DIÁKHITEL

Diákhitel Központ Zártkörűen Működő Részvénytársaság

Individual Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by the EU
31 December 2019

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Individual Financial Statements prepared in accordance with International Financial Reporting Standards

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This is a translation of the Hungarian Report

Independent Auditor's Report

To the Shareholder of
Diákhitel Központ Zártkörűen Működő Részvénytársaság

Opinion

We have audited the accompanying 2019 individual financial statements of a Diákhitel Központ Zártkörűen Működő Részvénytársaság ("the Company"), which comprise the statement of financial position as at 31 December 2019 - showing a balance sheet total of HUF 202,135 million and a total comprehensive loss for the year of HUF 760 million -, the related statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and notes to the individual financial statements, including a summary of significant accounting policies.

In our opinion the individual financial statements give a true and fair view of the financial position of the Company as at 31 December 2019 and of its financial performance and its cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRSs").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the individual financial statements" section of our report.

We are independent of the Company in accordance with the applicable International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other matters

The individual financial statements as at 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those financial statements on 21 November 2019.

The Company has prepared the annual financial statements as at 31 December 2019 in accordance with the Hungarian Accounting Law, we have issued a separate auditors' report on those annual financial statements to the shareholder of the Company on 30 March 2020.

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

Management is responsible for the preparation and fair presentation of the individual financial statements in accordance with EU IFRSs and for such internal control as management determines is necessary to enable the preparation of individual financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the individual financial statements

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

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

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

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the individual financial statements, including the disclosures, and whether the individual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Budapest, 17 September 2020

(The original Hungarian language version has been signed.)

Kónya Zsolt
Ernst & Young Kft.

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I. Statement of Comprehensive Income

Figures in M HUF

	Note	2019	2018 restated
Interest income	8	4 454	6 018
Interest expense	8	-3 836	-4 121
Net interest income		**618**	**1 897**
Insurance premiums earned	9	378	487
Claims paid	10	-133	-164
Other operating income	12	41	46
Movements in insurance technical reserves	27	-157	988
Not operating profit before impairment loss on loans		**747**	**3 254**
Impairment loss on loans	5.1.2	1 010	-650
Credit loss expense	13	-48	-46
Operating profit (loss), net		**1 709**	**2 558**
Other operating expenses	12	-2 543	-2 510
Pre-tax profit (loss)		**-834**	**48**
Taxes paid/received	14	74	-6
Profit (loss) for the year		**-760**	**42**
Profit (loss) for the year (attributable to the shareholders)		**-760**	**42**
Profit (loss) for the year		**-760**	**42**
Other comprehensive income for the period including deferred tax		**-760**	**42**
Comprehensive profit (loss) for the year		**-760**	**42**
Comprehensive profit (loss) for the year (attributable to the shareholders)		**-760**	**42**

Budapest, 17 September 2020

DIÁKHITEL KÖZPONT Zrt.
1027 Budapest, Kacsa u. 15-23.
Adószám: 12657331-2-41
1.

dr. Péter Magyar
Chief Executive Officer

II. Statement of Financial Position

Figures in M HUF

	Note	31.12.2019	31.12.2018 restated
Assets			
Cash and cash equivalents	16	290	478
Student loans	17	199 499	220 325
Insurance premium receivables	17	1047	1 345
Current income tax assets		4	5
Other receivables	18	344	353
Other assets	19	4	4
Property, plant and equipment	20	142	182
Intangible assets	21	337	318
Leases-assets	22	468	0
Total assets		**202 135**	**223 010**
Liabilities			
Amount payable to banks	24	171 239	191 554
Other liabilities	25	399	430
Provisions	5.1.2	99	258
Bond issued	26	11 281	11 447
Insurance technical reserves	27	3 153	2 996
Leases liabilities	30	475	0
Deferred tax liabilities	23	1 189	1 265
Total liabilities		**187 835**	**207 950**
Equity			
Issued capital and capital reserve	28	2 500	2 500
Retained losses	28	1 767	2 527
Other reserves	28	10 033	10 033
Total equity		**14 300**	**15 060**
Equity attributable to the shareholders		14 300	15 060
Total equity and liabilities		**202 135**	**223 010**

Budapest, 17 September 2020

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Chief Executive Officer

III. Statement of Changes in Equity

figures in M HUF

Name	Note	Share capital	Capital surplus	Retained earnings	Other reserves Other capital contribution	Sum-total
Closing Balance at 31.12.2017		**300**	**2 200**	**-3 999**	**10 033**	**8 534**
Restated Impact of the introduction of IFRS 9 on equity		0	0	6 484	0	6 484
Restated Opening Balance at 01.01.2018		**300**	**2 200**	**2 485**	**10 033**	**15 018**
Restated Net result of current year		0	0	42	0	42
Closing Balance at 31.12.2018		**300**	**2 200**	**2 527**	**10 033**	**15 060**
Net result of current year		0	0	-760	0	-760
Closing Balance at 12.31.2019		**300**	**2 200**	**1 767**	**10 033**	**14 300**

Budapest, 17 September 2020

dr. Péter Magyar
Chief Executive Officer

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1.

IV. Statement of Cash Flows

	Note	Figures in M HUF 31.12.2019	31.12.2018
Operating cash flow			
Pre-tax profit (loss)		**-834**	**48**
Adjustments:			
Amortisation of intangible assets, of tangible assets and of leases assets	12	276	129
Gains/losses on the disposal of tangible/intangible assets	12	-1	0
Impairment loss on financial assets	5.1.2	-1 010	650
Net gains/(losses) on derecognition of financial assets measured at amortised cost	13	48	46
Damages paid	10	133	164
Interest income, net	8	-618	-1 897
Movements in insurance technical reserves	26	157	-988
Corporate tax received	14	74	-6
Student loans disbursed		-14 858	-13 717
Student loans repaid		27 891	26 953
Receivable assignment income		9 250	0
Interest received		3 724	4 959
Interest paid		-3 240	-3 622
Movements in insurance premium receivable		240	336
Movements in other assets		10	-162
Movements in other liabilities		-107	-151
Operating cash flows, net		**21 969**	**12 694**
Investing cash flows			
Tangible assets acquisitions		-36	-11
Tangible assets disposals		12	0
Intangible assets acquisitions		-127	-211
Investing cash flows, net		**-151**	**-222**
Financing cash flows			
Repayment of bonds issued		0	-19 500
Amounts borrowed from banks		69 156	30 285
Repayment of amounts borrowed from banks		-90 221	-23 056
Repayment of leases liabilities		-107	0
Financing cash flows, net		**-21 172**	**-12 271**
Net changes in cash and cash equivalents		**-188**	**249**
Cash and cash equivalents as of 1 January	14	**478**	**229**
Cash and cash equivalents as of 31 December	14	**290**	**478**

Budapest, 17 September 2020

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

dr. Péter Magyar

Chief Executive Officer

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 LXXI of 2019 on the Central Budget of Hungary for 2020.

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 30 March 2020 with a reporting date of 31 December 2019 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 3.33.3

These financial statements were authorised for issue by the Board of Directors on 17 September 2020.

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:

- ***Going concern principle***

  The Company's management has assessed the Company's ability to continue its activity, and has determined, that the Company has the necessary resources to operate in the foreseeable future. Furthermore, the Company's management is not aware of any material uncertainties that would cast significant doubt on its ability to continue its operations. In assessing the going concern principle, the Company has taken into account the suretyship provided by the State for the funds raised by Company.

- ***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 7.

- ***Impairment of assets***

Accounting principles relating to the impairment of assets are detailed in Note 4.14, while impairment booked is presented in Chapter 5.1.2.

- ***Technical provisions***

The accounting principles of the estimates used by the Company are detailed in Note 4.5, while the amounts of estimates relating to the actuarial model are presented in Note 5.1.3.

- ***Provisions***

The principles underlying the estimates used by the Company are included in Note 4.15. 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 5.1.2.

2.5. Reclassifications and errors

The Company has restated its Financial Statements for 2018.

The following changes have been made and presented in the Financial Statement for 2018:

- Deferred tax in amount of HUF 641 million was reclassified due to the implementation of IFRS 9 as of January 1, 2018 from Net result for 2018 to a new separated opening balance line called 'Impact of the introduction of IFRS 9 on equity'.
- The impairment for 2018 was adjusted by HUF 872 million, where the related deferred tax difference is HUF 78 million.

In the restated statement of comprehensive income, impairment increased by HUF 872 million, while tax expense decreased by HUF 719 million. As a result, net result for 2018 has decreased by 153 million.
In the restated statement of equity changes, HUF 641 million was reclassified between equity and Net result for 2018 and Net result for 2018 was restated due to the introduction of IFRS 9.
In the restated Financial Position, the value of Student loans, insurance premium receivable, deferred tax liabilities and retained earnings have changes.
In the Cash Flow Statements, restatements made for 2018 has affected Profit Before Tax, tax expenses, impairment recognised for financial assets, provision and other liabilities. The balance of waived receivables has been restated because of the expense incurred in relation to damage and the loss from derecognition of assets measured at amortised cost is presented separately, at a new Cash Flow line.
In the restated Notes, the Company has provided a "restated" label to that data, which has changed compared to the Financial Statements previously published for 2018.

3. Changes in accounting policies

3.1. Standards and interpretations effective from 1 January 2019

As of 1 January 2019, the following standards and amendments to existing standards and interpretations, issued by the IASB and adopted by the EU, became effective:

3.1.1. Standards and interpretations effective from 1 January 2019 that resulted in changes in the accounting policy of the Company

- **IFRS 16 Leases**

IFRS 16 introduces a single model for lessee accounting, under which the lessee recognizes right-of-use assets as well as future lease payment obligations - a lease liability. The lessee shall present the interest expense on the lease liability and the depreciation charge for the right-of-use asset separately. In addition, the lessee shall reassess the presented lease liability in the event of certain events (such as changes in the lease term, changes in indices determining the future lease payments or changes in interest rates). The lessee recognises the amount of the revaluation of the lease liability as a change in the value of the right-of-use asset. The standard sets out recognition exceptions for short-term leases and leases for which the underlying asset is deemed insignificant. The lessor is accounted for in accordance with the requirements of the current standard, so lessors should continue to classify leases as finance or operating leases.

IFRS 16 replaces the previous regulations on leases as IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease, Guidelines in SIC 15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease determine if a contract contains a lease. IFRS 16 also sets out broader disclosure requirements than IAS 17 did.

The company as lessee

The Company recognises new assets and liabilities for its transactions previously classified as operating leases. Previously, operating lease payments were recognised in profit or loss on a linear basis over the lease term. The nature of the costs associated with these leases will change as a result of the transition to IFRS 16, as the Company presents depreciation expense on the right-of-use assets and interest expense on the lease liabilities.

The non-leasing components of the contracts are separated, and these components continue to be recognised by the company as an expense when they incur for the Company's all asset categories.

In accordance with the exemptions permitted by the standard, the Company had decided not to apply the requirements of the standard to short term leases (term <12 months) and to leases where the underlying asset is insignificant in value (<EUR 5.000).

The Company as lessor

The company does not have any leasing transactions as a lessor, therefore the transition to IFRS 16 has no impact in this respect.

Transition

The Company adopted IFRS 16 on 1 January 2019 and has opted for the modified retrospective application method, i.e. it presents the cumulative effect of the first application of the standard as an adjustment to the opening balance of retained earnings at the date of the first application.

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

- At the date of first application, the Company reassesses whether the contract is a lease or contains a lease under IFRS 16.
- For leases previously classified as operating leases in accordance with IAS 17, the right-of-use asset recognised at the date of first application is measured at the same amount as the lease liability, adjusted for prepaid or deferred lease payments recognised in the statement of financial position immediately before the date of first application.
- The Company applies the simplifications for short-term leases, permitted by the standard. As of the adoption date of 1 January 2019, the remaining duration for each asset group is less than one year for those assets affected by the simplifications.
- At the date of first application, the Company does not take initial direct costs into account in the valuation of right-of-use assets.

The essential elements of the accounting policy are included in paragraphs 4.9.3 and 4.13

The financial impact of the transition is presented in Section 3.4, Transition Disclosure.

3.1.2. Standards and interpretations effective from 1 January 2019 that do not result in a change in the Company's accounting policies.

