Magyar Export-Import Bank Private Limited Company

Separate financial statements and independent auditors' report

based on IFRS standards adopted by the EU

31 December 2020

Contents

KPMG Hungária Kft.
Váci út 31.
H-1134 Budapest
Hungary

Tel.: +36 (1) 887 71 00
Fax: +36 (1) 887 71 01
E-mail: info@kpmg.hu
Internet: kpmg.hu

Independent Auditors' Report

To the shareholder of Magyar Export-Import Bank Zrt.

Report on the Audit of the Financial Statements

Opinion

We have audited the 2020 financial statements of Magyar Export-Import Bank Zrt. (hereinafter referred to as "the Bank"), which comprise the statement of financial position as at 31 December 2020, which shows total assets of MHUF 1,293,335, the statement of profit or loss and other comprehensive income, which shows loss for the year of MHUF 10,146, and the statements of changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter referred to as "EU IFRSs") and those are prepared, in all material respects, in accordance with the provisions applicable to entities preparing annual financial statements in accordance with EU IFRSs of Act C of 2000 on Accounting in force in Hungary (hereinafter referred to as "the Act on Accounting").

Basis for Opinion

We conducted our audit in accordance with Hungarian National Standards on Auditing and applicable laws and regulations in Hungary. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank for the purposes of our audit of the financial statements, as provided in applicable laws in force in Hungary, "The Policy on Rules of Conduct (Ethics) of the Audit Profession and on Disciplinary Procedures" of the Chamber of Hungarian Auditors, as well as with respect to issues not covered by these Rules, with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (the 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.

This is an English translation of the Independent Auditors' Report on the 2020 financial statements of the Magyar Export-Import Bank Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete financial statements it refers to.

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Key Audit Matters

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

Recoverability of loans and advances to banks and insurance companies, loans and advances to other customers with special consideration of potential estimation uncertainties in connection with COVID-19 (net carrying amount: HUF 762,366 million and HUF 323,538 million, accumulated impairment loss: HUF 950 million and HUF 25,056 million)

Refer to Note (3.7); (6); (7); (15); (30) and (33.4) to the financial statements

The key audit matter	Our audit procedures included amongst others the following procedures:
How the matter was addressed in our audit Impairment allowances represent Bank's best estimate of the expected credit losses ("ECLs") within loans and advances to banks and insurance companies and to customers at amortized cost at the reporting date. We focused on this area as the measurement of impairment allowances requires the Bank to make complex and subjective judgements over the amounts of any such impairment. Impairment on individually assessed loans are based on the Bank's judgment in estimating the present value of expected future cash flows and the probability of the estimated outcomes, which are inherently uncertain. The present value of expected future cash flows is affected by, amongst others, the estimate of the expected proceeds from the sale of the related collateral and estimated period for collateral disposal. Collective impairment is determined by the Bank by a rating-based approach at customer level. Based on the assigned rating, estimates of the probability of default and the potential loss given default are the significant elements to determine the collective loss allowance. The Bank uses complex models to estimate probability of default and loss given default and the development of multiple scenarios used in the estimate as well as assumptions, methods and selection of data require from the Bank significant degree of judgment.	• We obtained an understanding of and evaluated the Bank's process for estimating ECL, and assessed the design and implementation of related controls, in particular the controls associated with the completeness, appropriateness and accuracy of the estimation of ECL. In particular, we evaluated the appropriateness of the model governance procedures applied by the Bank. • With the assistance of our own IT specialists we evaluated the general IT controls and application level IT controls over the ECL calculation. • We performed a specific loan assessment for a sample of individually significant customer loans by reference to the underlying loan documentation, which among others included the correspondence with the borrower, the loss allowance estimates prepared by the Bank's credit risk officers, the available financial information, latest independent appraisals made on the collaterals, related internal committee minutes, and consideration of the resolution period estimated for the credit impaired loans. We assessed collateral values with reference to valuations performed by approved appraisers engaged by the Bank, furthermore we involved property valuation specialists. In addition, we examined past due information (if relevant due to moratoria) and industry benchmarks.

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COVID-19 measures taken by the Hungarian Government and the consequential changes in the regulatory framework regarding default and forbearance increased the complexity of the application of IFRS 9. The risk that clients that became unable to repay their loans remain undetected has increased and so has the risk that the amount of estimated credit losses may be understated. The ECL estimate incorporates forward-looking information through various forecasted macroeconomic variables and their estimated impact on the economy and ultimately on the ECL estimate. The determination of macroeconomic variables and the weighting of macroeconomic scenarios contain a high degree of estimation uncertainty given the current volatile macroeconomic environment. There is a risk that ECL estimate applied does not properly incorporate the unprecedented changes in the economic environment. The Bank has to deal with the challenges of ECL models that were not designed for the COVID-19 economic shock. When underlying assumptions or data used to estimate ECLs do not reflect current circumstances, events or conditions of the entity management overlays may be necessary. Detailed disclosures are required to be presented in the Financial Statement related to the changes of credit risk due to COVID-19 and the related responses of the Bank. The evaluation of the relevance and appropriateness of these disclosures is a complex exercise and it is challenging from audit point of view. Due to the significance of loans and advances to banks and insurance companies and to customers as well as the significant degree of complexity and judgment required from the Bank in determining expected credit losses this matter required our increased attention in the audit and therefore has been considered as a key audit matter.	• With the assistance of our own financial risk management specialists, we evaluated the impairment models and the underlying estimation parameters, including the management overlays, and recalculated the expected credit losses for the loans assessed collectively for impairment. • We assessed the completeness, accuracy and relevance of data used for estimates relating to valuation of loans to customers. • We evaluated the macroeconomic forecasts whether they are within the range of general market benchmark and with the forecast published by the National Bank of Hungary. We performed benchmark analysis to assess the appropriateness of the input data used for the macro model. • We evaluated the completeness, accuracy and adequacy of disclosures related to impairment of loans.

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Valuation of Investments measured at fair value through profit or loss and Investments accounted for using the equity method (2020: HUF 28,198 million and HUF 61,121 million, 2019: HUF 26,284 million and HUF 60,998 million)

Refer to Note (3.17); (9); (10); (33.2) and (34) to the financial statements

The key audit matter *How the matter was addressed in our audit*	Our audit procedures included amongst others the following procedures:
Investments measured at fair value through profit or loss and Investments accounted for using the equity method comprise investments in venture capital and private equity funds. The investments in venture capital and private equity funds *measured at fair value through profit or loss* are measured by the Bank by reference to the net asset value of the funds determined by the fund managers on a fair value basis. These venture capital and private equity funds made individually significant investments, which underlying investments are mostly in the early investment phases, and furthermore operate in industries significantly affected by the economic disruption caused by COVID-19. Therefore, the determination of fair value of the underlying investments involves significant estimation uncertainties and judgement relating to the expected future cash flows generated by the underlying investee. In case of investments in venture capital and private equity funds *accounted for using the equity method* the determination whether the fund meets the definition of an investment entity might have a significant effect on the recognized amount of the investment. This is because the Bank is required to apply the equity method based on the fund's financial statements in which the underling investments in subsidiaries are either measured at fair value (when the fund is an investment entity) or are consolidated (when the fund is not an investment entity). The determination of whether a fund meets the definition of an investment entity requires the Bank to apply significant judgement in analyzing the characteristics of the fund and the relationship between the Bank and the fund.	• We obtained an understanding of the Bank's policies for and processes of investing into venture capital and private equity funds. • We obtained an understanding of the Bank's processes for and the controls implemented over the measurement of investments. • We assessed the appropriateness of the Bank's conclusion on whether the funds meet the definition of an investment entity and consulted with our technical department on these conclusions. • We assessed the design and implementation of the controls applied by the Bank in the process of regular reconciliations of net asset values between the fund manager and the Bank and assessed the Bank's process to monitor the reports prepared by the fund managers supporting the net asset value of the funds and the fair value of the underlying investments. • We assessed whether the net asset values of venture capital and private equity funds reported by the fund managers provide appropriate basis for valuation purposes in accordance with relevant standards. For the equity accounted investments in funds that are not investment entities we tested whether the equity method was applied based on the consolidated financial statements of the funds prepared in accordance with the standards and the Bank's accounting policies. • We examined the mathematical accuracy of calculations related to the valuation of investments as of the balance sheet date. • We assessed the relevance and completeness of the disclosures made by the Bank relating to

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Due to the significance of Investments measured at fair value through profit or loss and Investments accounted for using the equity method as well as the estimation uncertainties and judgments described above we considered this area to be a key audit matter.	the significant estimation uncertainties and significant applied judgements associated with the investments in funds.

Other Information

The other information comprises the 2020 business report and the 2020 management report of the Bank. Management is responsible for the other information, including the preparation of the business report in accordance with the Act on Accounting and other applicable legal requirements, if any.
Our opinion on the financial statements expressed in the Opinion section of our report does not cover the business report and the management report. We do not express any form of assurance conclusion on the management report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Based on the Act on Accounting, we are also responsible for assessing whether the business report has been prepared in accordance with the Act on Accounting and other applicable legal requirements, including the assessment of whether the business report has been prepared in accordance with Section 95/B (2) e) of the Act on Accounting and expressing an opinion on this and whether the business report is consistent with the financial statements.

With respect to the business report, based on the Act on Accounting, we are also responsible for checking that the information referred to in Section 95/B (2) a)-d), g) and h), Section 95/C of the Act on Accounting has been provided in the business report.

In our opinion the 2020 business report of the Bank is consistent, in all material respects, with the 2020 financial statements of the Bank and the applicable provisions of the Act on Accounting.

There are no other legal requirements that are applicable to the business report of the Bank, therefore, we do not express an opinion in this respects.

We confirm that the information referred to in Section 95/B (2) a)-d), g) and h) of the Act on Accounting has been provided in the business report, furthermore due to exemption does not contain the information referred to in Section 95/C.

In addition, in light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the business report, and if so, the nature of such misstatement. We have nothing to report in this regard.

Moreover, if, based on the work we have performed, we conclude that there is a material misstatement of the management report, we are required to report that fact. We have nothing to report in this regard either.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU IFRSs and for the preparation of the financial statements in accordance with provisions applicable to entities preparing annual financial statements in accordance with EU IFRSs of the Act on

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Accounting and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 Hungarian National Standards on Auditing and applicable laws and regulations in Hungary will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Hungarian National Standards on Auditing and applicable laws and regulations in Hungary, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

In accordance with the Decree adopted by the Ministry of Finance 16/1998 (V.20) on the detailed rules for accounts with the Central Budget, followed by Hungarian Export-Import Bank Private Limited Company, Hungarian Export Credit Insurance Private Limited Company (hereinafter referred 'Decree') furthermore we confirm that in our opinion:

• unredeemed liabilities arising from export oriented full payment guarantees covered by the Hungarian state for the year ended 31 December 2020 (hereinafter "Liabilities") are rated in all material respects in accordance with the Decree; and

• Liabilities classified to each rating category, as set out in Note (21) to the financial statements, discloses the Liabilities classified in each rating category in all material respects in accordance with the Decree.

We were appointed by the shareholder on 22 April 2020 to audit the financial statements of the Bank for the financial year ended 31 December 2020. Our total uninterrupted period of engagement is 21 years (9 years since the Bank became a public interest entity), covering the periods ending 31 December 2000 (covering the periods ending 31 December 2012 since the Bank became a public interest entity) to 31 December 2020.

We confirm that:

• our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank dated 8 April 2021;

• we have not provided to the Bank the prohibited non-audit services (NASs) as set out by Article 5(1) of EU Regulation (EU) No 537/2014 and in terms of the member state derogations by the Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors in force in Hungary. We also remained independent of the audited entity in conducting the audit.

The engagement partner on the audit resulting in this independent auditors' report is the signatory of this report.

Budapest, 13 April 2021

KPMG Hungária Kft.

Registration number: 000202

István Henye

Partner, Professional Accountant
Registration number: 005674

This is an English translation of the Independent Auditors' Report on the 2020 financial statements of the Magyar Export-Import Bank Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete financial statements it refers to.

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Statement of Financial Position
31 December 2020

(All amounts in millions of HUF, unless otherwise indicated)

	Note	31.12.2020	31.12.2019
Cash and cash equivalents	4	2,529	63,584
Securities measured at amortised cost	5	105,261	43,123
Loans and advances to other banks and insurance companies	6	762,366	526,303
Receivables from other customers	7	323,538	248,245
Financial assets measured at fair value through profit or loss (Derivatives)	8	0	14,819
Investments measured at fair value through profit or loss	9	28,198	26,284
Investments accounted for using the equity method	10	61,121	60,998
Intangible assets	11	2,165	1,996
Property, plant and equipment	12	2,394	2,858
Current income tax receivables	13	649	361
Other tax receivables	13	673	84
Deferred tax assets	13	374	17
Other assets	14	4,067	3,778
Total assets		**1,293,335**	**992,450**
Loans and advances from other banks and insurance companies	16	850,323	572,332
Loans and advances from other customers	17	3,675	6,657
Financial liabilities measured at fair value through profit or loss (Derivatives)	8	1,545	199
Securities issued	18	201,400	220,025
Provisions	15	243	505
Tax liabilities	13	105	206
Deferred tax liabilities	13	84	44
Other liabilities	19	8,794	9,470
Total liabilities		**1,066,169**	**809,438**
Subscribed capital	20	213,230	158,930
Retained earnings	20	3,595	3,595
Other reserves	20	10,341	20,487
Total equity		**227,166**	**183,012**
Total equity and liabilities		**1,293,335**	**992,450**

13 April 2021
Authorised for issue by

Gergely Jákli
Chairman and Chief Executive Officer

Dr. József Dancsó
Deputy Chief Financial Officer

The accompanying notes on pages 14-145 form an integral part of these separate financial statements.

Statement of Comprehensive Income
31 December 2020

(All amounts in millions of HUF, unless otherwise indicated)

	Note	31.12.2020	31.12.2019
Interest income recognised using the effective interest method	22	26,677	27,664
Other interest income	22	481	4,797
Interest expense	22	-12,698	-20,463
Net interest income/loss		**14,460**	**11,998**
Fee and commission income	23	260	576
Fee and commission expense	23	-179	-634
Net income from fees and commissions		**81**	**-58**
Gains or losses on derecognition of financial assets measured at amortised cost	24	-50	339
Gains or losses on modifications of financial assets	33,5	-884	0
Gains or losses on modifications of financial liabilities	33,5	-7	0
Impairment losses on financial instruments and (creation)/reversal of provisions	15	-7,090	-2,119
Impairment (losses) or reversal of impairment on non-financial assets	15	2	-231
Gains or losses from trading and investment activities	25	-2,147	391
Other operating income	26	1,165	2,959
Other operating expenses	26	-4,138	-3,713
Personnel-type expenditures	26	-4,086	-4,147
Depreciation and amortisaion	26	-1,051	-1,244
Share of profit/(loss) of investments accounted for using the equity method	10	-6,465	-1,017
Profit or loss before tax		**-10,210**	**3,158**
Income taxes	13	-104	-1,279
Profit for the year		**-10,314**	**1,879**
Other comprehensive income not to be reclassified to profit or loss		**168**	**-**
Exchange differences arising on the translation of foreign operations	10	168	-
Related deferred tax		-	
Other comprehensive income for the period (net)		**168**	**-**
Total comprehensive income for the period		**-10,146**	**1,879**

13 April 2021
Authorised for issue by

Gergely Jákli
Chairman and Chief Executive Officer

Dr. József Dancsó
Deputy Chief Financial Officer

The accompanying notes on pages 14-145 form an integral part of these separate financial statements.

Statement of changes in equity
31 December 2020
(All amounts in millions of HUF, unless otherwise indicated)

	Subscribed capital	Capital reserve	Retained earnings	General reserve	Accumulated other comprehensive income	Total
Balance as at 31 December 2019	**158,930**	**400**	**3,595**	**20,087**	**-**	**183,012**
Comprehensive income for the year						
Profit/loss for the year			-10,314			**-10,314**
Other comprehensive income						
Exchange differences arising on the translation of foreign operations					168	**168**
Total comprehensive income for the year			***-10,314***		***168***	***-10,146***
Other transactions recognised directly in equity						
Subscribed capital increase	54,300					**54,300**
Reclassification from general reserve to retained earnings			10,314	-10,314		-
Total other transactions	***54,300***	***-***	***10,314***	***-10,314***	***-***	***54,300***
Balance as at 31 December 2020	**213,230**	**400**	**3,595**	**9,773**	**168**	**227,166**

13 April 2021
Authorised for issue by:

Gergely Jákli
Chairman and Chief Executive Officer

Dr. József Dancsó
Deputy Chief Financial Officer

The accompanying notes on pages 14-145 form an integral part of these separate financial statements.

	Subscribed capital	Capital reserve	Retained earnings	General reserve	Total
Balance as at 31 December 2018	**133,700**	**400**	**6,396**	**15,407**	**155,903**
Comprehensive income for the year					
Profit/loss for the year			1,879		**1,879**
Other comprehensive income					
Share of investments accounted for using the equity method in other comprehensive income, net					
Total comprehensive income for the year			***1,879***		***1,879***
Other transactions recognised directly in equity					
Subscribed capital increase	25,230				**25,230**
Reclassification of retained earnings to general reserve			-4,680	4,680	-
Total other transactions	***25,230***	***-***	***-4,680***	***4,680***	***25,230***
Balance as at 31 December 2019	**158,930**	**400**	**3,595**	**20,087**	**183,012**

13 April 2021
Authorised for issue by:

Gergely Jákli
Chairman and Chief Executive Officer

Dr. József Dancsó
Deputy Chief Financial Officer

Statement of cash flows
31 December 2020
(All amounts in millions of HUF, unless otherwise indicated)

	Note	31.12.2020	31.12.2019
CASH FLOW FROM OPERATING ACTIVITIES			
Profit for the year		-10,314	1,879
Adjustments resulting from operating activities:			
Depreciation	26	1,051	1,244
Impairment losses on assets	15	8,505	-335
(Profit)/loss from revaluation to fair value		16,225	-3,685
Share of the profit or loss of investments accounted for using the equity method (profit + / loss -)	10	6,298	1,017
Exchange differences arising on the translation of foreign operations (profit + / loss -)	10	168	-
Foreign exchange gain/(loss) on non-operating cash flows	18	6,027	8,826
Other items without cash flow		20	-2,315
Net interest income	22	-14,460	-11,998
Income tax expense	13	104	1,279
Changes in operating assets and liabilities:			
Net change in loans and advances to other banks and insurance companies (excluding impairment)		-236,061	64,464
Net change in Loans and advances to other customers (excluding impairment)		-79,719	22,634
Net change in other assets		-913	1,413
Net change in loans and advances from other banks and insurance companies		276,808	84,471
Net change in loans and advances from other customers		-2,974	4,539
Net change in other liabilities and provisions		-496	-743
Interest received		23,999	36,250
Interest paid		-13,746	-18,340
Income taxes paid		-797	-1,138
Net cash flow from operating activities		**-20,275**	**189,462**
INVESTMENT ACTIVITIES			
Acquisition of government bonds		-62,148	-16,071
Disposal of government bonds		0	13,489
Acquisition of investments accounted for using the equity method	10	-7,021	-41,088
Investment repayment accounted for using the equity method		600	0
Investment acquisition measured at fair value through profit or loss	9	-3,602	-8,068
Investment repayment measured at fair value through profit or loss		717	4,874

The accompanying notes on pages 14-145 form an integral part of these separate financial statements.

(All amounts in millions of HUF, unless otherwise indicated)

Acquisition of intangible and tangible assets	11-12	-856	-1,009
Disposal/(derecognition) of intangible and tangible assets	11-12	0	0
Net cash flows from investing activities		**-72,310**	**-47,873**
FINANCING ACTIVITIES:			
Proceeds from share capital increase	20	54,300	25,230
Lease payments	12	-374	-221
Proceeds from the issue of bonds	18	138,431	50,518
Repayment of bonds issued	18	-160,860	-157,298
Net cash flow from financing activities		**31,497**	**-81,771**
Net increase/decrease in cash and cash equivalents		**-61,088**	**59,818**
Net foreign exchange difference		33	10
Cash and cash equivalents at the beginning of the year	4	63,584	3,756
Cash and cash equivalents at the end of the year	4	**2,529**	**63,584**

13 April 2021

Authorised for issue by

Gergely Jákli
Chairman and Chief Executive Officer

Dr. József Dancsó
Deputy Chief Financial Officer

1 NOTE GENERAL INFORMATION

Hungarian Export-Import Bank Private Limited Company ("Eximbank", "the Bank") was established on 26 May 1994 as one of the legal successors upon the dissolution of the Export Guarantee Corporation. The scope of Eximbank's activities and the specific provisions applicable to it are laid down in Act XLII of 1994, in force in Hungary (hereinafter: "Exim Act").

Eximbank's primary business goal is to promote Hungarian exports by granting loans and guarantees.

The Bank is a private limited company with its registered office in Hungary. The Bank's registered office: Nagymező u. 46-48., 1065 Budapest, Hungary.

The Minister of Foreign Affairs and Trade exercises shareholder rights on behalf of the Hungarian State.

Eximbank is a specialised credit institution, wholly owned by the Hungarian State.

Under the Exim Act, Eximbank's mission is to finance the export of Hungarian goods and services and to finance investments in Hungary and investments related to Hungarian exports, thereby financing Hungarian enterprises, mainly small and medium-sized enterprises but also large corporations, in order to maximise export opportunities, contributing to the preservation and creation of jobs in Hungary and promoting the development of the national economy by improving the competitiveness of Hungarian exports in foreign markets.

In line with its mission, Eximbank can lend directly to exporters of Hungarian goods and services, as well as to their suppliers or foreign buyers, and, more commonly, indirectly through refinancing facilities to domestic commercial banks (and to a lesser extent foreign commercial banks) that provide financing for transactions related to Hungarian exports. In line with OECD rules, Eximbank provides most of its loans in the form of medium and long-term loans at favourable fixed interest rates. These interest rates are based on the Commercial Interest Reference Rate ("CIRR"), which is the minimum interest rate for export financing officially supported by the OECD, effective on the date the loan agreement enters into force.

In accordance with the rules and conditions of Government Decree 85/1998 (V.6.) on the interest equalisation system and of Government Decree 232/2003 (XII.16.) on tied-aid credits the Bank receives interest compensation from the Hungarian State for special financing facilities.

In addition, under the Exim Act, Eximbank may establish or as an investor join venture capital and/or private equity funds.

Eximbank, as an export credit agency in the traditional sense, offers products and services that provide alternative or complementary financial instruments to fill the gaps of trade financing that exist due to the lack of capacity or willingness of commercial banks, moreover it can provide loans to Hungarian exporters at attractive interest rates, and can provide a more level playing field for Hungarian exporters in terms of access to finance compared to exporters in other countries.

The majority of Eximbank's direct clients are small and medium-sized enterprises that plan to export to geographic markets where financing offered by Eximbank can provide a significant competitive advantage to exporters. Eximbank provides the majority of its loans indirectly to commercial banks. While Eximbank does not seek to compete directly with commercial banks, it does provide direct loans to customers on demand or in cases where commercial banks are unable or unwilling to provide loans directly to customers. In addition, Eximbank provides buyer credit to foreign buyers of Hungarian export products and plays the role of lender in tied-aid agreements concluded between the Hungarian government and governments of countries eligible for aid loans.

The functions of the state's export credit agency in Hungary are divided between Eximbank and Magyar Exporthitel Biztosító Zrt. (Hungarian Export Credit Insurance Ltd., "MEHIB."). While Eximbank is engaged in the provision of export and export-related financing – directly through lending or indirectly through venture capital and/or private equity funds – and offers export guarantees, MEHIB provides export credit insurance to exporters or their banks, including Eximbank's borrowers as well.

Other disclosures required by the Accounting Act:

- The home address of Gergely Jákli, Chairman & CEO: Üröm, Hungary

- The home address of Dr. József Dancsó, Deputy Chief Financial Officer: Orosháza, Hungary

- details of the person responsible for controlling and managing accounting tasks:

    - Name: Szocska Györgyi; mother's name: Tompa Valéria, ID number: 015671; registration number: MK181626; specialization: IFRS for enterprises

- Eximbank website:https://exim.hu

There is a statutory obligation for Eximbank's financial statements to be audited. The audit fee for the current financial year was HUF 32 million, and other non-audit related fees charged by KPMG Tanácsadó Kft. amounted to HUF 12.3 million.

2 NOTE PRINCIPLES OF COMPILATION

2.1 IFRS compliance

These separate financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") adopted by the EU as well as the provisions of Act C of 2000 on Accounting, in force in Hungary, applicable to entities preparing their financial statements in accordance with IFRS.
IFRSs comprise accounting standards issued by the IASB and its predecessor body and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body, as adopted by the EU.
The Bank has prepared separate financial statements in accordance with IFRS since 2019.

No consolidated statements are made by Eximbank, given that Eximbank has no subsidiaries. The Bank does not present individual financial statements under the IFRSs adopted by the EU, as there is no legal requirement to do so.

Pursuant to Section 177 (67) of Act C of 2000 on Accounting, effective from 24 November 2017, Eximbank is required to mandatorily adopt EU IFRSs in its separate statutory financial statements for annual periods beginning after 1 January 2019.

2.2 Valuation principles

The separate financial statements have been prepared on a historical cost basis except for the following:

• Derivative financial instruments are measured at fair value,
• Non-derivative financial instruments measured at fair value through profit or loss are measured at fair value,
• Investments in equity instruments of entities over which the Bank has control, joint control or significant influence are measured using the equity method.

The preparation of financial statements requires the management to make certain judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and disclosure of contingent assets and liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions must be reviewed on an ongoing basis. Revisions to accounting estimates are to be recognised in the period in which the estimate is revised and, if necessary, in any future periods affected by the revision.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are presented in Note 33.

On account of the coronavirus pandemic, the Bank's management continuously assesses the exposure and involvement of the Bank's portfolio and the adequacy of the accounting considerations, estimates and assumptions used, taking into account the macroeconomic impact of the epidemic and the government measures taken to mitigate it (loan payment moratorium).
For detailed disclosures on the coronavirus pandemic, see note 33.4 Coronavirus-related disclosures.

2.3 Functional and presentation currency

The items in the separate financial statements are measured in Hungarian forint (functional currency), being the currency of the primary economic environment. Except as otherwise indicated, in the separate financial statements all financial information is presented in Hungarian forint (presentation currency), rounded to the nearest million (MHUF, or BHUF in the case of billions).

3 NOTE SIGNIFICANT ACCOUNTING POLICIES

Accounting policies are the set of principles, conventions, rules and practices applied by the Bank in the preparation and presentation of its financial statements. The accounting policies set out below have been applied consistently to all periods presented in the separate financial statements.

The Bank presents its statements of financial position in the order of liquidity. An analysis regarding recovery or settlement within twelve months after the statement of financial position date and more than twelve months after statement of financial position date is presented in Note 27.

3.1 Financial instruments

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, under the contract the Bank becomes a subject of the contractual provisions of the instrument.

The Bank initially recognises its financial instruments on the settlement date, except for derivative financial instruments, which are recognised on the trade date.

Financial instruments at fair value through profit or loss are initially recognised at their fair values. On initial recognition, the Bank measures other financial assets and financial liabilities at fair value adjusted for directly related transaction costs. The fair value of a financial instrument at initial recognition is usually the transaction price.

On initial recognition, financial assets are classified into one of the following measurement categories:

- financial assets measured at amortised cost,
- financial assets measured at fair value through other comprehensive income (FVOCI)
- financial assets measured at fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets all of the following criteria and is not designated as measured at fair value through profit or loss:

- the asset is held in a business model whose objective is to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

A financial asset is measured at fair value through other comprehensive income if it meets all of the following criteria and is not designated as measured at fair value through profit or loss:

- the asset is held in a business model whose objective is both to collect contractual cash flows and to sell financial assets, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

The following table shows the result of the SPPI test:

Financial asset type	**Result of SPPI test**
Loans eligible for interest equalisation	SPPI-type cash-flow characteristics
NHP loans	SPPI-type cash-flow characteristics
Aid loans	SPPI-type cash-flow characteristics
Loans to employees	SPPI-type cash-flow characteristics
Other (market rate) loans	SPPI-type cash-flow characteristics
Government bonds	SPPI-type cash-flow characteristics

In the course of the analysis it was established that Eximbank has contractual rights to collect the unpaid amounts of the outstanding principal and its interests. There are no restrictions on contractual cash flows that are incompatible with the SPPI criteria. The cash flow, or a part of it, is not linked to the performance of the debtor or of any other related factor. Payments are not deferred regardless of interest accrual. There is no pre-defined condition in the contract that allows the non-repayment of any amount.

Overall, the financial assets managed by the Bank are designed to manage the Bank's liquidity so that the Bank can meet the required liquidity ratios. Past experience shows that these assets typically are not resold, with the primary objective of each purchase being to collect interest and principal over the term.
The Exim Act expressly prohibits security transactions for trading purposes.
The Business department of the Bank deals with lending and guarantees. The purpose of the loans and the guarantees is in all cases to collect interest and principal over the term. The Bank will not originate any transactions where the original intention is to transfer the asset to another party at a later date, nor has it any previous experience of selling. If a receivable becomes irrecoverable, a dedicated department of the Bank will take over and collect the outstanding debt; only in exceptional cases may the receivable be sold.

The assessment of the performance of the employees and their compensation are not linked to the return on securities (either to the fair value of the securities or to the contractual cash flows collected).

Upon the initial recognition of an investment in an equity instrument not held for trading, the Bank may irrevocably elect to recognise changes in fair value in other comprehensive income. There is an option to make this election on an instrument-by-instrument basis.

All other financial assets and financial liabilities are measured at fair value through profit or loss.

At initial recognition, the Bank classifies financial liabilities into the following measurement categories:

- financial liabilities measured at amortised cost
- financial liabilities measured at fair value through profit or loss (FVTPL).

At initial recognition, the Bank also recognises financial guarantee contracts and loan commitments (credit lines) below the market interest rate at fair value, with respect to the settlement date.

As regards financial instruments that meet the criteria for measurement at amortised cost, the Bank has elected not to measure such at fair value through profit or loss.

Derivatives are measured at fair value in the statement of financial position.

In cases when there is a reporting date between the date of the transaction and the settlement date, the Bank recognises the fair value difference between the transaction and reporting date in the case of financial instruments measured at fair value and not initially recognised on transaction date under Other assets or Other liabilities.

The Bank derecognises a financial asset when
- the contractual rights to the cash flows from the financial asset expire, or
- the Bank transfers the contractual rights to receive the cash flows of the financial asset, or the Bank retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to transfer the cash flows to one or more recipients in an arrangement that meets certain conditions, in a transaction in which
    - the Bank transfers substantially all risks and rewards from the ownership of the asset, or
    - the Bank does not transfer or retain substantially all the risks and rewards of ownership, and the Bank does not retain control of the financial asset.

Modification of contractual terms of financial assets and liabilities

In case of modification of the contractual terms of financial assets or liabilities, the Bank assesses whether the modification is substantial. If the modification is substantial, the financial asset or liability is derecognised.

In the case of a substantial modification resulting in the derecognition of a financial asset or liability, the financial asset or liability ceases to exist, and a new financial asset or liability is recognised at fair value. Any difference between the derecognised carrying amount of the original financial asset or liability and the new financial asset or liability, recognised at fair value, is recognised in profit or loss.
Eligible transaction costs related to the new financial asset increase the fair value of that financial asset. Income from fees related to modifications are presented as gain or loss on derecognition, except for fees that adjust the fair value of the new financial asset and fees that compensate transaction costs, which are taken into account at the initial recognition of the new financial asset.
If the modification is not deemed substantial, the Bank recalculates the gross carrying amount of the financial asset or the amortised cost of the financial liability with the net present value of the modified future contractual cash flows discounted by the original effective interest rate (or, for purchased or originated credit-impaired financial assets, the credit-adjusted effective interest rate) and recognises the resulting gain or loss in profit or loss. In the case of instruments with variable interest rate, the original effective interest rate used to calculate the gain or loss is adjusted to reflect current market conditions prevailing at the date of the modification.
The costs or fees incurred, after accounting for the above difference, adjust the carrying amount of the financial asset or liability – gross value in the case of a financial asset – and are amortised over the remaining life of the instrument by recalculating the effective interest rate.

