit losses, i.e. expected credit losses that result from default events that are possible within the 12 months after the reporting date.
Diákhitel Központ defines "default" as falling behind on payments for more than 90 days.

The Company does not assess impairment on student loans and insurance premium receivables per contract, but for portfolio groups created using a set methodology, i.e. on a portfolio basis.

Calculation of Stage 2 and Stage 3 impairment

The lifetime expected credit loss is credit loss that results from all possible default events over the expected life of a financial instrument.

The difference in treatment between Stage 2 and Stage 3 groups is found with the accounting for impairment under IFRS 9 requirements, there is no difference between the two groups in terms of modelling. Consequently, the impairment for Stage 2 and Stage 3 groups is calculated the same way.

For student loans and insurance premium receivables in Stage 2 and Stage 3 lifetime expected loss is calculated in line with IFRS 9 requirements, as follows: the impairment for individual portfolio groups is calculated as the difference between the existing loan debt and the present value of the expected cash flows calculated using the effective interest rate. In this case the effective interest rate is the loan interest rate less the risk premium for insurance risks.

The time that previously defaulted contracts have to spend in a non-default status before they can be considered cured is set by the Company at 3 months.

The following table presents impairment booked by the Company in 2018

31 December 2018

Student loans	Student Loan 1			Student Loan 2			Total		
	Gross value	Booked impairment	Net value	Gross value	Booked impairment	Net value	Gross value	Booked impairment	Net value
STAGE 1	**152,371**	**1,540**	**150,831**	**25,385**	**166**	**25,219**	**177,756**	**1,706**	**176,050**
Contracts being disbursed, not disbursable, awaiting repayment	30,440	95	30,345	16,428	35	16,393	46,868	130	46,738
Contracts with repayment obligation started, not in arrears or with suspended repayment	113,983	1,193	112,790	8,501	114	8,387	122,484	1,307	121,177
Contracts with repayment obligation started, with arrears of 1-30 days	7,948	252	7,696	456	17	439	8,404	269	8,135
STAGE 2	**17,676**	**2,458**	**15,218**	**3,468**	**264**	**3,204**	**21,144**	**2,722**	**18,422**
Contracts being disbursed, not disbursable, awaiting repayment	2,294	183	2,111	2,163	44	2,119	4,457	227	4,230
Contracts with repayment obligation started, not in arrears or with suspended	1,049	58	991	9	0	9	1,058	58	1,000
Contracts with repayment obligation started, with arrears of 31-60 days	8,989	1,291	7,698	800	112	688	9,789	1,403	8,386
Contracts with repayment obligation started, with arrears of 61-90 days	5,344	926	4,418	496	108	388	5,840	1,034	4,806
STAGE 3	**49,178**	**23,656**	**25,522**	**1,849**	**645**	**1,204**	**51,027**	**24,301**	**26,726**
Contracts with repayment obligation started, with arrears of 91-120 days	4,449	956	3,493	345	78	267	4,794	1,034	3,760
Contracts with repayment obligation started, with arrears of 121-150 days	3,388	858	2,530	197	54	143	3,585	912	2,673
Contracts with repayment obligation started, with arrears of 151-180 days	2,609	735	1,874	132	37	95	2,741	772	1,969
Contracts with repayment obligation started, with arrears of 181-300 days	9,399	3,672	5,727	600	227	373	9,999	3,899	6,100
Contracts with repayment obligation started, with arrears of at least 301 days	4,959	2,255	2,704	264	110	154	5,223	2,365	2,858
Terminated and not settled contracts	24,374	15,180	9,194	311	139	172	24,685	15,319	9,366
Balance at 31 December	219,225	27,654	191,571	**30,702**	**1,075**	**29,627**	**249,927**	**28,729**	**221,198**

Insurance premium receivables	Student Loan 1			Student Loan 2			Total		
	Gross value	Booked impairment	Net value	Gross value	Booked impairment	Net value	Gross value	Booked impairment	Net value
STAGE 1	**1,006**	**11**	**995**	**18**	**0**	**18**	**1,024**	**11**	**1,013**
Contracts being disbursed, not disbursable, awaiting repayment	155	1	154	15	0	15	170	1	169
Contracts with repayment obligation started, not in arrears or with suspended repayment	788	8	780	3	0	3	791	8	783
Contracts with repayment obligation started, with arrears of 1-30 days	63	2	61	0	0	0	63	2	61
STAGE 2	**133**	**20**	**113**	**4**	**0**	**4**	**137**	**20**	**117**
Contracts being disbursed, not disbursable, awaiting repayment	11	1	10	3	0	3	14	1	13
Contracts with repayment obligation started, not in arrears or with suspended repayment	10	1	9	0	0	0	10	1	9
Contracts with repayment obligation started, with arrears of 31-60 days	69	10	59	1	0	1	70	10	60
Contracts with repayment obligation started, with arrears of 61-90 days	43	8	35	0	0	0	43	8	35
STAGE 3	**393**	**180**	**213**	**2**	**0**	**2**	**395**	**180**	**215**
Contracts with repayment obligation started, with arrears of 91-120 days	35	8	27	0	0	0	35	8	27
Contracts with repayment obligation started, with arrears of 121-150 days	29	7	22	0	0	0	29	7	22
Contracts with repayment obligation started, with arrears of 151-180 days	23	6	17	0	0	0	23	6	17
Contracts with repayment obligation started, with arrears of 181-300 days	86	33	53	1	0	1	87	33	54
Contracts with repayment obligation started, with arrears of at least 301 days	47	22	25	0	0	0	47	22	25
Terminated and not settled contracts	173	104	69	1	0	1	174	104	70
Balance at 31 December	**1,532**	**211**	**1,321**	**24**	**0**	**24**	**1,556**	**211**	**1,345**
Receivables related to student loan clients as at 31 December	**220,757**	**27,865**	**192,892**	30,726	1,075	29,651	251,483	28,940	222,543

Changes in impairment booked are presented below:

Changes to impairment	Student Loan 1	Student Loan 2	total
Opening balance at 1 January 2017	**40,928**	**741**	**41,669**
Reporting-year impairment	0	0	0
Reversal in the reporting year	-4,291	-51	-4,342
Closing balance at 31 December 2017	**36,637**	**690**	**37,327**
Impact of transition to IFRS 9	-7,222	-129	-7,351
Opening balance at 1 January 2018	**29,415**	**561**	**29,976**
Reclassification between stages	-1,726	870	-856
Net remeasurement of loss allowance	0	0	0
Increase due to origination and purchase	10	12	22
Decrease due to derecognition	-894	0	-894
Reduction in the allowance account due to write-offs	-782	0	-782
Booked recoveries of amounts previously written off	0	0	0
Change (net) arising from updating the estimation methodology	1,842	-368	1,474
Closing balance at 31 December 2018	**27,865**	**1,075**	**28,940**

Ratio of impairment for cancelled contracts was as follows:

year	Student Loan 1	Student Loan 2
2018	62.3%	44.6%
2017	66.6%	49.7%

The following table presents the amount of provision recognised for student loan loan commitment at the end of the reporting periods:

31 December 2018

Loan commitment	Student Loan 1		Student Loan 2		Total	
	Gross value	Provision	Gross value	Provision	Gross value	Provision
STAGE 1	82,833	1	50,473	0	133,306	1
STAGE 2	10,602	218	4,310	39	14,912	257
STAGE 3	27,730	0	3,537	0	31,267	0
Balance at 31 December	**121,165**	**219**	**58,320**	**39**	**179,485**	**258**

31 December 2017 **Impact of transition to IFRS 9**

Loan commitment	Student Loan 1		Student Loan 2		Total	
	Gross value	Provision	Gross value	Provision	Gross value	Provision
STAGE 1	83,315	1	41,765	0	125,080	1
STAGE 2	9,532	196	3,217	29	12,749	225
STAGE 3	26,287	0	1,889	0	28,176	0
Balance at 31 December	**119,134**	**197**	**46,871**	**29**	**166,005**	**226**

Changes to provisions recognised:

Changes to provisions	Student Loan 1	Student Loan 2	total
Opening balance at 1 January 2017	**0**	**0**	**0**
Provisions recognised in the reporting year	0	0	0
Reversal in the reporting year	0	0	0
Closing balance at 31 December 2017	**0**	**0**	**0**
Impact of transition to IFRS 9	**197**	**29**	**226**
Opening balance at 1 January 2018	**197**	**29**	**226**
Provisions recognised in the reporting year	22	10	32
Reversal in the reporting year	0	0	0
Closing balance at 31 December 2018	**219**	**39**	**258**

4.1.3. Insurance risk

Management of insurance risk

The risk premium charged in the interest on student loans also 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 or permanent disability. The actuarial model designed to estimate the risk premium is developed and operated by an independent, external actuary, where the insurance risks are considered separately from the credit risks. To calculate the risks, life expectancy 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 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 valid contracts. When calculating the reserve, the portion of the student loan costs that pertains to insurance risks 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 plus 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 costs and cost margins are identical. The technical reserve equals the difference between the present value of the expenses calculated using the interest on original funds and the present value of the premiums using the interest on original funds. The calculation of the insurance reserve is based on many assumptions.