- **Amendments to IFRS 9 "Financial Instruments"** – Prepayment Features with Negative Compensation - adopted by the EU on 22 March 2018.
- **Amendments to IAS 19 "Employee Benefits"** -Plan Amendment, Curtailment or Settlement – Adopted by the EU on 13 March 2019.
- **Amendments to IAS 28 "Long-term interests in Associates and Joint Ventures"** -Long-Term Interests in Associates and joint Ventures – adopted by the EU on 8 February 2019.
- **Amendments to certain standards – "Improvements to IFRSs (2015-2017)"** – As a result of the IFRS Development Project, amendments were made to certain standards (IFRS 3, IFRS 11, IAS 12 and IAS 23), primarily to eliminate inconsistencies and clarify explanations – adopted by EU on 14 March 2019
- **IFRIC 23 "Uncertainty over Income Tax Treatments"-** adopted by EU on 23 October 2018.

3.2. Early application of new standards

The Company did not take the opportunity of early application of the new standards in its 2019 annual Financial Statements. It plans to adopt them when they will become effective.

3.3. New IFRS standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are not yet effective for the year ended 31. December 2019, 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:

- Interest rate benchmark reference reform – Amendments to IFRS 9, IFRS 39 and IFRS 7 (issued on 26 September 2019, effective for annual periods beginning on or after 1 January 2020)

Standards and interpretations issued by the IASB and not yet endorsed by the EU:

- **IFRS 17 Insurance Contracts** In May 2017, the standard was prepared with the aim of establishing consistent, principle-based accounting rules for insurance contracts - it provides that the valuation of insurance liabilities is based on the so-called current fulfilment value and requires a more uniform valuation and presentation procedure for all insurance contracts. IFRS 17 replaces IFRS 4 Insurance Contracts and its related interpretations. 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.
- **IFRS 14 Regulatory Deferral Accounts** (issued in January 2014, based on a decision of the European Commission, the transitional standard will not be adopted, and the EC currently waits for the final version of the standard).
- **Amendments to IFRS 10 and IAS 28** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014 and the date of effectiveness is to be determined by IASB).
- **Amendments to the Conceptual Framework for Financial Reporting** (issued on 29 March 2018, effective for annual periods beginning on or after 1 January 2020).
- **Amendments to IFRS 3**- Definition of a Business (issued on 22 October 2018, effective for acquisitions after 1 January 2020).
- **Amendments to IAS 1 and IAS** 8 – Definition of Material (issued: 31 October 2018, effective for annual periods beginning on or after 1 January 2020).
- **Amendments to IAS 1** – Classification of liabilities as Current or Non-current (issued: 23 January 2020, effective for annual periods beginning on or after 1 January 2022).

The Company believes that the adoption of these standards and amendments to existing standards will not have a material impact on the Financial Statements of the Company in the period of initial application.

3.4 Transition Disclosure

The effects of the initial application of IFRS 16 on statutory Financial Statements are presented below.

With the introduction of IFRS 16 Leasing standard, the Company recognized a right-of-use asset in the amount of HUF 535 million in connection with the lease of an office building, while the book value of lease liabilities increased by HUF 535 million as of 1 January 2019.

Statement of Financial Position

Figures in M HUF

	31.12.2018 restated	Valuation	01.01.2019
Assets			
Cash and cash equivalents	478	0	478
Student loans	220 325	0	220 325
Insurance premium receivables	1 345	0	1 345
Current income tax assets	5		5
Other receivables	353	0	353
Other assets	4	0	4
Property, plant and equipment	182	0	182
Intangible assets	318	0	318
Leases-assets	0	535	535
Total assets:	223 010	535	223 545
Liabilities			
Amount payable to banks	191 554	0	191 554
Other liabilities	430	0	430
Provision	258	0	258
Bond issued	11 447	0	11 447
Leases liabilities	0	535	535
Insurance technical reserves	2 996	0	2 996
Deferred tax liabilities	1 265	0	1 265
Total liabilities:	207 950	535	208 485
Equity			
Issued equity and capital reserve	2 500	0	2 500
Retained losses	2 527	0	2 527
Other reserves	10 033	0	10 033
Total equity	15 060	0	15 060

The following table shows the effect of the first application of IFRS 16, based on the future minimum lease payments presented in IAS 17 in the previous year.

Lease liabilities	
Future minimum lease payments under non-cancellable operating leases at 31 December 2018 *	670
Future lease payments due to different treatment of renewal and termination	-134
Short - term leasing transactions or lower value leasing transactions not presented as liabilities	-1
Lease obligation on 1 January 2019	535

4. 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.

4.1. 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 4.9.2.a) and in the statement of comprehensive income as interest income (cf. Note 4.2). The interest elements assigned to the insurance component are recognised in the statement of financial position as insurance premium receivables (cf. Note 4.9.2.b) and in the statement of comprehensive income as insurance premium income (cf. Note 4.3).

Details on accounting principles for how the actuarial model works are contained in Notes 4.9 and 4.14, and on loss allowances in Notes 5.1.2 and 5.1.3.

4.2. 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), which is provided to students who requested a personal loan (Student Loan 1) is recognised as interest income. According to Section 18 of Government Decree 1/2012 (I.20), students receive interest subsidy for those periods when they are entitled to infant care benefit, maternity leave payment and childcare benefit (hereinafter: GYES).

The Company presents the amount of general interest subsidy (ÁKT), which is provided to those students for the period of the loan agreement who requested Student loan 2, among interest income according to (1/2012. (I.20) section 29. The amount of general interest subsidy is equal to the interest calculated for Student loan 2 products in the presented periods.

The Company recognises the amount of general interest subsidy (ÁKT) which is provided to those students for the period of the loan agreement who requested Language Learning Student Loan (NYDH) as interest income according to 1/2012 (I.20) section 23/C. The required conditions of general interest subsidy are defined in the government decree.

"If the student loan borrower obtains at least a B2 intermediate complex state-accredited language exam (from languages defined in Section (2) within 2 months after the conclusion of the loan agreement and if it is verified according to Section (3), the student is entitled to interest subsidy from the date of announcement until the end of the contract period." The amount of the general interest subsidy is equal to the calculated interest for language learning loan products in the presented periods.

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.

4.3. 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.

4.4. 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.

4.5. 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 5.1.3.

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.

4.6. Result of derecognition of assets measured at amortized cost

The Company applies write-offs in case of receivables, which is a direct reduction from gross carrying amount of a financial asset, when it is not probable that the whole or part of the financial asset will be paid back. The write-off is counted as derecognition.

The Company terminates any agreement if the borrower's arrears exceed the amount of monthly instalments summed for a year - excluding those periods that are affected by the suspension of the repayment obligation - and the borrower fails to repay this debt within the deadline specified in the written letter of formal notice of Diákhitel, or if the borrower has required and received a student loan but did not meet the requirements and conditions specified in the government decree (unauthorized borrowing).

On this line, the Company presents the amount of written-off and non-collectible Student Loan and Insurance premium receivables measured at amortized cost as non-recoverable and uncollectible.

Other information on the collateral of the receivable and the rules of assignment can be found in Section 5.1.2, the data related to the derecognition are presented in Section 13.

4.7. Other operating income and expenses

The Company discloses items of income and expense separately, unless the standards govern the aggregation of items of the same nature.

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.

Other operating expenses include employee benefit costs.

Employee benefit costs include short-term and long-term employee benefits as well as severance payments.

Short term employee benefits include, but are not limited to wages, salaries, bonuses, short-term paid absences, non-cash benefits, and related contributions.

Diákhitel Központ Zrt. Makes a permanent contribution to the Voluntary Pension Funds after their employees in the normal course of business. In addition, the Company does not provide any other post-retirement remuneration to its employees.

The Company has no long-term employee benefits.

4.8. 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.

4.9. 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

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 user of ownership rights;
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 • 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.

Purchased or originated credit-impaired assets are impaired at initial recognition.

In case of purchased or originated-impaired assets the entity needs to use a credit-adjusted effective interest rate from the initial recognition for amortised cost calculation.

In case of previously defined assets, the Company should recognise loss on purchased or originated credit-impaired assets based on the cumulative change of expected credit loss during expected life expectancy from initial recognition. This change of credit loss during expected life should be recognised at each reporting date in Net result for the year as a profit or loss due to impairment. The positive change of credit loss during expected life should be recognised as a profit due to impairment even if the amount of credit loss during expected life is smaller, than the expected credit loss which was presented at initial recognition in the estimated Cash Flow.

The Company has no purchased or originated credit-impaired asset.

The contractual terms of Student Loans are not amended in accordance with legal regulations. The Company has no credit assessment rights and does not have all the relevant information on debtors' willingness to pay, hence it has no originated financial asset in relation to modifications.

Impairment

IFRS 9 is an expected credit loss-based impairment model. The standard requires the enterprise to recognize an expected credit loss on financial assets from initial recognition. Impairment calculation is presented in Section 4.14.1.

4.9.1. 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.

4.9.2. Financial assets measured at amortized cost

In the reporting period financial assets measured at amortised cost 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 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 4.2) 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 4.14.1. 'Impairment of financial assets'.

b) Insurance premium receivables

The interest assigned to the insurance component (cf. Note 4.3) 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 4.14.1. '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.

4.9.3. Financial liabilities measured at amortised cost

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.

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) Lease obligations

Leasing liabilities include those lease liabilities for which the lessor transfers control of the use of an asset for monetary compensation. The start date of a lease is the date on which the lessor transfers the underlying asset to the lessee for use. Lease term is the non-cancellable period for which the lessee has the right to use the underlying asset, together with the following periods:

a) The periods covered by the extension option when the lessee is reasonably certain that the option will be exercised; and
b) Periods covered by the termination option if the lessee is reasonably certain that the option will not be exercised.

The Company measures the lease liability at the inception date as the present value of the unpaid lease payments by that date. The Company discounts lease payments at the implicit lease rate, if it is readily determinable. If this interest rate is difficult to determine, the incremental lessee interest rate is used.

After the commencement date, the lease liability is assessed as follows:

a) by increasing the carrying amount to reflect the interest on the lease liability;
b) a reduction in the carrying amount to reflect the lease payments made;
c) carrying amounts in accordance with paragraphs 39-46 of IFRS 16 or by reassessing the lease or reassessing the revised substantially fixed lease payments (see paragraph B42 of IFRS 16).

The Company examines each contract individually and determines the value of the lease obligation. The interest on the lease liability is recognised as interest expense.

d) Other financial liabilities

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

4.10. Other assets

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

4.11. 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

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 4.14.2.

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.

4.12. 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 4.14.2.

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.

4.13. Lease right of use assets

In accordance with the requirements of IFRS 16, the Company recognises a right-of-use asset and a lease liability at the inception of the lease.

The cost of a right of use asset is the lease liability, taking into account the present values of the unpaid lease payments specified in the contract, with the modifications specified in the standards.

Leases are discounted at the lease rate that is implicit in the lease. If this interest rate is difficult to determine, an incremental borrowing interest rate is determined.

After the commencement date, the Company measures the right-of-use asset using a cost model. Initial cost is reduced by any accumulated depreciation and any accumulated impairment losses and adjusted by the obligation to restate the lease liability in accordance with the standard if applicable.

Depreciation is calculated on a linear basis over the term of the lease, which is included in the "Other operating expenses" line of the statement of comprehensive income.

4.14. Impairment

4.14.1. Impairment of financial assets

According to IFRS 9, the Company is obliged to recognize impairment loss for expected credit losses.

At each reporting date, the Company reviews and assesses whether the credit risk of any financial asset has increased significantly since its initial recognition.

In accordance with IFRS 9 a new three-level model has been developed. Financial instruments are classified with the help of the impairment model in order to determine significant increases in credit risk after initial recognition and to identify financial assets that are impaired based on IFRS 9. Those instruments that are impaired or have a significant increase in credit risk since their initial recognition, credit loss is expected to be recognized over their entire useful life (for definition refer to Section 5.1.2). If the credit risk has not increased significantly since the initial recognition, the Company recognizes a 12-month expected loss (for definition refer to Section 5.1.2) for the financial asset. At evaluation, the Company considers all available information, including forward-looking ratios, based on an expected loss model.

Impairments and reversals are recognized in profit or loss as an impairment loss / gain.

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

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 loan portfolio and the number of random runs. Unrealistic computational capacity is needed to obtain stable results, therefore, homogeneous portfolio groups have been created, taking into account IFRS 9 B5.5.4 and other professional accounting recommendations, to obtain a stable stochastic valuation.