In order to determine whether a contract modification is substantial, the Bank performs
- a quantitative, and
- a qualitative test.

A contract modification is substantial if it can be regarded as substantial according to either of the above tests.

A contract modification is considered to be substantial on the basis of the quantitative test, if the present value of the modified contractual cash flows, discounted at the original effective interest rate, differs by at least 10% at the date of the modification compared to the gross carrying amount before the modification.

If, in the event of financial difficulty of the debtor, the Bank plans to modify the financial instrument in such a way that it would result in a remission of cash flows, it first considers whether a part of the instrument should be written off before the modification. This has an impact on the quantitative test, as it may result in the conditions for derecognition not being met.

A contract modification is considered to be substantial on the basis of the qualitative test if the Bank concludes that the risks of the modified financial asset or liability are substantially different from those of the original financial asset or liability.

In particular, a contract modification is considered substantial in the following cases:
– change in currency
– fundamental change in the nature (type) of the asset or liability
– change if interest rate from fixed to variable or vice versa
– change in the result of the SPPI test in case of the new instrument

The Bank derecognises a financial liability (or a part of it) in the financial statements when it is extinguished – i.e. when the obligation set out in the contract is discharged or cancelled or it expires.

Financial assets and financial liabilities recognised in the statement of financial position are offset and the net amount is shown when the Bank has a legally enforceable right to offset the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

For transactions subject to an optional interest rate or principal repayment moratorium under Government Decrees 47/2020 (III.18.), 62/2020 (III.24.) and 637/2020 (XII.22.), which are valid until 30 June 2021, the Bank has carried out a calculation of the change in the cash flows for the relevant range of transactions and, on the basis of these, has not identified any cases where derecognition is necessary, either on the basis of qualitative or quantitative factors. Accordingly, for these transactions, the gross carrying amount is recalculated at the original effective interest rate, taking into account modified future cash flows. The difference between the amortised cost before and after the modification is recognised by the Bank in profit or loss.

For detailed disclosures related to the coronavirus pandemic, see note 33.4 Coronavirus-related disclosures; for disclosures on modification differences, see note 33.5.

3.2 Financial instruments measured at fair value (derivatives)

The Bank measures its derivative financial assets and liabilities at fair value through profit or loss.

For economic hedging purposes, the Bank may enter into contracts for derivative financial instruments (swaps, CCIRS), but in doing so it does not apply hedge accounting under IFRS 9. All derivative financial instruments are carried at fair value, and all gains and losses realised on these instruments are recognised under “Gains and losses from trading and investment activities” in the profit and loss account.

3.3 Financial instruments measured at fair value (other than derivatives)

A part of the Bank’s capital investments consists of investments in investment funds, which are designed to generate returns and also to leverage banking relationships. The majority of capital investments is in the form of interest in investment funds.
Investments in equity instruments of associates and joint ventures where the Bank has joint control or a significant influence are accounted for using the equity method (see Note 3.17).
All other investments are measured at fair value through profit or loss, since these investments do not meet the criteria of the SPPI (see Note 3.1),.

Dividend income (except where the dividend is clearly intended to recover the cost of an investment) at the date of approval and other gains/losses on investment fund shares are recorded under „Gains or losses from trading and investment activities”.

Besides derivatives, the Bank does not measure any financial liabilities at fair value through profit or loss (FVTPL).

3.4 Financial instruments valued at amortised cost

Interest income on financial assets measured at amortised cost is calculated using the effective interest method.

When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but – with the exception of purchased or originated credit-impaired financial assets – does not take into account expected credit losses (ECL). For purchased or originated credit-impaired financial assets, the credit-adjusted effective interest rate is calculated using estimated future cash flows that include expected credit losses.
The calculation includes all amounts paid or received that are an integral part of the effective interest rate, including transaction costs, fees, premiums and discounts. Transaction costs include additional costs that are directly attributable to the acquisition or issue of a financial asset or liability.

After initial recognition financial liabilities are measured at amortised cost, except for derivative financial liabilities.

3.4.1 Cash and cash equivalents

Cash and cash equivalents include banknotes and coins, balances held with central banks without maturity and highly liquid financial assets with a maturity of less than three months, which are subject to insignificant risk of changes in their fair value, and are held by the Bank in order to settle short-term commitments. After initial recognition the Bank measures these instruments at amortised cost in the statement of financial position.

3.4.2 Government securities measured at amortised cost

After initial recognition the Bank measures debt securities that meet the SPPI criteria at amortised cost in the statement of financial position.

3.4.3 Loans and advances to banks and insurance companies and Loans and advances to other customers

Loans and advances to banks, insurance companies and other customers that meet the SPPI criteria are carried after the initial recognition at amortised cost in the statement of financial position.

3.4.4 Loans and advances from other banks and insurance companies, Loans and advances from other customers

Loans and deposits from banks and insurance companies, loans and advances from other customers and debt securities issued are carried after the initial recognition at amortised cost.

3.5 Financial guarantees and loan commitments (credit lines)

A financial guarantee is a contract that requires the Bank to make specified payments to reimburse the holder for losses it incurs because a specified debtor has failed to make payment when due in accordance with the terms of the debt instrument.
A loan commitment is a firm commitment to provide a loan on pre-determined terms.

In the normal course of business, the Bank issues financial guarantees, which consist of letters of credit and loan guarantees. Financial guarantees and commitments to provide loans below market interest rates are measured at fair value on initial recognition and are presented in the statement of financial position under "Other liabilities". The fair value of financial guarantees is the fee for the guarantee received. In the subsequent valuation, the Bank as the issuer of the guarantee will value it at the higher of:

(i) the amount of the loss allowance determined in accordance with IFRS 9, or
(ii) the amount initially recognised less the cumulative amount of income recognised in accordance with the principles of IFRS 15.

The premium received is recognised on a straight-line basis over the life of the guarantee in the profit and loss account under "Fee and commission income".
The provision for losses on financial guarantees and loan commitments is presented in the statement of financial position under "Provisions" while in the statement of comprehensive income it is recognised under in "Impairment losses on financial instruments and (creation)/reversal of provisions".

3.6 Determination of fair values

Several provisions of the Bank's accounting policies and their annexes require the determination of fair value for financial assets and liabilities. Fair values are determined for measurement and/or disclosure purposes based on the following methods.

Fair value is the price that would be received for selling an asset or transferring a liability in an orderly transaction between market participants at the measurement date under current conditions in the primary market for the asset or liability or, in the absence of such, in the most favourable market. The fair value of a liability reflects the Bank's non-performance risk.

All financial instruments are recognised initially at fair value. In the normal course of business, the cost of a financial instrument at initial recognition is the transaction price (that is, the fair value of the consideration given or received). In case the initial fair value differs from the transaction price, the Bank recognises the initial (first-day) fair value difference between the fair value and the transaction price as follows. If the fair value measurement is supported by a price quoted in an active market for the same asset or liability or is based on a measurement method using only observable market prices, the Bank recognises the difference in profit or loss. Otherwise the Bank adjusts the book value of the financial instrument to defer the recognition of the difference and recognises it in profit or loss to the extent that it arises from changes in the factors that market participants consider in pricing the instrument.

The fair value of financial instruments quoted in active markets is measured at the (unadjusted) prices quoted in active markets, on the basis of bid prices for assets and ask prices for liabilities (level 1).
If no directly or indirectly observable prices quoted in an active market are available, fair value is determined using valuation techniques that use inputs other than observable market prices. These include the use of quoted prices of similar instruments in active markets, quoted prices of identical or similar instruments in markets that are not active, or the use of other valuation techniques in which all significant inputs are observable directly or indirectly from market data. (Level 2).
In all other cases, financial instruments are measured using valuation techniques that use unobservable inputs, and these have a significant effect on the valuation of the instrument (level 3). This includes valuations based on quoted prices for similar instruments that require significant unobservable adjustments or assumptions in order to reflect differences between the instruments. See Note 34 for further details of fair value determination.

3.7 Impairment losses on financial assets

Impairment losses on loans and advances to banks, insurance companies and other customers measured at amortized cost, cash and cash deposits with the National Bank of Hungary, securities measured at amortized cost, and other assets

The Bank recognizes loss allowance for expected credit losses for the following financial instruments:

- financial instruments classified as debt instruments;
- lease receivables;
- financial guarantee contracts issued;
- loan commitments (credit lines).

Investments in equity instruments measured at fair value through profit or loss or other comprehensive income are not impaired in accordance with IFRS 9.

The Bank measures the loss allowance at an amount equal to the lifetime expected credit loss, except for the following, for which measurement is at the amount of the 12-month expected credit loss:

- debt securities that, as determined by the Bank, have a low credit risk at the reporting date;
- other financial instruments (except for lease receivables), for which credit risk has not increased significantly since initial recognition.

In case of lease receivables, loss allowance is always measured at an amount equal to the lifetime expected credit loss.

The 12-month expected credit loss is the portion of the lifetime expected credit loss that embodies expected credit losses that results from default events on a financial insturment that are possible within 12 months after the reporting date.

The lifetime expected credit loss is the expected credit loss arising from all possible events of default during the expected life of the financial instrument.

The expected credit loss is the probability-weighted average of credit losses.
At each valuation date, the Bank classifies the financial instruments into Stages, and determines the expected credit loss to calculate loss allowance, as described above. In accordance with the above, financial instruments are classified into three categories:

- Stage 1 classification is applied to financial instruments at initial recognition, except for POCI (purchased or originated credit impaired) receivables. Financial instruments remain in Stage 1 until a significant deterioration of credit risk compared to initial recognition occurs. This Stage also includes financial instruments that the Bank considers to be low credit risk at the reporting date. For Stage 1 instruments, the Bank calculates a 12-month expected loss using lifetime PD (probability of default) models elaborated by segment and LGD (loss given default) values; in case of off-balance sheet items, it uses CCFs (credit conversion factors), reflecting the probability of inclusion in the balance sheet.

- Stage 2 classification is applied to financial instruments where a significant deterioration of credit risk can be observed since initial recognition, however, the criteria for non-performing (default)/credit impaired exposure are not met. Lifetime expected losses are calculated for instruments included in Stage2 using future exposures derived from contractual cash flows, the corresponding lifetime PD models, LGDs, as well as CCFs for off-balance sheet exposures.

- Stage 3 classification is applied to defaulted / credit impaired financial instruments. The Bank uses the NPL (non-performing loan) definition of the MNB (National Bank of Hungary), and also applies the concept of "default" in accordance with Article 178 of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR) with the same content. The Bank evaluates all Stage 3 financial instruments individually, using probability-weighted cash flow scenarios discounted by the effective interest rate.

The Bank applies different credit risk models and parameters for each portfolio segment.The evaluation of Stage 1 and Stage 2 financial instruments are underpinned by PD models and LGD parameters developed for the following portfolio segments:
- Corporate;
- Sovereign/sub-sovereign;
- Domestic financial institutions;
- Foreign financial institutions.

The Bank has developed its lifetime expected probability of default (lifetime PD) models by analysing and forecasting historical empirical default rate time series from external sources, as a function of time from initial recognition (vintage approach), using default rates published by Standard&Poor's and Weibull curves. All lifetime PD curves of all segments, developed along international ratings, have been mapped to the Bank's internal 7-grade rating classes.

The Bank carries out PD correction on its corporate lifetime PD model applying the ARMA (Auto Regressive Moving Average) forward-looking macroeconomic model in line with the expectations of the MNB. When estimating corporate PDs in a forward-looking manner, the Bank uses the macroeconomic forecasts published in the MNB Inflation Report and the corporate default rate time series published in the MNB Stability Report. The Bank has developed its macroeconomic for PD correction taking into account the autoregressive variable expressing the previous value of the time series, the moving average expressing the model's error in the previous period, the four-quarter lag of the inflation rate in the MNB's Inflation Report and the four-quarter lag of the change in the unemployment rate in the MNB's Inflation Report. In view of the fact that IFRS 9 requires the Bank to take into account its expectations of the macroeconomic environment in an unbiased manner in the expected loss calculation, and given that the relationship between macroeconomic indicators and the development of expected loss is not linear in practice (a certain amount of macroeconomic shock may have a larger impact on loss than an equal positive shock), the Bank has based its unbiased estimate used as a basis for forward-looking expectations on a probability-weighted average of three scenarios. The weights of the scenarios have been developed by the Bank in accordance with the MNB's Executive Circular on the use of macroeconomic information and factors indicating a significant increase in credit risk for the purposes of IFRS 9. The baseline scenario had a weight of 80%, the optimistic and pessimistic scenarios figured in the estimate with a weight of 10% each.

When preparing the applied model and introducing it on 30 September 2020, the Bank used the macro model to forecast the corporate default rate for one year, with a quarterly frequency. The Bank has not changed the set of model variables used previously, but has incorporated the latest available macroeconomic data, and used them to reassess the parameters of the model. Since the model uses a four-period lag in the changes of both the inflation and the unemployment rate, the Bank used the actual data published in MNB's Inflation Report to prepare the four-period baseline forecast. For the pessimistic forecast scenario, the Bank stressed the explanatory variables and assumed that, with linear growth, they would reach the 6.60% unemployment rate and the 2.89% inflation rate published in the MNB's IFRS 9 Executive Circular in July. For the optimistic forecast scenario, the Bank assumed that the inflation rate, with a linear trend, would reach the 4.73% unemployment rate and the 3.42% inflation rate published in the MNB's IFRS 9 Executive Circular in July. In Q4 2020, the Bank revised its macro-model based estimate, taking into account the October revision of the MNB's IFRS 9 Executive Circular, which assumed an unemployment rate of 4.52% and an inflation rate of 3.56% in the baseline scenario, an unemployment rate of 5.19% and an inflation rate of 3.39% in the pessimistic scenario, and an unemployment rate of 4.37% and an inflation rate of 3.63% in the optimistic scenario.

In the corporate segment, the Bank uses LGD modelled on internal data using the collection LGD methodology in a vintage approach to determine expected loss. In the sovereign/sub-sovereign segment the Bank applies a benchmark LGD backed by an external study, whereas in the case of financial institutions, the Bank applies LGDs implied from CDS spreads, derived from external sources.

Given that the very low number of items in historical data does not allow for CCF modelling on internal data, the Bank applies CCFs in line with the supervisory parameters published in the CRR.

Since 30 September 2020, the Bank has applied management overlay impairment, which is a lump sum expected loss determined by the Bank on the basis of risk factors that are not or are not fully covered by the risk models it uses, making the impact of these risks not adequately quantifiable by running the models on a bottom-up basis.

Given that in the economic environment of the pandemic there is an insufficient information base to assess credit risk growth on a bottom-up basis or to recalibrate models in the traditional way, the Bank applies a top-down model with a management overlay adjustment differentiated by sector groups to determine the expected loss for the corporate segment. The Bank considers the level of risk of the corporate portfolio involved in the management overlay adjustment to be significant.

The in-depth disclosure of formulae used to determine expected losses can be found in Note 30.

For all instruments, the Bank considers the following indicators to be significant deterioration in credit risk and accordingly classifies the transactions concerned as Stage2:

- 30+ days past due, unless the delay is proven to be due to a technical error.
- A significant deterioration of the rating compared to the initial rating class. On its 7-point customer rating scale, the Bank considers a deterioration of 2 categories for rating categories 1 to 3 and 1 category for rating categories 4, 5 and 6 to be significant.
- Loans placed in performing restructured status.

In 2020 the Bank did not consider the statutory moratorium on payments as a per se indicator of an increase in credit risk, i.e. the moratorium was not associated with a reclassification to Stage2. The Bank shall apply the changes contained in the IFRS 9 Executive Circular revised by the MNB on 22 January 2021 for the first time during the first quarter of 2021 rating, the details of which were published by the Bank in Note 32.

The Bank applies low credit risk (LCR) limits for exposures with a BBB- or better investment grade rating for the sovereign and banking segments, but does not use LCR limits for corporate exposures. At the same time, the Bank sets stricter criteria for significant credit deterioration in certain lower-rated categories. Accordingly, in its internal rating system the Bank considers even a downgrade of 1 grade regarding transactions of customers with an initial rating of 4 or lower to be a significant deterioration in credit risk.

In addition, the Bank also uses the following EWIs (Early Warning Indicators) for real estate project loans and domestic corporate exposures to determine significant credit risk deterioration:

- Regular order of collection against the client's current account with the financing bank.
- Based on a Central Credit Information System (CCIS) query, a new commitment or event of default jeopardizing the operation of the company.
- Negative changes in the client's business details that are subject to a disclosure obligation (owners, registered office, company registration number, tax number, scope of activity).
- Unfavourable decline of account turnover and/or customer base negatively affecting debt service.
- A significant decline in the debtor's equity.
- A significant change, decline in the number of the debtor's employees.
- The project is not or not fully implemented or it fails to yield enough to cover the debt.
- Non-payment of the insurance premium (30+ days of delay or the contract becoming inactive).
- Significant distraint action initiated against the company (e.g. by the Tax Authority).
- Significant negative change in collateral coverage ratio.
- Breaches of contractual commitments, covenants that jeopardise recovery.
- Deterioration in data reporting discipline.
- A change in legislation that negatively affects the business of the client.
- Negative information in the media about the client, client group, their partners or industry.
- A deterioration in regularly monitored financial indicators that jeopardizes the financial stability of the client.

- A significant adverse change in the sectoral outlook that threatens the financial stability of the client.
- In case of a real estate financing project loan, the LTV (Loan To Value) ratio exceeds 1 (except for: development phase).
- In case of a real estate financing project loan, the PDSCR (Projected Debt Service Cover Ratio) falls below 1.05.
- In case of a real estate financing project loan, more than 1-year delay in the development phase.
- In case of a real estate financing project loan, the occurrence of a change of condition that leads to an increase in risk.

A reclassification from Stage 2 to Stage 1 may be made if none of the criteria for a significant deterioration of credit risk can be observed at the assessment date. See Note 30 for the quantitative disclosure of Stage 2 items and impairment that have the characteristics of significant credit risk deterioration.

Pursuant to Article 178 of the CRR and the provisions of MNB Decree 39/2016, transactions are considered non-performing (default) or of impaired creditworthiness, and are classified in Stage 3, where:

- For the value date of the rating, the exposure is past due by more than 90 days, if the amount that is past due is material. The Bank has set the materiality threshold at EUR 500.
- Based on an assessment of the debtor's financial situation, it can be assumed that without recourse to the collateral, the debtor will not be able to repay the full amount of its obligations (regardless of whether the claim is past due).
- Exposures for which an individual loss allowance has been recognised, excluding the loss allowance recognised collectively for transactions classified as Stage 1 and Stage 2 under IFRS 9.
- All exposures against a client, if an individual loss allowance has been recognised for any of the client's transactions, excluding the loss allowance recognised collectively for transactions classified as Stage 1 and Stage 2 under IFRS 9.
- The Bank has initiated a liquidation or distraint procedure to collect the client's debt.
- The client has initiated a liquidation or bankruptcy procedure against itself in order to avoid or postpone the discharge of its obligations to the Bank.
- The bank guarantee issued by the Bank has been drawn down or is expected to be drawn down.
- The loan contract has been terminated.
- Deals that have gone under Workout handling or become subject to legal proceedings (liquidation, bankruptcy, distraint initiated by the Bank).
- Restructuring that results in a significant reduction of financial liabilities for the client.

Since 1 January 2021, the Bank has applied the definition of default included in MNB Recommendation 13/2019 for internal risk management purposes and to measure expected credit losses, as well as to identify financial assets that have fallen into credit impaired status. The Bank tested the new definition of default on its portfolio, and the impact of this is negligible.

The Bank does not examine the significant deterioration of credit risk in the case of POCI receivables. In each case, POCI receivables are classified in Stage 3 and assessed individually.

The accounting policy for financial guarantees and loan commitments is set out in Chapter 3.5 and the policy (formulas) for the calculation of loss allowance is set out in Note 30.

Reversal of loss allowance

If the loss allowance is reversed in the next period, it is recognised through profit or loss.

Write-off of loans and advances

Uncollectible receivables are written off against the related loss allowance if the reasons for assigning them to uncollectible status as specified in the Workout policy apply, or if there is no reasonable expectation of recovery. The Bank recognises any subsequent recoveries of receivables previously classified as uncollectible in profit or loss. The Bank may also write off part of the receivable if the full recovery cannot be reasonably expected, but the Bank still intends to fully recover the partially written-off receivables. Partial or full write-off of the receivables is possible at least three years after the occurrence of the default event, if an individual assessment shows that any repayment of the debt from future cashflows of the debtor is unlikely, and if an appropriate asset-distribution plan is available from the liquidator.

Restructured loans

In line with its effective NPL strategy, the Bank first attempts to restructure loans in cooperation with the debtors, rather than taking legal action to recover the debt. This may include extending the term, changing the payment schedule or revising the terms of the loan. In the event of restructuring, the Bank examines whether the contract amendment is significant in accordance with Note 3.1 and, as a result, shall determine a restructured rating of "performing" or "non-performing" and shall apply the 10% rule to determine the derecognition criterion. Following a restructuring, impairment must be determined using the original EIR as it was the case before the terms were modified, regardless of the fact that the loan is no longer past due. Management monitors the fulfilment of the conditions of restructured loans on an ongoing basis to ensure that the required criteria are met, that future payments are made and that the criteria for derecognition are fulfilled. The Bank classifies non-performing restructured loans in all cases into Stage3, and calculates the impairment by discounting the cash flows by the original EIR.

The introduction of the loan moratorium programmes and the consideration of the macroeconomic effects of the coronavirus led to significant methodological changes in determining expected credit losses in 2020. For a detailed presentation of these methodological changes, see Note 30.

3.8 General reserve

The provisions of the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises ("Hungarian Banking Act") require the Bank to establish a general reserve of 10% of its profit after tax for the year to cover future losses. Based on the decision of the management and the approval of the Owner, the Bank transfers the after-tax profit for the given period (after the establishment of the mandatory 10% reserve) from retained earnings to the general reserve. As this decision relating to the given financial year is made by the Owner in the following financial year, the after-tax profit for that period is reallocated in the year of the decision.

Based on the owner's decision, the Bank places 100% of its annual after-tax profit in retained earnings, after which the amount placed in retained earnings is placed in the general reserve.

In the case of a loss, based on the Owner's decision the amount of the accumulated general reserve will be used.

3.9 Foreign currency translation

The Bank's primary (functional) currency is the Hungarian forint. Revenues and expenses arising in foreign currency are translated into the functional currency at the exchange rates valid on the date of the transaction.
Monetary assets and liabilities denominated in foreign currencies are revalued at rates published by the National Bank of Hungary ("MNB") at the balance sheet date, with resulting revaluation differences being recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate on the date when the fair value was determined. Non-monetary items denominated in foreign currency that are measured at historical cost are retranslated to the functional currency at the exchange rate valid on the date of the transaction. Foreign exchange differences arising upon revaluation are recognised in profit or loss under "Gains or losses from trading and investment activities".

3.10 Intangible and tangible assets

Intangible assets, property, as well as plant and equipment are measured at cost less accumulated depreciation and amortisation and accumulated impairment.

Cost includes expenditures that are directly attributable to the acquisition of the asset. In case of property, plant and equipment cost of maintenance and repair are recognised in profit or loss. Major refurbishments of property, plant and equipment and the cost of replacing a part of an asset are recognised in the carrying amount of the item concerned when it is probable that future economic benefits associated with the asset will be received by the Bank and such can be measured reliably. The value of the replaced components is derecognised.

Depreciation and amortisation is computed on a straight-line basis over the estimated useful lives of the assets, based upon the following rates:

Renovation of leased property	4.94%	-48.69%
Software	20%	-50 %
Furniture, fixtures and office equipment	14.5 %	-50 %

Depreciation and amortisation methods, useful lives and residual values are reviewed at the end of each financial year and adjusted if appropriate.

Intangible assets, property, plant and equipment are subject to an impairment review if an event or change occurs that indicates that the carrying amount is above the recoverable amount of the asset.

The gain or loss on the disposal of intangible assets, property, plant and equipment is determined as the difference between the proceeds from the sale and the carrying amount of the assets and is recognised in profit or loss under "Other operating expenses" or "Other operating income".

3.11 Leases

The lessee recognises a right to use the asset concerning the related asset and a lease liability for the obligations related to the lease. The provisions relating to lessors remain similar to the previous standard – for example, lessors continue to distinguish between operating and finance leases.

On initial application of IFRS 16, the Bank may opt to:
– Apply the definition of a lease in IFRS 16 to all its contracts; or
– Apply a practical expedient and not reassess whether existing contracts contain a lease.
The Bank uses the above-mentioned practical expedient.

For lessees, the regulation offers two options for the transition:
- Retrospective approach
- Modified retrospective approach with practical expedients.

The Bank applies the modified retrospective approach to all leasing transactions in which the Bank is the lessee. Consequently, comparative data is not recalculated but is presented instead in line with the Bank's accounting policy based on IAS 17 and IFRIC 4.

The Bank monitors all its lease contracts in which it is a lessee on an ongoing basis and identifies those that contain a lease transaction under IFRS 16. In this regard, it recognises a right-of-use asset and a lease liability in respect of the leasing transactions. The initial recognition of the right-of-use asset is at cost while lease liabilities which were classified as operating leases according to IAS 17 are recognised at the present value of the outstanding lease payments. Items taken into consideration when calculating the cost of an asset:
- the initial value of the liability
- use premiums paid at the start of the term (or before)
- any initial direct costs incurred by the Bank
- lease incentives received as cost decreasing elements
- estimated costs for dismantling, removing the asset and restoring the site

The initial value of the lease liability is the present value of the unpaid lease fees at the start of the lease term. For discounting purposes, the Bank uses an implicit interest rate at the time of the first application, with this discount the present value of the lease payments and the unguaranteed residual value being equal to the sum of the fair value of the leased asset and the lessor's initial direct costs.
The Bank recognises new assets and liabilities primarily related to operating leases of office spaces. The nature of the costs associated with these leases will now change as IFRS 16 requires the depreciation of the right-of-use assets and the interest cost of the lease liabilities to be recognised instead of the operating lease costs recognised on a straight-line basis.
Previously, the Bank recognised the costs associated with operating leases on a straight-line basis over the term of the lease, separating assets and liabilities only to the extent necessary to reflect the time difference between the actual lease payments and the costs recognised.

The Bank applies the following practical expedients:
– It applies a single discount rate to a portfolio of leases with similar characteristics.

The Bank applies practical expedients for leases with a short term (less than 12 months) and for leases with a low asset value (less than HUF 1 million) – for these constructions the Bank does not recognise any lease liabilities or related right-of-use assets. These types of lease payments are recognised as costs using the straight-line method during the term of the lease agreement.

3.12 Income taxes

Income tax includes both current and deferred taxes. Income taxes are recognised in the profit and loss account, except to the extent that relates to items recognised directly in equity or in other comprehensive income, in which case such taxes are recognised in equity or in other comprehensive income. Current income taxes include corporate income tax, local tax and innovation contribution.

Current tax is the tax payable or recoverable on taxable profits for the financial year, plus any adjustment for the relevant tax payable or recoverable carried forward from previous years. If the amount of the minimum tax is higher than the income tax calculated on the basis of the tax base of the year, the difference is recognised by the Bank as other operating expense. The amount of the current tax payable or receivable is the best estimate of the amount of tax payable or receivable, reflecting the uncertainty associated with income taxes. The current tax amount is determined using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Temporary differences are not recognised on the initial recognition of assets or liabilities which do not affect either accounting or pre-tax profit in a transaction which is not a business combination.

A deferred tax asset is recognised for unused tax losses carried forward, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised. Unrecognised tax assets are reviewed at each reporting date and are recognised to the extent that it is probable that future taxable profits will be available against which they can be utilised.
The amount of deferred tax reflects the tax consequences of the expected manner of recovery or settlement of the carrying amount of assets and liabilities at the balance sheet date. The amount of deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date, reflecting any uncertainty relating to income taxes.

3.13 Interest income and expense

Interest income and expense on financial instruments are recognised in profit or loss under “Interest income” and “Interest expense” using the effective interest method (see Note 3.4). Interest income is classified as “Interest income recognised using the effective interest method” and “Other interest income” and is recognised in profit or loss. “Interest income recognised using the effective interest method” includes interest on financial assets measured at amortised cost, while ‘Other interest income’ includes the interest income from interest rate swaps and nostro accounts. “Interest expense” includes interest on financial liabilities measured at amortised cost, as well as interest expense of interest rate swaps.
The effective interest method is used to calculate the amortised cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the life of a financial instrument to one of the following:

- the gross carrying amount of the financial asset (if not credit impaired), or
- the amortised cost of the financial asset (if credit impaired), or
- the amortised cost of the financial liability.

The amortised cost of a financial asset or a financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the amount at maturity calculated using the effective interest method and, for financial assets, adjusted for any expected loss allowances. The gross carrying amount of a financial asset is the amortised cost of the financial asset before any adjustment for expected loss allowances.

When calculating the effective interest rate for financial assets other than purchased or originated credit-impaired financial assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

The effective interest rate used to calculate interest income or interest expense is applied to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortised cost of the financial liability. The effective interest rate is revised as a result of the periodic reestimation of the cash flows of variable interest rate instruments to reflect changes in market interest rates.

For purchased or originated credit-impaired financial assets (POCIs) the Bank applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition until the derecognition of the asset.

For financial assets that are not purchased or originated credit-impaired (POCI) but have become credit-impaired subsequently (Stage 3), the Bank applies the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, the calculation of interest income reverts to the gross basis.

Under the Bank’s interest equalisation programme, the amount of interest compensation provided by the Hungarian State is determined by the difference between the interest rate paid by the borrower and the sum of Eximbank's funding costs, operating expenses and the applicable risk premium, in accordance with the provisions of the agreement concluded with the Ministry of Finance.

Within 15 days of the end of each quarter, Eximbank receives the interest equalisation payment after submitting the drawdown request to the Hungarian State. The payment for that quarter is received by Eximbank within 30 days of the submission of the request.

Interest equalisation and interest subsidies are intended to provide stability and sustainability to Eximbank, thereby contributing to risk management. The level of interest equalisation and subsidy provided by the Hungarian State is determined in such a way that Eximbank’s profit reaches a level close to the market, with the State compensating the Bank for the difference between the level of interest rates provided at a rate lower than the market rate and the actual market rate. Through this mechanism, Eximbank serves as an instrument of economic policy of the Hungarian State rather than as a traditional profit-oriented bank.

Eximbank also receives interest subsidies for tied-aid loans (Eximbank plays the role of lender in tied-aid agreements) in agreements between the Hungarian government and countries eligible for tied-aid loans.

Interest compensation and interest subsidies received from the Hungarian State are not considered government grant by the Bank, as they constitute a form of government grant to the debtor.

The interest compensation and interest subsidies received from the Hungarian State are considered to be an integral part of the Bank's loans, so these cash flows are also taken into account in the calculation of the effective interest rate.

All other loans provided by Eximbank (i.e. loans that are not covered by the interest equalisation and interest subsidy programmes) are variable-rate and are priced taking into account the LIBOR / EURIBOR / ("BUBOR") reference rates and Eximbank's cost of funds.