Student Loan 1

Share of risks	**2018 H2**	**2018 H1**	**2017 H2**	**2017 H1**
Death	4.24%	6.06%	6.06%	7.84%
Disability	6.53%	8.80%	8.80%	10.33%
Retirement	1.08%	1.60%	1.60%	5.20%
Insurance risk total	11.85%	16.46%	16.46%	23.37%
Non-payment	88.15%	83.54%	83.54%	76.63%
Financial risk total	88.15%	83.54%	83.54%	76.63%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Student Loan 2

Share of risks	**2018 H2**	**2018 H1**	**2017 H2**	**2017 H1**
Death	3.02%	3.64%	3.64%	3.56%
Disability	3.61%	5.08%	5.08%	6.26%
Retirement	0.14%	0.17%	0.17%	1.76%
Insurance risk total	6.77%	8.89%	8.89%	11.58%
Non-payment	93.23%	91.11%	91.11%	88.42%
Financial risk total	93.23%	91.11%	91.11%	88.42%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

In addition to those listed above, insurance risks do not include any other risks related to reaching a defined age, legal relationship, etc. There is not any significant known concentration of insurance risks.

The tables below contain the assumptions used in calculations relating to financing interest, operating premium and wage inflation:

Student Loan 1

31 December 2018	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026+**
Financing interest	0.80%	1.31%	1.84%	2.40%	2.85%	3.19%	3.46%	3.53%
Operating premium	1.08%	1.29%	1.30%	1.38%	1.44%	1.52%	1.58%	1.58%
Wage inflation	4.70%	4.56%	4.44%	4.21%	4.21%	4.21%	4.21%	4.21%

Student Loan 2

31 December 2018	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026+**
Financing interest	0.80%	1.31%	1.84%	2.40%	2.85%	3.19%	3.46%	3.53%
Operating premium	1.12%	1.29%	1.30%	1.38%	1.44%	1.52%	1.58%	1.58%
Wage inflation	4.70%	4.56%	4.44%	4.21%	4.21%	4.21%	4.21%	4.21%

Student Loan 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%
Wage inflation	4.96%	4.40%	4.38%	3.59%	3.59%	3.59%	3.59%	3.59%	3.59%

Student Loan 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%
Wage inflation	4.96%	4.40%	4.38%	3.59%	3.59%	3.59%	3.59%	3.59%	3.59%

Assumptions used for calculating impairment of valid contracts and technical reserves for Student Loan 1 and Student Loan 2:

- The **minimum wage** in 2018 amounted to HUF 138,000, that is the smallest compulsory amount of the basic wage for full-time employees pursuant to Government Decree 430/2016 (XII.15). During the modelling the minimum wage in effect on 31 October of the year prior to the first day of the cash flow projection was applied, which is prescribed by Government Decree 1/2012 (I.20) on the student loan scheme. Previous-year provisions set this amount at HUF 127,500 pursuant to Government Decree 430/2016 (XII.15). The minimum wage assumption increased compared to the assumptions used for the year-end reserve allocation in 2017 by 8.2%.

  Collection rate: Relevant assumptions for Student Loan 1 were defined based on previous collection and payment data on cancelled contracts. Cancelled contracts are grouped according to the amount of principal debt (low, medium, high). The expected success of the collection also depends on the time of the cancellation. The five-year period for collecting student loan debts can be extended even for an indefinite period by repeated enforcements as a result of the amendment of the act approved in 2011. Collection rates on contracts cancelled at the end of 2018 were defined based on the contractual price established between Diákhitel Központ Zrt. and MKK Magyar Követeléskezelő Zrt. in December 2018. The impairment of valid contracts amounts to 61%/57%/52% for the principal debt categories.
  At the end of 2017 the collection rates were 62%/62%/51%. These collection rates were applied for the Student Loan 2 model too.

- Estimates on **life expectancy** were made based on the life expectancy table for 2013. The difference in life expectancy data of the Student Loan 1 model and that anticipated according to the life expectancy table was analysed. Based on the results, modifying factors dependent on age and gender were defined when assessing reserves.

- **Disability** figures were calculated in accordance with national data and a modifying factor was applied based on the analysis of Student Loan 1 data.

- **Probability of bullet repayment:** The probability of bullet repayment based on the Student Loan 1 data is defined depending on the status and the amount of the remaining loan with a separate definition for contracts being repaid and in arrears.

The table below contains the probability data derived from experimental data in accordance with the assumptions made and used during pricing.

The probability of bullet repayment in the disbursement and pre-repayment period is zero.

Probability of bullet repayment

Student Loan 1 - Student Loan 2

Loan amount (HUF)	Contracts being repaid	Contracts in arrears	Contracts being repaid	Contracts in arrears
	31 December 2018		31 December 2017	
0 - 500,000	17.08%	11.34%	17.47%	9.67%
500,001 - 1,000,000	6.81%	3.63%	7.13%	3.20%
1,000,000 - 1,500,000	3.57%	1.97%	3.76%	1.94%
1,500,001 - 2,000,000	2.12%	1.21%	2.28%	1.16%
2,000,001 -	1.09%	0.60%	1.18%	0.63%

- **Probability and rate of prepayment:** The model defines the rate of prepayment as a percentage of the amount of repayment in regular instalments, and assumes it will occur once a year. The estimate is based on the Student Loan 1 portfolio data.

Depending on the amount of the annual compulsory repayment prescribed, different rates and probabilities of prepayment can be expected. Based on the information available, the model used the assumptions below:

Probability of prepayment

Student Loan 1 - Student Loan 2

Type	31 December 2018			31 December 2017		
	Prescribed repayment amount	Probability of prepayment	Prepayment as a percentage of the annual repayment amount	Prescribed repayment amount	Probability of prepayment	Prepayment as a percentage of the annual repayment amount
Low	0 -	48.62%	49.55%	0 - 100,000	49.62%	55.15%
Medium	100,001 - 2	49.61%	23.26%	100,001 - 200,000	49.69%	24.43%
High	200,001 -	48.55%	12.86%	200,001 -	50.30%	13.98%

- **Starting income:** Starting income figures are based on actuarial analysis, which relies on the income database prepared by the National Pension Insurance Directorate in 2014. A starting income appropriate for the given gender and education and the assumed income category (pessimistic, average, optimistic) is

assigned randomly to every contract. The starting income increases year by year with the wage growth factor dependent on the contracting party's age. The retrospective assessment of experimental income data required the introduction of a new income category: inactive. In the model, the income of inactive workers remains below the prevailing minimum wage throughout the repayment period. Furthermore, the monitoring and updating of the starting income table was introduced.

Age-dependent wage growth: Starting wages and salaries and the growth thereof depend on the scientific area as well as the borrower's gender and age. Starting wages and salaries were defined by data from the National Pension Insurance Directorate. It assigns an assumed random carrier path to the contract, to which it allocates an annual wage growth factor.

Sensitivity test of reserves:

The table below analyses the impacts of changing the assumptions that affect reserves the most.