The Company considered IFRS 9 B5.5.49-51 in the course of the model development, which recommends that all relevant and available information should be considered during impairment calculation.

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 behavior. 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 labor 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 decreased by the insurance premium component, and CF_t is the expected cash flow elements for period t (where t runs to the expected end of the contract terms) , 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.

Lifetime 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, according to government regulations Diákhitel Központ is obliged to disburse loans to all students who requests them and meet the statutory requirements, furthermore, no loan assessment process takes place before contracting. Due to the previously mentioned reasons, Diákhitel Központ does not have an internal client rating system. It would generate additional significant costs to develop an internal student rating system as the system would not fulfil any other function. The availability of information is limited due to government regulations, which would cause further difficulties at the system development. Consequently, Diákhitel Központ does not apply rating categories for calculating impairment based on IFRS 9 B.5.5.16 and B.5.5.51.
Based on the above-mentioned reasons, classification into IFRS 9 Stages can be based on any available information that describes the risk that is assigned to a contract.

The primary criteria for Stage classifications are the status of the student and the degree of arrears in case of students in repayment phase.
All terminated contracts are recognized as Stage 3.
Student in repayment phase whit less than 30 days of arrears are classified as Stage 1, with delay between 30-90 days as Stage 2, and in case of more than 90 days of arrears as Stage 3.
Those contracts to which significant credit risk is connected and in addition they are whether in disbursement phrase or in repayment phase are classified as Stage 2 loans.

The most important explanatory factor in case of contracts that are awaiting to step into repayment phrase is the reason for student status termination:

- if it is negative, the contract will be recognized as Stage 2
- if it is positive, the contract will be recognized as Stage 1
- if the reason is unknown
    - in case of the information about the termination is from the educational institution, and the client had an active student status for less than 6 semesters, the contract will be recognized as Stage 2
    - in other cases, it will be recognized as Stage 1

In case of contracts which are in disbursement phase neither the information about the reason for termination of the student status, nor the student status declaration are available:

- if there is a negative information about another student status termination of the client, the contract will be recognized as Stage 2
- in case of contracts which are in disbursement phase, the most important explanatory variable is, that during the disbursement phase how many times had the client a passive semester
    - if the student had at least 2 passive semester and
        - had an active student status for less than 6 semesters and there was no prepayment, the contract will be recognized as Stage 2
        - participates on vocational training or other additional training, the contract will be recognized as Stage 2
        - in other cases, it will be recognized as Stage 1
    - if the student had maximum 1 passive semester and
        - participates on vocational training or other additional training in an institution with high risk rating or the risk category can't be classified (the number of contracts related to the institution is limited), the contract will be recognized as Stage 2
        - if the institution and the education type is unknown related to the student, the contract will be recognized as Stage 2
        - in other cases, it will be recognized as Stage 1

There are students with contract-status of 1, 2 and 3, who have student status with a foreign institution throughout the disbursement. In this case, the above described information is not available, so the contracts are automatically recognized as Stage 2.

The methodology for calculating the impairment for the individual Stage categories is presented in Section 5.1.2.

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.

4.14.2. Impairment for 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.

4.15. 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".

4.16. 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.

4.16.1. 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.

4.16.2. 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.

4.16.3. 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.

4.17. 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 the government grant becomes receivable.

The Company discloses its disclosures with government grants and the government as a related party in Note 32.

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.

4.18. 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).

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.

5. Financial and insurance risk management

5.1. 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.

5.1.1. 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.

5.1.2. 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.

Collaterals

Student loan conditions set out in the Decree shall was stipulated in § 3. (2) the borrower is entitled - without individual credit assessment and risk assessment. There are no collaterals related to the loans. The termination of the credit agreement subject to the conditions set out in the Company's statutory obligation to assign the loan receivables.

Credit risk management

The 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 risk 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 terminate the student loan contracts with the clients concerned.

Upon termination of the contract of the Company until 31 December 2017 were eligible customers was to deliver the dismissal owed to the tax authorities, has been recovered by the time when, by the way of taxes. Tax authority was entitled to carry out actions in order to recover the debt. The amounts collected by tax authority was forwarded to Diákhitel Központ Zrt. Once the tax authority notified the Company about collection, the receivable was derecognised.

408/2017 (XII.15) government regulation put into force an amendment according to which a claim last month of the calendar quarter arising from the cancelled first day of the loan agreement on the first working day of the next calendar quarter of the student loan organization should Hungarian Debt Management Private Limited Company (hereinafter referred to MKK Zrt.) For sale. The student loan organization to authorize payment in instalments to the borrower during the period between the termination and the date of the assignment of the contract.

The consideration for claims to be assigned is determined by the Diákhitel Zrt and MKK Zrt. on the basis of the pricing method developed and approved by the actuary in accordance with the provisioning methodology.

The Diákhitel and MKK Zrt. revise the pricing methodology for a year and, if adjusts its output if necessary, after the head of actuary approved the company applied this new methodology.

The first assignment took place in January 2019, during which the terminated contracts were transferred to MKK Zrt. As a result of the assignment, the mortgage registered in favour of the Company was transferred to the assignee.

For the Company, the statutory rules of loan assignment ensure the reduction of credit losses related to student loans.

Structure and operation of the actuarial model

In the interests of random event convergence, the model does not us model points in groups, each contract is evaluated as a separate model point.
All model points follow a stochastic, random part in the model. This approach enables parts 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 interest subsidies, the repayment of overpayments, financing costs and other operating costs, amounts recovered from cancelled contracts, as well as changes I 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 over regarding the insurance reserve and the and the loan commitments.

Examination of non-payment chances and 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 areas, in areas (grouped according to level of arrears), cancelled (collection or payment relief), maternity benefit (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 transition 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 reached 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 populations 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 multivariable 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 terminated in the calendar year owing to non-payment compared to the number of contracts under repayment at the beginning of the year.

Product	31 December 2019	31 December 2018
Student Loan 1	1,13%	1,07%
Student Loan 2	2,51%	2,29%

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

Credit risk	31 December 2019	31 December 2018 restated
Cash and cash equivalents	290	478
Student loans	199 499	220 325
Insurance premium receivables	1 047	1 345
Other financial assets	326	305
	167 207	179 485
Maximum value of assets exposed to credit risk on 31 December	**368 369**	**401 938**

The Company manages the concentration of credit risk at the level of customers / customer groups and examines the risk of student loan products separately.

The concentration of Student Loans and Insurance Claims is shown in the table below.

Credit risk	31 December 2019	31 December 2018 restated
Student loans		
DH1	164 312	190 698
DH2	34 855	29 627
Language learning student loan	332	0
Total	**199 499**	**220 325**
Insurance premium claims		
DH1	1 033	1 321
DH2	14	24
Total	**1 047**	**1 345**
Lending commitments		
DH1	100 178	121 165
DH2	67 027	58 320
Language learning student loan	2	0
Total	**167 207**	**179 485**

Impairment

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 as described in section "Expected loss calculation".

Diákhitel Központ defines "default" as falling behind on payments for more than 90 days. Furthermore, once a contract is terminated, it cannot be recovered. Based on this, the 12-month expected loss should be allocated to those contracts only from the whole population, which fall behind on payments for more than 90 days in the first 12 months after valuation date and do not recover, thus they are terminated due to the previously mentioned reasons.

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 2019

31 December 2019

Student loans	Student Loan 1			Student Loan 2			Language learning student loan			Total		
	Gross value	Booked impairment	Net value	Gross value	Booked impairment	Net value	Gross value	Booked impairment	Net value	Gross value	Booked impairment	Net value
STAGE 1	**136 366**	**1 369**	**134 997**	**31 012**	**160**	**30 852**	**332**	**0**	**332**	**167 710**	**1 529**	**166 181**
Contracts being disbursed, not disbursable, awaiting repayment	27 844	96	27 748	19 065	30	19 035	332	0	332	47 241	126	47 115
Contracts with repayment obligation started, not in arrears or with suspended repayment	101 748	1 095	100 653	11 465	117	11 348	0	0	0	113 213	1 212	112 001
Contracts with repayment obligation started, with arrears of 1-30 days	6 774	178	6 596	482	13	469	0	0	0	7 256	191	7 065
STAGE 2	**15 704**	**1 954**	**13 750**	**2 631**	**238**	**2 393**	**0**	**0**	**0**	**18 335**	**2 192**	**16 143**
Contracts being disbursed, not disbursable, awaiting repayment	2 145	183	1 962	1 113	50	1 063	0	0	0	3 258	233	3 025
Contracts with repayment obligation started, not in arrears or with suspended repayment	850	46	804	21	1	20	0	0	0	871	47	824
Contracts with repayment obligation started, with arrears of 31-60 days	7 934	994	6 940	980	101	879	0	0	0	8 914	1 095	7 819
Contracts with repayment obligation started, with arrears of 61-90 days	4 775	731	4 044	517	86	431	0	0	0	5 292	817	4 475
STAGE 3	**23 432**	**7 867**	**15 565**	**2 276**	**666**	**1 610**	**0**	**0**	**0**	**25 708**	**8 533**	**17 175**
Contracts with repayment obligation started, with arrears of 91-120 days	4 079	794	3 285	566	100	466	0	0	0	4 645	894	3 751
Contracts with repayment obligation started, with arrears of 121-150 days	2 809	644	2 165	213	49	164	0	0	0	3 022	693	2 329
Contracts with repayment obligation started, with arrears of 151-180 days	2 445	624	1 821	236	55	181	0	0	0	2 681	679	2 002
Contracts with repayment obligation started, with arrears of 181-300 days	8 677	3 436	5 241	853	300	553	0	0	0	9 530	3 736	5 794
Contracts with repayment obligation started, with arrears of at least 301 days	4 771	2 082	2 689	330	131	199	0	0	0	5 101	2 213	2 888
Terminated or not settled contracts	651	287	364	78	31	47	0	0	0	729	318	411
Balance at 31 December	**175 502**	**11 190**	**164 312**	**35 919**	**1 064**	**34 855**	**332**	**0**	**332**	**211 753**	**12 254**	**199 499**

Insurance premium receivables	Student Loan 1			Student Loan 2			Language learning student loan			Total		
	Gross value	Booked impairment	Net value	Gross value	Booked impairment	Net value	Gross value	Booked impairment	Net value	Gross value	Booked impairment	Net value
STAGE 1	**821**	**9**	**812**	**12**	**0**	**12**	**0**	**0**	**0**	**833**	**9**	**824**
Contracts being disbursed, not disbursable, awaiting repayment	145	1	144	10	0	10	0	0	0	155	1	154
Contracts with repayment obligation started, not in arrears or with suspended repayment	627	7	620	2	0	2	0	0	0	629	7	622
Contracts with repayment obligation started, with arrears of 1-30 days	49	1	48	0	0	0	0	0	0	49	1	48
STAGE 2	**106**	**14**	**92**	**1**	**0**	**1**	**0**	**0**	**0**	**107**	**14**	**93**
Contracts being disbursed, not disbursable, awaiting repayment	10	1	9	1	0	1	0	0	0	11	1	10
Contracts with repayment obligation started, not in arrears or with suspended repayment	8	1	7	0	0	0	0	0	0	8	1	7
Contracts with repayment obligation started, with arrears of 31-60 days	53	7	46	0	0	0	0	0	0	53	7	46
Contracts with repayment obligation started, with arrears of 61-90 days	35	5	30	0	0	0	0	0	0	35	5	30
STAGE 3	**195**	**66**	**129**	**1**	**0**	**1**	**0**	**0**	**0**	**196**	**66**	**130**
Contracts with repayment obligation started, with arrears of 91-120 days	32	6	26	0	0	0	0	0	0	32	6	26
Contracts with repayment obligation started, with arrears of 121-150 days	23	5	18	0	0	0	0	0	0	23	5	18
Contracts with repayment obligation started, with arrears of 151-180 days	20	5	15	0	0	0	0	0	0	20	5	15
Contracts with repayment obligation started, with arrears of 181-300 days	72	29	43	1	0	1	0	0	0	73	29	44
Contracts with repayment obligation started, with arrears of at least 301 days	43	19	24	0	0	0	0	0	0	43	19	24
Terminated or not settled contracts	5	2	3	0	0	0	0	0	0	5	2	3
Balance at 31 December	**1 122**	**89**	**1 033**	**14**	**0**	**14**	**0**	**0**	**0**	**1 136**	**89**	**1 047**
Receivables related to student loan clients as at 31 December	**176 624**	**11 279**	**165 345**	**35 933**	**1 064**	**34 869**	**332**	**0**	**332**	**212 889**	**12 343**	**200 546**

The following table presents restated 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 repayment	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**	**24 529**	**24 649**	**1 849**	**645**	**1 204**	**51 027**	**25 174**	**25 853**
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 or not settled contracts	24 374	16 053	8 321	311	139	172	24 685	16 192	8 493
Balance at 31 December	**219 225**	**28 527**	**190 698**	**30 702**	**1 075**	**29 627**	**249 927**	**29 602**	**220 325**

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 or 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**	**28 738**	**192 019**	**30 726**	**1 075**	**29 651**	**251 483**	**29 813**	**221 670**

Changes in impairment booked are presented below:

The data for 2018 has been modified.