3.14 Fee and commission income and expense

The Bank earns fees and commissions income from a diverse range of services it provides to its clients and also pays fees and commissions related to these services.
Fee and commission income and expense that are integral to the effective interest on a financial asset or financial liability are included in the effective interest rate.
If a loan commitment is not expected to be drawn down, the related loan commitment fee is recognised on a pro rata temporis basis over the commitment period.
Other fee and commission income is recognised when the related services are performed.
Other fee and commission expenses typically relate to transaction and service fees that become expenses when the services are received by the Bank.

For more detailed information see Note 23.

3.15 Provisions and contingent liabilities (IAS 37)

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.
Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the time value of money and, where appropriate, also takes into account the risk characteristics specific to the liability.

Contingent liabilities are not recognised in the financial statements. Contingent liabilities are disclosed in the financial statements unless the possibility of an outflow of economic resources is remote.

Provision for possible losses is recognised only if at the reporting date the Bank considers that it is more likely than not that an obligation exists. The Bank's management determines the adequacy of provisioning based on a review of individual cases, experience with recent loss events, economic conditions, transaction risk characteristics, and other pertinent factors.

Special taxes payable by the Bank which cannot be considered as income taxes are recognised when the condition for the payment of the tax is met. This includes the special tax imposed on financial institutions ("bank tax") under Act LIX of 2006, calculated on the basis of the balance sheet total of the second tax year preceding the tax year concerned. The Bank recognises the obligation to pay the bank tax on the first day of the financial year in which it becomes due.

3.16 Segments

Based on the management's assessment of the organisational, management and internal reporting structure of the Bank, the management identified only one operating segment. As a result the Bank does not disclose operating segments in the financial statements. The Bank discloses its assets, liabilities and revenues broken down by geographical region (see Note 31).

3.17 Investments in subsidiaries, associates and joint ventures

Subsidiaries are entities controlled by the Bank. An entity is controlled by the Bank if the Bank is subject to, or has rights to, variable returns from its participation in the entity and is able to influence those returns through its power over the entity.

An associate is an entity over which the Bank has significant influence, but not control or joint control, over the financial and operating policies of the entity.

A joint venture is an arrangement in which the Bank has joint control, whereby the Bank has rights over the net assets of the arrangement, rather than rights over its assets and obligations concerning its liabilities.

The Bank's investments in its subsidiaries, associates and joint ventures is accounted for using the equity method.
Under the equity method, an investment in a subsidiary, associate or joint venture (the investee) is initially recognised by the Bank at cost, which includes transaction costs. The carrying amount of the investment is adjusted after initial recognition to reflect changes in the Bank's share of the net asset value of the investee since the acquisition date.

The statement of comprehensive income reflects the share of the investee's profit or loss that is due to the Bank based on its share in the investee. Any change in other comprehensive income of those investees is presented as part of the Bank's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the investee, the Bank recognises its share of the change in its own statement of changes in equity if necessary. Unrealised gains and losses resulting from transactions between the Bank and the investee are eliminated to the extent of the interest in the investee; however, unrealised losses are eliminated only to the extent that there is no evidence of impairment.

The Bank recognises its share of the after-tax profit or loss of investee joint ventures and associates in the statement of comprehensive income as follows: It presents it in the "Share of profit/(loss) of investments accounted for using the equity method " and "Exchange differences arising on the translation of foreign operations" lines.

The financial statements of the investee used for the application of the equity method are prepared for the same reporting period as the Bank's financial statements, and are in line with the Bank's accounting policy.
Following the application of the equity method, the Bank determines whether it is necessary to recognise impairment on its investment in the investee. The Bank assesses at each reporting date whether there is objective evidence that an investment in an investee is impaired. The Bank calculates the amount of impairment as the difference between the recoverable value and the carrying value of the investment in the investee. The impairment or reversal thereof is then recognised by the Bank as "Impairment or reversal of impairment on non-financial assets" in the statement of comprehensive income.
For investments accounted for under the equity method, the determination of whether a venture capital or private equity fund that has subsidiaries meets the definition of an investment entity can have a significant effect on the carrying amount of the investment.
IFRS 10 defines the concept of an investment entity and requires parent companies that are classed as an investment entity to measure their subsidiaries at fair value through profit or loss

in accordance with IFRS 9. Whether the definition of an investment entity applies must be considered in respect of every Fund.

An investment entity is an entity that:

a) obtains funds from one or more investors for the purpose of providing investment management services to such investor(s);
b) commits to its investor(s), that its business purpose it to invest funds solely for returns from capital appreciation, investment income or both; and
c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

In practice, based on the above, the following characteristics of investment entities should be considered:

a) whether they have more than one investment,
b) whether they have more than one investor,
c) whether their investors are not related parties of the entity, and
d) whether their ownership interests are in equity instruments or similar interests.

The Bank applies the equity method to the financial statements of funds in which the underlying investments in subsidiaries are measured by the fund at fair value (if the fund is an investment entity) or are consolidated (if the fund is not an investment entity).

3.18 Changes in accounting policies

The Bank has applied the accounting policies defined in Note 3 consistently to all periods presented in these separate financial statements.

3.19 New IFRS standards, amendments and new interpretations effective from 1 January 2020

Standards issued but not yet in force

A number of new standards have become effective for business years starting on or after 1 January 2020, with earlier application permitted.

New or revised standards and interpretations adopted by the EU effective for reporting periods starting after 1 January 2020

The Bank has not previously applied the following new and revised standards and interpretations adopted by the EU, which the Bank does not expect to have a material impact on the Bank's separate financial statements:

- Amendments to IFRS 16 *Leases* – Lease discounts due to COVID19 (effective for annual periods beginning on or after 1 June 2020, earlier application permitted, including financial statements that were not yet authorised for issue on 28 May 2020)
- Extension of temporary exemption from IFRS 9 (amendments to IFRS 4)

The Bank has not previously applied the amendments to standards resulting from Phase 2 of the IBOR reform (IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – issued on 27 August 2020, effective for annual periods beginning on or after 1 January 2021, earlier application permitted); the assessment on whether these amendments will have a material impact on the Bank's financial statements is currently in progress.

One focus of the amendments to the standards resulting from Phase 2 of the IBOR reform, which addresses issues of potential relevance to the Bank, is the introduction of a practical solution for contract amendments:

- Pursuant to the detailed requirements of IFRS 9 *Financial Instruments*, an amendment to a financial contract may necessitate a significant gain or loss to be recognised in profit or loss. However, amendments to the standards resulting from Phase 2 of the IBOR reform introduce a practical expedient for cases where the contract amendment is implemented directly as a consequence of the IBOR reform and is made on an “economically equivalent” basis. In these cases, the amendment is recognised by updating the effective interest rate.
- A similar practical expedient can be applied under IFRS 16 *Leases* for the recognition by a lessee of lease amendments resulting from the IBOR reform.

3.20 New and revised standards and interpretations issued by the IASB and adopted by the EU but not yet effective

At the date of approval of these financial statements, there are no new or revised standards or new interpretations issued by the IASB and adopted by the EU that are expected to have a material impact on the Bank’s financial statements in the period of initial application:
- Amendments to IFRS 4 “Insurance Contracts” with IFRS 9 deferral – adopted by the EU on 15 December 2020 (effective for reporting periods beginning on or after 1 January 2021),
- Amendments to the IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 standards – Interest rate benchmark reform phase 2 – adopted by the EU on 13 January 2021 (effective for reporting periods beginning on or after 1 January 2021).

The Bank shall apply these standards and amendments from their effective date.

3.21 Standards, interpretations and revisions issued by the IASB but not yet adopted by the EU

Standards not yet adopted by the EU and not yet in force

The following new and amended standards and interpretations have not yet been adopted by the EU at the date these financial statements were authorised for disclosure. The Bank does not expect these standards and interpretations to have a material impact on the Bank’s separate financial statements:

- Classification of liabilities as current/non-current (amendments to IAS 1);
- References to the Framework (amendments to IFRS 3);
- Property, plant and equipment – Proceeds before intended use (amendments to IAS 16);
- Onerous contracts – Cost of fulfilling a contract (amendments to IAS 37);
- Disclosure of accounting policies (amendments to IAS 1);
- Definition of accounting estimates (amendments to IAS 8);

Annual improvements to IFRS

- standards, 2018-2020.

(All amounts in millions of HUF, unless otherwise indicated)

4 NOTE CASH AND CASH EQUIVALENTS

	31.12.2020	31.12.2019
Deposit and settlement accounts with the National Bank of Hungary	1,492	3,836
Interbank placements in HUF	0	16,751
Interbank placements in foreign currency	0	10,317
Nostro accounts in HUF	6	4
Nostro accounts in foreign currency	1,032	32,690
Petty cash in HUF	0	0
Petty cash in foreign currency	2	1
Other	1	1
Impairment	-4	-16
Total	**2,529**	**63,584**

Based on the requirements for compulsory reserves set by the National Bank of Hungary, the amount of compulsory reserves maintained by the Bank and included in the balance above amounted to HUF 1,492 million as at 31 December 2020, and HUF 3,836 million as at 31 December 2019 (reserve requirement: the maintenance of an average balance corresponding to the reserve requirement on a settlement account with the central bank over a reserve period of 1 month).

5 NOTE GOVERNMENT SECURITIES MEASURED AT AMORTISED COST

The Bank includes Hungarian government bonds on its balance sheet at amortised cost. The balance sheet values of Hungarian government bonds as at 31 December 2020 and 31 December 2019 are detailed in the following table:

	31.12.2020	31.12.2019
Gross carrying amount of government bonds	105,354	43,200
Expected loss	-93	-77
Total	**105,261**	**43,123**

The breakdown of Hungarian government bonds by maturity as at 31 December 2020 and 31 December 2019 is detailed in the table below:

	31.12.2020	31.12.2019
3 months to 1 year	20,200	0
1 to 5 years	70,335	43,200
Over 5 years	14,819	
Total	**105,354**	**43,200**

Due to a significant increase in lending activity even at a time of significantly higher levels of uncertainty in 2020, Eximbank held a higher amount of liquidity reserves, resulting in a significant increase in government securities holdings.

(All amounts in millions of HUF, unless otherwise indicated)

6 NOTE LOANS AND ADVANCES TO BANKS AND INSURANCE COMPANIES

	31.12.2020	31.12.2019
Short-term (up to 1 year)		
– in foreign currency	172,220	130,523
- in HUF	53,628	24,145
Sub-total	**225,848**	**154,668**
Over 1 year		
– in foreign currency	300,790	236,121
- in HUF	236,678	136,333
Sub-total	**537,468**	**372,454**
Total	**763,316**	**527,122**
Less: accumulated impairment losses (see Note 15)	-950	-819
Total	**762,366**	**526,303**

As at 31 December 2020, 99.8% of loans and advances to banks and insurance companies qualified for interest compensation from the Hungarian State (as at 31 December 2019: 100%). For details about the interest equalisation programme please refer to Note 3.13 The moratorium on repayments introduced as a result of the coronavirus affected receivables from credit institutions and insurance companies, which are presented in Note 33.5.

(All amounts in millions of HUF, unless otherwise indicated)

The table below shows the receivables from credit institutions and insurance companies by maturity of contract (i.e. a transaction is only included in one range based on the maturity of the contract) as at 31 December 2020 and 31 December 2019.

	31.12.2020	**31.12.2019**
Remaining maturity	Gross carrying amount	Gross carrying amount
Placements in foreign currency		
Up to 1 month	2,435	1,266
1 to 3 months	2,281	4,614
3 months to 1 year	66,468	31,681
1 to 5 years	302,164	261,851
Over 5 years	99,662	67,232
Sub-total	**473,010**	**366,644**
Placements in HUF		
Up to 1 month	1,682	128
1 to 3 months	1,217	872
3 months to 1 year	17,944	4,141
1 to 5 years	133,483	33,717
Over 5 years	135,980	121,620
Sub-total	**290,306**	**160,478**
Total	**763,316**	**527,122**

98.7% of loans and advances to other banks and insurance companies were refinancing loans (as at 31 December 2019: 98.6%). 100% of refinanced loans is eligible for interest compensation. For details about the interest equalisation programme, please refer to Note 3.13.

With the signing of the mortgage agreement between Eximbank and the MNB on 30 April 2020, a mortgage of first rank was established in favour of the MNB on all claims of Eximbank on entities classified as large corporations under the central bank's business conditions and on debtors under refinancing loan agreements for sub-lending purposes that meet the criteria of the central bank's business conditions, provided that they are not subject to the legislation specified in Section 39 of the Act on the National Bank of Hungary, are domiciled in Hungary, and meet the criteria for large corporate claims as defined in the mortgage agreement and the central bank's business conditions, and for which the underlying loan agreement is submitted by Eximbank to the MNB through the data reporting method specified in the mortgage agreement and the central bank's business conditions, thereby pledging the loan agreement to the MNB, as defined in the mortgage agreement.

(All amounts in millions of HUF, unless otherwise indicated)

7 NOTE LOANS AND ADVANCES TO OTHER CUSTOMERS

	31.12.2020	31.12.2019
Short-term maturity (up to 1 year):		
– in foreign currency	57,261	54,319
- in HUF	18,732	11,171
Sub-total	**75,993**	**65,490**
Long-term maturity (over 1 year):		
– in foreign currency	244,033	186,581
- in HUF	28,568	12,871
Sub-total	**272,601**	**199,452**
Total	**348,594**	**264,942**
Less: accumulated impairment losses (see Note 15)	-25,056	-16,697
Total	**323,538**	**248,245**

At 31 December 2020, 68% of the loans and advances to other customers received interest compensation from the Hungarian State (31 December 2019: 70% (see Note 3.13 for a description of the interest equalisation programme) and 19% of the receivables were aid loans (31 December 2019: 24%).
The table below shows the gross carrying amount of from receivables from other customers by maturity of contract (i.e. a transaction is included exclusively in one range based on the maturity of the contract) as at 31 December 2020 and 31 December 2019.

	31.12.2020	31.12.2019
Remaining maturity	Gross carrying amount	Gross carrying amount
In foreign currency:		
Up to 1 month	12,382	8,587
1 to 3 months	2,663	2,569
3 months to 1 year	23,266	22,937
1 to 5 years	24,752	17,165
Over 5 years	238,231	189,642
Sub-total	**301,294**	**240,900**
In HUF		
Up to 1 month	8,118	5,681
1 to 3 months	504	-
3 months to 1 year	1,778	2,213
1 to 5 years	23,028	1,534
Over 5 years	13,872	14,614
Sub-total	**47,300**	**24,042**
Total	**348,594**	**264,942**

The moratorium on repayment introduced as a result of the coronavirus applied to receivables from other customers, which are presented in Note 33.5.

(All amounts in millions of HUF, unless otherwise indicated)

8 NOTE DERIVATIVES

Eximbank enters into currency swap transactions intended to mitigate foreign exchange risks but does not enter the market for speculative purposes.

Financial assets and liabilities measured at fair value through profit or loss as at 31 December 2020 and 31 December 2019 are presented in the following table:

	31.12.2020		31.12.2019	
	Asset	**Liability**	**Asset**	**Liability**
Foreign exchange swaps	0	1,245	0	125
Cross-currency interest rate swaps	0	300	14,819	74
Total	**0**	**1,545**	**14,819**	**199**

Loss on revaluation to fair value was HUF 1,041 million as at 31 December 2020, constituting a decrease of HUF 4,227 million compared to the HUF 5,268 million at 31 December 2019, which is recorded under “Gains and (losses) from trading and investment activities”.

The details of FX swaps by maturity as at 31 December 2020 are presented in the following table:

Remaining maturity	Due amount in currency	Currency	Due amount in HUF million*	Payable amount in currency	Currency	Payable amount in HUF million*
Up to 1 month	1,621,785,000	HUF	1,622	5,500,000	USD	1,635
Up to 1 month	54,595,767,800	HUF	54,596	152,000,000	EUR	55,500
3 to 12 months	23,639,900,000	HUF	23,640	65,000,000	EUR	23,733
Total			**79,858**			**80,868**

The details of cross-currency interest rate swaps by maturity as at 31 December 2020 are presented in the following table:

Remaining maturity	Due amount in currency	Currency	Due amount in HUF million *	Payable amount in currency	Currency	Payable amount in HUF million*
Over 5 years	1,774,830,958	HUF	1,775	5,697,143	EUR	2,191
Total			**1,775**			**2,191**

*The HUF amount was determined on the basis of the exchange rate set by the Hungarian National Bank on 31 December 2020.

(All amounts in millions of HUF, unless otherwise indicated)

The details of FX swaps by maturity as at 31 December 2019 are presented in the following table:

Remaining maturity	Due amount in foreign currency	Currency	Due amount in HUF million*	Payable amount in currency	Currency	Payable amount in HUF million*
Up to 1 month	45,000,000	EUR	14,873	14,926,865,000	HUF	14,927
Up to 1 month	45,000,000	EUR	14,873	50,449,500	USD	14,869
Up to 1 month	20,000,000	USD	5,895	5,963,000,000	HUF	5,963
Total			**35,641**			**35,759**

The details of cross-currency interest rate swaps by maturity as at 31 December 2019 are presented in the following table:

Remaining maturity	Due amount in currency	Currency	Due amount in HUF million*	Payable amount in currency	Currency	Payable amount in HUF million*
Up to 1 month	400,000,000	USD	117,896	314,561,240	EUR	103,969
Over 5 years	1,838,857,227	HUF	1,839	5,902,665	EUR	1,951
Total			**119,735**			**105,920**

*The HUF amount was determined on the basis of the exchange rate set by the Hungarian National Bank on 31 December 2019.

9 NOTE INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

The details of equity funds and participations are provided as at 31 December 2020 and 31 December 2019.

	Bank ownership interest (%)	Nominal value	Cost	Fair value difference	Carrying amount
Garantiqa	0.15%	12	12	0	12
Total		**12**	**12**	**0**	**12**

The book value of the shares in Garantiqa remained unchanged compared to the comparative periods.

Shares denominated in foreign currencies are detailed in the tables below:

Name of investment	31.12.2020	31.12.2019
China CEE Fund – USD	7.00%	7.00%
China CEE Fund II – USD	8.75%	8.75%
China CEE Management S.Á.R.L. – EUR	10.00%	10.00%
East West – EUR	25.23%	22.90%
Hungarian – Kazakh Cooperation Fund – USD	49.57%	49.56%
IFC FIG Fund – USD	8.64%	8.75%
SINO-CEE Fund – EUR	2.26%	2.10%

(All amounts in millions of HUF, unless otherwise indicated)

Name of investment	Cost			
	31.12.2020		31.12.2019	
	Foreign currency	mHUF	Foreign currency	mHUF
China CEE Fund – USD	25,126,344	6,921	25,489,301	6,989
China CEE Fund II – USD	19,928,071	5,764	16,152,275	4,631
China CEE Management S.Á.R.L. – EUR	1,250	0	1,250	0
East West – EUR	1,363,000	452	853,000	274
Hungarian – Kazakh Cooperation Fund – USD	12,350,610	3,347	12,055,585	3,253
IFC FIG Fund – USD	4,904,071	1,481	3,720,017	1,051
SINO-CEE Fund – EUR	13,018,650	4,274	9,875,811	3,156
Total		**22,239**		**19,354**

Name of investment	Fair value difference		Carrying amount	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
China CEE Fund – USD	5,575	3,741	12,496	10,730
China CEE Fund II – USD	-783	-257	4,981	4,374
China CEE Management S.Á.R.L. – EUR	0	0	0	0
East West – EUR	-94	-92	358	182
Hungarian – Kazakh Cooperation Fund – USD	-1,389	-658	1,958	2,595
IFC FIG Fund – USD	3,648	4,478	5,129	5,529
SINO-CEE Fund – EUR	-1,010	-294	3,264	2,862
Total	**5,947**	**6,918**	**28,186**	**26,272**

The loss of HUF -972 million for the year under review in the statement of comprehensive income resulted from a change in the carrying amount of HUF 1,914 million in the year under review and a change in the cost value of HUF 2,885 million in the year under review. The loss of HUF -113 million for the previous year in the statement of comprehensive income resulted from a change in the carrying amount of HUF 3,080 million in the previous year and a change in the cost value of HUF 3,193 million in the previous year.

China CEE Management S.á.r.l., China-CEE Fund I and China-CEE Fund II:

China-CEE Management S.á.r.l. ("the Fund Manager") was established in November 2013 with a share capital of EUR 12,500 by CEEF Holdings Limited and Eximbank Zrt. The Fund Manager is based in Luxembourg and is active in the provision of advisory, fund management, accounting and company administration services to China-CEE Fund I and China-CEE Fund II.

China-CEE Fund I was established in November 2013 as a limited partnership under the laws of Luxemburg. The fund is a closed-end specialised investment fund managed by the Fund Manager. The Fund's final maturity is set at 30 November 2023. The main objective of the fund is to invest the assets available to it in a risk-diversified manner in private equity instruments primarily, in accordance with the intentions of the fund's investors, in Central and Eastern European countries and to achieve returns on these investments in excess of the capital appreciation and returns available in the public capital markets over the long term.

According to the fund's private placement memorandum and the related subscription agreement signed by Eximbank, Eximbank has committed to subscribe for up to USD 30,000,000 of the fund's capital. At the end of December 2020, Eximbank had USD 25,126,344 (6,921 mHUF) of capital subscribed for in the fund. The remaining amount of USD 4,873,656 (HUF 1,449 million) was shown in Eximbank's books as contingent liability as at 31 December 2020.

The subscription agreement for China-CEE Fund II was signed by Eximbank in November 2017, under which Eximbank committed to to subscribe for up to USD 70,000,000. This fund was established in February 2018 as a limited partnership under the laws of Luxembourg. The fund is a closed-end specialised investment fund managed by the Fund Manager. This fund aims to continue the well-established investment programme started by China-CEE Fund I. The fund's final maturity is set at 31 March 2027.
At the end of December 2020, Eximbank had USD 19,928,071 (5,764 mFt) of capital subscribed for in the fund. The remaining amount of USD 50,071,929 (HUF 14,889 million) was shown in Eximbank's books as contingent liability as at 31 December 2020.

East West VC Fund EuVECA: East West VC Fund EuVECA is a venture capital fund established under EU regulations by Hungarian, Portuguese and other international institutional and private investors, and is registered with the Portuguese Capital Markets Authority. Originally, the fund's total capital to be subscribed for was EUR 20,000,000, with Eximbank committing to subscribe for up to EUR 4,500,000. Due to an investor not fulfilling its commitment, on 16 October 2020 the fund's subscribed capital decreased to EUR 17,830,000. The amount of Eximbank's commitment has not changed. The fund is managed by Alpac Capital Sociedade de Capital de Risco, S.A., registered in Portugal (with offices in Lisbon and Budapest) and primarily aims to invest in early-stage technology companies in Hungary, Portugal and neighbouring countries. Eximbank does not have a significant influence over the activities of the fund as it does not participate in the financial and operating policy decisions of the fund, and the investment decisions are made by the fund manager. The contracts only allow Eximbank to appoint one member to the fund's 6-member investment committee. The role of the Investment Committee is to formulate non-binding recommendations to the fund manager about investment and exit opportunities.
At the end of December 2020, Eximbank held EUR 1,363,000 (452 mHUF) in participation units in the fund. The remaining amount of USD 3,137,000 (HUF 1,145 million) was shown in Eximbank's books as contingent liability as at 31 December 2020.

Kazakhstan Hungarian Investment Private Equity Fund C.V./Kazakhstan "Silk Road" Agriculture Growth Fund (Kazakhstan Hungarian Fund): In December 2015, Eximbank and JSC "National Management Holding KazAgro" established a limited partnership under the laws of the Netherlands. Each of the two founders has committed to subscribe for up to USD 20 million of capital each, and the Fund Manager has committed to subscribe for 1% of the fund's total investor commitment. The primary objective of the fund is to invest in Kazakhstan, in the country's agriculture and food industry (including production, processing, warehousing and logistics), with a particular focus on products with significant market growth potential such as meat, dairy products, cereals, oilseeds, vegetables, fruits and fish. Fund management responsibilities are fulfilled by CCL Agro Limited.

Eximbank does not have a significant influence over the activities of the fund as it does not participate in the financial and operating policy decisions of the fund, and it also has no right of representation in the body that makes investment decisions. The contracts only allow Eximbank, through its representation in the fund's advisory bodies, to determine whether the beneficial owners of an investment proposed by the fund manager are eligible counterparties.

As at 31 December 2020, Eximbank had USD 12,350,610 (3,347 mHUF) of capital subscribed for in the fund. The remaining amount of USD 7,649,390 (HUF 2,275 million) was shown in Eximbank's books as contingent liability as at 31 December 2020.

IFC FIG Fund: The fund was set up by IFC Asset Management Company, a division of International Finance Corporation ("IFC"), with investors committing a total of USD 505 million. The fund is seeking to make equity investments in financial institutions operating in IFC member countries, emerging markets. In March 2015 Eximbank joined the fund as an investor with a commitment of USD 50 million.

As at 31 December 2020, Eximbank had USD 4,904,071 (1,481 mHUF) of capital subscribed for in the fund. The remaining amount of USD 45,095,929 (HUF 13,410 million) was shown in Eximbank's books as contingent liability as at 31 December 2020.

SINO CEE Fund: SINO CEE Fund was established in November 2016 as a limited partnership under the laws of Luxemburg. The fund's investment objective is to make primarily equity, equity-related and mezzanine investments, directly or indirectly, in private or public companies in Central and Eastern Europe, in particular in companies in the infrastructure, manufacturing and mass consumption industries that are capable of geographic expansion into Europe and other countries of the world. Fund management responsibilities are fulfilled by SINO CEE Fund GP Limited. Eximbank joined the fund in November 2018 with a commitment of EUR 50 million.

As at 31 December 2020, Eximbank had USD 13,018,650 (4,274 mHUF) of capital subscribed for in the fund. The remaining amount of USD 36,981,350 (HUF 13,503 million) was shown in Eximbank's books as contingent liability as at 31 December 2020.

Three Seas Initiative Investment Fund: The Three Seas Initiative Investment Fund was established under Luxembourg law in May 2019. The Three Seas Initiative (3SI) is a joint initiative of the 12 countries of the European Union lying between the Adriatic, Baltic and Black Seas, and aims to strengthen economic ties, implement cross-border projects and develop infrastructure.
To achieve these aims, the member states decided to set up a joint capital fund, the Three Seas Initiative Investment Fund.
The fund intends to invest in shipping, energy and digital technology, with Fuchs Assets Management acting as fund manager. Eximbank joined the fund in December 2020 with a commitment of EUR 20 million.

As at 31 December 2020, Eximbank did not have any capital subscribed for in the fund, as no payments had been made on its part during the year. The full amount of EUR 20,000,000 (HUF 7,303 million) was recognised classified as contingent liability in Eximbank's books as at 31 December 2020.

COMMITMENTS TO CAPITAL FUNDS:

When Eximbank signed the subscription agreements of the above mentioned funds, it made an irrevocable commitment to make the funds available up to the respective limits. In the event that Eximbank fails to settle its commitment to a fund, in whole or in part, after having been requested to do so by the manager of the fund, it may lose its investor rights (including its representation in certain corporate bodies), and the entire balance of the participation units registered under its name in the capital account of the fund may be distributed to the other investors, with Eximbank's name being automatically removed from the register of shareholders, after which Eximbank may not claim any further right, entitlement or interest in the fund.

Under the foundation documents (private placement memorandum, partnership agreement, subscription agreement), the fund manager may only require investors to pay amounts already approved by the fund's investment committee and to pay any fees (e.g. management, audit, portfolio management, etc. fees) and other expenses that have been legitimately incurred. In Eximbank's experience, in most cases funds draw down less than the amount committed. In view of the fact that, by their nature, neither investments nor costs can be precisely determined at the time of commitment, Eximbank does not consider capital commitments to be unconditional commitments, but rather as contracts to be performed in the future (as neither party has yet performed) and consequently does not recognise them as financial liabilities, but as contingent liabilities – until the conditions for the commitment to be drawn down are met (see Note 21). In the event of a conflict of interest, Eximbank may refuse to pay the amount drawn.

10 NOTE INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The funds listed in this Note are funds registered in Hungary and managed by fund managers registered in Hungary. The investment share and decision-making participation in each capital fund is described in more detail in Section 33.2.

PortfoLion Regionális Magántőkealap

PortfoLion Regionális Magántőkealap (PortfoLion Regional Private Equity Fund, hereinafter: "PortfoLion Fund") was established in June 2012 by OTP Bank Plc. with a share capital of HUF 5,000 million. In 2013, Eximbank started negotiations with OTP Bank Plc. and PortfoLion Kockázatitőke Alapkezelő Zrt. (PortfoLion Venture Capital Fund Management Ltd.) to join as a new investor by raising the share capital with an additional HUF 5,000 million to HUF 10,000 million.

In 2018, Eximbank has committed itself to invest up to HUF 750 million more into the fund. In December 2020, investors reduced the subscribed capital of the Fund by HUF 1.2 billion to the debit of fully paid-up participation units, thus Eximbank received HUF 600 million back from the Fund. Eximbank invested HUF 4,407 million as of 31 December 2020, and its remaining contingent commitment as of 31 December 2020 was HUF 743 million.

The fund targets well-established, medium-sized companies that offer a promising business model, already have established product lines, portfolios of services and a wide range of clients and that aim to grow primarily by entering international markets or boosting their already existing exports.

The COVID-19 epidemic had only a minimal impact on the majority of the Fund's investments, mainly due to a slowdown in growth. At one manufacturing company, the pandemic caused a major decline due to decreasing demand. A company involved in the tourism sector was negatively affected by travel restrictions, although the strong summer season of 2020 significantly countered the loss of revenue experienced during the rest of the year.

PortfoLion Regionális Magántőkealap II
PortfoLion Regionális Magántőkealap II was established in August 2020 with an initial capital of HUF 25,000 million. 49.9-49.9% of the capital is provided by EXIM Bank and OTP Bank.

Its investments are aimed at putting businesses in the Central European region on a long-term, global growth path. Its focus is primarily on projects in the areas of digital technologies, software development, telecommunications, online services and automation, but other areas are not excluded. In line with past practice, the fund manager not only provides financial support to the companies in the portfolio, but also renders active and strong professional support for their growth.

Eximbank invested HUF 1,250 million as of 31 December 2020, and its remaining contingent commitment as of 31 December 2020 was HUF 11,250 million.
To date, the fund has not made any investments.

EXIM Exportösztönző Magántőkealap
The Bank's contribution to the share capital is nearly 100% as at 31 December 2020.
In 2016 the Bank – as Hungary's international export credit agency and development institution – established an export development fund (EXIM Exportösztönző Magántőkealap). The fund intends to provide financing to small and medium enterprises operating in Hungary that have an actual or potential export capacity in products and services. The Bank made a commitment of HUF 10,000 million, and paid the whole amount in 2016.

In 2019, the Bank committed to invest additionally up to HUF 40,000 million in the fund, which it did by 31 December 2019.

EXIM Növekedési Magántőkealap merged with EXIM Exportösztönző Magántőkealap as of 31 October 2019, increasing the Bank's financial commitment to the Fund to HUF 56,000 million. The Bank fully discharged its payment obligations to the Fund during 2019 and therefore has currently no further payment obligations to the Fund.

The Bank's contribution to the share capital of EXIM Exportösztönző Magántőkealap amounts to nearly 100%, however the fund is managed by a third party fund manager, GB & Partners Kockázati Tőkealap-kezelő Zrt. Based on the decision-making structure, the Bank's role consists primarily of exercising the ownership rights of participation units and delegating one member to the Fund Manager's interim (not final) decision-making body (Investment Committee), which consists of three members (two members being nominated by the Fund Manager). The final decision is made by the fund's Board of Directors in the light of the Investment Committee's recommendation. This body makes its decisions with a simple majority, where the delegate of Eximbank does not have veto rights.
The COVID-19 epidemic significantly affected the majority of the Fund's investments. The decline can be seen mainly in the case of investments in the fashion industry, as demand fell, orders were cancelled, but production could no longer be stopped due to the nature of the

industry. The company that manufactures and distributes machines for cleaning pharmaceutical products is also experiencing the effects of the epidemic, as the majority of its market is in the US and Canada, and thus the company achieved far lower sales volumes than it had forecasted due to the lack of face-to-face meetings.
The Fund's parking companies were also hit by COVID-19 due to the curfew imposed in China for several months during the pandemic. These measures delayed the start of the payment of fees and the resolution of problematic issues with local authorities, resulting in significant delays and loss of revenue for the projects.