Sensitivity analysis for insurance reserve calculations

Student Loan 1	Original assumption	31 December 2018 Amended assumption	Reserve	change	Original assumption	31 December 2017 Amended assumption	Reserve	change
Using fundamental assumptions			**2,901**				**3,965**	
Mortality (relative to life expectancy)	by age group*	+10%	2,957	1.93%	90%	80%	3,815	-3.78%
		-10%	2,767	-4.62%		100%	4,125	4.04%
Disability (relative to nationwide figures)	by age group*	+10%	3,042	4.86%	70%	60%	3,724	-6.08%
		-10%	2,723	-6.14%		80%	4,184	5.52%
Real wage growth		-1%	3,183	9.72%		-1%	4,629	16.75%
		+1%	2,668	-8.03%		+1%	3,490	-11.98%
Collection rate for cancelled contracts	Based on MKK contract	62%/58%/53%	2,898	-0.10%	62%/62%/51%	61%/61%50%	3,965	0.00%
		60%/56%/51%	2,855	-1.59%		63%/63%/52%	3,965	0.00%
Risk premium	0.64%	-0.1%	2,955	1.86%	0.5%	0%	4,053	2.22%
		+0.1%	2,793	-3.72%		0%	3,891	-1.87%
Cost of funds		-1%	2,648	-8.72%		-1%	3,387	-14.58%
		+1%	3,269	12.69%		1%	4,862	22.62%
Pricing			3,273	12.82%			4,693	18.36%

Student Loan 2	Original assumption	31 December 2018 Amended assumption	Reserve	change	Original assumption	31 December 2017 Amended assumption	Reserve	change
Using fundamental assumptions			**95**				**19**	
Mortality (relative to life expectancy)	by age group*	+10%	116	22.11%	90%	80%	8	-57.89%
		-10%	89	-6.32%		100%	32	68.42%
Disability (relative to nationwide figures)	by age group*	+10%	109	14.74%	70%	60%	1	-94.74%
		-10%	70	-26.32%		80%	37	94.74%
Real wage growth		-1%	111	16.84%		-1%	34	78.95%
		+1%	78	-17.89%		+1%	15	-21.05%
Collection rate for cancelled contracts	Based on MKK contract	62%/58%/53%	94	-1.05%	62%/62%/51%	61%/61%50%	19	0.00%
		60%/56%/51%	91	-4.21%		63%/63%/52%	19	0.00%
Risk premium	1.45%	-0.1%	125	31.58%	1.51%	-0.1%	35	84.21%
		+0.1%	66	-30.53%		0.1%	5	-73.68%
Cost of funds		-1%	111	16.84%		-1.0%	36	89.47%
		+1%	80	-15.79%		1.0%	15	-21.05%
Pricing			175	84.21%			85	347.37%

Technical reserves are sensitive to changes in assumptions about real wage growth, life expectancy and disability, whereas assumptions on collection rates have less of an impact on reserves. Changes to the risk premium rate also have a significant influence on the reserve level.

During the pricing sensitivity review, calculations were made applying annual pricing conditions, which differ from the assumptions on year-end reserves primarily in economic assumptions (real wage growth, cost of funds, operating expenses, default interest).

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

interest period	risk premium	
	Student Loan 1	Student Loan 2
01.01.2017-30.06.2017	0.97%	1.08%
01.07.2017-31.12.2017	0.50%	1.51%
01.01.2018-30.06.2018	0.50%	1.41%
01.07.2018-31.12.2018	0.64%	1.45%

4.1.4. Liquidity risk

Liquidity risk is the risk that the Company will be unable to 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 facility agreements for many years, where 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 facility can offer a temporary solution and lower the liquidity risk.

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

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

Liquidity risk	Carrying amount	Expected cash flows	Within 1 month	Between 1-3 months	Between 3 months and 1 year	Between 1-5 years	Over 5 years
31 December 2018							
Cash and cash equivalents	478	0	0	0	0	0	0
Student loans	221,198	273,144	10,558	4,242	19,257	99,409	139,678
Insurance premium receivables	1,345	1,554	71	26	118	567	772
Other financial receivables	305	305	254	0	2	4	45
Non-derivative financial liabilities							
Liabilities to credit institutions	-191,554	-206,265	-242	-2,833	-79,728	-86,607	-36,855
Other financial liabilities	-148	-148	-138	-10	0	0	0
Issued bonds	-11,447	-11,770	0	0	-385	-11,385	0
	20,177	**56,820**	**10,503**	**1,425**	**-60,736**	**1,988**	**103,640**

Liquidity risk	Carrying amount	Expected cash flows	Within 1 month	Between 1-3 months	Between 3 months and 1 year	Between 1-5 years	Over 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 receivables	152	152	0	101	2	48	1
Non-derivative financial liabilities							
Liabilities to credit institutions	-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**

The above expected cash flows were determined by the Company taking into account future principal receivables and liabilities arising from the contract of the individual financial instruments for the remaining term, and the undiscounted cash flows caused by interest and other fees.

The table shows the expected cash flows of Diákhitel Központ as derived from the Company's current contracts. Since 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 may turn negative in the short term. However, the Company's market-based financing has been stable in the last few years; this is set up with the professional support of the Government Debt Management Agency and approved by the Minister of Finance.

4.1.5. Market risk

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

Management of market risks

Due to the special rules on student loans and Diákhitel Központ (such as the method for setting interest) there is no interest risk affecting the Company's profit or loss, as the interest risks must be passed on to clients. Classical credit institution operations and risk management require duration matching of assets and liabilities to enable the two sides of the balance sheet to react in identical ways to market yield fluctuations and thus to ensure that interest margins remain mostly unchanged so the institution can protect itself against interest rate risk by adjusting the balance sheet structure. Based on this principle Diákhitel Központ should create a weighted combination of several financing instruments on the liabilities side as well to reflect the short-term, half-year and from then on continuously decreasing duration (i.e. re-pricing every six months) of the student loans (the Company's assets), since it cannot change duration on the asset side of the balance sheet (this would only be possible by significantly changing the terms and conditions of the student loans as products). Such financing, however, would result in the overwhelming dominance of floating-rate financial instruments with highly negative consequences, and large-scale volatility in the interest rate of student loans. In addition, this is also technically difficult to execute given that in classical banking practice there are a number of instruments on both the asset and the liabilities sides for duration matching, which are not available or not suitable for the Company.

For managing interest and exchange rate risks the Company can basically alter the ratio of fixed and floating-rate debt instruments and select the duration of assets used. The Company adjusts its structure of liabilities so that student loan interest can be reduced while decreasing yields, but restricts the scope for unexpected sudden market yield increases appearing in student loan interest. Based on public debt management experience, the Company's financing strategy determines the

development of the fixed/floating ratio depending on market opportunities as recommended by the Government Debt Management Agency (ÁKK), taking into account the characteristics of liabilities with different interest rates and durations, their market availability and their interest sensitivity.

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

Interest rate risk	**31.12.2018**	**31.12.2017**
Fixed rate	3	4
Floating rate	222,547	227,670
Interest-bearing assets	**222,550**	**227,674**
Fixed rate	-86,135	-100,877
Floating rate	-116,866	-113,895
Interest-bearing liabilities	**-203,001**	**-214,772**

A change of 50 basis points in the HUF interest and a change of 10 basis points in the EUR interest would have the following effect on the profit or loss and equity of the Company.

Cash flow sensitivity	**31 December 2018**			**31 December 2017**		
	Increase (basis points)	**Shareholders' equity**	**Profit or loss**	**Increase (basis points)**	**Shareholders' equity**	**Profit or loss**
Floating-rate instruments (HUF)	50	891	891	50	952	952
Floating-rate instruments (EUR)	10	-38	-38	10	-37	-37
Cash flow sensitivity, net		**853**	**853**		**915**	**915**

Currency risk can arise from exchange rate swings for the forint and the euro and between various foreign currencies. However, at the time the financial statements were prepared Diákhitel Központ had no assets or liabilities denominated in foreign currency.

4.1.6. Prepayment risk

Prepayment 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 prepay seem beneficial from a financing and cash flow perspective as they promote complete 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 by them for a shorter period. The Company currently manages this risk by integrating expected prepayments into the model applied for estimating the risk premium and reserves. There are no other measures – penalty fees, time restrictions – applied for prepayments.

5. Capital management

Diákhitel Központ Zrt. is engaged in "other lending", which it performs as a business organisation under the applicable government decree, and apart from some minor exceptions it is not within the scope of the Act on Credit Institutions and Financial Enterprises. Consequently, 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 resources are 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 values of financial instruments

The accounting policies and disclosures of the Company require measurement of fair values for financial assets and liabilities. In the reporting period the Company had no financial assets and liabilities measured at fair value.