Changes to impairment	Sutdent Loan 1	Student Loan 2	Language learning Student loan	Total
Opening balance at 1 January 2018	**29 415**	**561**	**0**	**29 976**
Increase due to origination and purchase	10	12	0	22
Decrease due to derecognition	-894	0	0	-894
Net change arising from credit risk and estimation parameters changes	989	502	0	1 491
Decrease duto to write-offs	-782	0	0	-782
Closing balance at 31 December 2018	**28 738**	**1 075**	**0**	**29 813**
Increase due to origination and purchase	7	6	0	13
Decrease due to derecognition	-458	-15	0	-473
Net change arising from credit risk and estimation parameters changes	-485	189	0	-296
Decrease duto to write-offs	-16 523	-191	0	-16 714
Closing balance at 31 December 2019	**11 279**	**1 064**	**0**	**12 343**

Ratio of impairment for cancelled contracts was as follows:

year	Student loan 1	Student loan 2	Language learning Student loan
2019	44,1%	39,7%	0%
2018 Adjusted	65,8%	44,6%	0%

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

31 December 2019

Loan commitment	Student Loan 1		Student Loan 2		Language learning Student loan		Total	
	Gross value	Provision	Gross value	Provision	Gross value	Provision	Gross value	Provision
STAGE 1	78 487	0	58 558	0	2	0	137 047	0
STAGE 2	9 913	64	5 010	35	0	0	14 923	99
STAGE 3	11 778	0	3 459	0	0	0	15 237	0
Balance at 31 December	**100 178**	**64**	**67 027**	**35**	**2**	**0**	**167 207**	**99**

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**

Changes to provisions recognised:

Changes to provisions	Student loan 1	Student loan 2	Language learning student loan	Total
Opening balance at 1 January 2018	**197**	**29**	**0**	**226**
Reporting year impairment	22	10	0	32
Reporting year reversal	0	0	0	0
Impairment as of 31 December	**219**	**39**	**0**	**258**
Reporting year impairment	259	86	0	345
Reporting year reversal	-414	-90	0	-504
Closing balance at 31 December 2019	**64**	**35**	**0**	**99**

5.1.3. 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.

In connection with the language learning student loan product introduced on October 15, 2019, the reserve calculation will be determined under the same conditions as the Student Loan 1 product.

Student Loan 1	**II. half of 2019**	**I. half of 2019**	**II. half of 2018**	**I. half of 2018**
Risk distribution				
Mortality	4,50%	4,55%	4,24%	6,06%
Disability	8,69%	6,85%	6,53%	8,80%
Pension	1,11%	0,75%	1,08%	1,60%
Total insurance risk	14,30%	12,15%	11,85%	16,46%
Non-payment	85,70%	87,85%	88,15%	83,54%
Total financial risk	85,70%	87,85%	88,15%	83,54%
Total	**100,00%**	**100,00%**	**100,00%**	**100,00%**

Student Loan 2

	II. half of 2019	**I. half of 2019**	**II. half of 2018**	**I. half of 2018**
Risk distribution				
Mortality	4,44%	4,26%	3,02%	3,64%
Disability	5,60%	5,01%	3,61%	5,08%
Pension	0,30%	0,66%	0,14%	0,17%
Total insurance risk	10,34%	9,93%	6,77%	8,89%
Non-payment	89,66%	90,07%	93,23%	91,11%
Total financial risk	89,66%	90,07%	93,23%	91,11%
Total	**100,00%**	**100,00%**	**100,00%**	**100,00%**

Insurance risks do not include access risks other than those mentioned above. There are no significant known concentrations of insurance risks.

The following tables contain assumptions for financing interest, operating premium and wage inflation in the calculations:

Student Loan 1

31 December 2019	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026+**

Financing interest	0,78%	0,87%	0,90%	1,21%	2,47%	3,83%	4,79%	5,50%
Operating premium	1,15%	1,12%	1,47%	1,53%	1,58%	1,65%	1,70%	1,75%
Wage inflation	6,40%	5,96%	5,04%	4,50%	4,50%	4,50%	4,20%	3,60%

Student Loan 2

31 December 2019	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026+**
Financing interest	0,78%	0,87%	0,90%	1,21%	2,47%	3,83%	4,79%	5,50%
Operating premium	1,15%	1,37%	1,47%	1,53%	1,58%	1,65%	1,70%	1,75%
Wage inflation	6,40%	5,96%	5,04%	4,50%	4,50%	4,50%	4,20%	3,60%

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%

The following assumptions are used to calculate the impairment of loan contracts and technical provisions in case of Student Loan 1 and Student Loan 2:

- **Minimum wage**
  In case of cash-flow projection, the model uses the minimal wage applied on 31 October the year before the first they of the projection according to 1/2012. (I.20) Government decree.

The amount of minimal wage, regulated by government decrees, over the years are shown below:

Year	Government decree	Minimum wage
2017	430/2016. (XII. 15.)	127 500
2018	430/2016. (XII. 15.)	138 000
2019	324/2018. (XII. 30.)	149 000
2020	367/2019. (XII. 30.)	161 000

- **Collection rate**
  According to the contract framework concluded in December 2018 with MKK Zrt and according to the Government Decree Section 19 (7) on Student Loan System, the Company is obliged to assign all of its terminated contracts and unpaid receivables that arose until the first day of the last month of every quarter.

  Recovery rate, which is 56,2% in case of Student Loan 1 receivables and 60,4% in case of Student Loan 2 receivables, is determined for terminated contracts based on the purchase price.

The collection rates calculated for contracts terminated at the end of 2018 were also determined based on the contract prices concluded with MKK Zrt. The impairment for existing contracts are 61%/57%/52% according to principal outstanding groups.

- **Mortality** estimates were determined based on the People's Mortality Table prepared for 2017. The difference between the actual mortality experienced during the years in case of Student Loan 1 portfolio and the expected mortality according to the Mortality Table was analysed. Age groups and a non-dependent modification factor was used for reserve-determination based on previously obtained results.

- The information for **disability** rate was prepared by taking into account national NYIKA data. Due to analysis carried out on Student Loan 1 portfolio, a modification factor was applied.

- Probability of **lump sum repayment**: The probability of lump sum repayment was defined, based on the data collected on Student Loan 1 portfolio in the period of 2016-2018, as a function of status and loan amount to be repaid, taking into consideration contracts in repayment status and contracts in arrears separately.

The table below contains probability data derived from empirical experience 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 lump sum repayment

Loan amount (HUF)	Contracts in repayment	Outstanding contracts	Contracts in repayment	Outstanding contracts
	31 December 2019		31 December 2018	
0 - 500 000	17,05%	10,93%	17,08%	11,34%
500 001 - 1 000 000	6,96%	3,74%	6,81%	3,63%
1 000 000 - 1 500 000	3,60%	2,24%	3,57%	1,97%
1 500 001 - 2 000 000	2,06%	1,39%	2,12%	1,21%
2 000 001 -	1,08%	0,68%	1,09%	0,60%

- **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 size of the required annual mandatory repayment amount, different amounts and probabilities of prepayment are expected, based on the available information, the following assumptions were used in the model:

31 December 2019			31 December 2018		
Required amount of repayment	Probability of repayment	The amount of the repayment as a percentage of the amount of the annual repayment	Required amount of repayment	Probability of repayment	The amount of the repayment as a percentage of the amount of the annual repayment
0 - 100 000	47,14%	53,40%	0 - 100 000	48,62%	49,55%
100 001 - 200 000	49,36%	24,35%	100 001 - 200 000	49,61%	23,26%
200 001 -	49,29%	13,03%	200 001 -	48,55%	12,86%

- **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, which was amended with the wage inflation date of years 2015-2017. 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 those assumptions that affect reserves the most.

Student Loan 1	Original assumption	31.12.2019 Modified assumption	Reserve	Change	Original assumption	31.12.2018 Modified assumption	Reserve	Change
Under basic assumptions			**2 991**				**2 901**	
population)	by age groups *	+10%	3 069	2,61%	by age groups *	+10%	2 957	1,93%
		-10%	2 905	-2,88%		-10%	2 767	-4,62%
Disability (relative to national data)	by age groups *	+10%	3 131	4,68%	by age groups *	+10%	3 042	4,86%
		-10%	2 843	-4,95%		-10%	2 723	-6,14%
assumptions)		+1%	2 767	-7,49%		-1%	3 183	9,72%
		-1%	3 290	10,00%		+1%	2 668	-8,03%
Collection rate on cancelled contracts	Based on MKK contract	+1%	2 987	-0,13%	Based on MKK contract	62%/58%/53%	2 898	-0,10%
		-1%	2 986	-0,17%		60%/56%/51%	2 855	-1,59%
Risk premium	0,00%	-0,1%	2 975	-0,53%	0,64%	-0,1%	2 955	1,86%
Risk premium		+0,1%	3 006	0,50%		+0,1%	2 793	-3,72%
Cost of resources		-1%	3 381	13,04%		-1%	2 648	-8,72%
Cost of resources		+1%	2 715	-9,23%		+1%	3 269	12,69%
Pricing							3 273	12,82%

Student Loan 2	Original assumption	31.12.2019 Modified assumption	Reserve	Change	Original assumption	31.12.2018 Modified assumption	Reserve	Change
Under basic assumptions			**162**				**95**	
population)	by age groups *	+10%	180	11,11%	by age groups *	+10%	116	22,11%
		-10%	145	-10,49%			89	-6,32%
Disability (relative to national data)	by age groups *	+10%	175	8,02%	by age groups *	+10%	109	14,74%
		-10%	135	-16,67%		-10%	70	-26,32%
assumptions)		+1%	138	-14,81%		-1%	111	16,84%
		-1%	162	0,00%		+1%	78	-17,89%
Collection rate on cancelled contracts	Based on MKK contract	+1%	158	-2,47%	Based on MKK contract	62%/58%/53%	94	-1,05%
		-1%	151	-6,79%		60%/56%/51%	91	-4,21%
Risk premium	0,93%	-0,1%	157	-3,09%	1,45%	-0,1%	125	31,58%
Risk premium		+0,1%	149	-8,02%		+0,1%	66	-30,53%
Cost of resources		-1%	133	-17,90%		-1%	111	16,84%
Cost of resources		+1%	173	6,79%		+1%	80	-15,79%
Pricing							175	84,21%

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	Level of the risk premium		
	Student Loan 1	Student Loan 2	Language learning credit
01.01.2018-30.06.2018	0,50%	1,41%	-
01.07.2018-31.12.2018	0,64%	1,45%	-
01.01.2019-30.06.2019	0,33%	1,09%	-
01.07.2019-31.12.2019	0,00%	0,93%	0,00%

In the calculations, made as of 31 March 2019, the provision for DH1 product was higher than required, therefore, the actuary proposed a 0% risk premium for the second semester for the year 2009. The risk premium is determined based on the provision portfolio in accordance with Hungarian accounting rules.

Higher provision was caused by the following factors:

- The price of terminated contracts, that were handed over to MKK, was not known at the non-routine pricing process. Based on available information, the Company determined its required reverse level based on a pessimistic scenario (where the price of those contracts that were terminated before 2013 was 0). However, the optimistic scenario was approved for the final contract.
- The constant growth in real wage during recent years has been higher than all optimistic values in the model, and the repayment rate has improved also significantly.