Enter Tomorrow Europe Magántőkealap
The Enter Tomorrow Europe Magántőkealap was launched in July 2018 with a capital of EUR 50 million, established by the MOL Group and Eximbank. It is a private equity fund registered in Hungary and managed by a third party, LEAD Ventures Alapkezelő Zrt., which aims to provide financing to early-stage companies operating in Europe that already have existing products, services or patented prototypes.
The Bank has committed to invest up to EUR 25 million in the fund. By 31 December 2020 Eximbank had invested EUR 11,255,280 (HUF 3,910 million) in the fund, and its remaining contingent commitment was EUR 13,744,720 (HUF 5,019 million) as at 31 December 2020.

The COVID-19 epidemic had a moderately negative impact on the majority of the Fund's investments. For companies in the mobility industry, protracted closures caused sales to fall short of plan. A company engaged in industrial digitisation is experiencing project delays, while the cancellation of conferences meant a software development company lost a key sales channel, which thus had a negative impact on its sales. Overall, however, the advances in digitisation in the wake of the epidemic are expected to have a positive impact on the performance of companies in the portfolio. Only one company with interests in energetics was more significantly affected by the negative impact of the epidemic.

Columbus Magántőkealap
COLUMBUS Magántőkealap, established by Eximbank Zrt. and CARION Holding, was registered by the MNB on 8 October 2019.
The fund is managed by CARION Befektetési Alapkezelő Zrt., a company registered in Hungary under Act XVI of 2014 on collective investment undertakings and their managers and holding a fund manager licence since 2015, with the fund manager being 75% owned by CARION Holding Zrt. The fund aims to promote the international market entry and expansion – with special regard to the United States – of micro, small and medium-sized enterprises from Central and Eastern Europe, in particular from Hungary.
By the establishment of the fund, returns in excess of current market returns can be realised and the country's export earnings can be increased by introducing Hungarian products and services to one of the world's most significant markets, which can be an excellent reference for expanding to other developed markets.

The subscribed capital of the fund is HUF 10,000 million. The Bank has committed to invest up to HUF 7,000 million in the fund, while CARION Holding has committed to invest the remaining HUF 3,000 million. Eximbank invested HUF 3,752 million as of 31 December 2020, and its remaining contingent commitment as of 31 December 2020 was HUF 3,248 million.
COVID-19 did not have a significant impact on the majority of the Fund's investments. In the case of one investment – in the pharmaceutical industry – the Fund Manager experienced a positive impact from the epidemic due to the volume of orders being significantly higher than planned.

(All amounts in millions of HUF, unless otherwise indicated)

Except for drawdowns, repayments and capital transfers, there were no transactions between Eximbank and PortfoLion Regionális Magántőkealap, EXIM Exportösztönző Magántőkealap, COLUMBUS Magántőkealap and the Enter Tomorrow Europe Magántőkealap.

COMMITMENTS TO CAPITAL FUNDS:

When Eximbank signed the subscription agreements of the above mentioned funds and agreed to the Management Regulations, it undertook to make payments to the extent of the financial commitment contained therein upon the legitimate request of the fund manager. If, despite a legitimate request by the Fund Managers, Eximbank fails to make a payment within the 30-day additional time limit granted by the Fund Manager, it will lose its rights related to the temporary participation unit. In this case, the Fund Managers will settle with Eximbank as the defaulting participation unit holder at the end of the term of the Capital Fund, but after the settlement the Bank may receive a maximum repayment equal to the amount of its contributions to the Fund to date (depending on the fund, 50 to 100%).

Under the terms of the documents establishing the fund, the Fund Managers are entitled to draw down amounts for the investments already approved or to cover fees and expenses already incurred (e.g. audit fees, fund management fees, due diligence fees, etc.). In view of the fact that, by their nature, neither investments nor costs can be precisely determined at the time of commitment, Eximbank does not consider the financial commitments made in relation to the Funds to be unconditional commitments, but rather as contracts to be performed in the future (as neither party has yet performed) and consequently does not recognise them as financial liabilities, but as contingent liabilities – until the conditions for the commitment to be drawn down are met (see Note 21).

The net asset value of the funds in proportion to Eximbank's financial participation increased by 2.3%, from HUF 87.3 billion at the end of 2019 to HUF 89.3 billion by the end of 2020. This value already includes the effect of changes in exchange rates, given that Eximbank also participates in capital funds denominated in foreign currency.

Name of investment	Share %		Cost	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
Enter Tomorrow Europe Magántőkealap – EUR	50%	50%	3,910	1,191
EXIM Exportösztönző Magántőkealap – HUF	100%	100%	56,000	56,000
PortfoLion Regionális Magántőkealap (Fordulat) – HUF	50%	50%	4,407	5,008
PortfoLion Regionális Magántőkealap II – HUF	49.9%	0%	1,250	
COLUMBUS – HUF	70%	70%	3,752	700
Total			**69,319**	**62,899**

(All amounts in millions of HUF, unless otherwise indicated)

Name of investment	Equity method adjustment		Carrying amount	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
Enter Tomorrow Europe Magántőkealap – EUR	-383	-288	3,527	903
EXIM Exportösztönző Magántőkealap – HUF	-9,280	-2,940	46,720	53,060
PortfoLion Regionális Magántőkealap (Fordulat) – HUF	1,502	1,327	5,909	6,335
PortfoLion Regionális Magántőkealap II – HUF	-37	0	1,213	0
COLUMBUS – HUF	0	0	3,752	700
Total	**-8,198**	**-1,901**	**61,121**	**60,998**

Table of the movements of capital funds accounted for using the equity method

	31.12.2020	**31.12.2019**
Opening balance	**60,998**	**20,926**
The Bank's share of the capital fund's profit for the year	-6,465	-1,016
The Bank's share of the capital fund's other comprehensive income for the year	168	-
Disbursement*	5,170	40,388
Subscription**	1,250	700
Closing balance	**61,121**	**60,998**

*Disbursement means that the Bank provides funds for the realisation of the investment following the subscription or makes financial contribution to the costs specified in the management regulations on the basis of a detailed drawdown document.

**Subscription is a special disbursement drawn by the fund manager from the investor(s) in order to establish the fund. This amount is then used to make an investment, pay a fund management fee or an expense.

The loss of HUF -6,465 million for the reporting year in the statement of comprehensive income resulted from a change in carrying amount in the reporting year (HUF 123 million), the change in cost value in the reporting year (HUF 6,420 million), and the HUF 168 million reclassified to other comprehensive income. The loss of HUF -1,017 million for the previous year in the statement of comprehensive income resulted from a change in the carrying amount of HUF 40,072 million in the previous year and a change in the cost value of HUF 41,089 million in the previous year.

In 2020 the Bank did not receive any dividend from investments accounted for using the equity method. The financial details of investments accounted for using the equity method as at 31/12/2020 are provided in the below table:

(All amounts in millions of HUF, unless otherwise indicated)

	Enter Tomorrow*	Export Ösztönző*	PortfoLion I	PortfoLion II	COLUMBUS
Non-current assets	6,812	15,206	11,807	-	12,263
Current assets	245	43,647	189	2,505	248
– of this: cash and equivalents	*245*	*8,042*	*187*	*2,505*	*248*
Short-term liabilities	2	7,954	7	75	83
Long-term liabilities	-	1,771	0	-	0
Revenue	-	12,739	1	-	-
Profit or loss from financial transactions	-1	478	542	-	5,541
Profit after tax (cont. activities)	-458	-7,939	320	-75	5,317
Equity	7,055	49,128	11,989	2,430	12,428
Owners' equity	7,055	46,195	11,989	2,430	12,428
Share of the Bank	50%	100%	50%	49.9%	70%
Equity method amount	**3,527**	**46,195**	**5,995**	**1,213**	**8,700**
Adjustment**	-	525	-86		-4,948
Carrying amount	**3,527**	**46,720**	**5,909**	**1,213**	**3,752**

*The Enter Tomorrow Private Equity Fund prepares its financial statements in EUR, and the Bank made the translation to its functional currency (MHUF) by using the FX rate as of 31/12/2020 in respect of balance sheet items (365.13 EUR/HUF) and by using the average EUR rate (351.17 EUR/HUF) of 2020 for the profit and loss account. As a result of the exchange rate translation, HUF 151 million was recognised in other comprehensive income as at 31/12/2020. For the Exportösztönző Fund, the exchange rate effect recognised in other comprehensive income was HUF 17 million.

** Details of adjustments

EXIM Exportösztönző Magántőkealap:

In the case of the EXIM Exportösztönző Magántőkealap, the 2020 change in equity attributable to the Bank from the Fund's equity is not the same as the 2020 part of the Fund's comprehensive income attributable to the Bank, as there were other changes in the Fund's equity (e.g. in the case of the target companies acting as beneficiaries of the investments, there were other movements within the Fund's equity between the components of equity attributable to the Bank and equity attributable to minority shareholders due to changes in ownership interests and new minority shareholders).

The Bank applied the equity method by adjusting the carrying amount of the investment in the Fund by the Bank's share of the comprehensive income due to the Bank for the year in the Fund's consolidated financial statements against the "Share of profit/(loss) of investments accounted for using the equity method" line in the Statement of Comprehensive Income. As a result, the carrying amount of the investment at 31 December 2020 does not equal to the amount of the Fund's equity attributable to the Bank.

PortfoLion I:
**The two investors (OTP Bank Nyrt. and Eximbank Zrt.) became investors in the PortfoLion Fund at different times. OTP paid its first contribution on 1 June 2012, while Eximbank paid it on 26 November 2013, which means that in addition to the ownership percentage, the date of the contributions made is also taken into account in the calculation of the returns, both in case of settlements and in periodic reports, which results in a difference in the net asset value per investor. The Fund had a capital increase earlier, followed by a capital reduction in 2020, and as a result, the investors hold partly different types of participation units (OTP holds type A and C, while Eximbank holds type B and C).

Columbus:
In valuing its investments as at 31 December 2020, the Columbus Private Equity Fund took into account the valuation principles set out in the effective Management Regulations (where the fair value is determined by an independent expert using the DCF method), from which the Management Regulations do not allow any deviation. However, with regard to the short period between the investment date (especially in the case of Clini-Real Kft. and Netlock Kft.) and the balance sheet date, and to the fact that no significant economic transaction took place between these dates, Eximbank adjusted the fair value of the investment for the purpose of preparing its own financial statements, as it considers the transactional price (historical cost) agreed on by third parties to be more in line with the fair value of the investment. At the end of 2019, in connection with the Fund's investment in the Biropharma Group, the Bank also adjusted the fair value of the investment for the purpose of preparing its own financial statements, as it believes that the profit/loss of the target companies is below the business plan adopted at the time of the investment and currently supporting fair value measurement, and therefore it considers the transactional price (historical cost) agreed on by third parties is a better approximation of the fair value of the investment.

(All amounts in millions of HUF, unless otherwise indicated)

11 NOTE INTANGLIBE ASSETS

Table of changes in intangible assets as at 31 December 2020:

	Intangible assets	Under development	Total
Cost			
31 December 2019	**4,766**	**168**	**4,934**
Additions	**678**	**616**	**1,294**
acquisition	678	616	
Disposals	**-195**	**-678**	**-873**
derecognition	-195		
putting into operation		-878	
31 December 2020	**5,249**	**106**	**5,355**
Accumulated depreciation and amortisation			
31 December 2019	2,938	-	2,938
Ordinary depreciation (Note 26)	447	-	447
Impairment (Note 15)	-	-	-
Derecognitions	- 195	-	- 195
31 December 2020	**3,190**	**-**	**3,190**
Net carrying amount			
31 December 2019	**1,828**	**168**	**1,996**
31 December 2020	**2,059**	**106**	**2,165**

Table of changes in intangible assets as at 31 December 2019:

	Intangible assets	Investments	Total
Cost			
31 December 2018	**3,808**	**431**	**4,239**
Additions	**1,018**	**772**	**1,790**
acquisition	1,018	772	
Disposals	**-60**	**-1,035**	**-1,095**
derecognition	-60		
putting into operation		-1,035	
31 December 2019	**4,766**	**168**	**4,934**
Accumulated depreciation and amortisation			
31 December 2018	2,370	-	2,370
Ordinary depreciation (Note 26)	626	-	626
Impairment (Note 15)	-	-	-

(All amounts in millions of HUF, unless otherwise indicated)

Derecognitions	-58	-	-58-
31 December 2019	2,938	-	2,938
Net carrying amount			
31 December 2018	**1,438**	**431**	**1,869**
31 December 2019	**1,828**	**168**	**1,996**

12 NOTE PROPERTY, PLANT AND EQUIPMENT

The table of the movements of property, plant and equipment as at 31 December 2020 is as follows:

	Renovation of leased property	Furniture, fixtures & office equipment	Assets under construction	Right-of-use assets – Building (leasing)	Total
Cost					
31 December 2019	203	1,924	22	2,315	4,464
New acquisitions	8	153	451	14	626
Disposals, of which:	-7	-32	-471	-34	-544
scrapping	-7	-25			
sales			-471		
transfer free of charge		-7			
contract termination				-34	
31 December 2020	**204**	**2,045**	**2**	**2,295**	**4,546**
Accumulated depreciation and amortisation					
31 December 2019	53	1,256	-	297	1,606
Ordinary depreciation (Note 26)	27	211	-	365	603
Impairment (Note 15)	-	6	-	-	6
Derecognitions	-6	-38	-	-19	-63
31 December 2020	**74**	**1,435**	**-**	**643**	**2,152**
Net carrying amount					
31 December 2019	**150**	**668**	**22**	**2,018**	**2,858**
31 December 2020	**130**	**610**	**2**	**1,652**	**2,394**

(All amounts in millions of HUF, unless otherwise indicated)

The table of the movements in property, plant and equipment as at 31 December 2019 is as follows:

	Renovation of leased property	Furniture, fixtures & office equipment	Assets under construction	Right-of-use assets – Building (leasing)	Total
Cost					
31 December 2018	375	1,764	48	-	2,187
New acquisitions	148	223	484	2,315	3,170
Derecognitions	-320	-63	-510	-	-893
scrapping	-320	-51			
sales			-510		
transfer free of charge		-12			
31 December 2019	203	1,924	22	2,315	4,464
Accumulated depreciation and amortisation					
31 December 2018	149	991	-	-	1,140
Ordinary depreciation (Note 26)	25	295	-	297	617
Impairment (Note 15)	-	5	-	-	5
Derecognitions	-121	-35	-	-	-156
31 December 2019	53	1,256	-	297	1,606
Net carrying amount					
31 December 2018	**226**	**773**	**48**	**-**	**1,047**
31 December 2019	**150**	**668**	**22**	**2,018**	**2,858**

The table below shows the acquisition of intangible assets, property and equipment from a cash-flow point of view, as well as the proceeds from the sale of intangible assets and property and equipment for both years.

	31.12.2020	31.12.2019
Acquisition of intangible assets, property and equipment	858	1,009
Proceeds from the sale of intangible assets and property and equipment	0	0

(All amounts in millions of HUF, unless otherwise indicated)

12.1 Leases

The Bank recognises right-of-use assets and lease liabilities in connection with office premises, which are classified as leasing transactions in accordance with IFRS 16.

In the reporting year HUF 1,730 million right-of-use assets were recognised.

The following table shows the future undiscounted cash flows of leasing liabilities (HUF million):

	31.12.2020	31.12.2019
Up to 1 month	53	36
1-3 months	70	36
3 to 12 months	319	267
1 to 5 years	1,589	1,533
Over 5 years	0	308
Future undiscounted cash flows of the lease liability amount	**2,031**	**2,180**
Short-term part	442	339
Long-term part	1,589	1,841

Table of movements in lease liabilities (HUF million)

Liabilities as at 1 January 2020	2,180
Fees paid	-377
Recognised interest	25
Other changes	203
Liabilities as at 31 December 2020	2,031

The following table shows the effect of the above leases on profit or loss:

	2020	2019
Interest expense	26	22
Amortisation	366	297

(All amounts in millions of HUF, unless otherwise indicated)

13 NOTE TAXATION

Tax expenses, tax receivables and tax liabilities at 31 December 2020 and 31 December 2019 were as follows:

	31.12.2020	**31.12.2019**
Corporate income tax expense (including minimum tax)	0	476
Local tax expense	365	976
Innovation contribution expense	55	147
Total current income tax expense	**420**	**1,470**
Deferred tax expense/(income) arising from the occurrence and reversal of temporary differences	-316	-191
Total income tax expense	**104**	**1,279**
Profit or loss before tax	-10,210	3,158
Effective tax rate	**-1%**	**41%**

	31.12.2020	**31.12.2019**
Current income tax receivables	649	361
Other tax receivables*	673	84
Deferred tax assets	374	17
Tax liabilities**	105	206
Deferred tax liabilities	84	44

*Other tax assets include receivables related to VAT, Social security contributions and the Special epidemiological tax
**Tax liabilities include other tax liabilities to the tax authority (NAV) and social security.

Current income tax:

In 2019 and 2020 the corporate income tax rate was 9%. The tax base is the profit before tax, adjusted for certain tax-deductible and non-deductible items in accordance with the legislation.

In 2019 and 2020, the rate of local business tax was 2% and the rate of innovation contribution was 0.3%.
The tax base of the local business tax and innovation contribution is the net interest and fee income, against which the following deductions may be applied:

- – cost of goods sold and mediated services
- – subcontractors' deliverables
- – cost of materials
- – direct research and development costs incurred during the tax year

(All amounts in millions of HUF, unless otherwise indicated)

With effect from 1 January 2019, the special tax on credit institutions was abolished. Starting from the second quarter of 2020, a special tax on credit institutions related to the epidemic situation was introduced, payable in three equal instalments. (The special tax will not no longer be levied from 2021.) The amount paid by the Bank in 2020 will reduce the special tax on financial institutions payable annually – by 20% each year for 5 years – in the form of a tax withholding, starting from 2021.
In 2020, the Bank recognises the amount of HUF 642 million of the special epidemiological tax as a tax receivable from the state, shown under other tax receivables.

Reconciliation of the total tax expense

		31.12.2020	31.12.2019
Profit or loss before tax		**- 10,210**	**3,158**
Corporate income tax in 2019 and 2020	9%	-919	284
Reconciliation items:			
Effect of local business tax and innovation contribution on corporate tax		-38	-101
Tax effect of other (non-reversing) tax base adjusting items		-26	-29
Minimum tax adjustment (other operating expenses)		43	12
Effect of transition difference on corporate tax		0	181
Local business tax and innovation contribution expenditure		420	1,123
Change in deferred tax on non-reversing differences		75	-191
Tax effect of the portion of tax loss carry-forwards that cannot be used		549	0
Income tax reported in the statement of comprehensive income		104**	1,279*
Effective tax rate		**-1%**	**41%**

* income tax in profit or loss, in detail: TAO: 347; HIPA: 976; innovation contribution: 147; deferred tax expense 43; deferred tax income: -234
** income tax in profit or loss, in detail: TAO: 0; HIPA: 365; innovation contribution: 55; deferred tax expense: 58, deferred tax income: -374
In the case of Eximbank Zrt., the transition to IFRS took place with effect from 1 January 2019. Our Bank must apply the minimum tax rule in the Corporate Tax Act, which requires companies to pay at least the corporate tax for the year preceding the transition, in our case 2018, in the year of transition to IFRS and in the following year. The corporate tax payable by Eximbank for 2019 was lower than the tax accounted for in the year preceding the transition, so the minimum tax rule was applied. In 2020, due to the negative tax base, there is no corporate income tax liability; however, with the mandatory application of the minimum tax rule, the total corporate income tax of HUF 476 million registered in the year 2018 prior to the transition must be taken into account for tax purposes.

(All amounts in millions of HUF, unless otherwise indicated)

Eximbank Zrt. intends to make use of the loss carry-forward option in the future, in accordance with Section 17 of the Corporate Tax Act. Due to the negative tax base in 2020, the Bank can reduce its pre-tax profit for the next five tax years – up to 50 percent of the annual tax base. Based on the profit forecasts for the next five years, the Bank may take into account HUF 4.34 billion of the HUF 10.45 billion negative tax base adjusted for decreasing and increasing items in connection with the tax losses and a HUF 391 million deferred tax asset will arise on this basis.
The income tax calculated on the basis of the tax base for the current year is treated as income tax, and the excess of the minimum tax over this amount is recognised in other operating expenses.
Amount of corporate tax for 2020: HUF 0 million
Expenditure due to minimum tax: HUF 476 million
Annual corporate tax before transition (2018): HUF 476 million

Deferred taxes

The deferred tax presented in the statement of financial position and changes recorded in the statement of comprehensive income as at 31 December 2020 and 31 December 2019 are as follows:

	31.12.2020				
	Deferred tax assets	Deferred tax liabilities	Net	Recognised in profit or loss	Recognised in other comprehensive income
Financial assets measured at amortised cost		0	0	0	
Derivatives		0	0	0	
Investments measured at fair value through profit or loss		-62	-62	-37	
Investments accounted for using the equity method		-22	-22	-4	
Other financial and non-financial assets		-17	-17	-12	
Financial liabilities measured at amortised cost		0	0	0	
Financial liabilities measured at fair value through profit or loss (Derivatives)		0	0	0	
Provision		0	0	-22	
Other financial and non-financial liabilities		0	0	0	
Loss carry-forward	391		391	391	
	391	**-101**	**290**	**316**	**-**

(All amounts in millions of HUF, unless otherwise indicated)

	31.12.2019				
	Deferred tax receivables	Deferred tax liabilities	Net	Recognised in profit or loss	Recognised in other comprehensive income
Financial assets measured at amortised cost		0	0	-284	
Derivatives		0	0	-147	
Investments measured at fair value through profit or loss		-25	-25	661	
Investments accounted for using the equity method		-18	-18	91	
Other financial and non-financial assets		-5	-5	-12	
Financial liabilities measured at amortised cost		0	0	18	
Financial liabilities measured at fair value through profit or loss (Derivatives)		0	0	-12	
Provision	22	0	22	-112	
Other financial and non-financial liabilities		0	0	-12	
	22	**-48**	**-26**	**191**	

14 NOTE OTHER ASSETS

	31.12.2020	31.12.2019
Accrued income*	3,938	3,497
Prepaid expenses	112	82
Other	21	200
of which: financial instruments:	*4,066*	*3,777*
Sub-total	4,071	3,779
Impairment of financial instruments (see Note 15)	-4	-1
Total	**4,067**	**3,778**

*A significant part of the accrued income comes from the accrual of MEHIB fees for aid loans, which is reimbursed by the central budget.

(All amounts in millions of HUF, unless otherwise indicated)

15 NOTE PROVISIONS AND IMPAIRMENT LOSSES

The tables below show the changes in impairment and provisions for the year ended 31 December 2020 and 31 December 2019.

	Cash and cash equivalents	Government securities measured at amortised cost	Loans and advances to banks and insurance companies	Loans and advances to other customers	Other assets	Total impairment	Provision under IFRS9	Total impairment and provision
1 January 2020	**16**	**77**	**819**	**16,697**	**1**	**17,610**	**261**	**17,871**
Created for the year	4	19	194	7,828	3	8,048	219	8,267
Reversal for the year	-16	-3	-103	-807	-	-929	-248	-1,177
Write-offs	-	-	-	-	-	-	-	-
Derecognition	-	-	-	-749	-	-749	-	-749
Unwinding of discounts	-	-	-	565	-	565	-	565
Effect of revaluation	-	-	40	1,522	-	1,562	11	1,572
31 December 2020	**4**	**93**	**950**	**25,056**	**4**	**26,107**	**243**	**26,350**

(All amounts in millions of HUF, unless otherwise indicated)

	Cash and cash equivalents	Government securities measured at amortised cost	Loans and advances to banks and insurance companies	Loans and advances to other customers	Other assets	Total impairment	Provision under IFRS9	Total impairment and provision
1 January 2019	**3**	**24**	**973**	**17,147**	**17**	**18,164**	**1,077**	**19,241**
Created for the year	16	61	69	6,977	6	7,129	141	7,270
Reversal for the year	-3	-8	-255	-3,908	-1	-4,175	-976	-5,151
Write-offs	-	-	-	-280	-	-280	-	-280
Derecognition	-	-	-	-4,158	-21	-4,179	-	-4,179
Unwinding of discounts	-	-	-	490	-	490	-	490
Effect of revaluation	-	-	32	429	-	461	19	480
31 December 2019	**16**	**77**	**819**	**16,697**	**1**	**17,610**	**261**	**17,871**

The creation of provision for the year also includes the establishment of the first provision for the impairment of new transactions, which in the case of receivables from other customers was HUF 708 million (HUF 156 million in 2019).

(All amounts in millions of HUF, unless otherwise indicated)

The table below shows impairment made and reversed for non-financial assets during the year ended 31 December 2020 and during the year ended 31 December 2019.

	Tangible assets, Intangible assets
1 January 2020	**9**
Created for the year	1
Reversal for the year	-3
Derecognition	-
Effect of revaluation	-
31 December 2020	**7**

	Tangible assets, Intangible assets
1 January 2019	**4**
Created for the year	233
Reversal for the year	-2
Derecognition	226
Effect of revaluation	-
31 December 2019	**9**

The tables below show provisions made and reversed under IAS 37 during the year ended 31 December 2020 and during the year ended 31 December 2019. In the profit and loss account, these changes are shown on two lines: personnel-type expenditures and other operating expenses.

	Provisions
1 January 2020	**244**
Net value of provisioning for the period	-
Provision reversed during the period	-63
Provision used during the period	-181
Effect of revaluation	-
31 December 2020	**-**

	Provisions
1 January 2019	**567**
Net value of provisioning for the period	230
Provision reversed during the period	-212
Provision used during the period	-343
Effect of revaluation	2
31 December 2019	**244**

(All amounts in millions of HUF, unless otherwise indicated)

The Provisions line of the balance sheet consists of provisions in accordance with IAS 37, as shown above, and of provisions for financial guarantee contracts and loan commitments under IFRS 9, as detailed in the first table of the note.

	31.12.2020	31.12.2019
Commitments to banks and insurance companies	112	80
Commitments to other customers	131	175
Loan commitments	-	6
Provisions under IFRS9	**243**	**261**
Personnel-type expenditures	-	63
Outstanding litigation	-	181
Other contingent future liabilities	-	-
Provisions under IAS37	**-**	**244**
Total provisions	**243**	**505**

(All amounts in millions of HUF, unless otherwise indicated)

16 NOTE LOANS AND ADVANCES FROM OTHER BANKS AND INSURANCE COMPANIES

	31.12.2020	31.12.2019
Short-term		
– in foreign currency	152,647	13,740
- in HUF	57,009	17,656
Sub-total	**209,656**	**31,396**
Long-term		
– in foreign currency	548,596	522,724
- in HUF	92,071	18,212
Sub-total	**640**	**540,936**
Total	**850,323**	**572,332**

The table below shows the analysis of loans and deposits from other banks by maturity of contract (i.e. a transaction is included exclusively in one range based on the maturity of the contract) as at 31 December 2020 and 31 December 2019.

	31.12.2020	31.12.2019
Remaining maturity		
In foreign currency:		
Up to 1 month	66,628	742
1 to 3 months	292	11,649
3 months to 1 year	67,630	1,350
1 to 5 years	456,693	472,896
Over 5 years	110,000	49,828
Sub-total	**701,243**	**536,465**
In HUF		
Up to 1 month	4,364	1,123
1 to 3 months	3,446	3,180
3 months to 1 year	48,527	13,352
1 to 5 years	90,968	16,213
Over 5 years	1,775	1,999
Sub-total	**149,080**	**35,867**
Total	**850,323**	**572,332**

(All amounts in millions of HUF, unless otherwise indicated)

17 NOTE LIABILITY TO COMPANIES

	31.12.2020	31.12.2019
Short-term		
– in foreign currency	3,675	4,669
- in HUF		1,988
Total	**3,675**	**6,657**

The table below shows the analysis of customer deposits recognised as a liability to companies up to the remaining maturity as at 31 December 2020 and 31 December 2019.

	31.12.2020	31.12.2019
Remaining maturity		
In foreign currency:		
Up to 1 month	3,675	3,158
1 to 3 months		1,511
3 months to 1 year		-
Sub-total	**3,675**	**4,669**
In HUF:		
Up to 1 month		1,712
1 to 3 months		276
Sub-total	**0**	**1,988**
Total	**3,675**	**6,657**

(All amounts in millions of HUF, unless otherwise indicated)

18 NOTE BOND ISSUE

On 5 July 2017, the Bank issued bonds of a nominal value of HUF 7.5 billion, a fixed interest rate of 0.80% and a maturity date of 23 September 2020, in accordance with Hungarian law. The average issue price was 99.6538%. The bond series was redeemed on the maturity date.

On 18 October 2017, the Bank issued a series of bonds of HUF 12.1 billion under Hungarian law. The bond series has a fixed interest rate of 1.30% and the date of maturity is 24 July 2022. The average issue price was 100.5108%.

On 20 February 2019, the Bank made a new issue of HUF 12.25 billion with maturity in June 2022 under Hungarian law. The average issue price was 99.1150%.

On 19 December 2019, the Bank issued a new series of bonds of HUF 34 billion under Hungarian law. The bond series has a fixed interest rate of 1.00% and the date of maturity is 4 December 2024. The average issue price was 100.1813%.

On the same day, 19 December 2019 the Bank issued a new bond series of USD 14.2 million under Hungarian law. The bond series has a fixed interest rate of 2.00% and the date of maturity is 17 November 2021. The average issue price was 99.6275%.

In 2020, the Bank renewed its agency mandate for bond issues under Hungarian law with its partner, and during the fourth quarter it was continuously active on the domestic bond market.

On 9 October 2020, the Bank issued two types of bonds under Hungarian law. The first series has a nominal value of HUF 32 billion, a fixed interest rate of 1.00% and a maturity date of 8 October 2021. The average issue price was 100.0572%. The second series has a nominal value of HUF 20,322 billion, a fixed interest rate of 1.65% and a maturity of 26 November 2025. The average issue price was 99.8704%.

On 11 November 2020, the Bank implemented a follow-on issue in respect of the bond series maturing on 8 October 2021, in a nominal value of HUF 29,507 billion. The average issue price was 100.2903%. On the same day, a new series of bonds with a nominal value of HUF 30.4 billion, a fixed interest rate of 2.00% and a maturity of 27 October 2027 was issued. The average issue price was 101.6590%.

On 9 December 2020 the Bank implemented a follow-on issue in respect of two bond series: For the series maturing on 8 October 2021, in a nominal value of HUF 9,052 billion and at an average issue price of 100.4643%, and for the series maturing on 27 October 2027, in a nominal value of HUF 16,28 billion and at an average issue price of 101.4919%.

All bond series issued under Hungarian law have been listed on the Budapest Stock Exchange.

	31.12.2020	**31.12.2019**
Proceeds from the issuance of bonds (issue)	138,431	50,518
Repayment of bonds issued (maturity)	-160,860	-157,298
Exchange rate impact of bonds issued	6,027	8,826
Amortisation impact of bonds issued	-2,223	1,414
Movement of bonds issued	**-18,625**	**-96,540**

The Bank has not repurchased any of its own securities since the date of issue.

(All amounts in millions of HUF, unless otherwise indicated)

The effective interest on bonds issued in 2020 was HUF 1,608 million (in 2019, HUF 7,470 million) using effective interest rates between 1 and 2%.