Fair value is the amount for which assets are sold, liabilities are settled in an arm's length transaction between knowledgeable parties.

In the case of an active market, fair values of assets and liabilities are measured based on available quoted prices (Level 1). If no uncontrolled prices are available, the fair value is determined using valuation techniques that use observable market data. Such techniques include for example comparison with similar instruments for which observable market prices exist, discounted cash flow models, option pricing models and other valuation techniques generally used by other market participants (Level 2). For financial instruments it is possible that fair values are determined fully or in part by using valuation techniques that use assumptions not supported by prices from current market transactions or by observable market data (Level 3).

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

Cash and cash equivalents

For cash and cash equivalents carrying amounts approximate well the fair values of the assets.

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 operating premiums, in these financial statements we assume 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.

Liabilities to credit institutions

A significant portion of the loans drawn by Diákhitel Központ are floating-rate loans, and all such instruments were re-priced in December 2018.

The fair value of the loans was calculated at a discounted rate based on the yields on the HUF market as of 31 December 2018 and the average premium calculated based on reference government securities during the Company's bond issues. Discountable cash flow elements for floating-rate forint instruments were estimated based on forward yields calculated from 3-month forint swap yield curves on Reuters, and the own contractual interest premium on individual loans and instalments. In the case of MFB loans bearing interest on a EURIBOR basis, discountable cash flow elements were estimated based on forward yields calculated from 3-month euro swap yield curves on Reuters and the own contractual interest premium on the loan. The fair value of loans differs from their carrying amount.

Issued bonds

The bonds issued publicly by the Company bear fixed interest. All of the bond series have 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 of the benchmark government security valid when the fair value was calculated, this yield is used to discount the expected cash flows of the given bond series.

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

Fair values of financial instruments

31 December 2018

Instruments measured at amortised cost	Total carrying amount	Total fair value
Cash and cash equivalents	478	478
Student loans	221,198	221,198
Insurance premium receivables	1,345	1,345
Other financial receivables	305	305
Total financial assets	**223,326**	**223,326**
Liabilities to credit institutions	191,554	192,961
Other financial liabilities	148	148
Issued bonds	11,447	11,643
Total financial liabilities	**203,149**	**204,752**

31 December 2017

Description	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents	229	0	229	229
Student loans	226,080	0	226,080	226,080
Insurance premium receivables	1,585	0	1,585	1,585
Other financial receivables	152	0	152	152
Total financial assets	**228,046**	**0**	**228,046**	**228,046**
Liabilities to credit institutions	0	183,395	183,395	178,844
Other financial liabilities	0	281	281	141
Issued bonds	0	31,377	31,377	52,230
Total financial liabilities	**0**	**215,053**	**215,053**	**231,215**

Fair value hierarchy

31 December 2018

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Assets					
Assets presented at fair value	**223,326**	**223,326**	**478**	**0**	**222,848**
Bank deposits, cash	478	478	478	0	0
Student loans	221,198	221,198	0	0	221,198
Insurance premium receivables	1,345	1,345	0	0	1,345
Other financial receivables	305	305	0	0	305
Liabilities					
Liabilities presented at fair value	**203,149**	**204,752**	**0**	**204,604**	**148**
Liabilities to credit institutions	191,554	192,961	0	192,961	0
Other financial liabilities	148	148	0	0	148
Issued bonds	11,447	11,643	0	11,643	0

31 December 2017

	Carrying amount	Fair value	Level 1	Level 2	Level 3
Assets					
Assets presented at fair value	**228,046**	**228,046**	**229**	**0**	**227,817**
Bank deposits, cash	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 receivables	152	152	0	0	152
Liabilities					
Liabilities presented at fair value	**215,053**	**231,215**	**0**	**231,074**	**141**
Liabilities to credit institutions	183,395	178,844	0	178,844	0
Other financial liabilities	281	141	0	0	141
Issued bonds	31,377	52,230	0	52,230	0

7. Interest income and interest expense

Interest income and interest expense of financial assets measured at amortised cost is presented in the following table:

Interest income	**2018**	**2017**
Student loan interest income*	6,018	7,374
Total	**6,018**	**7,374**

*Includes interest elements of student loans related to the loan component

Interest expense	**2018**	**2017**
Bond interest	**442**	**1,100**
Interest on long-term loans	**3,678**	**3,692**
EIB loan interest	1,725	1,849
MFB loan interest	1,946	1,782
Takarékbank loan interest	7	61
Interest on standby loans	**1**	**1**
MKB loan interest	1	1
Total	**4,121**	**4,793**
Net interest income	**1,897**	**2,581**

Details of student loan interest income	2018			2017		
	Student Loan 1	Student Loan 2	Total	Student Loan 1	Student Loan 2	Total
Student loan interest income received	***3,257***	***0***	***3,257***	***4,308***	***111***	***4,419***
-interest income on cost of funds	*1,106*	*0*	*1,106*	*2,037*	*39*	*2,076*
-interest income on risk premium	*816*	*0*	*816*	*1,098*	*41*	*1,139*
-interest income on operating expenses	*1,335*	*0*	*1,335*	*1,173*	*31*	*1,204*
Student loan interest income due to capitalisa	**1,170**	**0**	**1,170**	**1,615**	**209**	**1,824**
-interest income on cost of funds	*427*	*0*	*427*	*795*	*84*	*879*
-interest income on risk premium	*272*	*0*	*272*	*446*	*65*	*511*
-interest income on operating expenses	*471*	*0*	*471*	*374*	*60*	*434*
Interest subsidy (targeted, general)	**245**	**945**	**1,190**	***275***	**494**	**769**
-interest income on cost of funds	83	223	306	*130*	169	299
-interest income on risk premium	101	315	416	*74*	136	210
-interest income on operating expenses	61	407	468	*71*	189	260
Amount transferred from interest income to insurance premium income	**-431**	**-56**	**-487**	***-659***	***-53***	**-712**
Student loan default interest *	**877**	**11**	**888**	***1,068***	**6**	**1,074**
Total	**5,118**	**900**	**6,018**	**6,607**	**767**	**7,374**

*Default interest income includes the amount of interest income actually received in relation to impaired student loans.

8. Insurance premium income

Based on the calculation of the actuarial model, the Company calculates insurance premium income using the distribution ratio of risk premium elements, that is, it multiplies the amount of the risk

premiums and operating premiums for the period with the insurance risk ratio. The distribution of risks is detailed in Note 4.1.3.

Insurance premium income	2018			2017		
	Student Loan 1	Student Loan 2	Total	Student Loan 1	Student Loan 2	Total
Risk premium for the period	1,189	315	1,504	1,618	242	1,860
Operating premium for the period	1,867	407	2,274	1,608	498	2,106
Total premiums	***3,056***	***722***	***3,778***	***3,226***	***740***	***3,966***
Of which premium income	**431**	**56**	**487**	**659**	**53**	**712**

9. Claim expenses

Claim expenses	2018			2017		
	Student Loan 1	Student Loan 2	Total	Student Loan 1	Student Loan 2	Total
Loans written off due to death	142	4	146	128	7	135
Loans written off due to disability	17	1	18	26	0	26
total	**159**	**5**	**164**	**154**	**7**	**161**

The assumptions on morbidity and mortality are reviewed during every pricing, and modifying factors are defined based on the data of previous years.
Estimated expenses incurred as a result of losses and the actual losses are shown in the table below:

year	Student Loan 1				Student Loan 2			
	Loans written off due to death		Loans written off due to disability		Loans written off due to death		Loans written off due to disability	
	estimated	actual	estimated	actual	estimated	actual	estimated	actual
2017	131	128	197	26	9	7	13	0
2018	133	142	200	17	11	4	16	1

10. Net trading expense

Net trading expense includes the loss on repurchase of bonds issued by Diákhitel.