5.1.4. 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	Book value	Expected cash flows	within 1 month	Between 1-3 months	Between 3 months and 1 years	Between 1-5 years	Beyond 5 years
31.12.2019							
Cash and cash equivalents	290	0	0	0	0	0	0
Student loans	199 499	267 939	1 902	3 835	18 135	99 343	144 724
Insurance premium receivables	1 047	1 297	10	21	96	485	685
Other financial receivables	326	326	276	0	2	48	0
Non-derivative financial liabilities							
Loans and advances from banks	-171 239	-181 797	-1 354	-2 784	-9 418	-138 747	-29 494
Other financial liabilities	-167	-167	-144	-23	0	0	0
Issued bonds	-11 281	-11 385	0	0	-11 385	0	0
Lease liabilities	-475	-503	-10	-19	-86	-388	0
	18 000	**75 710**	**680**	**1 030**	**-2 656**	**-39 259**	**115 915**

Liquidity risk	Book value	Expected cash flows	within 1 month	Between 1-3 months	Between 3 months and 1 years	Between 1-5 years	Beyond 5 years
31.12.2018							
Cash and cash equivalents	478	0	0	0	0	0	0
Student loans	220 325	273 138	10 558	4 242	19 257	99 406	139 675
Insurance premium receivables	1 345	1 560	71	26	118	570	775
Other financial receivables	305	305	254	0	2	4	45
Non-derivative financial liabilities							
Loans and advances from banks	-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
	19 304	**56 820**	**10 503**	**1 425**	**-60 736**	**1 988**	**103 640**

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 Owner and the Minister of Finance.

5.1.5. 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 with the professional support of 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	**31.12.2019**	**31.12.2018 restated**
Fixed interest	4	3
Floating interest	200 549	221 674
Interest-bearing assets	**200 553**	**221 677**
Fixed interest	-114 292	-86 135
Floating interest	-68 228	-116 866
Interest-bearing liabilities	**-182 520**	**-203 001**

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.

	31.12.2019			**31.12.2018**		
Cash flow sensitivity	**Growth rate (basis points)**	**Equity**	**Profit**	**Growth rate (basis points)**	**Equity**	**Profit**
Floating-interest instruments (HUF)	50	815	815	50	891	891
Floating-interest instruments (EUR)	10	-38	-38	10	-38	-38
Cash flow sensitivity, net		**777**	**777**		**853**	**853**

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.

5.1.6. 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.

6. 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.)§)

7. 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).

Changes in fair value hierarchy

The classification of financial instruments into the fair value hierarchy is not static. Change could be necessary to make in the classification due to various reasons, such as:

- Market changes: The market may become inactive. As a result, input parameters previously observed in the market may become unobservable parameters (possible transition from level 1 to level 2 and 3).

- Model change: The application of a new model that is more sophisticated, which takes into account more observable input factors in the market and reduces the impact of unobservable inputs (possible transition from level 3 to level 2).
- Sensitivity change: The sensitivity of the total fair value to valuation input parameters can change over time
- The effect of an input parameter can become significant or even insignificant. The classification of fair value hierarchy may vary from Level 3 to Level 2 because of that,
- or conversely, from Level 2 to Level 3.

Changing market conditions, modernised models and sensitivity input factors should take into consideration during the fair value classification of financial assets. Due to this, fair value classification should be reviewed regularly.

Fair values for each financial instrument category have been determined 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

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 value of financial instruments

		31.12.2019
Instruments measured at amortized cost	**Total book value**	**Total fair value**
Cash and cash equivalents	290	290
Student loans	199 499	199 499
Insurance premium receivables	1 047	1 047
Other financial receivables	326	326
Total financial assets	**201 162**	**201 162**
Loans and advances from banks	171 239	174 668
Other financial liabilities	167	167
Issued bonds	11 281	11 382
Total financial liabilities	**182 687**	**186 217**

		31.12.2018 restated
Instruments measured at amortized cost	**Loans and receivables**	**Total fair value**
Cash and cash equivalents	478	478
Student loans	220 325	220 325
Insurance premium receivables	1 345	1 345
Other financial receivables	305	305
Total financial assets	**222 453**	**222 453**
Loans and advances from banks	191 554	192 961
Other financial liabilities	148	148
Issued bonds	11 447	11 643
Total financial liabilities	**203 149**	**204 752**

Fair value hierarchy

31.12.2019

	Book value	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Assets					
Assets presented at fair value	**201 162**	**201 162**	**290**	**0**	**200 872**
Bank deposits, cash	290	290	290	0	0
Student loans	199 499	199 499	0	0	199 499
Insurance premium receivables	1 047	1 047	0	0	1 047
Other financial receivables	326	326	0	0	326
Liabilities					
Liabilities presented at fair value	**182 687**	**186 217**	**0**	**11 382**	**174 835**
Liabilities to credit institutions	171 239	174 668	0	0	174 668
Other financial liabilities	167	167	0	0	167
Issued bonds	11 281	11 382	0	11 382	0

31.12.2018 restated

	Book value	Fair value	Level 1	Level 2	Level 3
Assets					
Assets presented at fair value	**222 453**	**222 453**	**478**	**0**	**221 975**
Bank deposits, cash	478	478	478	0	0
Student loans	220 325	220 325	0	0	220 325
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**	**11 643**	**193 109**
Liabilities to credit institutions	191 554	192 961	0	0	192 961
Other financial liabilities	148	148	0	0	148
Issued bonds	11 447	11 643	0	11 643	0

8. 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	2019	2018
Student loan interest income*	4 454	6 018
Total	**4 454**	**6 018**

* Includes interest components of student loans related to the loan component.

Interest expense	2019	2018
Bond interest	**218**	**442**
Interest on long-term loans	**3 603**	**3 678**
EIB loan interest	1 758	1 725
MFB loan interest	1 845	1 946
Savings bank loan interest	0	7
Stand-by loan interest	**2**	**1**
MKB loan interest rate	0	1
Gránit Bank loan interest rate	2	0
Interest on leased assets	13	0
Total	**3 836**	**4 121**
Net interest income	**618**	**1 897**

The breakdown of student loan interest income is illustrated in the following tables:

Details of student loan interest income

31 December 2019	Student loan 1	Student loan 2	Language Learning Student Loan	Total
Student loan interest income received	***2 828***	***4***	***0***	***2 832***
-Interest income on cost of funds	*1 023*	*0*	*0*	*1 023*
-Interest income on risk premium	*195*	*0*	*0*	*195*
-Interest income on operating expenses	*1 499*	*0*	*0*	*1 499*
-Default interest	*111*	*4*	*0*	*115*
Student loan interest accrued due to capitalisation	**910**	**3**	**1**	**913**
-Interest income on cost of funds	*330*	*0*	*1*	*330*
-Interest income on risk premium	*100*	*0*	*0*	*100*
-Interest income on operating expenses	*478*	*0*	*0*	*478*
-Default interest	*2*	*3*	*0*	*5*
State targeted interest subsidies*	**221**	**961**	**0**	**1 182**
-Interest income on cost of funds	83	256	0	339
-Interest income on risk premium	121	375	0	496
-Interest income on operating expenses	17	330	0	347
Amount transferred from interest income to insurance premium income	**-313**	**-72**	**0**	**-385**
STAGE 3 not eligible interest income	**-87**	**-1**	**0**	**-88**
Total	**3 559**	**895**	**1**	**4 454**

31 December 2018	Student Loan 1	Student Loan 2	Total
Student loan interest income*	***3 257***	***0***	***3 257***
-Interest income on cost on funds	*1 106*	*0*	*1 106*
-Interest income on risk premium	*816*	*0*	*816*
-Interest income on operating expenses	*1 335*	*0*	*1 335*
Student loan interest accrued due to capitalisation*	**1 170**	**0**	**1 170**
-Interest income on cost on funds	*427*	*0*	*427*
-Interest income on risk premium	*272*	*0*	*272*
-Interest income on operating expenses	*471*	*0*	*471*
State targeted interest subsidies*	***245***	**945**	**1 190**
-Interest income on cost on funds	*83*	223	306
-Interest income on risk premium	*101*	315	416
-Interest income on operating expenses	*61*	407	468
Amount transferred from interest income to insurance premium income	***-431***	***-56***	**-487**
Student loan default interest*	***877***	**11**	**888**
Total	**5 118**	**900**	**6 018**

* In 2018, overdue interest income includes the amount of interest income actually received in connection with impaired student loans.

9. 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 5.1.3.

Insurance premium income	2019				2018		
	Student Loan 1	Student Loan 2	Language Learning Student Loan	Total	Student Loan 1	Student Loan 2	Total
Period risk premium	416	375	0	791	1 189	315	1 504
Period operating premium	1 994	330	0	2 324	1 867	407	2 274
Total premiums	***2 410***	***705***	***0***	***3 115***	***3 056***	***722***	***3 778***
Calculated premium income	***313***	***72***	***0***	**385**	***431***	***56***	***487***
STAGE 3 not eligible preium income	***-7***	***0***	***0***	**-7**	***0***	***0***	***0***
Of which: premium income	**306**	**72**	**0**	**378**	**431**	**56**	**487**

10. Claim expenses

Claim expenses	2019				2018		
	Student Loan 1	Student Loan 2	Language Learning Student Loan	Total	Student Loan 1	Student Loan 2	Total
Loans written off due to death	82	10	0	92	142	4	146
Loans written off due to disability	35	6	0	41	17	1	18
Total	**117**	**16**	**0**	**133**	**159**	**5**	**164**

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
2019	123	82	164	35	12	10	13	6
2018	133	142	200	17	11	4	16	1

11. Net trading result

The result from the repurchase of bonds issued by the Student Loan is presented as net trading income.
In 2018 and 2019, the Company did not repurchase bonds.

12.Other operating income and expenses

Other operating income	2019	2018
Sale of intangible assets and PPE	1	0
Income from forgiven receivables	35	28
Other	5	18
Total	**41**	**46**

Other operating costs, expenses	2019	2018
Material costs	28	27
Services used	896	943
Other services	77	190
Wage cost	737	750

Other staff benefits	283	252
Social security contributions	197	200
Depreciation	276	129
Definitive liquid asset transfers	14	15
Other	32	2
Total	**2 543**	**2 510**

13. Derecognition of assets measured at amortized cost

The loss on derecognition of assets measured at amortized cost is shown in the table below. The rules for the derecognition are detailed in Chapter 5.1.2.

2019

Transactions	Student Loan 1	Student Loan 2	Total
Value of gross receivable	25 571	440	26 011
Impairment derecognition	-16 523	-191	-16 714
Net value of receivable	**9 048**	**249**	**9 297**
Sales revenue of sold loan receivables	9 006	244	9 250
Result	**42**	**5**	**47**

Other write offs	Student Loan 1	Student Loan 2	Total
Value of gross receivable	1	0	1
Result	**1**	**0**	**1**
Loss on derecognized transactions	**43**	**5**	**48**

2018

Other write offs	Student Loan 1	Student Loan 2	Total
Value of gross receivable	46	0	46
Loss on derecognized transactions	**46**	**0**	**46**

14.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:

Corporate income tax rates of the Company	2019	2018
Corporate tax	9%	9%
Corporate tax rate	**9%**	**9%**

The reconciliation between the expected tax based on the accounting (book) result and the actually paid tax by the Company is presented below:

Corporate tax expense in reporting year	2019	2018
Corporate tax expense in reporting year	1	1
Total corporate tax expense in reporting year	**1**	**1**

Deferred tax income	2019	2018 restated
Occurrence and reversal of temporary differences	-75	5
Total deferred tax income	**-75**	**5**
Total corporate tax	**-74**	**6**

The deduction of the effective tax rate is shown in the table below:

Breakdown of effective tax rate	2019	2018 restated
Period result	-760	42
Corporate tax income	74	-6
Profit/loss before tax	**-834**	**48**
Expected corporate tax based on tax rate	75	-4
Non-deductible expenses	-2	-1
Corporate tax payable	1	1
Unrecognised changes in temporary differences	0	-2
Tax income	**74**	**-6**
Profit/loss before tax	-834	48
Tax revenue/expenditure	74	-6
Effective tax rate %	**8,9%**	**12,5%**

15.Assets and liabilities by maturity

Assets by maturity	31.12.2019			31.12.2018 restated		
	Current	Non-current	Total	Current	Non-current	Total
Cash and cash equivalents	290	0	290	477	1	478
Student loans	23 205	176 294	199 499	39 283	181 042	220 325
Insurance premium receivables	134	913	1 047	262	1 083	1 345
Current tax assets	4	0	4	5	0	5
Other receivables	296	48	344	304	49	353
Other assets	4	0	4	4	0	4
Tangible assets	0	142	142	0	182	182
Intangible assets	0	337	337	0	318	318
Lease assets	0	468	468	0	0	0
Total	23 933	178 202	202 135	40 335	182 675	223 010

Liabilities by maturity	31.12.2019			31.12.2018 restated		
	Current	Non-current	Total	Current	Non-current	Total
Liabilities to credit institutions	11 453	159 786	171 239	79 856	111 698	191 554
Other liabilities	399	0	399	430	0	430
Provision	0	99	99	0	258	258
Issued bonds	11 281	0	11 281	0	11 447	11 447
Technical reserves	184	2 969	3 153	170	2 826	2 996
Lease liabilities	26	449	475	0	0	0
Deferred tax liabilities	0	1 189	1 189	0	1 265	1 265
Total	23 343	164 492	187 835	80 456	127 494	207 950

16. Cash and cash equivalents

Cash and cash equivalents	2019	2018
Bank deposits	290	477
Restricted-use cash	0	1
Total	**290**	**478**

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

17.Student loans and insurance premium receivables

Student loan contracts, which are provided by Diákhitel Központ Zrt., comprise a loan and an insurance component, which are presented separately in the Statement of financial position.