	31.12.2020	**31.12.2019**
Short-term		
– in foreign currency	4,224	149,816
- in HUF	71,371	7,508
Sub-total	**75,595**	**157,324**
Long-term		
– in foreign currency	0	4,172
- in HUF	125,805	58,529
Sub-total	**125,805**	**62,701**
Total	**201,400**	**220,025**

The table below shows an analysis of the issued bonds by maturity of contract (i.e. a transaction is included exclusively in one range based on the maturity of the contract) as at 31 December 2020 and 31 December 2019.

	31.12.2020	**31.12.2019**
Remaining maturity		
In foreign currency:		
Up to 1 month	0	0
1 to 3 months	0	149,816
3 months to 1 year	4,224	0
1 to 5 years	0	4,172
Over 5 years	0	0
Sub-total	**4,224**	**153,988**
In HUF		
Up to 1 month	0	0
1 to 3 months	0	0
3 months to 1 year	70,776	7,508
1 to 5 years	78,903	58,529
Over 5 years	47,497	0
Sub-total	**197,176**	**66,307**
Total	**201,400**	**220,025**

The table below shows the balances of bonds issued as at 31 December 2020 and 31 December 2019.

(All amounts in millions of HUF, unless otherwise indicated)

ISIN	31.12.2020	31.12.2019
HU0000357769		7,508
HU0000357926	24,482	24,457
US55977W2B78		60,332
XS1115429372		89,487
HU0000359435	34,064	34,072
HU0000359443	4,225	4,173
HU0000357777		-4
XS0953951711		0
US55977W2A95		0
XS0864511588		0
HU0000360011	70,776	
HU0000360029	20,356	
HU0000360086	47,497	
Total	**201,400**	**220,025**

Main data of bonds listed on Budapest Stock Exchange:

ISIN code	HU0000357769	HU0000357926
Issue date	05.07.2017	18.10.2017
Maturity date	23.09.2020	24.06.2022
Currency	HUF	HUF
Nominal value	7,499,980,000	24,350,000,000
Rate of interest	0.80%	1.30%
Last day of first interest period	23.09.2018	28.06.2018
Frequency of interest payment after the first interest period	annually	annually
Type of interest payment	at the end of interest period	at the end of interest period

ISIN code	HU0000359435	HU0000359443
Issue date	19.12.2019	19.12.2019
Maturity date	04.12.2024	17.11.2021
Currency	HUF	USD
Nominal value	34,000,000,000	14,200,000
Rate of interest	1.00%	2.00%
Last day of first interest period	04.12.2020	17.11.2020
Frequency of interest payment after the first interest period	annually	annually
Type of interest payment	at the end of interest period	at the end of interest period

ISIN code	HU0000360011	HU0000360029	HU0000360086
Issue date	09.10.2020	09.10.2020	11.11.2020
Maturity date	08.10.2021	26.11.2025	27.10.2027

(All amounts in millions of HUF, unless otherwise indicated)

Currency	HUF	HUF	HUF
Nominal value	70,562,000,000	20,322,000,000	46,680,000,000
Rate of interest	1.00%	1.65%	2.00%
Last day of first interest period	08.10.2021	26.11.2021	27.10.2021
Frequency of interest payment after the first interest period	annually	annually	annually
Type of interest payment	at the end of interest period	at the end of interest period	at the end of interest period

19 NOTE OTHER LIABILITIES

	31.12.2020	**31.12.2019**
MEHIB insurance premium	3,595	3,264
Accrued expenses	1,400	1,859
Accrued income	164	117
Lease liabilities	2,031	2,180
Initial fair value difference of loans taken out	580	917
Other	1,024	1,133
of which: financial instruments	*6,505*	*7,108*
Total other liabilities	**8,794**	**9,470**

(All amounts in millions of HUF, unless otherwise indicated)

20 NOTE SHAREHOLDERS' EQUITY

	31.12.2020	31.12.2019
Subscribed capital	213,230	158,930
Capital reserve premium	400	400
Retained earnings	3,595	3,595
General reserve	9,773	20,087
Accumulated other comprehensive income	168	
Total	**227,166**	**183,012**

The general reserve is used by the Bank to cover the loss for the year pursuant to Section 83 (5) of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises ("Hpt."), the details of which are set out in the following table. The Bank prepares an equity reconciliation table in accordance with Section 114/B of Act C of 2000 on Accounting.

31.12.2020	**Subscribed capital**	**Capital reserve**	**Retained earnings**	**General reserve (Undistributable reserve)**	**Accumulated other comprehensive income**	**Total equity**
SUBSCRIBED CAPITAL	213,230					**213,230**
SUBSCRIBED CAPITAL UNPAID (-)						**-**
CAPITAL RESERVE		400				**400**
GENERAL RESERVE				9,773		**9,773**
of which obligatory under the Hungarian Banking Act				*2,078*		***2,078***
RETAINED EARNINGS +/-			3,595			**3,595**
TIED-UP RESERVE						**-**
VALUATION RESERVE					168	**168**
TOTAL EQUITY	**213,230**	**400**	**3,595**	**9,773**	**168**	**227,166**

31.12.2019	**Subscribed capital**	**Capital reserve**	**Retained earnings**	**Tied-up reserve**	**Fair valuation reserve**	**Total equity**
SUBSCRIBED CAPITAL	158,930					**158,930**
SUBSCRIBED CAPITAL UNPAID (-)						**-**
CAPITAL RESERVE		400				**400**
GENERAL RESERVE				20,087		**20,087**
of which obligatory under the Hungarian Banking Act				*2,078*		***2,078***
RETAINED EARNINGS +/-			3,595			**3,595**
TIED-UP RESERVE						**-**
VALUATION RESERVE						**-**
TOTAL EQUITY	**158,930**	**400**	**3,595**	**20,087**	**-**	**183,012**

(All amounts in millions of HUF, unless otherwise indicated)

	31.12.2020	31.12.2019
Subscribed capital registered by registry court	213,230	158,930
Instruments presented as liability (-)	-	-
Share capital according to IFRS	213,230	158,930

	31.12.2020	31.12.2019
Retained earnings	3,595	3,595
Accumulated non-realised gains on the increase in fair value of investment properties (-)	-	-
Related accumulated income tax according to IAS 12 Income taxes (+)	-	-
Uncommitted retained earnings available for dividend payment	**3,595**	**3,595**

On 22 June 2020 and on 18 December 2020 the Founder increased the Bank's share capital by HUF 54,300 million through a cash contribution by issuing new ordinary limited shares. The newly issued shares are ordinary shares belonging to the same series as the ordinary shares previously issued.
The number of newly issued shares is 10,860 and the face value is HUF 5 million per piece. According to the registration instruction, the Bank has a total of 42,646 shares of nominal value HUF 5 million each, and thus the share capital is HUF 213,230 million.

The provisions of Section 83 (2) of the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises ("Hpt") state that the Bank is required to transfer 10% of its after-tax profit for the year to general reserves to cover future losses. No general reserve was set aside in the reporting, as in the Bank's case, the after-tax result for the year was a loss.

In accordance with the opportunity provided it under Section 83 (5) of the Hpt., in 2020 the Bank used the general reserve to cover the loss for the year.

21 NOTE LOAN COMMITMENTS, PROMISSORY NOTES AND CONTINGENT LIABILITIES

Under the Exim Act, the Hungarian State also provides a statutory guarantee in respect of certain guarantees issued by Eximbank. Eximbank's guarantee portfolio consists primarily of export credit guarantees, issued to banks, and other export-related guarantees (including loan collateral, advance payment, performance, and tender guarantees) issued primarily to corporate clients.

The Hungarian State's obligations in respect of this statutory guarantee are subject to an upper limit set by the annual central budget. Section 49 (2) of Act LXXI of 2019 on the Central Budget of Hungary for 2020 sets the ceiling for export credits and other export guarantee transactions undertaken against the central budget at HUF 50 billion for 2020 (HUF 100 billion in 2019). The Government Decree sets forth certain conditions for the statutory guarantee, including that all credit agreements for which Eximbank provides a government-subsidised export credit guarantee must conform to OECD guidelines.
As at 31 December 2020, HUF 16,688 million of Eximbank's total guarantee portfolio of HUF 17,160 million was backed by state guarantees (in 2019, HUF 15,049 million out of HUF 15,642 million).

(All amounts in millions of HUF, unless otherwise indicated)

The remaining 3% of Eximbank's guarantee portfolio (which are guarantees issued at its own risk) is related to export-credit guarantees where the underlying loans, due mainly to the characteristics or nature of the export in question, are outside OECD guidelines and thus do not qualify as guarantees under the Government Decree.

The stock of uncalled guarantees issued by Eximbank under state guarantee increased from HUF 15,049 million at the end of 2019 to HUF 16,688 million at the end of 2020.

In accordance with the provisions of Section 2 (6) of Minister of Finance Decree 16/1998. (V.20.), Eximbank regularly rates uncalled commitments arising from export guarantee transactions covered by the State's guarantee on a quarterly basis in the same way as the commitments assumed at its own risk, in order to assess the risk to the central budget.

The portfolio of guarantees issued with a guarantee of the State in each rating category based on the rating specified in the Decree:

	31.12.2020	31.12.2019
Performing	15,520	13,943
Non-performing	1,168	1,106
Total	**16,688**	**15,049**

Financial guarantees and loan commitments as at 31 December 2020 and 31 December 2019 were as follows:

	31.12.2020	31.12.2019
Loan commitments, promissory notes	790,047	337,191
Guarantees counter-guaranteed by the State	16,688	15,049
Guarantees not counter-guaranteed by the State	472	593
Letters of credit	614	290
Total	**807,821**	**353,123**

Loan commitments represent the amounts not drawn under the Bank's current loan agreements. The Bank's loan commitments primarily relate to its pre-export refinancing products entered into with banks.
100% of the borrowings of the MNB's Funding for Growth programme, amounting to liabilities of HUF 3,137 million, are secured by government bonds and trade receivables, in accordance with MNB requirements. Funding for Growth scheme liabilities are presented among loans and advances from banks and insurance companies while securities are recognised under Securities measured at amortised cost line of the balance sheet.
The above figures do not contain the remaining unpaid portion of commitments and contributions in respect of capital funds, which are presented in the following table. The payment of the remaining amounts depends on future investment decisions and drawdowns by the fund managers, they are therefore recognised as a contingent liability, as the Bank is required to pay its share of the amount upon request:

(All amounts in millions of HUF, unless otherwise indicated)

Name	Liability		Note
	31.12.2020	31.12.2019	
PortfoLion Regionális Magántőkealap	HUF 743 million	HUF 743 million	10. Note
PortfoLion Regionális Magántőkealap II	HUF 11,250 million	-	10. Note
Enter Tomorrow Europe Magántőkealap	EUR 13,744,720 (mHUF 5,019)	EUR 21,324,720 (mHUF 7,048)	10. Note
Columbus	mHUF 3,248	mHUF 6,300	10. Note
China-CEE Fund I.	USD 4,873,656 (mHUF 1,449)	USD 4,510,700 (mHUF 1,329)	9. Note
China-CEE Fund II.	USD 50,071,929 (mHUF 14,889)	USD 53,847,725 (mHUF 15,871)	9. Note
IFC FIG Fund	USD 45,095,929 (mHUF 13,410)	USD 46,279,983 (mHUF 13,641)	9. Note
East West	EUR 3,137,000 (mHUF 1,145)	EUR 3,647,000 (mHUF 1,205)	9. Note
Hungarian – Kazakh Cooperation Fund	USD 7,649,390 (mHUF 2,275)	USD 7,944,415 (mHUF 2,342)	9. Note
SINO-CEE Fund	EUR 36,981,350 (mHUF 13,503)	EUR 40,124,189 (mHUF 13,262)	9. Note
Three Seas Initiative Investment Fund	EUR 20,000,000 (mHUF 7,303)	-	9. Note
Total (MHUF)	**74,234**	**61,741**	

The balance of off-balance sheet receivables from customers arising from the redemption of guarantees issued under the full payment guarantee of the Hungarian State, which also embodies the balance of liabilities to the state, evolved in 2019 and 2020 as follows:

Loans and advances to customers and liabilities owed to the government arising from the enforcement of full payment guarantees covered by the Hungarian State

	Base receivables	Late payment interest receivables	Total
Opening balance 01/01/2019	**3,048**	**1,468**	**4,516**
Increase as a result of redemption and other volume changes	-	139	139
Recoveries (-)	-375	-32	-407
Closing balance 31/12/2019	**2,673**	**1,575**	**4,248**
Remission during 2019	-	-	-
Closing balance adjusted for remissions as at 31/12/2019	**2,673**	**1,575**	**4,248**
Opening balance 01/01/2020	**2,673**	**1,575**	**4,248**
Increase as a result of redemption and other volume changes	-	124	124
Recoveries (-)	-	-	-
Closing balance 31/12/2020	**2,673**	**1,699**	**4,372**

(All amounts in millions of HUF, unless otherwise indicated)

22 NOTE INTEREST INCOME AND INTEREST EXPENSE

	2020	2019
Interest income recognised using the effective interest method		
Loans and advances to banks and insurance companies	368	1,205
Receivables from other customers	5,975	6,148
Interest equalisations*	19,523	20,008
Securities measured at amortised cost	811	303
Sub-total	**26,677**	**27,664**
Other interest income		
Derivatives (swap, CCIRS)	428	4,704
Other interest income	53	93
Sub-total	**481**	**4,797**
Total	**27,158**	**32,461**
Interest expense recognised using the effective interest method:		
Loans and advances from other banks and insurance companies	10,786	9,967
Loans and andvances from other customers	65	481
Interest equalisation	-	10
Bonds issued	1,608	7,470
Sub-total	**12,459**	**17,928**
Other interest expense		
Derivatives (swap, CCIRS)	213	2,513
Leasing interest	26	22
Sub-total	**239**	**2,535**
Total	**12,698**	**20,463**
Net interest income/loss	**14,460**	**11,998**

In 2020, the interest income on the assets in Stage 3 (“Loans and advances to other customers”) was HUF 1,228 million (calculated on gross carrying amount it would be HUF 1,793 million). The moratorium on repayment introduced on account of the coronavirus changes in the development of the amortised cost of related loans (typically resulting in a higher amortised cost due to non-payment), thus also affecting the effective interest income. This rescheduling had a positive effect of HUF 104 million on effective interest income for receivables from credit institutions and insurance companies and of HUF 9 million for loans and advances to other customers. Other disclosures related to the coronavirus are presented in Note 33.5.

*In accordance with the provisions of Government Decree 85/1998 (V.6.) on the interest equalisation system and with Government Decree 232/2003 (XII.16.) on tied-aid loans the Bank receives interest compensation from the Hungarian State for special financing options. Please refer to Note 3.13.

(All amounts in millions of HUF, unless otherwise indicated)

Settlements related to the interest equalisation system

	31.12.2020	31.12.2019
Financially settled claim	17,357	20,353
Financially settled payment obligation	-284	-342
Balance	**17,073**	**20,011**

The KKM's centrally managed appropriation for the amount to be used as the source of the interest equalisation system's settlement with the central budget was set at HUF 19,200 million in Act LXXI of 2019 on the Central Budget of Hungary for 2020. This amount was changed to HUF 19,300 million by Government Decision 1185/2020 (IV.27).

Settlements related to tied-aid credits

	31.12.2020	31.12.2019
Financially settled donation item claim	2,269	4,601
Financially settled interest subsidy claim	1,247	1,532
Financially settled interest subsidy payment obligation	0	-3
Financially settled fee refund	0	0
Balance	**3,516**	**6,130**

In the framework of the tied aid lending, the KKM chapter's centrally managed appropriation for the amount of the interest subsidy to be settled by Eximbank with the central budget is determined by Act LXXI of 2019 on the Central Budget of Hungary for 2020 in an amount of HUF 17,900 million. This amount has been changed to HUF 7,134 million based on the information provided by the KKM in August 2020.

23 NOTE NET INCOME FROM FEES AND COMMISSIONS

	2020	2019
Fee and commission income:		
Guarantees counter-guaranteed by the State	149	561
Guarantees not counter-guaranteed by the State	10	10
Other	101	5
Total	**260**	**576**
Fee and commission expense:		
Guarantee fees	29	0
Other	150	634
Total	**179**	**634**
Total	**81**	**-58**

The income and expenses in the table above have been recognised in accordance with IFRS 15.

(All amounts in millions of HUF, unless otherwise indicated)

The functions of a state export credit agency are shared between Eximbank and MEHIB. While Eximbank is engaged in the provision of export and export-related financing and export-related guarantees, MEHIB provides export credit insurance to exporters or their banks, including some of Eximbank's borrowers.

Eximbank is authorised by the Hungarian State to provide loans to borrowers through a system of aid loans based on intergovernmental agreements, with the aim of reaching new markets in developing countries Tied-aid credits are disbursed to Hungarian exporters, and the tied-aid credit provided by Eximbank incorporates special interest terms and support granted in the form of an insurance premium.

In accordance with the rules and conditions of the Government Decree 232/2003 (XII.16.) on tied-aid credits the Bank receives the total amount of the support (insurance premium) from the Hungarian State in the form of compensation.

The insurance premiums payable by Eximbank to MEHIB and the insurance premiums recovered from the Hungarian State (to cover the insurance premiums payable to MEHIB) are considered as transaction costs of the related loan receivables, forming an integral part of the effective interest rate of these transactions, resulting in these items are not being presented as fee income and fee expenses.

Under OECD guidelines, interest charged to borrowers under tied-aid credits must be at least 35% lower than the interest rate charged by Eximbank under its normal lending practices.

In accordance with OECD guidelines, MEHIB insurance covers 100% of the principal and interest amounts under Eximbank's tied-aid credits.

In 2019 and 2020 the Bank performed the payments to, and received and intermediated grants from, the central budget under the following titles.

Budget settlements related to guarantees and recoveries assumed and enforced by Eximbank at the expense of the central budget

	31.12.2020	31.12.2019
Claim against the State as a result of the redemption of State guarantees	0	0
Amounts paid to the central budget as a result of collected State guarantees	0	-407
Fees claimed from the State for the recovery of State guarantees	0	19
Balance	**0**	**-388**

The 2020 budgetary framework for the budget payment obligation arising from redeemed export credit and other export guarantees issued by Eximbank under the full payment guarantee covered by the State was set by Act LXXI of 2019 on the Central Budget of Hungary for 2020 sets in a total of HUF 300 million.
The following table shows the nature and scheduling of the Bank's performance obligations under the types of contracts with customers that give rise to the recognition of a fee income, with the material payment terms of such contracts also being presented in accordance with IFRS 15 Revenue from Contracts with Customers.

Type of fee income	Nature of performance obligation and material payment terms	IFRS 15 revenue recognition

Guarantee fee income	There are two types of fees related to guarantees. One type includes, for example, handling fees, bank service charges and postal charges that occur at the issue of the guarantee. The other type of guarantee fee is paid pro rata temporis. For guarantees where the initial duration of the guarantee is less than one year, the guarantee fee is charged in advance, at the start of the transaction. In case of guarantees with a term longer than 12 months, the fee is charged in advance for each half-year period.	Guarantee fees are recognised as revenue on a straight-line basis over the life of the guarantee.
Other	Fees that are not significant compared to the Bank's total income, such as administrative, commitment, export and import fee. For ongoing services, the Bank charges fees on a monthly basis during the period in which they are performed, while fees for ad-hoc services are charged when the transaction is performed.	The fees for ongoing services are recognised on a pro rata temporis basis over the duration of the service. Ad-hoc fees are recognised when the transaction is executed.

24 NOTE GAINS OR LOSSES ON THE DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

	Carrying amount of derecognised assets 31.12.2020	**Gain/loss on derecognition 2020**
Loans and advances to other banks and insurance companies	0	0
Receivables from other customers	66	-50
Total	**66**	**-50**

	Carrying amount of derecognised assets 31.12.2019	**Gain/loss on derecognition 2019**
Loans and advances to other banks and insurance companies	0	0
Receivables from other customers	625	339
Total	**625**	**339**

25 NOTE GAINS OR LOSSES FROM TRADING AND INVESTMENT ACTIVITIES

	2020	**2019**
Gains or losses on foreign currency swaps, net	1,041	5,268

(All amounts in millions of HUF, unless otherwise indicated)

Other foreign currency gains or losses, net*	-2,217	-4,764
Foreign currency gains or losses, net	**-1,176**	**504**
Gains or losses on investments measured at fair value through profit or loss, net (Note 9)	-972	-113
Other trading gains or losses, net	0	0
Total	**-2,147**	**391**

* The net value of other foreign currency gains and losses includes exchange trading losses and revaluation differences.

26 NOTE OTHER OPERATING INCOME AND EXPENSES, PERSONNEL COSTS, DEPRECIATION AND AMORTIZATION

	2020	**2019**
Initial fair value difference amortisation*	694	727
MEHIB insurance deductible (own share) received	286	692
Other income related to bonds issued**	-	1,371
Other	185	169
Other operating income	**1,165**	**2,959**
Material and service expenses	2,316	2,660
Bank tax***	751	690
Other administration expenses	556	322
Other expenses/ (income), net	515	41
Other operating expenses	**4,138**	**3,713**
Personnel expenses	**4,086**	**4,147**
Depreciation and amortisation	**1,051**	**1,244**

The average number of employees in 2020 was 197. (2019: 192)

*The initial fair value difference on Loans and advances from other banks and insurance companies received at rates below market interest rates is recognised in other liabilities, as the Bank considers them to be government grants. The government grants are amortised over the term of the deposit using the effective interest rate.
**The amount owed to the Bank upon redemption of an issued bond on the basis of a subsequent settlement with the investor.
***According to the provisions of Act LIX of 2006, from 2010 the Bank is required to pay a so-called "bank tax". From 1 January 2017 the Bank has to consider the value of total assets for the second year preceding the tax year as tax base. The tax rate is 0.15% up to mHUF 50,000 and 0.2% above mHUF 50,000.

27 NOTE MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of the Bank's assets and liabilities analysed according to when they are expected to be recovered or settled.

31 December 2020	**Within 12 months**	**After 12 months**	**Total**
Assets			

Cash and cash equivalents	2,529	-	2,529
Securities measured at amortised cost	19,204	86,057	105,261
Loans and advances to banks and insurance companies	225,228	537,138	762,366
Receivables from other customers	67,360	256,178	323,538
Financial assets measured at fair value through profit or loss (Derivatives)	-	-	-
Investments measured at fair value through profit or loss	-	28,198	28,198
Investments accounted for using the equity method	-	61,121	61,121
Intangible assets	-	2,165	2,165
Property, plant and equipment	-	2,394	2,394
Current income tax receivables	649	-	649
Other tax receivables	159	514	673
Deferred tax assets	-	374	374
Other assets	4,067	-	4,067
Total assets	**319,196**	**974,139**	**1,293,335**
Liabilities			
Loans and advances from other banks and insurance companies	209,656	640,667	850,323
Loans and andvances from other customers	3,675	-	3,675
Financial liabilities measured at fair value through profit or loss (Derivatives)	1,303	242	1,545
Securities issued	75,595	125,805	201,400
Provisions	243	-	243
Tax liabilities	105	-	105
Deferred tax liabilities	-	84	84
Other liabilities	6,882	1,912	8,794
Total liabilities	**297,459**	**768,710**	**1,066,169**
Net value	**21,737**	**205,429**	**227,166**

31 December 2019	**Within 12 months**	**After 12 months**	**Total**
Assets			
Cash and cash equivalents	63,584	-	63,584
Securities measured at amortised cost	78	43,045	43,123

(All amounts in millions of HUF, unless otherwise indicated)

Loans and advances to banks and insurance companies	154,045	372,258	526,303
Receivables from other customers	56,231	192,014	248,245
Financial assets measured at fair value through profit or loss (Derivatives)	14,819	-	14,819
Investments measured at fair value through profit or loss	-	26,284	26,284
Investments accounted for using the equity method	-	60,998	60,998
Intangible assets	-	1,996	1,996
Property, plant and equipment	-	2,858	2,858
Current income tax receivables	361	-	361
Other tax receivables	84	-	84
Deferred tax assets	-	17	17
Other assets	3,778	-	3,778
Total assets	**292,980**	**699,470**	**992,450**
Liabilities			
Loans and advances from other banks and insurance companies	54,179	518,153	572,332
Loans and andvances from other customers	6,657	-	6,657
Financial liabilities measured at fair value through profit or loss (Derivatives)	160	39	199
Securities issued	156,335	63,690	220,025
Provisions	505	-	505
Tax liabilities	206	-	206
Deferred tax liabilities	-	44	44
Other liabilities	6,373	3,097	9,470
Total liabilities	**224,415**	**585,023**	**809,438**
Net value	**68,565**	**114,447**	**183,012**

28 NOTE RELATED PARTY TRANSACTIONS

28.1 Employee benefits

Loans to employees of the Bank amounted to HUF 334 million and HUF 327 million as at 31 December 2020 and 31 December 2019, respectively. The Bank did not grant any loans to senior management during the reporting year.

The remuneration of the Board of Directors, the Audit Committee and the Supervisory Board was HUF 80 million in 2020 (2019: HUF 75 million). There are no share-based payments to the Board of Directors or senior executives.

The remuneration of key management personnel was HUF 160 million in 2020 (2019: HUF 125 million).

28.2 Related parties

Since 6 June 2014, the Minister responsible for foreign economic affairs has exercised ownership rights on behalf of the Hungarian State.
Eximbank, as a state-owned company, makes use of the exemption under which it does not disclose any transactions conducted with, outstanding balances kept with, and commitments undertaken towards the Hungarian State and entities over which the Hungarian State has control, joint control or significant influence, except for individually or collectively significant transactions.

The Bank considers the following companies to be related parties:

- Magyar Exporthitel Biztosító Zrt.
- Szegedi SZEFO Zrt.
- Magyar Fejlesztési Bank Zrt.
- Budapest Bank Zrt.
- Garantiqa Hitelgarancia Zrt.
- Budapest Lízing Zrt.

Related party transactions are conducted at market terms. The total amount of receivables from related party companies was HUF 208,962 million as at 31 December 2020, representing 16.16% of total assets (as at 31 December 2019: 9.12%), the total amount of commitments was HUF 68,524 million as at 31 December 2020, representing 6.43% of total liabilities (as at 31 December 2019: 8.09%), while the value of financial guarantee agreements and loan commitments was HUF 24,050 million, representing 2.98% of financial guarantee agreements and loan commitments (as at 31 December 2019: 7.96%).

(All amounts in millions of HUF, unless otherwise indicated)

	31.12.2020	31.12.2019
Hungarian Government bonds	105,261	43,123
Securities linked to related parties measured at amortised cost	**105,261**	**43,123**
Loans and advances to related parties	93,882	39,707
Claims on the State arising from the interest equalisation system	5,672	4,319
Related party receivables, less impairment	**99,554**	**44,026**
Accrued income and receivables from the State in respect of tied-aid credits	3,794	3,100
Accrued income from other related parties	353	382
Total other assets linked to related parties	**4,147**	**3,482**
Total assets	**208,962**	**90,631**
Loans and deposits payable (accrued interest payable) to related parties	63,923	61,558
Total loans and deposits from related parties	**63,923**	**61,558**
Other liabilities to related parties	3,700	3,100
Accrued expense against related parties related to cost sharing	901	840
Total other liabilities to related parties	**4,601**	**3,940**
Total liabilities	**68,524**	**65,498**
Financial guarantee contracts and loan commitment	24,050	28,111
Total financial guarantee contracts and loan commitment	**24,050**	**28,111**

(All amounts in millions of HUF, unless otherwise indicated)

	2020	2019
Interest income:		
Interest equalisation from the State	19,523	20,008
Government securities measured at amortised cost	811	303
Loans and other current receivables from related parties	122	1,107
Total	**20,456**	**21,418**
Interest expense:		
Loans and deposits from other related parties	485	476
Total	**485**	**476**
MEHIB insurance premium expenditure*	**5,605**	**29,704**
Net interest income and net income from fees and commissions	**14,366**	**-8,762**
Operating income/(expenses)		
Aid loan and insurance premium reimbursement from the State	2,764	3,220
Net operating income/expenses from MEHIB and MFB's subsidiaries (-)	-284	328
Net income/(expense) from sharing personnel-type expenditures	591	591
Total	**3,071**	**4,139**

*Expenses related to MEHIB fees are passed on. Both fee-related expenses and the related income arising from the passing-on are an integral part of the effective interest rate, so they are recognised in Interest income recognised using the effective interest method in the profit and loss account. Only the expenditure side is presented in this table as this is what can be considered a related-party transaction.

(All amounts in millions of HUF, unless otherwise indicated)

As a result of closer organisational cooperation between Eximbank and MEHIB (the majority of the employees, including CEO and deputy CEOs, have been employees by both Eximbank and MEHIB since 2012) on 4 November 2012 the two companies concluded an agreement according to which Eximbank and MEHIB agreed on how to share and recognise the costs incurred in connection with the closer organisational cooperation. The agreement has since been modified several times.

According to the agreement the following costs are shared between the two companies:
1. personnel-type expenditures,
2. intermediated services,
3. other administrative costs
4. material-type expenditures,
5. costs incurred in connection with jointly used tangible and intangible assets (depreciation, extraordinary depreciation, insurance premiums, taxes, contributions and other costs and expenses directly linked to the assets in joint use).

Effects of the cost sharing to Eximbank's profit and loss in 2019 and 2020 are presented in the following tables:

1) Jointly used tangible assets:

Income (and expense) from jointly used property, plant and equipment	**31.12.2020**	**31.12.2019**
a) Revenue from fees invoiced by the Bank to MEHIB for the use of assets, which is included in "Other operating expenses".	105	203
b) Fees invoiced by MEHIB to the Bank for the use of assets, which is included in "Other operating expenses".	-18	-170

2) Personnel-type expenditures: jointly employed employees

Income (and expense) related to jointly employed employees	**31.12.2020**	**31.12.2019**
a) Personnel-type expenditures passed on by the Bank to MEHIB, invoiced amount presented under "Personnel-type expenditures" in the profit and loss account as an item decreasing the given value.	619	620
b) The amount of personnel-type expenditure incurred by MEHIB and passed on to the Bank for jointly employed staff. The amount is presented under "Personnel-type expenditures" in the profit and loss account as an item increasing the given value.	-28	-29

(All amounts in millions of HUF, unless otherwise indicated)

3) Personnel-type expenditures not linked to persons

Income (expense) related Personnel-type expenditures not linked to persons	**31.12.2020**	**31.12.2019**
a) Personnel-type expenditures invoiced by the Bank to MEHIB, recognised under "Net other operating expenses".	44	54
b) Personnel-type expenditures invoiced by MEHIB to the Bank, recognised under "Net other operating expenses".	-53	-169

4) Intermediated services

Income (and expense) related to sharing intermediated services	**31.12.2020**	**31.12.2019**
a) The amount of general administrative expenses invoiced by the Bank to MEHIB, recognised under "Net other operating expenses".	62	3
b) The amount of general administrative expenses invoiced by MEHIB to the Bank, recognised under "Net other operating expenses".	-167	-24

5) Material-type expenditures and other administration expenses

Income (and expense) related to shared material-type expenditures and other administration expenses	**31.12.2020**	**31.12.2019**
a) The amount invoiced by the Bank to MEHIB, recognised under "Net other operating expenses".	137	159
b) The amount invoiced by MEHIB to the Bank, recognised under "Net other operating expenses".	-394	-468

Based on separate agreements, the Bank charged HUF 50 million in 2019 and HUF 91 million in 2020 to MEHIB within the framework of sublease agreements.