Net trading expense	2018	2017
Loss on repurchase of financial instruments	0	-65
Total net trading expense	**0**	**-65**

11.Other operating income and expenses

Other operating income	2018	2017
Income from forgiven, expired receivables	28	15
Income from government grants	0	20
Other	18	4
Total	**46**	**39**

Other operating expenses	2018	2017
Material costs	27	29
Services used	943	920
Other services	190	201
Wage costs	750	725
Other staff benefits	252	251
Wage contributions	200	214
Amortisation/Depreciation	129	156
Expenses of keeping bonds in circulation	2	24
Non-repayable cash and cash equivalents transferred	15	15
Impairment of other assets, missing inventories	0	1
Net value of tangible and intangible assets sold or scrapped	0	20
Other	2	1
Total	**2,510**	**2,557**

12. Tax expense, income

Based on *Section 19 of Act LXXXI of 1996* effective from 1 January 2017 "the corporate tax rate is 9% of the positive tax base".

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

Income tax rates for the Company	**2018**	**2017**
Corporate tax	9%	9%
Income tax rate	**9%**	**9%**

Deferred tax rates used by the Company	**2018**	**2017**
Corporate tax	9%	9%
Special tax		
Deferred tax rate	**9%**	**9%**

Income tax expense for the year	**2018**	**2017**
Income tax expense for the year	1	11
Total income tax expense for the year	**1**	**11**

Deferred tax income/ expense	**2018**	**2017**
Origination and reversal of temporary differences	724	209
Total deferred tax income	**724**	**209**
Total income tax	**725**	**220**

Reconciliation of expected tax based on accounting (book) profit/loss and the tax actually paid:

Reconciliation of effective tax rate	**2018**	**2017**
Profit for the period	7,320	2,113
Income tax expense / income	-725	-220
Profit before tax	8,045	2,333
Expected income tax calculated at the income tax rate of the Company	-724	-210
Non-deductible expenses	-1	-10
Corporate tax payable	1	11
Change in unrecognised temporary differences	-1	-13
Other	0	2
Calculated tax expense	**-725**	**-220**
Profit/Loss for the year	7,320	2,113
Tax income / tax expense	-725	-220
Effective tax rate %	**10%**	**10%**

13.Assets and liabilities by maturity

Assets by maturity	31.12.2018			31.12.2017		
	Current	*Non-current*	*Total*	*Current*	*Non-current*	*Total*
Cash and cash equivalents	477	1	478	228	1	229
Student loans	39,456	181,742	221,198	44,598	181,482	226,080
Insurance premium receivables	262	1,083	1,345	336	1,249	1,585
Current tax assets	5	0	5	0	0	0
Other receivables	304	49	353	141	51	192
Other assets	4	0	4	3	0	3
Tangible assets	0	182	182	0	220	220
Intangible assets	0	318	318	0	186	186
Total	**40,508**	**183,375**	**223,883**	**45,306**	**183,189**	**228,495**

Liabilities by maturity	31.12.2018			31.12.2017		
	Current	*Non-current*	*Total*	*Current*	*Non-current*	*Total*
Liabilities to credit institutions	79,856	111,698	191,554	84,095	99,300	183,395
Current tax liabilities	0	0	0	8	0	8
Other liabilities	430	0	430	577	0	577
Provision	0	258	258	0	0	0
Issued bonds	0	11,447	11,447	19,767	11,610	31,377
Technical reserves	170	2,826	2,996	180	3,804	3,984
Deferred tax liability	0	1,344	1,344	0	620	620
Total	**80,456**	**127,573**	**208,029**	**104,627**	**115,334**	**219,961**

14. Cash and cash equivalents

Cash and cash equivalents	**2018**	**2017**
Cash	0	1
Available-for-sale securities	0	0
Bank deposits	477	227
Restricted cash	1	1
Total	**478**	**229**

The coverage for bank card use is recognised under restricted cash.

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 as separate items in the statement of financial position.

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

The application for Student Loan 2 began on 15 August 2012, and the first disbursements were successfully carried out on 15 October.

Student Loan 1

Since the Company was established, 362,486 students have received student loans (2017: 358,297 students). An estimated HUF 308 billion in loans has been disbursed.

In the year the repayment obligation arises and in the following year, borrowers with a repayment obligation shall pay instalments calculated based on twelve-fold the prevailing minimum wage as of 31 October of the previous year in respect of the year when the repayment obligation arose and the following year.

The repayment instalment for student loans in the second year after commencement of the repayment – according to the terms and conditions set forth in the Decree – amounts to 1/12 of 6% of the income earned in the second year prior to the payment year, or, for students borrowing the highest amounts for fee-paying tuition from the 2006/2007 academic year, 1/12 of 8% or 9% of the income. In the case of conditions defined, for a maximum 36 calendar months, the Decree allows for the reduction of the instalment amounts, but they shall not fall below the minimum instalment amount.

Compulsory repayment instalments:

Year	Minimum wage	Minimum wage determining the repayment instalment	Rate of repayment 6%	Rate of repayment 8%	Rate of repayment 9%
2018	138,000	127,500	7,650	10,200	11,475
2019	149,000	138,000	8,280	11,040	12,420

Student Loan 2

Since its establishment in 2012, 35,857 students have received student loans (2017: 29,556 students). An estimated HUF 33 billion was disbursed.

In the year the repayment obligation arises and in the following year, borrowers with a repayment obligation shall pay instalments calculated based on twelve-fold the prevailing minimum wage as of 31 October of the previous year in respect of the year when the repayment obligation arose and the following year. The repayment instalment for student loans in the second year after the repayment commences – according to the terms and conditions set forth in the Decree – is defined based on the income earned in the second year prior to the reporting year.

The ratio of the instalment depends on the loan debt at the onset of the repayment liability, but is at least 4% thereof. Diákhitel Központ is obliged to disclose repayment rates pertaining to entire individual loan debts in accordance with the law, as shown in the table below.

Amount of debt on the date when repayment obligation starts	Repayment rate %
HUF 0 - 1,000,000	4%
HUF 1,000,001- 2,000,000	5%
HUF 2,000,001- 3,000,000	7%
HUF 3,000,001- 4,000,000	9%
HUF 4,000,001-30,000,000	11%

Information on the portfolio of student loans and insurance premium receivables as well as related impairment is presented in detail in the tables in Notes 4.1.2 and 4.1.3.

16. Other receivables

Other receivables

Description	2018	2017
Other financial receivables	***305***	***152***
Loans disbursed to employees	7	10
Advances given to suppliers	0	0
Security deposit	44	42
Interest subsidy from the state budget	254	100
Other receivables	**48**	**40**
Deferred expenses and accrued income	46	33
Other tax receivables	2	2
Other receivables	0	5
Total other receivables	**353**	**192**

17. Other assets

Other assets

Description	2018	2017
Inventories for marketing purposes	4	2
Tangible assets reclassified as inventories	0	1
Total	**4**	**3**

18. Tangible assets

In the case of rights and concessions related to property the Company has limited ownership rights.

Changes in tangible assets	Rights and concessions related to property	Technical equipment, machinery, vehicles	Other equipment, fittings	Assets under construction	Total
Opening gross value at 1 January 2017	**86**	**424**	**79**	**0**	**589**
Additions	0	52	3	253	308
Reclassifications	-4	0	4	0	0
Disposals	-24	-55	-4	-165	-248
Closing gross value at 31 December 2017	**58**	**421**	**82**	**88**	**649**
Additions		57	13	223	293
Reclassifications					0
Disposals	-1	-10	-7	-282	-300
Closing gross value at 31 December 2018	**57**	**468**	**88**	**29**	**642**
Opening accumulated depreciation at 1 January 2017	**16**	**347**	**66**	**0**	**429**
Depreciation	5	53	7	0	65
Reclassifications	0	0	1	0	1
Disposals	-8	-54	-4	0	-66
Closing accumulated depreciation at 31 December 2017	**13**	**346**	**70**	**0**	**429**
Depreciation	3	41	5	0	49
Reclassifications	0	0	0	0	0
Disposals	-1	-10	-7	0	-18
Closing accumulated depreciation at 31 December 2018	**15**	**377**	**68**	**0**	**460**
Net opening value at 1 January 2017	**70**	**77**	**13**	**0**	**160**
Net closing value at 31 December 2017	**45**	**75**	**12**	**88**	**220**
Net closing value at 31 December 2018	**42**	**91**	**20**	**29**	**182**

Gross value of tangible assets in use written down to zero	Rights and concessions related to property	Technical equipment, machinery, vehicles with unlimited ownership rights	Other equipment, fittings with unlimited ownership rights	Assets under construction	Total
31 December 2017	**0**	**236**	**58**	**0**	**294**
31 December 2018	**2**	**278**	**56**	**0**	**336**

19. Intangible assets

The Company has no assets the ownership right of which is limited.