Information on student loan portfolio and insurance premium receivables is presented in Note 5.1.2 and the tables in Note 5.1.3.

The Company currently offers three products to its customers.

Student Loan 1

Student Loan 1 is a personal loan, where the maximum disbursable amount is regulated by government decree. The disbursement of the personal loan can be requested in monthly instalments or in one amount per academic semester.

The disbursement of Student Loan 1 has started in October 2001. First applicants started to repay Student Loan 1 on January 1, 2003 while income-based repayments started in 2005.

Since the foundation of the Company, 367,123 people (2018: 362,486 people) have requested student loans approximately in amount of HUF 315.0 billion.

The borrower shall pay the repayment for twelve times the amount of the minimum wage valid on 31 October of the year preceding the year in which the repayment obligation arose and the year following the year in which the repayment obligation arose.

The repayment instalment in the second year since the start of the repayment obligation– 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 payment 6%	Rate of payment 8%	Rate of payment 9%
2018	138 000	127 500	7 650	10 200	11 475
2019	149 000	138 000	8 280	11 040	12 420
2020	161 000	149 000	8 940	11 920	13 410

Student Loan 2

In the case of Student Loan 2, characterised as a fixed loan, the borrower can request the amount corresponding to the tuition fee to be paid to the university or college per semester, furthermore the loan can be requested for foreign language bachelor's and master's programs tuition fees when curriculums and the program itself were established in Hungarian. The borrower can request the fixed loan in one amount or in several instalments, paid in every academic semester.

The initial application date for Student loan 2 was August 15, 2012, and the first disbursement was successfully completed on 15 October.

Since the start of the first applications in 2012, a total of 42,233 people (2018: 35,857) have received student loans in nearly HUF 41 billion amount in 2019.

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. 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 current year.

The repayment 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 %
0 - 1 000 000 Ft	4%
1.000.001- 2.000.000 Ft	5%
2.000.001- 3.000.000 Ft	7%
3.000.001- 4.000.000 Ft	9%
4.000.001-30.000.000 Ft	11%

Language Learning Student Loan

A student with an active or suspended status or a student who has obtained a final certificate at a higher education institution but does not have his or her diploma yet due to the absence of the required language exam may apply for a student loan from Diákhitel Központ Zrt. The maximum amount to be requested is HUF 500,000.

Until 31 December 2021, the interest rate of the Language Learning student loan will be the same as the interest rate set for Student Loan 1, furthermore, the interest rate elements in case of Language Learning Student Loan will be concurred to Student loan 1 elements.

The initial application date of Language Learning Student loan was October 1, 2019, while the first disbursement was successfully carried out on October 15.

From October 1, 2019, Language Learning Student Loan was disbursed in a total amount of HUF 0.3 billion to 692 students.

Repayment of the language student loan must begin 12 months after disbursement in equal monthly instalments. The repayment period can be chosen by the borrower at the time of contracting; repayment period is a minimum of 1-year and a maximum of 5-year period.

18.Other receivables

Other receivables

Description	2019	2018
Other financial receivables	***326***	***305***
Loans disbursed to employees	7	7
Security deposit	43	44
Subsidised interest request	276	254
Other receivables	**18**	**48**
Prepaid expenses, accrued income	15	46
Other tax receivables	2	2
Other receivables	1	0
Total other receivables	**344**	**353**

19.Other assets

Other assets include inventories for marketing purposes, which the Company purchases for the purpose of distributing promotional gifts to customers.

The book value of advertising gifts is HUF 4 million in 2019 and 2018 as well.

20.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
Gross value, 1 January 2018	**58**	**421**	**82**	**88**	**649**
Additions	0	57	13	223	293
Disposals	-1	-10	-7	-282	-300
Gross value, 31 December 2018	**57**	**468**	**88**	**29**	**642**
Opening gross value at 1 January 2019	**0**	**0**	**0**	0	
Additions	8	53	4	162	227
Disposals	-8	-58	-39	-191	-296
Gross value, 31 December 2019	**57**	**463**	**53**	**0**	**573**
Accumulated depreciation, 1 January 2018	**13**	**346**	**70**	**0**	**429**
Depreciation	3	41	5	0	49
Disposals	-1	-10	-7	0	-18
Accumulated depreciation, 31 December 2018	**15**	**377**	**68**	**0**	**460**
Depreciation	4	59	4	0	67
Disposals	-2	-56	-38	0	-96
Accumulated depreciation, 31 December 2019	**17**	**380**	**34**	**0**	**431**
Net value, 1 January 2018	**45**	**75**	**12**	**88**	**220**
Net value, 31 December 2018	**42**	**91**	**20**	**29**	**182**
Net value, 31 December 2019	**40**	**83**	**19**	**0**	**142**

Gross value of tangible assets in use wri	Rights and concessions related to property	Technical equipment, machinery, vehicles	Other equipment, fittings	Total
31.12.2018	**2**	**278**	**56**	**336**
31.12.2019	**2**	**285**	**22**	**309**

21. 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
Gross value			
Gross value, 1 January 2018	**1 355**	**5**	**1 360**
Additions	199	12	211
Disposals	-1	0	-1
Gross value, 31 December 2018	**1 553**	**17**	**1 570**
Additions	127	0	127
Disposals	-16	0	-16
Gross value, 31 December 2019	**1 664**	**17**	**1 681**
Accumulated depreciation, 1 January 2018	**1 170**	**4**	**1 174**
Depreciation	78	1	79
Disposals	-1	0	-1
Accumulated depreciation, 31 December 2018	**1 247**	**5**	**1 252**
Depreciation	105	3	108
Disposals	-16	0	-16
Accumulated depreciation, 31 December 2019	**1 336**	**8**	**1 344**
Net value, 1 January 2018	**185**	**1**	**186**
Net value, 31 December 2018	**306**	**12**	**318**
Net value, 31 December 2019	**328**	**9**	**337**

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-Dec-2018	**1 076**	**5**	**1 081**
31-Dec-2019	**1 119**	**5**	**1 124**

22. Right-of-use leasing assets

After adopting IFRS 16, the Company recognized lease liabilities for contracts that were classified as 'operating leases' in accordance with IAS 17.

The fair value of lease liabilities is the present value of the remaining lease payments discounted at the incremental borrowing interest rate as of January 1, 2019.

The weighted average incremental lessee interest rate on lease liabilities was 2.859% on 1 January 2019.

Changes in leasing assets	Leased property	Leased technical equipment, machinery, vehicles	Total
Gross value, 31 December 2018	**0**	**0**	**0**
Gross amended values, 01 January 2019	**535**	**0**	**535**
Additions	2	32	34
Gross value, 31 December 2019	**537**	**32**	**569**
Accumulated depreciation, 31 December 2018	**0**	**0**	**0**
Gross amended values, 01 January 2019	**0**	**0**	**0**
Depreciation	99	2	101
Accumulated depreciation, 31 December 2019	**99**	**2**	**101**
Net value, 31 December 2018	**0**	**0**	**0**
Net value, 01 January 2019	**535**	**0**	**535**
Net value, 31 December 2019	**438**	**30**	**468**

23. Deferred tax assets and tax liabilities

Deferred tax	31.12.2019			31.12.2018 restated		
	Tax asset	Tax liability	Net balance	Tax asset	Tax liability	Net balance
Property, plant and equipment	3	0	3	3	0	3
Leased assets	0	-42	-42	0	0	0
Receivables, loans disbursed	1 203	-94	1 109	2 519	-121	2 398
Prepaid expenses, accrued income	44	0	44	25	0	25
Provisions	0	-2 438	-2 438	0	-3 600	-3 600
Technical reserve	284	0	284	270	0	270
Long-term liabilities	25	0	25	40	-79	-39
Leasing liabilities	43	0	43	0	0	0
Accrued expenses, deferred income	0	-217	-217	0	-322	-322
Tax receivables (tax liabilities)	**1 602**	**-2 791**	**-1 189**	**2 857**	**-4 122**	**-1 265**
Tax assets not taken into account	**0**	**0**	**0**	**0**	**0**	**0**
Total tax assets (tax liabilities)	**1 602**	**-2 791**	**-1 189**	**2 857**	**-4 122**	**-1 265**

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

Changes in tax effect on temporary differences 31 December 2019	Opening balance at 1 January	Recognized in profit or loss for the period	Closing balance at 31 December
Property, plant and equipment	3	0	3
Leased assets	0	-42	-42
Receivables, loans disbursed	2 398	-1 289	1 109
Prepaid expenses, accrued income	25	19	44
Provisions	-3 600	1 162	-2 438
Technical reserve	270	14	284
Long-term liabilities	-39	64	25
Leasing liabilities	0	43	43
Accrued expenses, deferred income	-322	105	-217
Total	**-1 265**	**76**	**-1 189**

Restated changes in tax effect on temporary differences 31 December 2018	Opening balance at 1 January	Recognized in profit or loss for the period	Closing balance at 31 December
Property, plant and equipment	3	0	3
Receivables, loans disbursed	3 045	-647	2 398
Prepaid expenses, accrued income	221	-196	25
Provisions	-3 736	136	-3 600
Technical reserve	359	-89	270
Long-term liabilities	-83	44	-39
Accrued expenses, deferred income	-429	107	-322
Total	**-620**	**-645**	**-1 265**