29 NOTE FINANCIAL ASSETS AND LIABILITIES BY UNDISCOUNTED RESIDUAL CASH FLOWS

The table below summarises the undiscounted cash flows related to the Bank's financial assets and liabilities by maturity. The undiscounted cash flows include estimated interest payments and interest equalisation. For further information about the maturity of derivatives please refer to Note 8.
Cash flows related to on-demand instruments are taken into account as if they were redeemed immediately. For loan commitments (credit lines), guarantee transactions and letter of credits the maximum amount that can be drawn down is allocated to the earliest period in which they could be called.
As part of its management of liquidity risk arising from financial liabilities, the Bank holds liquid assets consisting of cash and cash equivalents. In addition, the Bank maintains credit lines with other banks, which amounted to HUF 115,411 million and HUF 28,220 million on 31 December 2020 and 31 December 2019, respectively. These amounts reflect amounts not yet drawn as at the balance sheet date.

(All amounts in millions of HUF, unless otherwise indicated)

Balance as at 31 December 2020	Carrying amount	Gross nominal inflow/outflow*	Up to 1 month	Within 1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Cash and cash equivalents	2,529	2,529	2,529				
Government securities measured at amortised cost	105,261	110,663	51	38	21,079	74,422	15,073
Loans and advances to other banks and insurance companies	762,366	825,276	13,911	26,074	206,710	478,679	99,902
Receivables from other customers	323,538	396,633	14,953	9,933	53,707	148,715	169,325
Financial assets measured at fair value through profit or loss (Derivatives)							
Foreign exchange swaps – inflow							
Foreign exchange swaps – outflow							
CCIRS – inflow							
CCIRS – outflow							
Investments measured at fair value through profit or loss	28,198	28,198				12,854	15,344
Other financial assets	4,066	4,066	4,066				
Financial assets	**1,225,958**	**1,367,365**	**35,510**	**36,045**	**281,496**	**714,670**	**299,644**
Loans and advances from other banks and insurance companies	850,323	878,545	71,609	7,354	137,845	549,449	112,288
Loans and andvances from other customers	3,675	3,676	3,676				
Securities issued	201,400	211,138			77,507	85,084	48,547
Financial liabilities measured at fair value through profit or loss (Derivatives)	1,545	1,220	915	7	107	117	74
Foreign exchange swaps – inflow	*1,245*	*-79,858*	*-56,218*		*-23,640*		
Foreign exchange swaps – outflow		*80,868*	*57,135*		*23,733*		
CCIRS – inflow	*300*	*-1,871*	*-2*	*-69*	*-214*	*-1,119*	*-467*
CCIRS – outflow		*2,081*		*76*	*228*	*1,236*	*541*
Other financial liabilities	6,505	6,505	6,505				
Financial liabilities	**1,063,448**	**1,101,084**	**82,705**	**7,361**	**215,459**	**634,650**	**160,909**
Liquidity (shortage)/excess**	**162,510**	**266,281**	**-47,195**	**28,684**	**66,037**	**80,020**	**138,735**
Loan commitments***		*790,047*	*790,047*				
Financial guarantee contracts		*17,160*	*17,160*				
Letters of credit		*614*	*614*				

(All amounts in millions of HUF, unless otherwise indicated)

Balance as at 31 December 2019	Carrying amount	Gross nominal inflow/outflow*	Up to 1 month	Within 1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Cash and cash equivalents	63,584	63,584	63,584				
Government securities measured at amortised cost	43,123	43,962	12	20	48	43,882	
Loans and advances to other banks and insurance companies	526,303	566,133	11,847	22,829	130,489	314,593	86,375
Receivables from other customers	248,245	302,021	14,060	8,556	45,073	103,263	131,069
Financial assets measured at fair value through profit or loss (Derivatives)	14,819	15,021	15,021				
Foreign exchange swaps – inflow	*0*	*8,263*	*8,263*				
Foreign exchange swaps – outflow		*-8,264*	*-8,264*				
CCIRS – inflow	*14,819*	*120,254*	*120,254*				
CCIRS – outflow		*-105,232*	*-105,232*				
Investments measured at fair value through profit or loss	26,284	26,284				6,335	19,949
Other financial assets	3,777	3,777	3,777				
Financial assets	**926,135**	**1,020,782**	**108,301**	**31,405**	**175,610**	**468,073**	**237,393**
Loans and advances from other banks and insurance companies	572,332	601,945	2,869	16,863	37,250	494,041	50,922
Loans and andvances from other customers	6,657	6,663	4,872	1,791			
Securities issued	220,025	223,209	150,317		8,280	64,612	
Financial liabilities measured at fair value through profit or loss (Derivatives)	199	134	114		-6	2	24
Foreign exchange swaps – inflow	*125*	*-27,379*	*-27,379*				
Foreign exchange swaps – outflow		*27,495*	*27,495*				
CCIRS – inflow	*74*	*-1,934*	*-2*	*-68*	*-211*	*-1,109*	*-544*
CCIRS – outflow		*1,952*		*68*	*205*	*1,111*	*568*
Other financial liabilities	7,108	7,108	7,108				
Financial liabilities	**806,321**	**839,059**	**165,280**	**18,654**	**45,524**	**558,655**	**50,946**
Liquidity (shortage)/excess	**119,814**	**181,723**	**-56,979**	**12,751**	**130,086**	**-90,582**	**186,447**
Loan commitments***		*337,191*	*337,191*				
Financial guarantee contracts		*15,642*	*15,642*				
Letters of credit		*290*	*290*				

*Gross amount without impairment

** Unlike in previous years (2018-2020), the liquidity shortfall in January 2021 was not due to a large number of bonds reaching maturity, but was of a normal amount in the context of short-term liquidity management. Even taking into account the fact that the end of the year is traditionally characterised by tighter liquidity, at the end of 2020 outstanding short-term liabilities were higher than the shortfall indicated at the end of the one-month period. The management of the shortfall was secured in several ways: Eximbank had already signed a medium-term loan contract for an amount higher than the reported liquidity shortfall, and also had contracted unused revolving credit lines of an amount also higher than the reported shortfall, as well as a free stock of government securities and large corporate loans, against which, collateral, the MNB would provide collateralised loans if needed.
*** The Business Department prepares an estimate for the disbursement schedule under the existing credit facility in order for the Bank to be able to service the expected liquidity needs. The legal contractual status lasts from the opening of the facility until its maturity, with only an estimate being available for the specific payouts. Accordingly, and following the precautionary principle, the Bank has classified its credit lines in the earliest liquidity range.

30 NOTE FINANCIAL RISK MANAGEMENT

The risk management activities of the Bank are determined by its unique role and position in the Hungarian economy. The Bank's ultimate owner is the Hungarian State (which has a 100% direct shareholding) and it operates under the Ministry of Foreign Affairs and Trade. The Bank is a specialised credit institution whose primary task is to promote the competitiveness of Hungarian exporters in international markets.

As part of the EXIM-level strategy, in 2020 the Bank put in place a new Risk Strategy, which sets out risk appetite principles aligned with the Business Strategy, a risk management policy, the Bank's risk appetite, its risk profile, the expected risk structure, and it also includes the ICAAP (Internal Capital Adequacy Assessment Process) framework. All elements of the risk management framework are implemented in the form of regulations approved by the Board of Directors and the Asset and Liability Committee, from the structure of internal lines of defence within the organisation to rules on decision-making powers to specific risk management procedures covering all risks relevant to the Bank.

Risk management strategy

The contents of the Bank's Risk Management Strategy apply to processes and activities that result in or have an impact on risk taking. The Risk Management Strategy is a comprehensive framework document for the Bank's risk management rules. The detailed rules related to the different risk categories (including the designation of general and exceptional administration measures, the method, deadline and means of implementation, the name of the responsible department) are set out in the individual risk management policies.

The Bank's Risk Management Strategy includes the identification, measurement, monitoring and management of risks, as well as the exploration of risk levels and weights. The process of risk identification provides a detailed description of the risk categories that the Bank faces in its normal business and economic environment. The risks are primarily determined according to their types (in line with the Basel taxonomy specified in the ICAAP framework), and secondarily according to the bank-specific aspects of services and products. The overall risk level of an individual risk category is determined by the risk assessment of the corresponding risk type, weighted by the Bank according to its significance, in line with the operational characteristics of the Bank. The definition of the risk profile takes into account the extent of the exposure and the severity of the risk. This approach provides a general overview of the Bank's risk profile and the option of carrying out continuous monitoring activities.

The Bank's Business Strategy includes business goals that determine its business structure. The latter forms the basis for the Bank's risk structure, which changes in the event of changes in the business structure.

Changes due to the COVID-19 pandemic

In the wake of the COVID-19 pandemic crisis, other, temporary, objectives have come to the fore. In the emergency situation created by the coronavirus, it is of paramount importance that domestic companies have adequate access to resources, excessive credit disruptions are avoided, and that domestic exporters and the financial institutions providing them with funds have adequate insurance protection in the face of the increased economic distress caused by COVID-19.
In order to address the effects of COVID-19 and to comply with the related government measures, the Bank has taken the following key actions:

1. As a result of significant product development activities, the Compensation Programme Package (EXIM Compensation Credit Programme, EXIM Compensation Loan Protection Programme, EXIM Compensation Loan Insurance Programme) was developed. The main drivers of the significantly increased business activity in 2020 were compensation loans.
2. As from 19 March 2020, Government Decree No. 47/2020 (III.18) granted a moratorium on payments for the Bank's customers (Moratorium 1). Under the Decree, in respect of loans already disbursed under contracts outstanding at midnight on 18 March 2020, the debtors were granted a moratorium on the fulfilment of their payment obligations under their credit and loan agreements and financial lease contracts until 31 December 2020, without prejudice to the debtors' right to perform under the original contractual terms and conditions. Under the provisions of Act CVII of 2020, the payment moratorium has been extended until 30 June 2021 (Moratorium 2). The Bank used the budgetary interest-compensation also during the moratorium period. Note 33.4 contains more detailed disclosures concerning the moratorium.
3. A number of risk management regulations have been temporarily amended for the duration of the emergency, in accordance with the relevant Government Decrees. During the emergency, the Bank has adapted some of the requirements set out in its risk management policies for taking, measuring, managing, monitoring and mitigating risks to the changed circumstances.
4. The Bank has reviewed its Stage 1 and Stage 2 expected loss models, has incorporated the MNB's views on the payment moratorium into its internal regulations and, as a follow-up to the MNB's IFRS 9 Executive Circular, revised on 27 July 2020, has introduced additional impairment and provisioning under the heading of management overlay in relation to performing loans directly provided to domestic entities, in order to cover the increased risks arising from the pandemic. The Bank has remodeled corporate LGD.
5. With effect from 1 January 2021, the Bank has amended the definition of default, which will continue to provide the same criteria for defining default and Stage 3 transactions. Under the new definition of default, a significant delay of at least 90 days has been changed by the requirement that at least EUR 500 needs to be overdue for a period of 90 days continuously. This required daily automatic monitoring in the measurement of "default", as opposed to quarterly identification used previously. The Bank has defined the factors that are likely to lead to a default in accordance with MNB Recommendation 13/2019. The change in the definition of default did not affect the financial year 2020 and the Bank does not expect it to have a significant impact in 2021 either.
6. In line with the amendment to the Exim Act, the large exposure risk limit that can be undertaken for credit institutions has been increased to 200% of the solvency capital.
7. The Bank revised its country rating model, adding new criteria to the country rating system and refining the interval limits of some variables through statistical backtesting.
8. The Bank has tightened the monitoring process of corporate transactions, broadening their content and increasing their frequency.
9. The Bank has reviewed the limit calculation methodology used for domestic working capital loans.
10. The Bank has revised its statistical PD models used for the rating of corporate clients, which will be implemented from 31 March 2021.

30.1 Credit risk

Credit risk management, credit rating systems

The Bank manages and controls credit risk by establishing rating systems and limits to control and mitigate the level of risk it is willing to accept for each client and country concentration.

The Bank uses MEHIB insurance and central-budget-backed guarantees to shift a significant part of the risk from the financed client to the Hungarian State, resulting in a significant exposure to the Hungarian State being present in the portfolio. In addition, as the Bank is exempt from the general large exposure limitation for banks in the case of export refinancing to credit institutions, significant concentrations in exposures to banks have evolved. The management monitors concentration risks on a quarterly basis. With regard to final risk takers, the three most significant exposures as at the balance sheet date were the Hungarian State (HUF 562,929 million) with ratings of Baa3 (Moody’s long-term debt rating), Magyar Bankholding (HUF 277,439 million), comprising exposures of MTB with ratings of BB (S&P long-term debt rating), MKB with ratings of Ba2 (Moody’s long-term debt rating) and the Budapest Bank groups (the latter with Ba1 ratings, Moody’s long-term debt rating), as well as Unicredit Group (HUF 206,451 million) with ratings of A2 (Moody’s long-term debt rating).

In the case of derivatives the Bank exclusively had exposures to EU-based credit institutions or members of credit institution groups classified as investment grade by the recognised international credit rating agencies, as well as to the National Bank of Hungary, in the form of foreign currency swap transactions. Foreign currency swap transactions are concluded based on ISDA agreements with credit institution counterparties, and the Bank has also concluded CSA agreements with domestic and foreign counterparties to mitigate its counterparty risk. As at the reporting date, the Bank had outstanding transactions with the following counterparties: the National Bank of Hungary with ratings of Baa3 (Moody’s long-term debt rating), ING Bank and KBC Bank with ratings of Aa3 (Moody's long-term debt rating), OTP Bank and Erste Bank Hungary with ratings of Baa1 (Moody’s long-term debt rating), Unicredit Bank and its Hungarian subsidiary Unicredit Bank Hungary with ratings of A2 (Moody's long-term debt rating), as well as MTB Magyar Takarékszövetkezeti Bank with ratings of BB (S&P long-term debt rating).

Exposures to individual borrowers are restricted by sub-limits of different maturity and transaction types. Credit risk management is based on a client rating system, which consists of different elements for sovereign, sub-sovereign entities, financial institutions and for corporate clients. The Bank’s risk assessment is based on the Bank’s own internal rating models. The rating models take into account inter alia the business activity, financial position, probability of default, market position, management, organisation and its role in the given business sector.

The maximum credit risk exposure consists of the carrying amounts detailed in the following tables (in respect of financial assets measured at amortised cost), the fair values indicated in the balance sheet (in respect of financial assets measured at fair value) and, in respect of loan commitments and financial guarantees, the values indicated in the following tables, combined.

(All amounts in HUF million, unless otherwise stated)

Quality of the loan portfolio

The following two tables set out information about the credit quality of financial assets measured at amortised cost on 31/12/2020 and 31/12/2019. The amounts in the tables show gross carrying amounts. See Chapter 3.7 for Stage 1, 2 and 3 classifications and the definition of Purchased or originated credit impaired (POCI) transactions.

The securities measured at amortised cost consist of government bonds issued by the Hungarian State, which has a rating of Baa3 (Moody's, long-term debt rating). The Baa3 rating belongs to the "investment grade" category.

With regard to the loan portfolio in general, there has been a significant increase in almost all financial instrument categories, mainly due to new lending. In addition, there was some realignment in Receivables from other customers, which increased the volume of Stage 2 loans due to a significant increase in the risk associated with part of the existing loan portfolio.

31.12.2020	**Stage 1** **12-month expected credit loss**	**Stage 2** **Lifetime expected credit loss**	**Stage 3** **Lifetime expected credit loss**	**Purchased or originated credit impaired**	**Total**
Cash and cash equivalents	2,533	-	-	-	**2,533**
Securities measured at amortised cost	105,354	-	-	-	**105,354**
Loans and advances to other banks and insurance companies	762,142	618	556	-	**763,316**
Receivables from other customers	169,450	120,749	58,395	-	**348,594**
Gross carrying amount	**1,039,479**	**121,367**	**58,951**	**-**	**1,219,797**

(All amounts in HUF million, unless otherwise stated)

31.12.2019	**Stage 1** **12-month expected credit loss**	**Stage 2** **Lifetime expected credit loss**	**Stage 3** **Lifetime expected credit loss**	**Purchased or originated credit impaired**	**Total**
Cash and cash equivalents	63,600	-	-	-	**63,600**
Securities measured at amortised cost	43,200	-	-	-	**43,200**
Loans and advances to other banks and insurance companies	525,464	1,134	524	-	**527,122**
Receivables from other customers	155,768	64,490	44,684	-	**264,942**
Gross carrying amount	**788,032**	**65,624**	**45,208**	**-**	**898,864**

The following two tables show the loss allowance for financial assets measured at amortised cost as at 31 December 2020 and 31 December 2019. The loss allowance values published for 2020 also include the amount of management overlay introduced on account of the COVID-19 pandemic.

31.12.2020	**Stage 1** **12-month expected credit loss**	**Stage 2** **Lifetime expected credit loss**	**Stage 3** **Lifetime expected credit loss**	**Purchased or originated credit impaired**	**Total**
Cash and cash equivalents	-4	-	-	-	**-4**
Government securities measured at amortised cost	-93	-	-	-	**-93**
Loans and advances to other banks and insurance companies	-379	-15	-556	-	**-950**
Receivables from other customers	-613	-3,153	-21,290	-	**-25,056**
Loss allowance total	**-1,089**	**-3,168**	**-21,846**	**-**	**-26,103**

(All amounts in HUF million, unless otherwise stated)

31.12.2019	Stage 1 12-month expected credit loss	Stage 2 Lifetime expected credit loss	Stage 3 Lifetime expected credit loss	Purchased or originated credit impaired	Total
Cash and cash equivalents	-16	-	-	-	**-16**
Government securities measured at amortised cost	-77	-	-	-	**-77**
Loans and advances to other banks and insurance companies	-292	-3	-524	-	**-819**
Receivables from other customers	-181	-1,317	-15,199	-	**-16,697**
Loss allowance total	**-566**	**-1,320**	**-15,723**	**-**	**-17,609**

The following section presents the Bank's credit risk exposures, with particular emphasis on Exposures to other banks and insurance companies, and Exposures to other customers, as at the balance sheet date and for the previous period..

The composition of Exposures to other banks and insurance companies by rating category, broken down by different Stages, is shown in the tables below.

The ratings of financial assets during the period under review were as follows:

Loans and advances to other banks and insurance companies					**31.12.2020**
	Stage 1	**Stage 2**	**Stage 3**	**POCI***	**Total**
Grades 1-3: Low – fair risk	711,679	-	-	-	711,679
Grade 4: Low-risk	47,835	-	-	-	47,835
Grade 5: Substandard	2,628	46	-	-	2,674
Grade 6: Doubtful	-	47	-	-	47
Grade 7: Bad	-	525	556	-	1,081
Total	**762,142**	**618**	**556**	**-**	**763,316**
Loss allowances	-379	-15	-556	-	-950
Carrying amount	**761,763**	**603**	**-**	**-**	**762,366**

Loans and advances to other banks and insurance companies					**31.12.2019**
	Stage 1	**Stage 2**	**Stage 3**	**POCI***	**Total**
Grades 1-3: Low – fair risk	491,243	-	-	-	491,243

(All amounts in HUF million, unless otherwise stated)

Grade 4: Low-risk	32,063	-	-	-	32,063
Grade 5: Substandard	1,173	1,041	-	-	2,214
Grade 6: Doubtful	985	93	-	-	1,078
Grade 7: Bad	-	-	524	-	524
Total	**525,464**	**1,134**	**524**	**-**	**527,122**
Loss allowances	-292	-3	-524	-	-819
Carrying amount	**525,173**	**1,131**	**-**	**-**	**526,303**

The rating of Loan commitments during the period under review was as follows:

Loan commitments to banks and insurance companies					**31.12.2020**
	Stage 1	**Stage 2**	**Stage 3**	**POCI***	**Total**
Grades 1-3: Low – fair risk	294,801	-	-	-	294,801
Grade 4: Low-risk	79,143	-	-	-	79,143
Grade 5: Substandard	811	-	-	-	811
Grade 6: Doubtful	1,847	-	-	-	1,847
Grade 7: Bad	-	-	-	-	-
Total	**376,602**	**-**	**-**	**-**	**376,602**
Provisions	-111	-	-	-	-111

Loan commitments to banks and insurance companies					**31.12.2019**
	Stage 1	**Stage 2**	**Stage 3**	**POCI***	**Total**
Grades 1-3: Low – fair risk	162,177	-	-	-	162,177
Grade 4: Low-risk	46,461	-	-	-	46,461
Grade 5: Substandard	3,337	-	-	-	3,337
Grade 6: Doubtful	3,210	-	-	-	3,210
Grade 7: Bad	-	-	-	-	-
Total	**215,185**	**-**	**-**	**-**	**215,185**
Provisions	-80	-	-	-	-80

The Bank did not have any financial guarantee contracts with banks and insurance companies in the period under review.

The composition by rating category of other exposures to customers is presented in the following tables, in a breakdown by the various Stages: The loss allowance values published for 2020 also include the amount of management overlay introduced on account of the COVID-19 pandemic.

The credit quality of financial assets in the period under review was as follows:

(All amounts in HUF million, unless otherwise stated)

Loans and advances to other customers					31.12.2020
	Stage 1	Stage 2	Stage 3	POCI*	Total
Grades 1-3: Low – fair risk	14,951	4,388	1,097	-	20,436
Grade 4: Low-risk	85,326	8,140	1,643	-	95,109
Grade 5: Substandard	16,872	20,875	-	-	37,747
Grade 6: Doubtful	51,762	54,824	37,806	-	144,392
Grade 7: Bad	539	32,522	17,849	-	50,910
Total	169,450	120,749	58,395	-	**348,594**
Loss allowances	-613	-3,153	-21,290	-	-25,056
Carrying amount	**168,837**	**117,596**	**37,105**	**-**	**323,538**

The significant increase in client rating category 6 for Stage 1 exposures was due to a direct buyer credit extended to a foreign partner with underlying MEHIB insurance, while the change in rating category 7 for Stage 2 exposures was due to a significant increase in risk to a sovereign exposure with underlying MEHIB coverage.

Loans and advances to other customers					31.12.2019
	Stage 1	Stage 2	Stage 3	POCI*	Total
Grades 1-3: Low – fair risk	26,327	4,775	-	-	31,102
Grade 4: Low-risk	83,792	4,700	1,145	-	89,637
Grade 5: Substandard	20,682	16,576	1,870	-	39,128
Grade 6: Doubtful	24,967	36,916	33,713	-	95,596
Grade 7: Bad	-	1,523	7,956	-	9,479
Total	**155,768**	**64,490**	**44,684**	**-**	**264,942**
Loss allowances	-181	-1,317	-15,199	-	-16,697
Carrying amount	**155,573**	**63,173**	**29,485**	**-**	**248,245**

The rating of Loan commitments during the period under review was as follows. The provisioning values published for 2020 also include the amount of management overlay introduced on account of the COVID-19 pandemic.

To other customers					31.12.2020
	Stage 1	Stage 2	Stage 3	POCI*	Total
Grades 1-3: Low – fair risk	25,774	-	-	-	25,774
Grade 4: Low-risk	28,875	171	-	-	29,046
Grade 5: Substandard	1,445	720	-	-	2,165
Grade 6: Doubtful	323,450	3,185	225	-	326,860
Grade 7: Bad	-	29,600	-	-	29,600

(All amounts in HUF million, unless otherwise stated)

Total	**379,544**	**33,676**	**225**	**-**	**413,445**
Provisions	-10	-43	-14	-	-67

The significant increase in client rating category 6 for Stage 1 loan commitments was due to a direct buyer credit extended to a foreign partner with underlying MEHIB insurance – already mentioned in the case of loans – and the related credit line, while the change in rating category 7 for Stage 2 commitments, as also mentioned above in respect of loans, was due to a significant increase in risk to a sovereign exposure with underlying MEHIB coverage.

To other customers					**31.12.2019**
	Stage 1	**Stage 2**	**Stage 3**	**POCI***	**Total**
Grades 1-3: Low – fair risk	10,493	-	-	-	10,493
Grade 4: Low-risk	26,729	142	-	-	26,871
Grade 5: Substandard	21,407	301	-	-	21,708
Grade 6: Doubtful	56,989	5,946	-	-	62,935
Grade 7: Bad	-	-	-	-	-
Total	**115,617**	**6,390**	**-**	**-**	**122,007**
Provisions	-10	-103	-	-	-113

(All amounts in HUF million, unless otherwise stated)

The rating of Financial guarantee contracts during the period under review was as follows. The provisioning values published for 2020 also include the amount of management overlay introduced on account of the COVID-19 pandemic.

To other customers					31.12.2020
	Stage 1	**Stage 2**	**Stage 3**	**POCI***	**Total**
Grades 1-3: Low – fair risk	6,659	1,546	-	-	8,205
Grade 4: Low-risk	3,654	515	-	-	4,169
Grade 5: Substandard	1,777	84	-	-	1,861
Grade 6: Doubtful	1,112	323	1,168	-	2,603
Grade 7: Bad	-	322	-	-	322
Total	**13,202**	**2,790**	**1,168**	**-**	**17,160**
Provisions	-39	-25	-	-	-64

To other customers					31.12.2019
	Stage 1	**Stage 2**	**Stage 3**	**POCI***	**Total**
Grades 1-3: Low – fair risk	6,378	22	-	-	6,400
Grade 4: Low-risk	1,253	3,525	-	-	4,779
Grade 5: Substandard	247	2,006	-	-	2,252
Grade 6: Doubtful	-	786	1,107	-	1,893
Grade 7: Bad	-	319	-	-	319
Total	**7,878**	**6,658**	**1,107**	**-**	**15,643**
Provisions	-8	-60	-	-	-68

(All amounts in HUF million, unless otherwise stated)

The following tables provide information about the overdue status of Loans and advances to other banks and insurance companies and to Other customers at gross carrying amount, broken down by Stage 1, 2, 3:

Loans and advances to other banks and insurance companies					**31.12.2020**
	Stage 1	**Stage 2**	**Stage 3**	**POCI***	**Total**
Not overdue	762,142	618	-	-	762,760
Overdue within 30 days	-	-	-	-	-
Overdue beyond 30 days	-	-	556	-	556
Total	**762,142**	**618**	**556**	**-**	**763,316**

Loans and advances to other banks and insurance companies					**31.12.2019**
	Stage 1	**Stage 2**	**Stage 3**	**POCI***	**Total**
Not overdue	525,464	1,134	-	-	526,598
Overdue within 30 days	-	-	-	-	-
Overdue beyond 30 days	-	-	524	-	524
Total	**525,464**	**1,134**	**524**	**-**	**527,122**

Loans and advances to other customers					**31.12.2020**
	Stage 1	**Stage 2**	**Stage 3**	**POCI***	**Total**
Not overdue	169,312	119,404	41,492	-	330,208
Overdue within 30 days	138	1,246	5,043	-	6,427
Overdue beyond 30 days	-	99	11,860	-	11,959
Total	**169,450**	**120,749**	**58,395**	**-**	**348,594**

Loans and advances to other customers					**31.12.2019**
	Stage 1	**Stage 2**	**Stage 3**	**POCI***	**Total**
Not overdue	153,335	60,977	36,722	-	251,034
Overdue within 30 days	2,433	2,533	-	-	4,966
Overdue beyond 30 days	-	980	7,962	-	8,942
Total	**155,768**	**64,490**	**44,684**	**-**	**264,942**

(All amounts in HUF million, unless otherwise stated)

In the period under review, for Loans and advances to other customers, the volume of Stage 3 restructured loans is largely attributable to loans that are not past due and loans less than 30 days past due. The distribution and volume of restructured loans by Stage as a function of their delinquency are shown in the tables below.

Loans and advances to other customers					31.12.2020
	Stage 1	**Stage 2**	**Stage 3**	**POCI***	**Total**
Restructured loans					
Not overdue	3,871	6	40,861	-	44,738
Overdue within 30 days	-	-	5,043	-	5,043
Overdue beyond 30 days	-	42	1,559	-	1,601
Total	**3,871**	**48**	**47,463**	**-**	**51,382**

Loans and advances to other customers					31.12.2019
	Stage 1	**Stage 2**	**Stage 3**	**POCI***	**Total**
Restructured loans					
Not overdue	-	1,743	26,942	-	28,685
Overdue within 30 days	-	-	-	-	-
Overdue beyond 30 days	-	-	1,414	-	1,414
Total	**-**	**1,743**	**28,356**	**-**	**30,099**

*Receivables purchased or originated credit impaired

Within the framework of its monitoring activities, the Bank attempts to identify potential problems with receivables as early as possible. Since the Bank intends to ensure the credit repayment capacity of the clients, when perceiving problems, where appropriate, the Bank makes use of the restructuring option before payment arrears occur. Restructuring may involve extending the term, changing the payment schedule or revising the conditions of the loan. As at 31 December 2020, the restructured loan portfolio consisted, besides the HUF 51,382 million in receivables from other customers, of a further HUF 372 million in Stage 3-classified exposures to credit institutions. A significant share of the restructured receivables from other customers was related to non-delinquent, non-performing project loans.

(All amounts in HUF million, unless otherwise stated)

Exposures to credit institutions represent the largest part of the Bank's portfolio. For the rating of financial institution counterparties, the Bank uses an internal rating system consisting of 7 categories, similar to the other client and counterparty segments. The figures below show credit exposures to financial institutions grouped by internal rating category at gross carrying amount as of 31 December 2020 and 31 December 2019:

Rating category	PD range	Description of rating category	31.12.2020	31.12.2019
1	0.00% - 0.04%	Banks in an extremely good financial position	258,156	200,916
2	0.04% - 0.22%	Banks in a good financial position	328,041	206,739
3	0.22% - 1.09%	Banks with above average financial performance	125,482	83,588
4	1.09% - 2.43%	Banks with average financial performance	47,835	32,063
5	2.43% - 5.39%	Banks with below average financial performance	2,674	2,214
6	5.39% - 12.00%	Banks with weak financial performance	47	1,078
7	12.00% - 100.00%	Banks with very weak financial performance and/or that are effectively in default	1,081	524
Total			**763,316**	**527,122**

For loans and advances to other customers, the Bank also applies a 7-grade rating system, where category 1 represents the lowest risk and category 7 the highest. Beyond client risk rating, collaterals are also taken into consideration when assessing credit risk. The gross carrying amount of receivables as at 31 December 2020 was as follows:

(All amounts in HUF million, unless otherwise stated)

In case of Loans and advances to other banks and insurance companies:

31.12.2020

Rating category	PD range	Coverage level			
		less than 50%	50%-70%	more than 70%	Total
1	0.00% - 0.04%	239,238	493	18,425	**258,156**
2	0.04% - 0.22%	256,074	2,374	69,593	**328,041**
3	0.22% - 1.09%	87,999	-	37,483	**125,482**
4	1.09% - 2.43%	28,544	-	19,292	**47,835**
5	2.43% - 5.39%	46	-	2,628	**2,674**
6	5.39% - 12.00%	-	-	47	**47**
7	12.00% - 100.00%	1,081	-	-	**1,081**
Total	-	**612,982**	**2,866**	**147,468**	**763,316**

31.12.2019

Rating category	PD range	Coverage level			
		less than 50%	50%-70%	more than 70%	Total
1	0.00% - 0.04%	180,101	-	20,815	**200,916**
2	0.04% - 0.22%	124,901	2,932	78,906	**206,739**
3	0.22% - 1.09%	55,213	-	28,375	**83,588**
4	1.09% - 2.43%	20,480	-	11,583	**32,063**
5	2.43% - 5.39%	204	-	2,010	**2,214**
6	5.39% - 12.00%	985	-	93	**1,078**
7	12.00% - 100.00%	524	-	-	**524**
Total	-	**382,408**	**2,932**	**141,782**	**527,122**

In case of Loans and advances to other customers:

31.12.2020

Rating category	PD range	Coverage level			
		less than 50%	50%-70%	more than 70%	Total
1	0.00% - 0.22%	239	16	82	**337**
2	0.22% - 0.49%	-	271	-	**271**
3	0.49% - 1.09%	18,350	-	1,478	**19,828**
4	1.09% - 2.43%	11,292	12,596	71,221	**95,109**
5	2.43% - 5.39%	2,936	-	34,811	**37,747**
6	5.39% - 12.00%	82,137	62	62,193	**144,392**
7	12.00% - 100.00%	11,092	1,409	38,409	**50,910**
Total	-	**126,046**	**14,354**	**208,194**	**348,594**

(All amounts in HUF million, unless otherwise stated)

31.12.2019

Rating category	PD range	Coverage level			
		less than 50%	50%-70%	more than 70%	Total
1	0.00% - 0.22%	274	33	20	**327**
2	0.22% - 0.49%	428	440	103	**971**
3	0.49% - 1.09%	17,837	3,260	8,707	**29,804**
4	1.09% - 2.43%	11,784	4,240	73,613	**89,637**
5	2.43% - 5.39%	6,261	2,340	30,527	**39,128**
6	5.39% - 12.00%	55,497	2,342	37,757	**95,596**
7	12.00% - 100.00%	6,399	116	2,964	**9,479**
Total	-	**98,480**	**12,771**	**153,691**	**264,942**

Expected loss calculation

The set of criteria for Stage classification and the disclosure of the credit risk models used to determine the loss allowance are described in detail in Chapter 3.7.