Changes in intangible assets	Rights and concessions	Intellectual property	Total intangible assets
Opening gross value at 1 January 2017	**1,271**	**4**	**1,275**
Additions	109	1	110
Reclassifications	0	0	0
Disposals	-25	0	-25
Closing gross value at 31 December 2017	**1,355**	**5**	**1,360**
Additions	199	12	211
Reclassifications	0	0	0
Disposals	-1	0	-1
Closing gross value at 31 December 2018	**1,553**	**17**	**1,570**
Opening accumulated amortisation at 1 January 2017	**1,101**	**4**	**1,105**
Amortisation	92	0	92
Reclassifications	0	0	0
Disposals	-23	0	-23
Closing accumulated amortisation at 31 December 2017	**1,170**	**4**	**1,174**
Amortisation	78	1	
Reclassifications			
Disposals	-1		
Closing accumulated amortisation at 31 December 2018	**1,247**	**5**	**1,174**
Net opening value at 1 January 2017	**170**	**0**	**170**
Net closing value at 31 December 2017	**185**	**1**	**186**
Net closing value at 31 December 2018	**306**	**12**	**318**

Gross value of intangible assets in use written down to zero	Rights and concessions with unlimited ownership rights	Intellectual property with unlimited ownership rights	Total intangible assets
31 December 2017	**1,011**	**3**	**1,014**
31 December 2018	**1,076**	**5**	**1,081**

20. Deferred tax assets and tax liabilities

Deferred tax	31 December 2018			31 December 2017		
	Tax asset	Tax liability	Net balance	Tax asset	Tax liability	Net balance
Intangible assets	0	0	0	0	0	0
Tangible assets	3	0	3	3	0	3
Receivables, loans granted	2,440	-121	2,319	3,188	-143	3,045
Other receivables	25	0	25	221	0	221
Cash equivalents	0	0	0	0	0	0
Provision	0	-3,600	-3,600	0	-3,736	-3,736
Technical reserve	270	0	270	359	0	359
Non-current liabilities	40	-79	-39	79	-162	-83
Other liabilities	0	-322	-322	0	-429	-429
Tax assets (tax liabilities)	**2,778**	**-4,122**	**-1,344**	**3,850**	**-4,470**	**-620**
Tax assets not taken into account	**0**	**0**	**0**	**0**	**0**	**0**
Total tax assets (tax liabilities)	**2,778**	**-4,122**	**-1,344**	**3,850**	**-4,470**	**-620**

Changes in the tax effect of temporary differences are presented in the tables below:

Changes in tax effect of temporary differences 31 December 2018	Opening balance at 1 January	Recognised in profit or loss for the period	Recognised in other comprehensive income	Closing balance at 31 December
Tangible assets	3	0	0	3
Receivables, loans granted	3,045	-726	0	2,319
Other receivables	221	-196	0	25
Provision	-3,736	136	0	-3,600
Technical reserve	359	-89	0	270
Non-current liabilities	-83	44	0	-39
Other liabilities	-429	107	0	-322
Total	**-620**	**-724**	**0**	**-1,344**

Changes in tax effect of temporary differences 31 December 2017	Opening balance at 1 January	Recognised in profit or loss for the period	Recognised in other comprehensive income	Closing balance at 31 December
Tangible assets	6	-3	0	3
Receivables, loans granted	3,413	-368	0	3,045
Other receivables	10	211	0	221
Provision	-3,372	-364	0	-3,736
Technical reserve	209	150	0	359
Non-current liabilities	-94	11	0	-83
Other liabilities	-583	154	0	-429
Total	**-411**	**-209**	**0**	**-620**

21.Liabilities to credit institutions

Credit institution	Type of interest	Interest rate	Borrowing date	Maturity date	Currency	Loan amount	Initial fair value difference	Carrying amount	Loan amount	Initial fair value difference	Carrying amount
						2018			2017		
Európai Beruházási Bank	floating rate	EIB VSFR	12.10.2005	15.06.2020	HUF	270		270	450		450
Európai Beruházási Bank	floating rate	EIB VSFR	12.01.2006	15.06.2020	HUF	450		450	750		750
Európai Beruházási Bank	floating rate	EIB VSFR	11.04.2006	15.06.2020	HUF	345		345	575		575
Európai Beruházási Bank	floating rate	EIB VSFR	10.08.2006	15.03.2021	HUF	375		375	525		525
Európai Beruházási Bank	floating rate	EIB VSFR	13.11.2006	15.03.2021	HUF	700		700	980		980
Európai Beruházási Bank	floating rate	EIB VSFR	12.12.2006	15.03.2021	HUF	725		725	1,015		1,015
Európai Beruházási Bank	floating rate	EIB VSFR	12.03.2007	15.09.2021	HUF	450		450	600		600
Európai Beruházási Bank	floating rate	EIB VSFR	13.06.2007	15.12.2021	HUF	1,200		1,200	1,600		1,601
Európai Beruházási Bank	floating rate	EIB VSFR	11.10.2007	15.03.2022	HUF	1,999		1,999	2,570		2,571
Európai Beruházási Bank	floating rate	EIB VSFR	17.07.2008	15.03.2023	HUF	2,250		2,250	2,750		2,750
Európai Beruházási Bank	floating rate	EIB VSFR	08.08.2008	15.03.2023	HUF	1,800		1,800	2,200		2,200
Európai Beruházási Bank	floating rate	3M BUBOR-0.455%	11.12.2008	15.06.2023	HUF	855		855	1,045		1,045
Európai Beruházási Bank	floating rate	3M BUBOR-0.390%	11.03.2009	15.06.2023	HUF	2,700		2,700	3,300		3,300
Európai Beruházási Bank	floating rate	EIB VSFR	10.08.2009	15.03.2024	HUF	1,925		1,925	2,275		2,275
Európai Beruházási Bank	floating rate	EIB VSFR	15.12.2009	15.06.2024	HUF	908		908	1,073		1,073
Európai Beruházási Bank	floating rate	EIB VSFR	10.03.2010	15.09.2024	HUF	1,500		1,500	1,750		1,751
Európai Beruházási Bank	fixed rate	2.387%	19.08.2010	15.03.2025	HUF	4,355		4,386	5,025		5,060
Európai Beruházási Bank	floating rate	3M BUBOR+0.246%	13.10.2010	15.06.2025	HUF	2,275		2,275	2,625		2,625
Európai Beruházási Bank	floating rate	3M BUBOR+0.246%	13.12.2010	15.06.2025	HUF	2,373		2,373	2,738		2,738
Európai Beruházási Bank	fixed rate	6.296%	09.03.2011	15.09.2025	HUF	2,100		2,106	2,400		2,407
Európai Beruházási Bank	fixed rate	5.803%	21.04.2011	15.12.2025	HUF	3,850		3,860	4,400		4,411
Európai Beruházási Bank	fixed rate	6.157%	12.10.2011	15.06.2026	HUF	3,075		3,084	3,485		3,495
Európai Beruházási Bank	fixed rate	6.471%	12.03.2012	15.09.2026	HUF	2,000		2,006	2,250		2,256
Európai Beruházási Bank	fixed rate	6.353%	11.06.2012	15.12.2026	HUF	4,400		4,413	4,950		4,964
Európai Beruházási Bank	floating rate	3M BUBOR-0.56%	18.10.2012	15.06.2027	HUF	2,550		2,550	2,850		2,850
Európai Beruházási Bank	fixed rate	4.746%	11.02.2013	15.12.2027	HUF	2,250		2,255	2,500		2,505
Európai Beruházási Bank	floating rate	3M BUBOR+0.161%	11.10.2013	15.09.2028	HUF	1,950		1,950	2,000		2,000
Európai Beruházási Bank	floating rate	3M BUBOR+0.161%	11.10.2013	15.09.2028	HUF	1,500		1,500	1,500		1,500
Európai Beruházási Bank	floating rate	3M BUBOR+0.104%	11.02.2014	15.12.2028	HUF	2,400		2,403	2,400		2,403
Európai Beruházási Bank	fixed rate	2.98%	13.10.2014	15.09.2029	HUF	6,000		6,007	6,000		6,007
Európai Beruházási Bank	fixed rate	2.98%	13.10.2014	15.09.2029	HUF	1,755		1,755	1,800		1,800
Európai Beruházási Bank	fixed rate	2.561%	18.08.2015	15.06.2030	HUF	1,600		1,602	1,600		1,602
Európai Beruházási Bank	floating rate	3M BUBOR+0.113%	13.10.2015	15.09.2030	HUF	3,900		3,900	3,900		3,900
Európai Beruházási Bank	floating rate	3M BUBOR+0.736%	21.12.2016	15.12.2031	HUF	2,800		2,801	2,800		2,801
Európai Beruházási Bank	fixed rate	1.326%	11.10.2017	15.09.2032	HUF	2,850		2,852	2,850		2,852
Európai Beruházási Bank	fixed rate	1.790%	21.06.2018	15.06.2033	HUF	3,400		3,403	0		0
Európai Beruházási Bank	fixed rate	2.859%	16.11.2018	15.09.2033	HUF	4,800		4,806	0		0
Magyar Fejlesztési Bank	floating rate	3M BUBOR+1.98%	24.08.2013	21.08.2018	HUF	0		0	7,500		7,503
Magyar Fejlesztési Bank	floating rate	3M BUBOR+1.98%	11.02.2014	21.08.2018	HUF	0		0	2,500		2,501
Magyar Fejlesztési Bank	floating rate	3M EURIBOR+1.2%	31.12.2014	31.12.2019	HUF	50,000	-4,590	49,118	50,000	-4,590	48,203
Magyar Fejlesztési Bank	fixed rate	1.190%	21.12.2016	24.06.2019	HUF	20,000		20,123	20,000		20,123
Magyar Fejlesztési Bank	floating rate	3M BUBOR+0.51%	25.07.2017	25.07.2021	HUF	10,000		10,013	10,000		10,010
Magyar Fejlesztési Bank	fixed rate	1.340%	22.11.2017	26.10.2022	HUF	12,000		12,030	12,000		12,018
Magyar Fejlesztési Bank	floating rate	3M BUBOR+0.53%	21.06.2018	21.06.2022	HUF	9,300		9,302	0		0
Magyar Fejlesztési Bank	floating rate	3M BUBOR+0.80%	21.08.2018	21.02.2022	HUF	10,000		10,004	0		0
Magyar Takarékbank	floating rate	1M BUBOR+0.24%	12.10.2018	09.03.2019	HUF	225		225	0		0
MKB Bank	floating rate	1M BUBOR+0.15%	14.12.2017	07.03.2018	HUF	0		0	1,400		1,400
Total						**192,160**	**-4,590**	**191,554**	**184,931**	**-4,590**	**183,395**