24. Liabilities to credit institutions

Name of credit institution	Type of interest	Interest rate	Borrowing date	Maturity date	Currency	Loan amount	Carrying amount	Loan amount	Initial fair value difference	Carrying amount
						2019		2018		
European Investment Bank	floating rate	EIB VSFR	12.10.2005	15.06.2020	HUF	90	90	270		270
European Investment Bank	floating rate	EIB VSFR	12.01.2006	15.06.2020	HUF	150	150	450		450
European Investment Bank	floating rate	EIB VSFR	11.04.2006	15.06.2020	HUF	115	115	345		345
European Investment Bank	floating rate	EIB VSFR	10.08.2006	15.03.2021	HUF	225	225	375		375
European Investment Bank	floating rate	EIB VSFR	13.11.2006	15.03.2021	HUF	420	420	700		700
European Investment Bank	floating rate	EIB VSFR	12.12.2006	15.03.2021	HUF	435	435	725		725
European Investment Bank	floating rate	EIB VSFR	12.03.2007	15.09.2021	HUF	300	300	450		450
European Investment Bank	floating rate	EIB VSFR	13.06.2007	15.12.2021	HUF	800	800	1 200		1 200
European Investment Bank	floating rate	EIB VSFR	11.10.2007	15.03.2022	HUF	1 428	1 428	1 999		1 999
European Investment Bank	floating rate	EIB VSFR	17.07.2008	15.03.2023	HUF	1 750	1 750	2 250		2 250
European Investment Bank	floating rate	EIB VSFR	08.08.2008	15.03.2023	HUF	1 400	1 400	1 800		1 800
European Investment Bank	floating rate	3M BUBOR-0,455%	11.12.2008	15.06.2023	HUF	665	665	855		855
European Investment Bank	floating rate	3M BUBOR-0,390%	11.03.2009	15.06.2023	HUF	2 100	2 100	2 700		2 700
European Investment Bank	floating rate	EIB VSFR	10.08.2009	15.03.2024	HUF	1 575	1 575	1 925		1 925
European Investment Bank	floating rate	EIB VSFR	15.12.2009	15.06.2024	HUF	743	743	908		908
European Investment Bank	floating rate	EIB VSFR	10.03.2010	15.09.2024	HUF	1 250	1 250	1 500		1 500
European Investment Bank	fixed rate	2,387%	19.08.2010	15.03.2025	HUF	3 685	3 711	4 355		4 386
European Investment Bank	floating rate	3M BUBOR+0,246%	13.10.2010	15.06.2025	HUF	1 925	1 925	2 275		2 275
European Investment Bank	floating rate	3M BUBOR+0,246%	13.12.2010	15.06.2025	HUF	2 008	2 008	2 373		2 373
European Investment Bank	fixed rate	6,296%	09.03.2011	15.09.2025	HUF	1 800	1 805	2 106		2 106
European Investment Bank	fixed rate	5,803%	21.04.2011	15.12.2025	HUF	3 300	3 309	3 850		3 860
European Investment Bank	fixed rate	6,157%	12.10.2011	15.06.2026	HUF	2 565	2 673	3 075		3 084
European Investment Bank	fixed rate	6,471%	12.03.2012	15.09.2026	HUF	1 750	1 755	2 000		2 006
European Investment Bank	fixed rate	6,353%	11.06.2012	15.12.2026	HUF	3 850	3 862	4 400		4 413
European Investment Bank	floating rate	3M BUBOR-0,56%	18.10.2012	15.06.2027	HUF	2 250	2 250	2 550		2 550
European Investment Bank	fixed rate	4,746%	11.02.2013	15.12.2027	HUF	2 000	2 004	2 250		2 255
European Investment Bank	floating rate	3M BUBOR+0,161%	11.10.2013	15.09.2028	HUF	1 750	1 750	1 950		1 950
European Investment Bank	floating rate	3M BUBOR+0,161%	11.10.2013	15.09.2028	HUF	1 350	1 350	1 500		1 500
European Investment Bank	floating rate	3M BUBOR+0,104%	11.02.2014	15.12.2028	HUF	2 340	2 341	2 400		2 403
European Investment Bank	fixed rate	2,98% (1,224%)*	13.10.2014	15.09.2029	HUF	6 000	6 007	6 000		6 007
European Investment Bank	fixed rate	2,98% (1,224%)*	13.10.2014	15.09.2029	HUF	1 575	1 575	1 755		1 755
European Investment Bank	fixed rate	2,561%	18.08.2015	15.06.2030	HUF	1 560	1 561	1 600		1 602
European Investment Bank	floating rate	3M BUBOR+0,113%	13.10.2015	15.09.2030	HUF	3 900	3 900	3 900		3 900
European Investment Bank	floating rate	3M BUBOR+0,736%	21.12.2016	15.12.2031	HUF	2 800	2 801	2 800		2 801
European Investment Bank	fixed rate	1,326%	11.10.2017	15.09.2032	HUF	2 850	2 852	2 850		2 852
European Investment Bank	fixed rate	1,790%	21.06.2018	15.06.2033	HUF	3 400	3 403	3 400		3 403
European Investment Bank	fixed rate	2,732%	12.03.2019	15.12.2033	HUF	1 656	1 658			
European Investment Bank	fixed rate	2,859%	16.11.2018	15.09.2033	HUF	4 800	4 806	4 800		4 806
Hungarian Development Bank	floating rate	3M EURIBOR+1,2%	31.12.2014	31.12.2019	HUF	0	0	50 000	-4 590	49 118
Hungarian Development Bank	fixed rate	1,190%	21.12.2016	24.06.2019	HUF	0	0	20 000		20 123
Hungarian Development Bank	floating rate	3M BUBOR+0,51%	25.07.2017	25.07.2021	HUF	10 000	10 014	10 000		10 013
Hungarian Development Bank	fixed rate	1,340%	22.11.2017	26.10.2022	HUF	12 000	12 029	12 000		12 030
Hungarian Development Bank	floating rate	3M BUBOR+0,53%	21.06.2018	21.06.2022	HUF	9 300	9 302	9 300		9 302
Hungarian Development Bank	floating rate	3M BUBOR+0,80%	21.08.2018	21.02.2022	HUF	10 000	10 005	10 000		10 004
Hungarian Development Bank	floating rate	3M BUBOR+0,58%	24.06.2019	24.06.2024	HUF	5 800	5 801			
Hungarian Development Bank	fixed rate	0,663%	31.12.2019	24.08.2022	HUF	50 000	50 001			
Magyar Takarékbank	floating rate	1M BUBOR+0,24%	12.10.2018	09.03.2019	HUF	0	0	225		225
Gránit Bank	floating rate	1M BUBOR+0,15%	09.03.2019	09.03.2020	HUF	1 335	1 335	0		0
Total						171 095	171 239	192 160	-4 590	191 554

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

*The interest on fixed interest rate EIB loans are fixed for a given interest period based on the terms of the individual drawdowns. * The interest rate on the indicated loans has changed since 15.12.2019.*

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

25. Other liabilities

Other liabilities	2019	2018
Other financial liabilities	**167**	**148**
Trade payables	167	148
Other liabilities	***232***	***282***
Trade payables not invoiced	10	24
Accrued operating costs	105	149
Liabilities to student loan clients	17	12
Liabilities to employees	38	39
Other tax liabilities	62	58
Total other liabilities	**399**	**430**

26. Issued bonds

Issued bonds	Interest rate	Date of first issue	Date of maturity	Listed	Nominal value	Carrying value	Nominal value	Carrying value
					2019		2018	
DK2020/01	3,50%	14.09.2016	24.06.2020	no	11 000	11 281	11 000	11 447
Total					**11 000**	**11 281**	**11 000**	**11 447**

Changes in issued bonds (at nominal value)

Date	Description	DK2018/01	DK2020/01	Total
01.01.2018	**Opening balance**	**19 500**	**11 000**	**30 500**
22.06.2018	maturity	-19 500	0	-19 500
31.12.2018	**Closing balance**	**0**	**11 000**	**11 000**
31.12.2019	**Closing balance**	**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.

27. Technical provisions

Change in the technical reserve

	Student Loan 1	Student Loan 2	Total
Balance at 1 January 2018	**3 965**	**19**	**3 984**
Use of reserve	-159	-5	-164
Re-measurement gain/loss	-905	81	-824
Balance on 31 December 2018	**2 901**	**95**	**2 996**
Use of reserve	-117	-16	-133
Re-measurement gain/loss	207	83	290
Balance on 31 December 2019	**2 991**	**162**	**3 153**

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

Amendment of 2018 year-end assumptions to 2019 year-end assumptions step by step	Student Loan 1	Student Loan 2	Total
Using 2018 assumptions to 31 December 2018	**2 901**	**95**	**2 996**
Using 2018 assumptions to 31 March 2019	2 980	82	3 062
2019 pricing - change of model and parameters	3 316	120	3 436
Using 2019 assumptions to 30 June 2019	3 058	140	3 198
Using 2019 assumptions to 30 September 2019	2 967	175	3 142
Change in interest on arrears	2 960	176	3 136
Change in wage inflation	2 958	164	3 122
Change in operating expenses	3 100	152	3 252
Change in cost of funds	3 177	155	3 332
Change in minimum wage	3 036	156	3 192
Change in collection rate	3 022		3 022
Change in model point and date	2 991	162	3 153
Using 2019 assumptions to 31 December 2019	**2 991**	**162**	**3 153**

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 point and date	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**

28. 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 totaled 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.

Equity	2019	2018 restated
Share capital and capital reserve	2 500	2 500
Profit reserve	1 767	2 527
Other reserves	10 033	10 033
Other capital grant	10 033	10 033
Total equity:	**14 300**	**15 060**

29. Contingent assets and liabilities

Description	31.12.2019		31.12.2018	
	Amount	Maturity	Amount	Maturity
Credit facility open for **Student Loan 1** clients	1 101	15.01.2020	1 108	15.01.2019
Credit facility open for **Student Loan 2** clients	58	15.01.2020	61	15.01.2019
Credit facillity open for **Language Learning Loan** clients	23	15.01.2020	0	-
Contingent liability	1 182		1 169	
EIB IV. credit facility that can be used to cover student loans	0		1 675	31.12.2018
EIB V credit facility that can be used to cover student loans	11 606	31.12.2021	11 289	31.12.2021
Takarékbank stand by credit facility that can be used to cover student loans	0	-	7 275	08.03.2019
MKB Bank stand by credit facility that can be used to cover student loans	0	-	2 500	08.03.2019
Gránit Bank stand by credit facility that can be used to cover student loans	6 165	08.03.2020	0	-
K&H stand by credit facility that can be used to cover student loans	2 500	08.03.2020	0	-
Contingent assets	11 606		22 739	

30. Leasing commitments

Year 2019

The Company presents its leased premises (office, warehouse, car park, bicycle storage) in Residence office building and the liabilities arising from the lease agreements of motor vehicles necessary for its operation as a Leasing liability in accordance with the rules of IFRS 16.

Changes in lease liabilities

2019	Residence office building	Vehicles	Total
Opening balance at 01 January 2019	535	0	535
Leased	2	32	34
Repayment	-105	-2	-107
-Interest paid	13	0	13
Closing balance at 31 December 2019	**445**	**30**	**475**

Minimum leases to pay in the future:

2019	Residence office building	Vehicles	Total
Within 1 year	96	8	104
Beyond 1 year but within 5 years	349	22	371
Beyond 5 years	0	0	0
Total	**445**	**30**	**475**

Short-term or low-value leasing transactions not presented as liabilities

- DR Site lease

The contract provides a 50% insurance on the rack cabinet located in the landlord's machine room, in which the tenant can place its servers. The lease agreement, which was amended several times in 2017, was extended for another year until 30 September 2020. The lease can be terminated before the expiry of the fixed term only in the event of a breach of contract by the landlord. The amount of the contract is HUF 75,000 + VAT / month, the amount of the leasing fee due within 1 year is HUF 857 thousand.

Year 2018

In 2018, the Company leased the office buildings and premises necessary for its operation within the framework of operating leasing agreements.

Rents paid were included in other operating expenses.

The main parameters of leasing contracts:

- Kacsa street Residence office building

In the case of the contract concluded in 2014, the lease period was 5 years, which was extended by the Company at the market price. The rent is determined in euros, which corresponds to the pricing methods in the domestic real estate market. The Company bears the gains and losses arising from exchange rate risk. The possibility of subletting is only possible with the approval of the lessor according to the contract. The landlord is entitled to index the rent from 2015 using the HICP-EU27 consumer price index.

In December 2018, an agreement was reached in renewing the leasing contract of the office building. Following the expiration of the contract, a lease agreement for an additional five years was signed in a smaller area with new conditions from 01.06.2019. The Company reduced the size of the leased office space to 1710.50 m2. The rent can be indexed for the first time on January 1, 2020 based on MUICP.

Rent for year 2018.

Offices: 2368.13 m2 (14.40 EUR / m2 + VAT)
Customer service: 155.18 m2 (11.40 EUR / m2 + VAT)
Warehouse: 57.59 m2 (5.7 EUR / m2 + VAT)
Parking lot: 9 pieces (91.77 EUR / piece + VAT)
Bicycle storage: 1 pc (61.18 EUR + VAT)

- DR-Site

The contract provides a 50% insurance on the rack cabinet located in the landlord's machine room, in which the tenant can place its servers. The rental period applies to the periods between 01/10/2017 and 30/09/2018. The lease can be terminated before the expiry of the fixed term only in the event of a breach of contract by the landlord. In 2018, the contract was amended, as a result of which the lease period expires on 1 Oct 2019.

The Company restated its financial statements regarding 2018, supplementing it with the extended lease agreement made in December 2018.

Future minimum lease payments:

2018 restated	Residence office building	DR Site	Total
Within 1 year	146	1	147
Beyond 1 year but within 5 years	523	0	523
Beyond 5 years	0	0	0
Total	**669**	**1**	**670**

31. Liabilities from financing activity

Changes in liabilities from financing activity	01.01.2019	New lease	Cash-flow	Amortisation	31.12.2019
Loans drawn	191 554	0	-21 065	750	171 239
Issued bonds	11 447	0	0	-166	11 281
Liabilities related to finance leases*	535	34	-107	13	475
Total liabilities from financing activities	203 536	34	-21 172	597	182 995

*Leasing conversion

32. Transactions with related parties

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

State subsidy

The Company did not receive any state subsidy during the presented periods.

Transactions with the Hungarian State and related-party companies

The company had transactions under normal market conditions with related-party companies.