To determine the loss allowance, the Bank rates its financial assets for each valuation period and determines the loss allowance. For Stage 1 transactions, a loss allowance equivalent to 12 months expected losses (with a Stage 1 provision being the formula used for financial guarantee contracts and loan commitments) is quantified according to the following formulae:

Stage1 impairment = PD × LGD × EXP

Stage1 provision = PD × LGD × EXP × CCF

where:

EXP (exposure): gross carrying amount of the financial instrument at the balance sheet date; in case of off-balance sheet items, the value of the commitment.

PD (probability of default): PD increment (marginal PD) over the following one year from the rating date based on the segmented lifetime PD models as a function of time from initial recognition.

LGD (loss given default): parameter reflecting the loss expected in case of default, characteristic of a given segment.

CCF (credit conversion factor): probability of off-balance sheet items being included in the balance sheet. The Bank applies CCFs in line with the supervisory parameters defined in the CRR.

For Stage 2 transactions, a loss allowance corresponding to the loss expected over the lifetime of the transaction is quantified according to the following formulae:

$$Stage\ 2\ impairment = \sum_{t=n}^{p} \frac{PD_t \times LGD \times EXP_t}{(1+EIR)^t}$$

$$Stage\ 2\ provision = \sum_{t=n}^{p} \frac{PD_t \times LGD \times EXP_t \times CCF}{(1+EIR)^t}$$

where:

n – time elapsed since initial recognition (years)

p – term (years)

EXP_t: the estimated carrying amount of contractual future cash flows as at the beginning of the year concerned, or the value of the commitment in the case of an off-balance sheet item.

PD_t: the PD increment (marginal PD) for a given future year from the date of rating based on segmented lifetime PD models as a function of the time elapsed from initial recognition.

LGD: parameter reflecting the loss expected in case of bankruptcy, characteristic of a given segment. LGD in Stage 1 and Stage 2 is the same constant value.

CCF: probability of off-balance sheet items being included in the balance sheet. The Bank applies CCFs in line with the supervisory parameters defined in the CRR. CCF in Stage 1 and Stage 2 is the same constant value.

EIR: effective interest rate used for discounting. In the discount factor, the exponent starts from 1 not from the time elapsed from the date of issue, but from the date of the rating.

The Bank rates Stage 3 deals exclusively by individual assessment. Individual assessment is based on assumed estimated cash flows from interest and/or principal repayment expected over the probable life of the transaction, from the enforcement of collateral and from other debt management solutions. When estimating cash flows the Bank also takes into account the expected costs of the enforcement of claims and collateral and the measures taken. Regarding estimated future cash flows, the Bank considers at least two cash flow scenarios, to which it assigns weights based on the estimated probabilities of occurrence. The probability weights add up to 100%. The Bank evaluates probability-weighted cash flow scenarios using the DCF method, discounted at EIR. Discounting results in the recoverable amount of a given transaction. The amount of the loss allowance is the difference between the amortised cost and the recoverable amount.

In case of the corporate expected loss model, the Bank performs a sensitivity analysis using a macro model for forward-looking PD correction, the quantitative disclosure of which is provided in the table below.

(All amounts in HUF million, unless otherwise stated)

	2020	2019
Macroeconomic model methodology	ARMA	ARMA
Modelling target variable	Corporate default rate time series (MNB Stability Report)	Corporate default rate time series (MNB, Opten)
Explanatory variables	autoregressive variable, moving average variable, inflation rate lagged by 4 quarters, change in unemployment rate lagged by 4 quarters	autoregressive variable, moving average variable, inflation rate lagged by 4 quarters, change in unemployment rate lagged by 4 quarters
Values of macroeconomic indicators in the baseline scenario	inflation rate of 3.56%, unemployment rate of 4.52%	inflation rate of 3.06%, unemployment rate of 3.34%
Values of macroeconomic indicators in the optimistic scenario	inflation rate of 3.63%, unemployment rate of 4.37%	inflation rate of 3.00%, unemployment rate of 2.50%
Values of macroeconomic indicators in the pessimistic scenario	inflation rate of 3.39%, unemployment rate of 5.19%	inflation rate of 8.61%, unemployment rate of 11.35%

From 2020, the Bank will use the macroeconomic forecasts and scenario weights published in three scenarios (based on the MNB Inflation Report) in the MNB's IFRS 9 Executive Circular for the forward-looking estimation of corporate PD values. The macroeconomic multiplier revised in Q3 2020 was 1.0971, while the macroeconomic multiplier revised in Q4 2020 was 1.1365, which reflect the impact of the crisis (in 2019 the macroeconomic multiplier was 0.9465).

The Bank also revised its corporate LGD model in Q3 2020, as a result of which it now uses an LGD higher than the levels seen in previous years, in line with the adverse impact of the COVID-19 pandemic on expected losses.

In addition to the above, the Bank has introduced the recognition of additional impairment in the form of a management overlay, in addition to the expected loss models of IFRS 9, in order to even more conservatively reflect the expected losses resulting from the market downturn impact of COVID-19, based on the increased probability of default of the companies operating in the sectors most exposed to the crisis.

Since in the economic environment of the pandemic there is an insufficient information base to assess credit risk growth on a bottom-up basis or to recalibrate models in the traditional way, the Bank applies a top-down model with a management overlay adjustment differentiated by sector groups to determine the expected loss for the corporate segment.

According to the management overlay methodology applied, the original PD matrices have been adjusted by a correction multiplier defined for each sector group. The correction factors have been defined as the average stressed and non-stressed ratios of the sectoral default rates in the period, as follows:

- Over a long historical period, quarters where an economic downturn was observed have been identified on the basis of the GDP volume index.
- Assuming a delayed effect of the downturn, additional quarters were allocated to the stressed period (6 scenarios).

(All amounts in HUF million, unless otherwise stated)

- A simple correlation was calculated between the default rates by sector and the 6 scenarios above. The scenario with the highest average correlation was selected.
- The values of average default rates for the period stressed under the chosen scenario and for all other quarters were calculated and the quotient of the two numbers was taken into account.
- The PD multipliers differentiated by sector group on the basis of the above are shown in the table below:

Sector group	Multiplier
Agriculture, mining	1.30
Manufacturing industry	1.37
Construction industry	1.60
Real estate transactions	1.67
Other services	1.38

As it is the Bank's opinion that the management overlay multipliers are more conservative than the macroeconomic multiplier resulting from the macroeconomic model in managing the impact of the crisis, the Bank calculated the Stage 1 and Stage 2 loss allowances for its domestic corporate portfolio based on the above management overlay multipliers, resulting in additional impairment and provisioning of HUF 922 million as at 31 December 2020. Foreign corporate loans are backed by MEHIB insurance, which does not justify the extension of the overlay to foreign corporate loans. The Bank does not apply macro-adjustment and management overlay to exposures to sovereign entities and financial institutions, nor does the MNB expect it.

The following table shows the movements and changes that took place between the opening and closing balances of the loss allowance for financial instruments in 2020:

			2020	2020	2019
	Stage 1	Stage 2	Stage 3	Total	Total
Cash and cash equivalents					
Balance on 1 January	**17**	**0**	**-**	**17**	1
Revaluation of loss allowance	0	0	-	**0**	-1
Changes in cash	-13	-	-	**-13**	16
Currency revaluation and other effects	0	-	-	**0**	0
Closing balance on 31 December	**4**	**0**	**-**	**4**	**16**
Securities measured at amortised cost					
Balance on 1 January	**77**	**-**	**-**	**77**	24
Revaluation of loss allowance	4	-	-	**4**	51
Newly originated or purchased financial assets	12	-	-	**12**	9
Financial assets paid or sold	0	-	-	**0**	-8
Currency revaluation and other effects	0	-	-	**0**	0
Closing balance on 31 December	**93**	**-**	**-**	**93**	77

(All amounts in HUF million, unless otherwise stated)

Loans and advances to other banks and insurance companies

Balance on 1 January	**292**	**3**	**524**	**819**	974
Transfer to Stage 1	2	-2		**0**	0
Transfer to Stage 2				**0**	0
Transfer to Stage 3				**0**	0
Revaluation of loss allowance	0	0	0	**0**	-175
Newly originated or purchased financial assets	127	15	12	**154**	50
Financial assets paid or sold	-57	0	0	**-57**	-61
Receivables written off	-	-	-	**0**	0
Unwinding of discounts	-	-	-	**0**	0
Currency revaluation and other effects	15	0	20	**35**	31
Closing balance on 31 December	**379**	**15**	**556**	**950**	819

Receivables from other customers

Balance on 1 January	**181**	**1,317**	**15,199**	**16,697**	17,147
Transfer to Stage 1	1	-1		**0**	0
Transfer to Stage 2	-43	43		**0**	0
Transfer to Stage 3	0	-117	117	**0**	0
Revaluation of loss allowance	26	195	4,670	**4,891**	4,622
Newly originated or purchased financial assets	449	1,675	899	**3,023**	306
Financial assets paid or sold	-9	-69	-893	**-972**	-5,841
Receivables written off				**0**	-280
Unwinding of discounts			565	**565**	490
Currency revaluation and other effects	8	111	732	**852**	253
Closing balance on 31 December	**613**	**3,153**	**21,289**	**25,056**	16,697

Other assets

Balance on 1 January	**0**	**0**	**1**	**1**	0
Revaluation of loss allowance	-	-		**0**	0
Newly originated or purchased financial assets	0	0	4	**4**	1
Financial assets paid or sold	-	-	(1)	**(1)**	0
Receivables written off	-	-		**0**	0
Currency revaluation and other effects	0	0		**0**	0
Closing balance on 31 December	**-**	**-**	**4**	**4**	1

(All amounts in HUF million, unless otherwise stated)

Financial guarantee agreements and loan commitments					
Balance on 1 January	**97**	**164**	**0**	**261**	1,077
Transfer to Stage 1	40	-40		**0**	0
Transfer to Stage 2	-2	2		**0**	0
Transfer to Stage 3				**0**	0
Revaluation of loss allowance	-41	-11		**-51**	-196
New loan commitments and guarantees issued	141	34	14	**188**	93
Loan commitments and issued guarantees that have been terminated or derecognised	-81	-84		**-164**	-723
Currency revaluation and other effects	5	4		**9**	10
Closing balance on 31 December	**160**	**69**	**14**	**243**	261

See Note 15 for the details of “Impairment losses on financial instruments and (creation)/reversal of provisions”, shown in the statement of comprehensive income.

At the reporting date, the Bank had no exposure that had been partially written off during the year but was still subject to collection activity.

Collaterals

Risk assumption decisions of the Bank are primarily based on the clients’ capability to meet their financial obligations from primary sources. In addition, the Bank determines the degree of risk mitigation required and the credit risk mitigation tools used, taking into account the riskiness of the transaction and the client, in order to ensure prudent operation. In assuming risk, the Bank therefore seeks to pledge assets as collateral that are sufficiently liquid to ensure that, should the Bank’s claim not be satisfied from the primary source, the Bank’s claim could then be satisfied in full from these secondary sources in as short a time as possible.

Tasks resulting from the mission of the state-owned export credit agency are distributed between the Bank and Magyar Exporthitel Biztosító Zrt. (Hungarian Export Credit Insurance Ltd., “MEHIB”). The operation of both institutions are regulated by the Exim Act. MEHIB provides export credit insurance directly to exporters or to their financing credit institutions, including some borrowers of the Bank. The Bank and MEHIB currently operate with the same management.

The majority of the Bank's loans to its foreign clients are insured by MEHIB, and these insurances are also backed by the State.

If a loan secured by MEHIB defaults, MEHIB will assume the interest and the principal, including late payments, up to the amount of the coverage, in accordance with the payment terms agreed on by the original borrower.

The Bank requires collaterals or other securities to cover certain credit risks. The following table presents the main collateral types held in order to cover different financial assets. The

Bank assesses the value of its collateral in accordance with the supervisory requirements, the relevant rules of the CRR and general banking practice, typically by taking the market value of the collateral as a starting point, on a prudent basis, applying haircuts reflecting the characteristics of the collateral and past performance, and allocating the collateral to individual transactions proportionate to principal. The Bank takes into account collateral with a collateral value greater than zero in all cases when determining the expected credit loss. The figures in the table below show the values of the collateral and their ratios to the amounts of the receivables. Explanation of the notions of Stage 1, Stage 2 and Stage 3 can be found in Chapter 3.7.

(All amounts in HUF million, unless otherwise stated)

	Loans and advances to other banks and insurance companies		Receivables from other customers	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Stage 1				
MEHIB Insurance	7,923	5,901	99,237	108,662
Cash and security deposit	-	37,377	466	425
Bank guarantees	68,433	18,329	-	-
Mortgage on property	-	-	11,213	12,005
Other	125,403	80,651	35,067	6,709
Total collaterals:	201,759	142,258	145,983	127,801
Carrying amount of receivable:	762,142	525,172	169,450	155,587
Value of collateral as a % of receivable:	26%	27%	86%	82%
Stage 2				
MEHIB Insurance	39	76	46,276	16,681
Cash and security deposit	-	-	1,180	43
Bank guarantees	-	884	-	-
Mortgage on property	-	-	10,519	7,223
Other	-	-	16,046	5,870
Total collaterals:	39	960	74,020	29,817
Carrying amount of receivable:	618	1,131	120,749	63,173
Value of collateral as a % of receivable:	6%	85%	61%	47%
Stage 3				
MEHIB Insurance	-	-	5,812	1,681
Cash and security deposit	-	-	1,360	2
Bank guarantees	-	-	-	-
Mortgage on property	-	-	14,609	13,237
Other	-	-	8,300	9,049
Total collaterals:	-	-	30,080	23,969
Carrying amount of receivable:	556	-	58,395	29,485
Value of collateral as a % of receivable:	-	-	52%	81%
POCI				
MEHIB Insurance	-	-	-	-
Cash and security deposit	-	-	-	-
Bank guarantees	-	-	-	-
Mortgage on property	-	-	-	-
Other	-	-	-	-
Total collaterals:	-	-	-	-
Carrying amount of receivable:	-	-	-	-
Value of collateral as a % of receivable:	-	-	-	-
Total collaterals:	**201,798**	**143,219**	**250,083**	**181,587**
Carrying amount of receivable:	**763,316**	**526,303**	**348,594**	**248,245**
Value of collateral as a % of receivable:	**26%**	**27%**	**72%**	**73%**

The other collaterals behind refinancing loans provided to banks include pledges on receivables that consist of loans granted by commercial banks to exporters. Chattel mortgage account for 53% of other collateral behind loans to clients. 60% of this collateral comes from vehicles, machinery and equipment and 40% comes from stocks. 29% of other collateral comes from guarantees issued by companies. The collateral evaluation system considers different haircuts for various collateral types that the Bank defined in its internal policies on collaterals.

Since the Bank's business is primarily focused on promoting the export activities of Hungarian companies with various capacities to take out credit, as well as guarantees, the treasury functions of many usual commercial banking activities are of secondary importance. Consequently, the Bank's Treasury department does not engage in speculative derivative transactions, but only operates in foreign exchange swap markets in order to hedge foreign exchange positions opened between assets and liabilities. The main risk mitigation technique to eliminate the credit risk inherent in foreign exchange swap transactions is the use of foreign exchange trading limits, which can only be allocated to prime Western banks (G7, EEA and EFTA banks).

30.2 Liquidity risk

Liquidity risk is the risk that the Bank might be unable to meet its payment obligations when they fall due under normal and stress circumstances. The liquidity management process is carried out and controlled by the Treasury Department, which is also responsible for calculating the liquidity reserve. Treasury monitors the balance sheet liquidity ratios in line with internal and regulatory requirements and reports unmatched items in the maturity structure to the Asset and Liability Committee (ALCO). The ALCO, by varying degrees per maturity band, sets limits on the maximum amount of the liquidity gap as a percentage of the balance sheet total, which is monitored by Risk Management and Controlling.

The maturity consistency table set out in Note 29 presents the undiscounted gross nominal cash inflows and outflows of the Bank's financial assets and liabilities, including the related expected interest cash flows up to maturity and due date, as well as financial guarantee contracts and loan commitments issued based on their earliest possible maturity. Hedging derivatives are presented at fair value in the table.

Loans from domestic and foreign banks and the issued global medium-term bonds are secured by the general guarantee provided by the Government of Hungary up to the maximum amount of the guarantee, as defined in the Act on the Budget of Hungary. Some loan agreements set out a maturity extension option in favour of the Bank. Termination of short-term money market transactions is not possible due to market characteristics. Based on the legal background of the Bank and its experiences, the Bank regards the probability of the premature termination of funds to be extremely low. Under the "material adverse change clause" included in all loan agreements, an unused loan commitment can, if necessary, be used to mitigate liquidity risk. This is due to the fact that no disbursement needs to be made against cancellable, undrawn credit lines in the event of cancellation, which reduces liquidity risk.

The Bank maintains a liquidity reserve for all its HUF and foreign currency assets, the value and composition of which were as shown in the table below as at 31 December 2020 and 31 December 2019.

(All amounts in HUF million, unless otherwise stated)

	31.12.2020	31.12.2019
HUF current account balance	1,492	3,836
Foreign currency nostro account balance	1,031	32,691
Positive balance of overnight loans to domestic and foreign credit institutions, and to the MNB, and overnight deposits accepted from them	-	13,550
Freely usable securities owned by the Bank and negotiable with the central bank (government securities, MNB bonds)	9,780	39,241
Free collateral value of all instruments that the MNB accepts as collateral for the loans it grants	64,939	-
Total	**77,242**	**89,317**

Under the Exim Act, the Hungarian State, as an absolute guarantor, is liable for the Bank's obligations to pay the principal of and interest on its loans, including debt instruments issued by the Bank, loans from Hungarian and foreign credit institutions, and the Bank's payment obligations arising from additional costs of foreign exchange and interest rate swaps (collectively: "Funding Guarantee").

The Hungarian State's obligations to Eximbank in respect of the Funding Guarantee are subject to an upper limit set by the annual central budget. Under the 2020 Budget Act, the upper limit of the Funding Guarantee is currently HUF 1,200 billion, which was 80.56% used as at 31 December 2020.

The Hungarian State does not charge any fees in respect of the Funding Guarantee. In accordance with Hungarian legislation, if the Bank fails to perform any of its payment obligations guaranteed by the Hungarian State, creditors may seek to collect their claims directly from the Hungarian State by filing a petition with the minister responsible for public finances without first seeking to collect from the Bank.

In order to mitigate the risk of open positions, the Bank holds assets exclusively with low credit risk and does not include futures or options transactions in its portfolio. The portfolio of securities consists primarily of Hungarian Government bonds held by the Bank to realise the cash flows from them. The Bank neither speculates on the stock exchange nor buys derivatives for speculative reasons. The Bank enters into foreign exchange swap transactions to hedge foreign exchange market risks.

Changes in the risk of borrowing in light of COVID-19

Two major factors determined liability management in 2020. In the spring months, following the outbreak of the coronavirus, liquidity difficulties arose in the money market. Following the effective measures taken by the MNB (waiver of mandatory reserve requirements, introduction of a secured loan facility), Eximbank's funding position stabilised. Following a temporary easing implemented in the spring, the Bank's liquidity ratio returned to its original internal standard in August.

The second major challenge was to secure the funding for the increased demand for the new loan products that had been introduced. By the end of 2020, after continuous growth, the amount of HUF 810 billion in liabilities had increased to HUF 1,053 billion (i.e. 30% increase). Despite the now familiar but initially unexpected market circumstances, liability management in 2020 was characterised by the maintenance of funding security and the optimisation of funding costs. The HUF 1,200 billion state guarantee limit set out in the Budget Act was complied with on every day of the year, with a utilisation rate of 80.56% at the end of 2020, compared to 60.72% on 31 December 2019.

(All amounts in HUF million, unless otherwise stated)

The Bank's interest rate, credit, foreign exchange and liquidity risk management policies are regularly reviewed by the Asset-Liability Committee (ALCO), the Credit Committee (CC) and the Board of Directors. The above guidelines are summarised below:

30.3 Market risk

The Bank does not enter into speculative transactions. In 2020 and in 2019 no capital requirement was generated for this purpose in accordance with Article 351 of Regulation (EU) No 575/2013.

The Bank does not keep a trading book and therefore no capital requirement arises concerning a trading book.

	31.12.2020	31.12.2019
Capital requirement of the trading book	-	-
Solvency capital	250,475	212,864
Capital requirement of the trading book as a percentage of the capital adequacy ratio	-	-

30.3.1 Interest rate risk

Interest rate risk is the current or prospective risk to both the Bank's earnings and capital from adverse movements in interest rates.

The Bank measures the interest rate risk in its books under the re-pricing of loans, furthermore it applies gap analysis to examine the assets and liabilities at different re-pricing dates. Besides the re-pricing risk and shifts in the yield curve, the Bank also faces basis risk and risks inherent in banking products. One of the most important elements of State aid to exporters through the Bank is the interest equalisation programme, which greatly reduces the interest rate risk arising in the Bank's operations. This interest rate compensation system covers the risk arising from fixed interest-bearing assets compared to floating and fixed rate funds with a certain amount approved by the Parliament for a one-year period in the Budget Act. Treasury determines the Bank's actual cost of funds on a quarterly basis, taking into account the Bank's fixed and variable-rate funds, on the basis of which it determines the Bank's funding premium over IBOR, applied in the interest equalisation system.

Where the Bank provides loans based on OECD criteria or European Union competition policy standards in the form of credit at favourable fixed interest rates, the Hungarian State provides the Bank with periodic interest compensation payments.

(All amounts in HUF million, unless otherwise stated)

The amount of interest compensation granted by the Hungarian State under the interest equalisation system is determined by the difference between (i) the interest rate paid by the borrower and (ii) the Bank's financing costs, operating expenses and the applicable risk premium. The financing costs recognised in the interest equalisation system are set at a premium to the prevailing 6-month IBOR rates in the primary markets for each currency, so the interest equalisation system offsets fixed-rate loans to become variable-rate loans. The Bank receives the interest equalisation payment within 15 days of the end of each quarter after submission to the Hungarian State, and the Bank receives the payment for that quarter within 30 days of the submission of the request.

In addition to receiving payments from the Hungarian State under the interest equalisation programme, the Bank receives a form of interest subsidy with respect to tied-aid loans. Interest subsidy payments for tied-aid loans are made based on a slightly different cost base than under the interest equalisation programme.

Interest equalisation and subsidy are intended to promote stability and sustainability for the Bank. The interest equalisation and subsidy provided by the Hungarian State are intended to keep the Bank's profits on the loans covered by the programme close to market level, but the Bank serves as an instrument of the Hungarian State's economic policy, and does not operate as a traditional profit-oriented bank.

All other loans provided by the Bank (i.e. loans that are not covered by the interest equalisation and interest subsidy programmes) are variable-rate and are priced at the Bank's average cost, by reference to LIBOR/EURIBOR/Budapest Interbank Offering Rate ("BUBOR").

On the reporting dates the interest rate profile of the Bank's interest-bearing financial instruments was as follows:

	31.12.2020	31.12.2019
Fixed-rate financial instruments		
Financial assets	192,287	72,812
Financial liabilities	1,029,643	689,471
Total	**1,221,929**	**762,283**
Variable-rate financial instruments		
Financial assets	33,097	46,630
Financial liabilities	106,768	111,725
Total	**139,865**	**158,355**
Assets in interest equalisation	1,000,190	698,469
Tied-aid loans	62,055	62,915

Financial assets in the interest equalisation system and aid loans are fixed-rate or zero-interest financial instruments. Also in case of tied-aid loans the Bank receives interest compensation on these assets from the Hungarian State. The interest compensation is calculated and paid quarterly on the basis of the weighted average of daily balances.

The Bank measures the impact of interest rate risk on its expected earnings and economic capital using the static gap and duration gap methodologies, within the framework of which it parameterises its models based on stress scenarios defined by the EBA. The impact on economic capital is an indicator that measures the long-term impact of interest rate risk and that is calculated as the difference between the present value of the cash flows of interest-bearing assets and liabilities.
The scenarios – assuming parallel positive and negative shifts in the yield curve, flattening and steepening shocks, as well as shocks of rising and falling short interest rates – are processed for EUR, USD and HUF – currencies covering virtually all of the Bank's interest-sensitive assets and liabilities – and the Bank takes into account the worst-case scenario outcome for each currency in the calculations.

The impact of interest rate risk on expected net interest income is estimated by the Bank using the static gap method, where the Bank projects the interest rate changes in the EBA stress scenarios onto the gaps resulting from the difference between interest rate sensitive assets and liabilities classified in each repricing band, and then aggregates the result by currency. From the results calculated with the static gap model, the results of the worst case scenario are selected and aggregated by currency, the sum of the 12-month average and standard deviation of which equals the interest rate risk result, which was HUF 1,862 million as at 31 December 2020.

The Bank implements economic capital changes using a calculation based on duration gap, where the average duration of assets and liabilities is determined by classifying the cash flows of individual items into repricing ranges. The duration of the total asset portfolio is calculated as the portfolio-weighted average of the duration of EUR, USD and HUF assets, and the duration of the liabilities is also determined with this method. The Bank calculates the change in the economic value of capital as a result of a change in interest rates using the BPV method, where the change in the economic value of capital is determined by assuming a shift in the yield curves of each currency to the extent included in the EBA interest rate shock scenarios, in the course of which the largest negative interest-rate shock value, but at most, a value of zero, must be selected from the individual scenarios. The effect of interest rate risk on the economic value of capital calculated on the basis of the duration gap model was HUF 2,025 million as at 31 December 2020.

The results are aggregated taking into account the average and standard deviation of the last 12 months, and the pillar 2 capital requirement is determined by combining the two methods, with a weighting calculated on the basis of a structural sensitivity calculation different for each currency. Eximbank's effective interest-rate risk capital requirement as at 31 December 2020 was HUF 1,887 million.
The interest rate risk limit is set at 10% of the Bank's solvency capital, and the limit is charged by the economic impact on capital value of interest rate risks. The utilisation of the interest rate risk limit was 7.98% on 31 December 2020, which has been stable at around 10% in recent years, measured on a monthly basis, fluctuating by a few percentage points, so there was no need for asset-liability structural intervention to reduce interest rate risk.

Currently a fundamental global reform of the main benchmark interest rates is underway, aimed at replacing or reforming IBOR with alternative, near-risk-free yields. The Bank's financial instruments do not have significant exposures to interbank offer rates (IBORs) that might be replaced or reformed due to this market-level initiative. The Bank does not expect the IBOR reform to have a significant operational, risk management or accounting impact on its business.

30.3.2 Foreign currency risk

The Bank projects the effects of exchange rate fluctuations on its financial position and cash flows. The ALCO also sets limits to the level of exposure by currency and in aggregate for both overnight and intraday positions, which are monitored by it daily. The calculation of foreign exchange risk follows the norms of the standard method. The Bank manages its foreign currency risk based on its financial position. The Bank does not enter into speculative transactions on the FX market and opens FX positions only within the framework of highly restricted rules, limiting foreign exchange risks to a minimum with very tight foreign exchange open position limits (HUF 400-400 million for EUR and USD, HUF 300 million for other currencies in aggregate, with the total value of open positions allowed being HUF 1100 million).

Foreign currency risk exposures in million HUF as at 31 December 2020 were as follows:

	EUR	USD	GBP	RUB	RSD	KZT	TRY
Loans and advances to banks and insurance companies, net	428,777	44,233	-	-	-	-	-
Loans and advances to other customers	213,888	87,414	-	1	-	-	-
Other receivables	1,324	241	2	5	3	2	-
Total assets denominated in foreign currency	**643,989**	**131,889**	**2**	**6**	**4**	**2**	**-**
Deposits from banks and insurance companies	561,398	139,966	-	-	-	-	-
Deposits from customers	-	3,735	-	-	-	-	-
Bonds issued	-	4,225	-	-	-	-	-
Other liabilities	2,611	130	-	-	-	2	-
Total liabilities denominated in foreign currency	**564,009**	**148,055**	**-**	**-**	**-**	**2**	**-**
Net amount of assets and liabilities denominated in foreign currency	**79,980**	**-16,167**	**2**	**6**	**4**	**1**	**-**
Effect of derivative transactions	*-77,153*	*-1,635*					
Net foreign currency exposure	**2,827**	**-17,802**	**2**	**6**	**4**	**1**	**-**

Foreign currency risk exposures in million HUF as at 31 December 2019 were as follows:

	EUR	USD	GBP	RUB	RSD	TRY
Loans and advances to banks and insurance companies, net	312,333	63,885	-	-	-	-
Loans and advances to other customers	136,067	90,307	-	-	-	-
Other receivables	5,541	48,324	3	3	3	-
Total assets denominated in foreign currency	**453,941**	**202,516**	**3**	**3**	**3**	**-**
Deposits from banks and insurance companies	381,395	155,658	-	-	-	-
Deposits from customers	-	4,669	-	-	-	-
Bonds issued	-4	153,992	-	-	-	-
Other liabilities	3,643	239	-	-	-	-
Total liabilities denominated in foreign currency	**385,034**	**314,558**	**-**	**-**	**-**	**-**
Net amount of assets and liabilities denominated in foreign currency	**68,907**	**-112,042**	**3**	**3**	**3**	**-**
Effect of derivative transactions	*-77,225*	*110,886*	-	-	-	-
Net foreign currency exposure	**-8,318**	**-1,156**	**3**	**3**	**3**	**-**

30.4 Capital management

In 2020 Eximbank met the requirements of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR). Solvency capital is determined in accordance with Part Two of the CRR, while capital requirements are maintained in accordance with the provisions of Part Three.
Eximbank has subordinated loan capital of EUR 100 million provided by the Hungarian Development Bank, which expires on 12 September 2024. From the start of the five-year amortisation period, from 12 September 2019, this may be included in the solvency capital as an additional capital instrument in a gradually decreasing amount, as provided for in Section 92 of the CRR. At 31 December 2020, 74% of the total capital amount (HUF 36,513 million) may be included in the solvency capital, which is HUF 27,000 million.

In line with the provisions mentioned, the amount of the additional capital is to be considered a positive component of the solvency capital of Eximbank.

The Bank fulfilled the legal and prudential requirements in 2020. The capital adequacy ratio significantly exceeded the 8 percent required by the law as stated above.

The evolution of the capital adequacy ratio is shown in the table below, in HUF million and in percent.