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

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

The Company paid all due repayment instalments in time and met the terms set forth in the loan agreements in the periods presented.

22.Other liabilities

Other liabilities	2018	2017
Other financial liabilities	**148**	**281**
Trade liabilities	148	281
Other liabilities	***282***	***296***
Trade payables not invoiced	24	1
Accrued operating expenses	149	143
Liabilities to student loan clients	12	53
Liabilities to employees	39	49
Other tax liability	58	50
Total other liabilities	**430**	**577**

23. Issued bonds

Issued bonds	Interest rate	Date of first issue	Date of maturity	Listed	Nominal value	Carrying amount	Nominal value	Carrying amount
					2018		2017	
DK2017/01	6.75%	10.09.2014	24.11.2017	yes (BSE)	0	0	0	0
DK2018/01	2.50%	20.05.2015	22.06.2018	yes (BSE)	0	0	19,500	19,767
DK2020/01	3.50%	14.09.2016	24.06.2020	yes (BSE)	11,000	11,447	11,000	11,610
Total					**11,000**	**11,447**	**30,500**	**31,377**

Changes in issued bonds (at nominal value)

Date	description	DK2017/01	DK2018/01	DK2020/01	total
01.01.2017	**Opening balance**	**18,000**	**19,500**	**11,000**	**48,500**
12.04.2017	repurchase	-600	0	0	-600
24.05.2017	repurchase	-2,075	0	0	-2,075
23.08.2017	repurchase	-2,400	0	0	-2,400
23.11.2017	maturity	-12,925	0	0	-12,925
31.12.2017	**Closing balance**	**0**	**19,500**	**11,000**	**30,500**
22.06.2018	maturity		-19,500	0	-19,500
31.12.2018	**Closing balance**	**0**	**0**	**11,000**	**11,000**

In October 2018 MFB Zrt. organised a bond swap auction, where it offered bond swap options for holders of Diákhitel Központ Zrt. bonds through an MFB public bond issue. After the successful auction, the Company and MFB Zrt. submitted a joint request for the BSE to remove the Company's bonds from the BSE's product list. According to the submitted request, the Budapest Stock Exchange removed the Company's bonds from its product list as of 9 November 2018. The bonds were traded for the last time at the Budapest Stock Exchange on 6 November 2018.

24.Technical provisions

Changes in the technical reserve

	Student Loan 1	Student Loan 2	Total
Balance at 1 January 2017	**2,231**	**87**	**2,318**
Use of reserve	-154	-6	-160
Remeasurement gain / loss	1,888	-62	1,826
Balance at 31 December 2017	**3,965**	**19**	**3,984**
Use of reserve	-159	-5	-164
Remeasurement gain / loss	-905	81	-824
Balance at 31 December 2018	**2,901**	**95**	**2,996**

The 'Changes in actuarial reserve' item in the statement of comprehensive income includes the aggregate amount of the use of the reserve, release due to changes in conditions and remeasurement gain presented in the table above.

Analysis of changes in assumptions

Analysis of changes in assumptions

Amendment of 2017 year-end assumptions to 2018 year-end assumptions step by step	Student Loan 1	Student Loan 2	Total
Using 2017 assumptions to 31 December 2017	**3,965**	**19**	**3,984**
Using 2017 assumptions to 31 March 2018	3,803	-	3,803
2018 pricing - change of model and parameters	2,971	-25	2,946
2018 pricing - transition to IFRS 9 calculation to 30 September 2018	3,190	162	3,352
Change in interest on arrears	3,149	154	3,303
Change in wage inflation	3,171	160	3,331
Change in cost of funds	2,982	178	3,160
Change in operating expenses	2,991	175	3,166
Change in minimum wage	2,840	165	3,005
Change in model points and dates	2,895	94	2,989
Change in collection rate	2,901	95	2,996
Using 2018 assumptions to 31 December 2018	**2,901**	**95**	**2,996**

Analysis of changes in assumptions

Amendment of 2016 year-end assumptions to 2017 year-end assumptions step by step	Student Loan 1	Student Loan 2	Total
Using 2016 assumptions to 31 December 2016	**2,231**	**87**	**2,318**
Using 2016 assumptions to 31 March 2017	2,287	47	2,334
2017 pricing - change of model and parameters	4,147	25	4,172
Change in interest on arrears	4,136	30	4,166
Change in wage inflation	4,124	20	4,144
Change in cost of funds	3,811	23	3,834
Change in operating expenses	3,966	24	3,990
Change in minimum wage	3,493	22	3,515
Change in model points and dates	3,965	76	4,041
Change in state interest subsidy		18	18
2017 December pricing		19	19
Using 2017 assumptions to 31 December 2017	**3,965**	**19**	**3,984**

25.Share capital, capital reserve and other reserves

The share capital of Diákhitel Központ Zrt. at the time of transition, at the end of the comparative period and the reporting period totalled 300 subscribed and paid ordinary shares each with a nominal value of HUF 1,000,000.
The capital reserve did not change over the periods presented, and amounts to HUF 2,200 million. The initial fair value difference of loans drawn from the Hungarian Development Bank was recorded under other capital contributions.