Subsidies requested for Student Loan borrowers

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.

Pursuant to the Government Decree 1/2012, section 23/C, the borrower of the student loan for language learning in case of obtaining a complex language certificate at least B2 (intermediate) level and at least 2 months after the contracting from a language which is approved by the Hungarian state and qualifies as a supported language – in case of it has been certified -, from the date of the notification becomes eligible for a total interest subsidy provided by the Hungarian state.

The interest is taken over by the Hungarian state from the borrower in form of a general interest subsidy for the remaining term, charged to the central budget. The rate of the general interest subsidy is the same as the current interest rate of the student loan for language learning.

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

The following table shows the subsidies requested from the Hungarian State for Student Loan customers:

Amounts claimed for student loan customers

Description	2019	2018
Targeted interest rate subsidy for Student Loan 1 clients	221	245
Child support for Student Loan 1 clients	1 930	1 227
General interest rate subsidy for Student Loan 2 clients	961	945
Child support for Student Loan 2 client	24	13
Total	**3 136**	**2 430**

Transactions with MKK Zrt

The Company is obliged, according to Government Decree, to assign the receivables arising from contracts which were terminated by the first day of the last month of that quarter to MKK Zrt. on the first business day of the following quarter. The Student Loan Organization is entitled to give the possibility of instalment payment to the borrower in the period between the contract termination and the hand-over date.

Further information on these transactions can be found in Section 5.1.2, and derecognition process is presented in Section 13.

Description	2019	2018
Sales revenue of sold loan receivables	9 250	0

State guarantee

The Hungarian State guarantees the value of the loans taken out by the Company to finance the student loan, as well as the value of the issued bonds. (Additional Note 1)

The value of the State guarantee is shown in the table below:

Guarantee from Hungarian State	2019	2018
Drawn loans	171 095	192 160
Issued bonds	11 000	11 000
Total	**182 095**	**203 160**

The data in the table agrees to the data presented in additional notes 21,23 (capital liabilities to credit institutions and the nominal value of bonds issued).

Transactions with the user of Ownership rights

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

Description	2019	2018
Use of services	3	3
Long-term loans taken	55 800	19 300
Long-term loans repaid	70 000	10 000
Interest paid on long-term loans	1 084	1 014

Transactions with key executives

Executives in key positions:

- CEO
- Board members
- Members of the Supervisory Board

Transactions with key executives	2019	2018
Short-term employee benefits	91	90
Post-employment benefits	22	0
Total	**113**	**90**

33. Subsequent events

Until the approval of Financial Statements, indicated in section 2.1, no event has occurred after the balance sheet date that would have required a change in the Financial Statements.

Impact of COVID-19 pandemic

1. Background, antecedent and regulatory changes relevant to DHK

The following relevant events occurred in the activities and management of the Company between the balance sheet date and the closing date of the balance sheet.

The spread of COVID-19, which was qualified as a pandemic by WHO in March 2020, and the related government measures taken had an impact on the operation of Diákhitel Központ Zrt. Due to the government restriction, which limited the possibility of free movement, the Company has successfully introduced remote working with minimal personal presence. As a result, the Company managed to continue its activities without interruption. In connection with the social role of student lending, it is also necessary to adjust operations of the Company to the current situation.

- According to Government Decree 47/2020 (III.18) moratorium on loan payments were introduced for the period between 18 March 2020 – 31 December 2020 to reduce the effects caused by COVID-19 pandemic. The moratorium applies to the loans provided to students by Diákhitel Központ Zrt, however, it does not apply to the liabilities in relation to Company financing – EIB loan liabilities, bond maturity - but the Company plans to fulfil all its obligations.
- The terms and conditions of existing products have already been amended in Government Decree 1/2012 (I. 20.) on Student Loan System, : (i) the maximum monthly amount of Student Loan 1 from the autumn semester of 2020/2021 will increase from HUF 70,000 to HUF 150,000; (ii) Application deadline and the deadline for request in relation to loan amount raising have been extended; (iii) Those Student Loan 1 products can be extended retrospectively to the autumn semester, that were requested in spring semester of 2019/2020.
- As part of the Economic Protection Action Plan according to Government Decree 96/2020. (IV.10.) on available student loan products in emergency conditions, the Company introduced a new student loan product as of 01 May 2020, called Diákhitel Plusz. Diákhitel Plusz is a personal loan with 0% interest rate for the client due to state interest rate subsidy. A maximum amount of HUF 500,000 can be claimed in higher education, while HUF 1,2 million in designated model-changing (so called 'struktúraváltó') adult education until the end of 2020. The loan is repayable after one year of grace period within a maximum period of 5 years.
- According to the Government Decree 1/2012. (I. 20.) and according to Government Decree (389/2020. (VIII.8.), which is the amendment of Government decree 11/2020. (II. 7.) on

adult education, the Company will provide vocational and adult education loans in two forms – personal and tied loan - from April 2021 in addition to higher education student loans.

2. Changes in core business processes and the effects of the measures taken

Management of repayment moratorium

The aim of the measure taken is to prevent mass arrears and loan failures in the financial sector as result of declining household incomes, which were caused by the crises in several sectors due to the pandemic situation. Outstanding debts will be due from 01 January 2021 as before, no loan will be remitted neither fully nor partially. The management of the Company has examined and assessed the effects of above-mentioned events on the operation, income and financial position of Diákhitel Központ Zrt. as follows:

- Diákhitel Központ Zrt. fulfils all its obligations during the moratorium period, including student loan disbursements, operating cash flows and cash flows related to financing. The owner of the Company is the Hungarian State, and its main financier is Magyar Fejlesztési Bank Zrt., which has been classified as a strategic company in the declared emergency situation. Taking into consideration the previously mentioned facts, management ascertained that the operation and the solvency of the Student Loan system is ensured and the principle of going concern is not jeopardized. Based on the experience of April-July 2020, about 65% of the customer repayments are fulfilled from the amount expected before the moratorium was introduced.
- As a result of the introduction of the moratorium, the revenues of the Company - as a result of capitalization and interest rate subsidies - are not expected to change significantly, and its equity might be affected by impairment, for which it is still difficult to make a reasonable estimate without knowing the willingness to repay after the moratorium.

Introduction of new product terms

The aim of the measures is to make student loans easily and more widely available to higher education students who are affected by the epidemic and facing financial problems as a result of the rapidly evolving crisis situation affecting several sectors. The management of the Company examined and evaluated the effects of the above-mentioned facts on operation, income, financial and performance situation of Diákhitel Központ Zrt. The overall impact of the changes is minimal on the core business of the Company. (The Company planned to increase the maximum disbursable amount of the personal Student Loan 1 from the autumn semester of 2020, regardless the pandemic and the crisis situation. The effects of the increase in disposable amount were modelled based on the dynamics experienced during previous valorisations – taking into account new client needs and existing client needs separately.)

Introduction of new products

The aim of Student Loan Plus, which was introduced in 2020, is clearly to make Diákhitel Központ Zrt. the number one financial assistance provider institution among young people during the economic crisis caused by the coronavirus pandemic. By immediately helping students in financial difficulties due to the economic slowdown and the negative trend experienced in the labor market, Diákhitel Központ Zrt. can do its utmost in the current situation to prevent a drastic increase in higher education dropouts. The beneficiaries of Student Loan Plus - expected to begin in September

2020 - include certain designated model-changing (so called 'struktúraváltó') adult education students as well, who can adopt to the changes caused by the crisis by participating primary in IT-oriented trainings. Vocational and adult education loans will be introduced in 2021, which were not initiated as a result of COVID-19, since the preparation has already started before the pandemic, however the past few months have influenced the process in terms of content and timing. The management of the Company has examined and assessed the effects of above-mentioned events on the operation, income and financial position of Diákhitel Központ Zrt. ss follows:

- in 2020 resource requirements due to Diákhitel Plus arose when own revenues decreased due to the moratorium. The owner of the Company is the Hungarian State, and the main financer is Magyar Fejlesztési Bank Zrt. which has been classified as a strategic company in the declared emergency situation. Taking into consideration the previously mentioned facts, management ascertained that the operation and the solvency of the Student Loan system is ensured and the principle of going concern is not jeopardized.
- In 2020, additional funds generated by the introduction of the Student Loan Plus product will arise at the same time as the loss of own revenues due to the repayment moratorium. The owner of the Company is the Hungarian State, and its chief financier is Magyar Fejlesztési Bank Zrt. From 2021, Student Loan Plus product will be 'replaced' by Training Loans from 2021, but at the end of the moratorium-period, the cash flows of the company will reach the previous magnitude.
- The business model does not change due the introduction of new products. The revenues of the Company are expected to increase es a result of new product introductions, while equity will not be conceptually affected by them. The long-term goal of the Company is to operate the Hungarian Student Loan system basically on a non-profit level.

3. Financial and liquidity position of the Company

The changes that have occurred since year-end 2019 planning period proved to be an order of magnitude, which made it necessary to amend the Company's 2020 Financial forecast.
The liquidity of the Company was ensured by the flexibility of the original budget, so the amendment plan was submitted in May 2020, after the Company was able to estimate the trends with great certainty - the size unpaid instalment, the volume of demand for new products - that determine the new 2020 targets. The amended Financing Plan was approved by the Shareholder and the Minister of Finance at the end of May 2020. The involvement of sources specified in the plan is ongoing - EIB loan drawdowns, use of MFB loans, opening of higher-level stand-by credit facilities - some of them have already been completed, the other preparations for further transactions are on schedule. The DHK has met all payment obligations in 2020 (among the most significant are student loan disbursements, interest payments and the maturity liabilities of DK2020/01 series bond) and they will continue to fulfil them in the future as well. All these changes affected the Company's 2020 business numbers, certain KPIs, cash flows and, through this, its external financing assets, which necessitated an amendment to the 2020 business plan. This was approved by the Board of Directors of the Company on 18 June 2020 and by the Shareholder on 2 July 2020. The Company will continue to operate in line with this business plan for the year 2020.

4. Modelling and estimating expected effects on the factors influencing the quality of loan portfolios

Changes are expected to affect the quality of the Company's loan portfolios. Models, which are used for the estimation of risks in relation to existing products, were reviewed by an actuarial

expert and the Company prepared estimates as a result of credit moratorium and other effects of the economic downturn.
Factors affected, associated expectations and areas that require further examination are the following ones:

- repayment moratorium:
  - direct impact on reserves for 2020: the Company plans to address the impact of repayment (decrease in expected payments) moratorium in the model;
  - direct effect on risk premium: based on the currently available data – due to termination of arrears - the model could only take into account the positive effects of repayment moratorium, while negative effects would occur after the moratorium, so based on precautionary principle the Company does not take the premium reduction factor into account;
  - indirect effect (on changes in assumptions): transition probabilities; the Company expects a long-term negative effect on repayment morale.
- income trends, especially the trends of inactive groups, prepayment:
  - salaries should be updated;
  - the Company plans to manage short-term and temporary increase in unemployment rate at transition probabilities;
  - we expect a decrease on prepayments (both in frequency and amount) as a result of the moratorium and expected economic downturn, which should be addressed at the development of the model
- economic assumptions:
  - we identified the decline in real wage growth as the only factor that directly affects the model, while in case if other relevant economic assumptions we plan to use sensitivity tests;
  - we update the economic assumptions that have an indirect effect (inflation, operating costs);
  - we expect the increase of funding costs and we will update the rate in accordance with market expectations.
- collection of terminated contracts:
  - during moratorium period no contract will be terminated: collections are treated conservatively in the model (so the Company does not take into account returns from previously terminated contracts during this period)
- demographic indicators (mortality):
  - we monitor the development of demographic indicators. We do not expect significant deterioration in mortality rate this year, but if we see a significant increase, we will update the mortality parameter table of the model accordingly.

5. The evaluation of Management on the impact of those events that occurred after the balance sheet date in relation to the Company's assets, income and financial position and going concern principle

The credit moratorium, introduced due to the epidemic situation, provides effective help to the debtors, it helps the stability of the student loan system. The new, temporarily introduced loan product provides a quick solution to those who got into a difficult situation as a result of crisis caused by COVID-19, while the expansion of credit services to adult education sector provides expansion possibility to the Company and leads to a next stage to its operations. According to the Management, the changes introduced after the balance sheet day are forward looking and do not risk the liquidity position of Diákhitel Központ Zrt., furthermore due to them going concern principle is reinforced.