Shareholders' equity	**2018**	**2017**
Share capital and capital reserve	2,500	2,500
Retained earnings	3,321	-3,999
Other reserves	10,033	10,033
Other capital contribution	10,033	10,033
Valuation reserve	0	0
Total equity:	**15,854**	**8,534**

26.Contingent assets and liabilities

Description	31.12.2018		31.12.2017	
	amount	Maturity	amount	Maturity
Credit facility open for **Student Loan 1** clients	1,108	15.01.2019	1,226	15.01.2018
Credit facility open for **Student Loan 2** clients	61	15.01.2019	60	15.01.2018
Contingent liability	1,169		1,287	
EIB IV credit facility that can be used to cover student loans	1,675	31.12.2018	18,097	31.12.2018
EIB V credit facility that can be used to cover student loans	11,289	31.12.2021	0	-
Takarékbank stand by credit facility that can be used to cover student loans	7,275	08.03.2019	2,500	08.03.2018
MKB stand by credit facility that can be used to cover student loans	2,500	08.03.2019	6,100	08.03.2018
Takarékbank stand by credit facility that can be used to cover student loans	0		0	
UniCredit Bank credit facility that can be used to cover student loans	0		0	
Contingent assets	**22,739**		**26,697**	

27.Commitments under operating leases

The Company leases the office buildings and spaces necessary for its operation under non-cancellable operative lease agreements.

Key parameters of lease agreements:

- KÖKI shopping centre: customer service

The lease term is 5 years, which can be extended at market rates at the end of the lease term. The lease fee was defined in euros, which is in compliance with pricing methods acceptable on the Hungarian real estate market. The Company enjoys the benefits of and bears the losses of exchange rate risks. The agreement rules out sub-letting the premises. If the fixed-term lease agreement is terminated by the lessee before it expires, the Company is liable to pay a penalty for the period until the lessor contracts with a new lessee.

The lease agreement was terminated in October 2017.

- Kacsa utca Residence office building

The lease term is 5 years but the agreement may be terminated after 3 years. The Company is entitled to pay a preferential lease fee if it renews the lease of the office building. At the end of the lease term the agreement can be extended at market rates. The lease fee was defined in euros, which is in compliance with pricing methods acceptable on the Hungarian real estate market. The Company enjoys the benefits of and bears the losses of exchange rate risks. Pursuant to the agreement, the Company may rent out office space with the approval of the lessor.

In December 2018 an agreement was concluded on extending the lease of the building. After the termination of the agreement a new lease agreement was concluded for another 5 years under new terms and conditions from 1 June 2019 for a smaller area.

- DR-Site

The agreement states that the lessor provides 50% of the rack cabinet space in its server room for the lessee to place its servers in. The lease term is from 1 October 2017 until 30 September 2018. The lease agreement may only be terminated before the fixed term expires if the lessor breaches the agreement. In 2018 the agreement was amended, as a result of which the lease term expires on 1 October 2019.

Contractual terms	Residence office building	Residence customer service	DR Site
Lease term	31.05.2014-31.05.2019	31.03.2015-31.05.2019	01.10.2016-01.10.2019.
Leased area	2,368.13m2	155.18m2	50% of 1 rack cabinet
Rental	EUR 10.1 /m2+VAT	EUR 11.22 /m2+VAT	HUF 75,000 +VAT
Discount 06.2017 - 02.2018	50%		
Serv. fee	EUR 3.8 /m2+VAT	EUR 3.8 /m2+VAT	-
Sublease	needs permission	needs permission	
Indexing	From 2015 HICP-EU27 cons. price index		

Future minimum lease payments:

2018	Residence office building	DR Site	total
Within 1 year	72	1	73
Over 1 year but within 5 years	0	0	0
Over 5 years	0	0	0
Total	**72**	**1**	**73**

2017	Residence office building	DR Site	total
Within 1 year	157	1	158
Over 1 year but within 5 years	69	0	69
Over 5 years	0	0	0
Total	**226**	**1**	**227**

28.Liabilities from financing activity

Changes in liabilities from financing activity	01.01.2018	Cash flow	Amortisation	31.12.2018
Loans drawn	183,395	7,229	930	191,554
Issued bonds	31,377	-19,500	-430	11,447
Total liabilities from financing activities	214,772	-12,271	500	203,001

29.Transactions with related parties

Shareholder rights over the Company are exercised by the Hungarian Development Bank (MFB), and the beneficial owner is the Hungarian State.

Transactions with the Hungarian State and the entity exercising shareholder rights

Transactions between the Company and related parties were executed at arm's length. The only exception to this rule are the MFB loans with EURIBOR interest rates (for more details see Note 21), where due to the favourable interest conditions the initial fair value of the disbursed loan was lower than the amount actually disbursed. The difference was accounted for as a capital contribution within other reserves, as presented in Note 25. The year-end portfolio of MFB loans along with the borrowing conditions are detailed in Note 21.

Pursuant to the government decree on the student loan scheme (Government Decree 1/2012), borrowers taking out any-purpose loans are entitled to claim targeted interest subsidies – during the term of the contract – for the period of entitlement to infant care benefit, child care benefit, and child care allowance (hereinafter: gyes) in accordance with Section 18 of the decree.

The necessary funds for the targeted interest subsidies must be provided from the budget of the ministry headed by the minister in charge of family policy. The targeted interest subsidy is transferred by the ministry to the bank account of Diákhitel Központ indicating the name of the entitled borrower.

Pursuant to Section 29 of Government Decree 1/2012, students taking out limited-purpose loans are entitled to general interest subsidies for the term of the loan contract. The rate of the interest subsidy is the amount above the interest payable by the borrower according to Section 6 (7).

The necessary funds for the general interest subsidies must be provided from the budget of the ministry headed by the minister in charge of public finances. The monthly amount of the general interest subsidy is transferred by the ministry to Diákhitel Központ based on a monthly breakdown, indicating the name of the borrower in the month following the disbursement of the student loan.

According to Section 18/A of the government decree, female borrowers may claim government support related to childcare on the grounds of the birth or adoption of their second, third or further children. The childcare support may amount to 50% or 100% of the outstanding debt. The support may be claimed on one loan only, and the borrower may choose which loan they want the support on when claiming it.

The amount of childcare support shall be regulated in the act on public finances. The monthly amount of the childcare support is transferred by the Hungarian State Treasury to Diákhitel Központ based on a monthly breakdown indicating the name of the borrower.

Support requested from the Hungarian State for student loan clients are presented in the table below:

Description	**2018**	**2017**
Targeted interest subsidy for Student Loan 1 clients	245	275
Childcare support for Student Loan 1 clients	1,227	0
General interest subsidy for Student Loan 2 clients	945	494
Childcare support for Student Loan 2 clients	13	0
Total	**2,430**	**769**

The Hungarian State undertakes a guarantee for the value of loans drawn and bonds issued by the Company to finance student loans. (Note 1)

The following table shows the value of the guarantee provided by the State:

Capital as at the end of the period	**2018**	**2017**
Loans drawn	192,160	184,931
Issued bonds	11,000	30,500
Total	**203,160**	**215,431**

The figures in the table tally with the amount of principal liability to credit institutions and the nominal value of bonds issued, presented in Notes 21 and 23.

Transactions between Diákhitel Központ Zrt. and Magyar Fejlesztési Bank as a related party are detailed in the table below:

Description	**2018**	**2017**
Use of services	3	5
Borrowing of long-term loans	19,300	22,000
Repayment of long-term loans	10,000	0
Interest paid on long-term loans	1,014	683

Transactions with key management personnel

Key management personnel:

- Chief Executive Officer
- Members of the Board of Directors
- Supervisory Board members

Type of transaction	2018	2017
Short-term employee benefits	90	78
Post-employment benefits	0	0
Other long-term benefits	0	0
Termination benefits	0	0
Services used	0	0
Total	**90**	**78**

30. Subsequent events

By the approval date of the financial statements as outlined in Note 2.1 there were no subsequent events that would have necessitated an amendment to the financial statements.

Business development

2019 will bring significant changes to debt collection procedures in connection with loans. From 2019 the Company is obliged to hand over any cancelled loans as assignment agreements to MKK Magyar Követeléskezelő Zrt. in every quarter, in accordance with the regulations set forth in the legislation on student loans. The loan price is also defined based on a pricing method regulated in applicable laws, designed in accordance with provisioning methodology, that is compiled and once a year reviewed by the actuary of Diákhitel Központ, and audited by the Hungarian Development Bank (MFB).