	31.12.2020	31.12.2019
Tier 1 capital	225,001	181,016
Tier 2 capital	27,000	31,062
Solvency capital	**252,001**	**212,078**
Amount of risk-weighted credit exposure	1,230,648	873,304
Amount of risk-weighted operational risk	35,061	40,571
Total risk exposure	**1,265,709**	**913,875**
Capital adequacy ratio	19.91%	23.21%

30.5 Incurring large exposures

The provisions of Regulation (EU) No 575/2013 (CRR) on large exposures (Article 392) and exceeding limits to large exposures (Article 395) to a client or group of connected clients must be applied with the Eximbank derogations set out in the Exim Act:
Incurring large exposures:
According to Section 21 (1) of the Exim Act, an exposure to a client or group of connected clients exceeding 25% of the solvency capital is considered undertaking a large-exposure risk.

Exceeding limits to large exposures:
- For credit institution clients, in the case of non-export and other export-purpose loans and other exposures, the combined amount of of the exposures to a credit institution or a credit-institution member of a client group, less exemptions and the effect of credit risk mitigation techniques, may not exceed 200% of the solvency capital.
- For non-credit institution clients, the large exposure limit is 35% of the solvency capital.

Exemptions and risk mitigation techniques (CRM) specified in Section 21 (3) of the Exim Act, which are to be regarded as exemptions in the exposure value used as the basis for determining the large exposure:

a) export-oriented credits and money loans granted by Eximbank to domestic or foreign credit institutions. Export credit is, of the credits defined in Section 1 of Government Decree 85/1998 (V. 6.) on the interest compensation scheme of the Magyar Export-Import Bank Private Limited Company (the "IE Decree"):
   - export credits, refinancing export credits, other export-oriented credits (supplier credits, investment loans implemented abroad), other export-oriented refinancing export credits defined in Paragraphs a) to d) of Section 1 of the IE Decree;
   - of the products defined in Paragraphs e) to f) of the IE Decree, competitiveness-enhancing loans and competitiveness-enhancing refinancing loans under the Export Promotion Credit Facility;
   - refinancing credits granted for the purchase of export receivables specified in Paragraph g) of the IE Decree (credits granted by domestic or foreign financial institutions under Paragraph 60 of Section 6 (1) of Hpt.);
   - export pre-financing credits (export pre-financing credits and export investment credits) and export pre-financing refinancing credits under Paragraphs h) to i) of the IE Decree.

b) for a loan granted by Eximbank to a foreign buyer when the credit rating of the target country is at least 3 or better according to the methods set out in the "Arrangement on Officially Supported Export Credits" of the Organisation for Economic Co-operation and Development and the repayment of the loan is guaranteed by the central budget or central bank of the target country,

c) Up to the amount secured by guarantees in case of the following granted by Eximbank:
   ca) credits and money loans guaranteed by a credit institution established in a member country of the Organisation for Economic Cooperation and Development, or
   cb) for credits and money loans guaranteed by a credit institution that may be assigned a credit risk weight of no more than 50% for exposures to it with a maturity of more than three months, not covered by credit protection, using the standard approach to credit risk,

d) risk exposures guaranteed by the central budget, including export credits and money loans covered by Mehib Rt.'s insurance with a non-marketable risk profile, up to the amount of the guaranteed amount less the excess.

In addition, when determining whether limits to large exposures have been exceeded, the exposure value can be reduced by using the exemptions and CRM techniques specified in Articles 400-403 of the CRR.

As at 31 December 2019, the combined amount of exposures qualifying as large exposures before the application of the exemptions and risk mitigation techniques set out in the CRR and the Exim Act amounted to HUF 291,342 million, of which Eximbank had large exposures to two groups of non-credit institution clients in the amount of HUF 110,164 million and three groups of credit institution clients in the amount of HUF 181,178 million.

The value of the exposures classified as large exposures after the application of exemptions and risk mitigation techniques was reduced to HUF 0 in the non-credit institution group and to HUF 117,448 million in the credit institution group.
The Bank used the MEHIB insurance as a risk mitigation technique for non-credit institution clients, while for non-export exposures in the credit institution client base it resorted to the use of a credit line that can be terminated in the event of a large-exposure overrun and the use of securities eligible under central bank rules as collateral.

At the end of 2019, there were no large exposures to clients or client groups.

As at 31 December 2020, the combined amount of exposures qualifying as large exposures before the application of the exemptions and risk mitigation techniques set out in the CRR and the Exim Act amounted to HUF 957,297 million.
As at 31 December 2020, in its *non-credit institution client base*, the Bank had a large risk exposure to one client exceeding 25% of its solvency capital, in the amount of HUF 342,985 million. The exposure is secured by MEHIB insurance, which provides a risk mitigation effect for the purposes of the large-exposure limit up to the amount of the cover.
In its *non-credit institution client base*, the total amount of the values of the Bank's exposures before the application of exemptions and credit risk mitigation tools was HUF 614,312 million, vis-à-vis four credit institution client groups. The large exposure to these client groups was reduced by credit lines, in the value of HUF 164,356 million, which can be cancelled in the event of a drawdown that would result in a large-exposure overrun. The limit load was further reduced by medium/low-risk (20% CCF) credit lines, 50% of which can be taken into account under Article 400 (2) i) of the CRR, amounting to HUF 9,113 million. Under the Exim Act, the guarantee for credit institutions established in OECD member countries meant an exemption of HUF 27,456 million.
At the end of December 2020, in the Bank's capital investment business, the net asset value of the investments did not exceed the large-exposure limit, and thus the large-exposure limit was not breached.
As at 31 December 2020 Eximbank had no large-exposure limit breaches at either client or client group level.

31 NOTE GEOGRAPHICAL CONCENTRATION

The tables below show the breakdown by geographical location of some balance sheet and profit and loss account lines. In addition to domestic balances, the columns of the tables show balances related to other EU Member States, European countries that are not EU Member States, and non-European countries.

(All amounts in HUF million, unless otherwise stated)

Concentration of assets and liabilities by geographical area as at 31/12/2020

	Hungary	Other EU Member States	Non-EU countries	Other countries	Total
Cash and cash equivalents	2,183	95	12	239	2,529
Securities measured at amortised cost	105,261	-	-	-	105,261
Loans and advances to other banks and insurance companies	753,172	442	5,568	3,184	762,366
Receivables from other customers*	147,287	3,095	6,086	167,070	323,538
Financial assets measured at fair value through profit or loss (Derivatives)	-	-	-	-	-
Investments measured at fair value through profit or loss	12	23,057	-	5,129	28,198
Investments accounted for using the equity method	61,121	-	-	-	61,121
Intangible assets	2,165	-	-	-	2,165
Property, plant and equipment	2,307	87	-	-	2,394
Current income tax receivables	649	-	-	-	649
Other tax receivables	673	-	-	-	673
Deferred tax assets	374	-	-	-	374
Other assets	4,067	-	-	-	4,067
Total assets	**1,079,271**	**26,776**	**11,666**	**175,622**	**1,293,335**
Loans and advances from other banks and insurance companies	419,492	430,831	-	-	850,323
Loans and andvances from other customers	3,675	-	-	-	3,675
Financial liabilities measured at fair value through profit or loss (Derivatives)	1,417	128	-	-	1,545
Securities issued**	198,030	-	-	3,370	201,400
Provisions	231	1	3	8	243
Tax liabilities	105	-	-	-	105
Deferred tax liabilities	84	-	-	-	84
Other liabilities	7,831	580	98	285	8,794
Total liabilities	**630,865**	**431,540**	**101**	**3,663**	**1,066,169**
Subscribed capital	213,230	-	-	-	213,230
Retained earnings	3,595	-	-	-	3,595
Other reserves	10,341	-	-	-	10,341
Total equity	**227,166**	**-**	**-**	**-**	**227,166**
Total liabilities and equity	**858,031**	**431,540**	**101**	**3,663**	**1,293,355**

Off-balance sheet financial instruments

(All amounts in HUF million, unless otherwise stated)

	Hungary	Other EU Member States	Non-EU countries	Other countries	Total
Unutilised part of credit lines***	379,479	451	1,751	408,366	790,047
Guarantees issued with a guarantee by the State	16,382	-	306	-	16,688
Guarantees issued without a guarantee by the State	456	-	16	-	472
Letters of credit	-	-	-	614	614
Funds	20,259	40,564	-	13,410	74,233
Total	**416,576**	**41,015**	**2,073**	**422,390**	**882,054**

* Exposures to other clients in the Other countries category include 34% Indonesian, 30% Egyptian, 18% Laotian and 7% Sri Lankan exposures.

**The bonds issued by the Bank in October 2017, February 2019, November 2020 and December 2020 are traded on the Budapest Stock Exchange. The Bank does not have detailed information about the distribution of investors according to geographical areas, so the Bank has included these securities in the Other countries segment. The remaining portfolio is related to domestic investors.

*** Of the undrawn credit lines related to Other countries as at 31/12/2020, HUF 293,689 million is Egyptian exposure. This exposure was the reason for the significant increase compared to the previous year.

(All amounts in HUF million, unless otherwise stated)

Concentration of assets and liabilities by geographical areas as at 31 December 2019

	Hungary	Other EU Member States	Non-EU countries	Other countries	Total
Cash and cash equivalents	31,180	11	6	32,387	63,584
Securities measured at amortised cost	43,123	-	-	-	43,123
Loans and advances to other banks and insurance companies	519,020	-	5,827	1,456	526,303
Receivables from other customers*	115,862	8,191	7,221	116,971	248,245
Financial assets measured at fair value through profit or loss (Derivatives)	9,273	5,546	-	-	14,819
Investments measured at fair value through profit or loss	12	20,743	5,529	-	26,284
Investments accounted for using the equity method	60,998	-	-	-	60,998
Intangible assets	1,996	-	-	-	1,996
Property, plant and equipment	2,858	-	-	-	2,858
Current income tax receivables	361	-	-	-	361
Other tax receivables	84	-	-	-	84
Deferred tax assets	17	-	-	-	17
Other assets	3,778	-	-	-	3,778
Total assets	**788,562**	**34,491**	**18,583**	**150,814**	**992,450**
Loans and advances from other banks and insurance companies	276,821	295,511	-	-	572,332
Loans and andvances from other customers	6,657	-	-	-	6,657
Financial liabilities measured at fair value through profit or loss (Derivatives)	196	3	-	-	199
Securities issued**	69,900	305	-	149,820	220,025
Provisions	489	-	2	14	505
Tax liabilities	206	-	-	-	206
Deferred tax liabilities	44	-	-	-	44
Other liabilities	9,470	-	-	-	9,470
Total liabilities	**363,783**	**295,819**	**2**	**149,834**	**809,438**
Subscribed capital	158,930	-	-	-	158,930
Retained earnings	3,595	-	-	-	3,595
Other reserves	20,487	-	-	-	20,487
Total equity	**183,012**	**-**	**-**	**-**	**183,012**
Total liabilities and equity	**546,795**	**295,819**	**2**	**149,834**	**992,450**

Off-balance sheet financial instruments:

	Hungary	Other EU	Non-EU countries	Other countries	Total

		Member States			
Unutilised part of credit lines	226,437	408	3,324	107,022	337,191
Guarantees issued with a guarantee by the State	14,746	-	303	-	15,049
Guarantees issued without a guarantee by the State	577	-	16	-	593
Letters of credit	-	-	-	290	290
Funds	14,091	34,009	13,641	-	61,741
Total	**255,851**	**34,417**	**17,284**	**107,312**	**414,864**

*Exposures to other clients in the Other countries category include 56% Indonesian, 23% Laotian and 10% Sri Lankan exposures.

**The bonds issued by the Bank in October 2017 and July 2017 are traded on Budapest Stock Exchange and those issued in October 2014 are traded on London Stock Exchange and on OTC markets. The Bank does not have detailed information about the distribution of investors according to geographical areas, so the Bank has included these securities in the Other countries segment.

Segmented revenue by geographical areas for the financial year ended 31 December 2020

	Hungary	**Other EU Member States**	**Non-EU countries**	**Other countries**	**Total**
Interest income:					
Loans and advances to banks and insurance companies	131	-	147	90	368
Receivables from other customers	3,652	71	87	2,165	5,975
Interest equalisation system***	19,523	-	-	-	19,523
Securities	811	-	-	-	811
CCIRS	278	-	150	-	428
Other interest income	47	6	-	-	53
Total interest income	**24,442**	**77**	**384**	**2,255**	**27,158**
Income from fees and commissions	235	3	22		260
Total income	**24,677**	**80**	**406**	**2,255**	**27,418**

*** The revenues related to the interest equalisation system come from the Hungarian State.

(All amounts in HUF million, unless otherwise stated)

Segmented revenue by geographical areas for the financial year ended 31 December 2019

	Hungary	Other EU Member States	Non-EU countries	Other countries	Total
Interest income:					
Loans and advances to banks and insurance companies	896	148	154	7	1,205
Receivables from other customers	4,297	68	126	1,657	6,148
Interest equalisation system	20,008	-	-	-	20,008
Securities	303	-	-	-	303
CCIRS	2,961	1,743	-	-	4,704
Other interest income	92	1	-	-	93
Total interest income	**28,557**	**1,960**	**280**	**1,664**	**32,461**
Income from fees and commissions	568	-	3	5	576
Total income	**29,125**	**1,960**	**283**	**1,669**	**33,037**

32 NOTE: EVENTS AFTER THE BALANCE SHEET DATE

In accordance with the position of the European Banking Authority, on 22 January 2021 the National Bank of Hungary amended its Executive Circular on the use of macroeconomic information and factors indicating a significant increase in credit risk for the purposes of IFRS 9 (hereinafter MNB IFRS 9 Executive Circular), the application of which is expected of the supervised institutions from the Q1 of 2021 onwards.

A key change in the MNB IFRS 9 Executive Circular is that if a domestic corporate transaction has been the subject of a payment moratorium for more than 9 months, as a general rule it must be classified as restructured and reclassified to Stage 2, unless there is credible evidence as a result of quarterly or extraordinary monitoring that the client is not in financial difficulty.

Under the MNB IFRS 9 Executive Circular, exposures that have been subject to a payment moratorium for less than 9 months in aggregate during the period covered by the statutory payment moratorium, except those that became subject to the moratorium after 31 March 2021, are not to be considered restructured. For domestic direct corporate exposures classified as restructured on account of the moratorium, the restructured classification may be removed in accordance with the general rules.

In the case of domestic direct corporate exposures subject to a statutory moratorium on payments for more than 9 months, a forced restructuring does not have to be considered a factor indicating the occurrence of a default event if the reduction in financial liability exceeds the 1% threshold solely because of the use of the moratorium, provided that there are no

circumstances that would in themselves result in a non-performing (default) exposure classification. If the restructuring measure results solely from the use of the moratorium, it is not necessary to determine the extent of the reduction in financial liabilities.
In accordance with the above, the Board of Directors approved the amendment of the relevant internal regulations at its meeting of 25 February 2021. The Bank is already conducting monitoring, transaction rating and impairment calculation in Q1 2021 on the basis of the new rules.

Based on the Bank's expectations, given the already significant volume of Stage 2- and Stage 3-rated transactions among domestic direct corporate transactions, a total of 11 transactions of 10 direct Stage 1 domestic clients may be classified as Stage 2 during the Q1 2021 rating due to participation in the moratorium for longer than 9 months. As a result, HUF 15,132 million of Stage 1 corporate exposures are expected to be moved to Stage 2 on 31 March 2021, which together with the management overlay effect could generate an additional HUF 253 million in recognised impairment.

33 NOTE USE OF ESTIMATES AND JUDGEMENTS

Management outlines to the Supervisory Board the development, selection and disclosure of the Bank's critical accounting policies and estimates and the application of these policies and estimates.

These disclosures supplement the notes on financial risk management (see Note 30).

33.1 Key sources of estimation uncertainty

Credit losses

Assets measured at amortised cost are tested for impairment on a regular basis according to the accounting policy of the Bank.

The expected loss models and their parameters used to measure Stage 1 and Stage 2 financial assets, financial guarantees and loan commitments are disclosed in detail in Notes 3.7 and 30, which also include estimation uncertainty factors.
The impairment of individually assessed financial assets is determined on a client-specific basis, based on the best estimate of the net present value of expected cash flows. In estimating these cash flows, the management takes into account the client's financial situation and the net realisable value of any underlying collateral. For each individually impaired asset, Risk Management individually approves an estimate of the cash flows deemed recoverable based on the collection strategy.

Provisions

The Bank creates provisions for legal disputes and employee benefits. The Bank is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and amount of potential financial losses. A provision is recognised by the Bank when it has a present obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Eximbank Zrt. and MEHIB Zrt. (hereinafter: EXIM) signed a lease agreement with DÖB-68 Zrt. as lessor in 2014 for the leasing of offices and parking spaces in the office building registered under topographical lot number 14402 in Budapest (Lánchíd Office Building). In 2015, EXIM filed a suit with the Municipal Court of Budapest to determine that the lease contract was clearly disproportionate in amount and ran counter to ethical norms.
During the various years of litigation, with variable outcomes, the statement of claim was amended several times by EXIM and the defendant presented a counterclaim.
On 30 September 2020, in repeated second-instance proceedings, the Metropolitan Court of Appeal issued a judgment and upheld the judgment of the court of first instance in the part dismissing EXIM's claim – applicable to the entire cost of the litigation – while in the part condemning EXIM it changed its decision with regard to the main claim and the interest payable on it, and increased the amount to be paid jointly and severally to the defendant. EXIM has filed a request for review against the judgment of the Metropolitan Court of Appeal.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of the valuation techniques described in the accounting policy. For financial instruments that are traded infrequently and have less price transparency, fair value is less objective, and requires various approaches depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also Note 34 "Fair value of financial instruments".

33.2 Key accounting considerations in applying the Bank's accounting policies

Key accounting policy considerations applied on the basis of the Bank's accounting policies are as follows:

Determination of the level of influence on investments

The Bank has holdings in private equity funds, through which the Bank has rights relating to the net assets of the funds.
The Bank's contribution to the share capital of EXIM Exportösztönző Magántőkealap is almost 100%, in the case of Enter Tomorrow Europe Magántőkealap it is 50%, in the case of Columbus Magántőkealap it is 70%, and in the case of PortfoLion Regionális Magántőkealap II it is 49.9%. In the case of the above funds, the person delegated by the Bank to the investment committees has no right of veto. The Bank has a significant influence in these funds. Significant influence means the power to participate in the financial and operational decisions of the target company.

The Bank has the right to participate in the investment policy decisions of the funds, but with minority voting rights, while in the case of the EXIM Exportösztönző Magántőkealap, Columbus Magántőkealap and PortfoLion Regionális Magántőkealap, the fund manager's exposure is significant. In the case of PortfoLion Regionális Magántőkealap (PRMA), the Bank holds a 50% stake and, as investors have a right of veto in respect of the investment policy decisions of the fund, the Bank considers its participation as joint control. Eximbank accounts for its holdings in these funds using the equity method.

In the case of the East West VC Fund, Eximbank appoints one member to the fund's investment committee, with the role of this member being to formulate non-binding recommendations to the fund manager about investment and exit opportunities.

Eximbank does not have a significant influence in the other funds, as is does not have the power to participate in the financial and operational policy decisions of the funds, nor does it have representatives in the relevant decision-making bodies of the funds. Eximbank's role is limited to assessing whether the beneficial owners of a proposed investment are suitable clients in its opinion.

Other considerations related to investments accounted for using the equity method

Determining whether the investment funds accounted for using the equity method described in Note 10 meet the definition of an investment entity specified in Note 3.17 requires significant judgement on the part of the Bank, as some investment funds have one investor or a small number of investors, and the Bank has participated in the creation of the funds and therefore significant consideration is required in determining whether the Bank has "other benefits" (other than the return on capital appreciation or the investment income) through the entity's investments that are not available to other parties that are not affiliated to the investee.

Based on the considerations set out above and the concept presented in Note 3.17, of the investment entities accounted for using the equity method presented in Note 10, Eximbank considers Columbus Magántőkealap and PortfoLion Regionális Magántőkealap to be investment entities.

33.3 Others

The subsidy scheme for interest compensation and aid loans is detailed in Note 3.13 and the premium paid to MEHIB is detailed in Notes 19 and 23.

33.4 Other disclosures related to the coronavirus

On behalf of the Action Group Responsible for the Security of Essential Hungarian Companies established by the Government Decree 1101/2020, since 19 March 2020 three persons from the Hungarian Defence Forces and Law Enforcement Organizations arrived at the Bank (forming a Defence Coordinating Staff) to support and assist the Bank's smooth operation in the current changed environment caused by the coronavirus situation. Eximbank was designated a critical element of the system by the Minister of Economic Affairs by Decree 1/2016 (VII.15.) on 18 July 2016.

By Government Decree 40/2020 of 11 March 2020, the Hungarian Government declared a state of emergency in order to avert the consequences of a human pandemic jeopardizing the safety of life and property and causing mass disease. Separate Government Decrees were issued to regulate extraordinary measures regarding the state of emergency.

In order to manage the risks associated with the epidemic emergency caused by the coronavirus, the Bank put in place strict precautionary measures and is managing the risks with extraordinary measures and decisions, discussed in daily consultation, which, if necessary, override normal business operations. These measures aim at ensuring business continuity even under circumstances if further restrictions are introduced.

The Bank continuously provides the opportunity for the employees to work from home in a phased manner. The Bank has the remote access technology necessary for this. Working from home was launched successfully, and the Bank's operations are maintained smoothly.

The Board of Directors and the Supervisory Board of the Bank continuously monitor the situation, and are kept informed about the effects that are expected.

In order to mitigate the effects of the coronavirus pandemic on the national economy, under Government Decree 47/2020 of 18 March 2020, debtors were granted a moratorium on payment of principal, interest and fees under loan and credit agreements and financial lease agreements that had already been disbursed on 18 March 2020, until 31 December 2020 (Moratorium 1). Under the provisions of Act CVII of 2020, the payment moratorium has been extended until 30 June 2021 (Moratorium 2).

The payment moratorium is a precautional measure to ensure that temporary liquidity problems should not result in deep, long-lasting economic problems.

The scope of the payment moratorium essentially covers the Bank's direct domestic corporate portfolio. In addition, because of the involvement of the end-clients (domestic businesses) as subjects, in the case of the refinancing loan portfolio that represents loans to financial institutions and accounts for two thirds of the gross loan portfolio, contract modification loss is also recognised, given that because of its tied-funding nature it is stipulated in the refinancing credit-line contracts concluded with the financial institutions that the repayment schedule of the refinancing loan should be the same as the repayment schedule of the derivative loan contracts.

The Bank informed its clients concerned about the Moratorium, and reminded them to notify the Bank if they did not wish to take advantage of the Moratorium. As the moratorium is granted to the clients concerned under a government decree, no business/risk decision and no contract amendment is required for the deferral of payments that are due under the original contracts until 31 December 2020 and 30 June 2021.

33.5 Calculation of modification gain/loss

The Bank has carried out a calculation of the change in the cash flows for the relevant range of transactions (direct corporate and refinancing portfolios) and, on the basis of these, as well as on the basis of qualitative factors, has not identified any cases where derecognition would be necessary.

Accordingly, the Bank determines the valuation difference arising from changes in the due dates of repayment of its financial instruments subject to a moratorium on the basis of the difference between the present value of the original and the changed cash flows of the instruments concerned, discounted at the original effective interest rate, and recognises it as a modification difference. The modification difference of Loans and advances to banks and insurance companies was HUF -380,717 million, while the modification difference of Receivables from other customers was HUF -503,467 million in 2020, which is recognised in Gains or losses on modifications in financial assets in the statement of comprehensive income. Due to the moratorium, the Bank incurred a modification loss of HUF -7 million in 2020 on Loans and advances from banks and insurance companies, which is recognised in Gains or losses on modifications in financial liabilities in the statement of comprehensive income.

The Bank recognised the modification loss incurred as a result of Moratorium 1 and Moratorium 2 taking into account different dates. For Moratorium 1, the date of entry into

(All amounts in HUF million, unless otherwise stated)

force, and for Moratorium 2, the date of the announcement, was used to calculate the impact of the contract modifications.
The Bank determines the valuation difference arising from changes in the due dates of repayment of its financial instruments subject to the payment moratorium on the basis of the difference between the present value of the original and the changed cash flows of the instruments concerned, discounted at the effective interest rate, and recognises it as a loss on the grounds of modification difference.
The Bank calculates the modification difference for refinancing loans to financial institutions by separating the cash flows according to the original and the revised schedule, so that the deferral of principal repayments due during the moratorium period is made in accordance with the legal stipulations, while interest payments are made according to the original schedule under agreements concluded with refinancing partners. The Bank calculates the modification difference for refinancing loans on the basis of the revised schedule, using the effective interest rate as a discount factor.

For domestic direct corporate exposures, the adjusted cash flows are determined on a per transaction basis, based on the original cash flows of each exposure and by rescheduling the principal and interest repayment dates due during the moratorium period, based on the specifics of the legislation on the moratorium. In this context, the present value is calculated using the original effective interest rate of each transaction.
Some economic events may also give rise to adjustment gains on a case-by-case basis.

Transactions affected by the moratorium – 31/12/2020

	Gross carrying amount		**Impairment at the balance sheet date**	
	Performing transactions	**Non-performing transactions**	**Performing transactions**	**Non-performing transactions**
Loans and advances to banks and insurance companies	313,692	-	186	-
Receivables from other customers	110,205	6,952	14,812	3,367
Total	**423,897**	**6,952**	**14,998**	**3,367**

The table above shows the gross carrying amount of the transactions under the moratorium outstanding on 31/12/2020 and the amount of impairment related to these transactions at the balance sheet date.

Maturity analysis of the credit moratorium programmes used – 31/12/2020

Gross carrying amount						
Number of debtors affected	**Moratorium expired**	**Remaining term of moratorium**				
		<= 3 months	**> 3 months <= 6 months**	**> 6 months <= 9 months**	**> 9 months <= 12 months**	**> 1 year**

(All amounts in HUF million, unless otherwise stated)

Loans and advances to banks and insurance companies	23	47,395	-	266,297	-	-	-
Receivables from other customers	38	3,163	-	113,994	-	-	-
Total	**61**	**50,558**	**-**	**380,291**	**-**	**-**	**-**

The table above shows a maturity analysis of transactions affected by a moratorium as at 31/12/2020. The remaining total term of the moratorium is shown relative to the balance sheet date. Of the total exposure affected by the moratorium, HUF 50,558 had expired on the reporting date.

Measures taken as a result of COVID-19, broken down by NACE code, non-financial companies – 31/12/2020

Sectors	Gross carrying amount of transactions affected by a moratorium
A AGRICULTURE, FORESTRY AND FISHING	-
B MINING AND QUARRYING	-
C MANUFACTURING	96,567
D ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY	-
E WATER SUPPLY; SEWERAGE; WASTE MANAGEMENT AND REMEDIATION ACTIVITIES	372
F CONSTRUCTION	443
G WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	7,176
H TRANSPORTING AND STORAGE	75
I ACCOMMODATION AND FOOD SERVICE ACTIVITIES	11,724
J INFORMATION, COMMUNICATION	-
L REAL ESTATE TRANSACTIONS	800
M PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	-
N ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	-
O PUBLIC ADMINISTRATION AND DEFENCE; COMPULSORY SOCIAL SECURITY	-
P EDUCATION	-
Q HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	-
R ARTS, ENTERTAINMENT AND RECREATION	-
S OTHER SERVICES	-
Total	**117,157**

The table above shows a sectoral breakdown of exposures to non-financial companies affected by the moratorium as at 31/12/2020.

(All amounts in HUF million, unless otherwise stated)

Interest, fees and commission income on transactions affected by COVID-19 measures

	Current period (18.03.2020 – 31.12.2020)	Note
Interest income on transactions affected by COVID-19 measures	**13,351**	*All items related to transactions affected by a moratorium during 2020 are included, not only the relevant items of the portfolio under moratorium as at 31/12/2020.*
Fee and commission income on transactions affected by COVID-19 measures	**4**	

34 NOTE FAIR VALUE OF FINANCIAL INSTRUMENTS

Several provisions of the Bank's accounting policy and their disclosures require the determination of fair values for financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

All financial instruments are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument at initial recognition is the transaction price (that is, the fair value of the consideration given or received).

Subsequent to initial recognition, the fair value of financial instruments that are quoted in active markets are measured at fair value based on bid prices for assets and ask prices for liabilities. If observable market prices are not available, fair value is determined using valuation techniques based on observable market data. These include comparison with similar instruments where observable market prices exist, discounted cash flow analysis, as well as other valuation techniques commonly used by market participants.

For financial instruments, fair value may be determined in whole or in part using valuation techniques that are based on assumptions or that are not supported by prices from current market transactions or observable market data.

The table below shows the fair value of financial instruments measured at fair value and their classification in the fair value hierarchy.

31 December 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value through profit or loss				
Derivatives				
Investments			28,198	28,198
Financial liabilities measured at fair value through profit or loss				
Derivatives		-1,545		-1,545
31 December 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value through profit or loss				

Derivatives		14,819		14,819
Investments			26,284	26,284
Financial liabilities measured at fair value through profit or loss				
Derivatives		-199		-199

Funds use a number of unobservable inputs for the evaluation of their investments (inputs used for multiples and inputs used for DCF-based valuations); for his reason, the Bank classifies these assets in Level 3 of the fair value hierarchy. The fair values are not produced by the Bank, but are based on the valuation carried out by the funds and are therefore not disclosed by the Bank in accordance with IFRS 13 93 d).

<u>Table of movements in capital funds measured at fair value through profit or loss</u>

	31.12.2020	**31.12.2019**	**Change**
Opening balance	26,284	23,204	3,081
Total unrealised gains and losses	-971	-113	-857
– in profit and loss (Gains or losses from trading and investment activities)	*-971*	*-113*	*-857*
– In OCI		*0*	
Disbursement*	3,602	5,121	-1,520
Repayment	-717	-4,874	4,157
Subscription**	0	2,946	-2,946
Redemption	0	0	0
Transfer to level 3	0	0	0
Transfer from level 3	0	0	0
Closing balance	28,198	26,284	1,914

*Disbursement means that the Bank provides funds for the realisation of the investment following the subscription or makes financial contribution to the costs specified in the management regulations on the basis of a detailed drawdown document.
**Subscription is a special disbursement drawn by the fund manager from the investor(s) in order to establish the fund. This amount is then used to make an investment, pay a fund management fee or an expense.

Repayments during the year were due to the following events:

- The fund has partially or completely quit the investment;
- The amount drawn down has not been fully utilised to implement the investment; the undrawn part was repaid;

In the year under review, the Bank did not have any realised gains or losses on investment funds because the actual settlement takes place at the end of the term.

The fair value of the individual funds is based on the net asset values disclosed by the funds. However, considering that these assets are denominated in foreign currencies, exchange rate risk is significant for fair value measurement.
With this in mind, the Bank has made an estimate to determine reasonably possible exchange rates. During the current year's estimation, a positive and a negative outcome has been determined, taking into account a lower (360 HUF/EUR and 296 HUF/USD) and an upper (400 HUF/EUR and 325 HUF/USD) limit, which shows the impact a possible change would have on the Bank's profit and equity.

(All amounts in HUF million, unless otherwise stated)

EUR capital funds (31 December 2020):

	Net asset value 31.12.2020 (Foreign currency)	Carrying amount 31/12/2020 (mHUF)	Impact of negative outcome on profit or loss for the year (mHUF)	Impact of positive outcome on profit or loss for the year (mHUF)
East West VC Fund	980,875	358	-5	34
SINO CEE Fund	8,936,473	3,264	-46	312

EUR capital funds (31 December 2019):

	Net asset value 31.12.2019 (Foreign currency)	Carrying amount 31/12/2019 (mHUF)	Impact of negative outcome on profit or loss for the year (mHUF)*	Impact of positive outcome on profit or loss for the year (mHUF)
East West VC Fund	550,598	182	5	27
SINO CEE Fund	8,658,355	2,862	82	428

* A decrease in the net asset value denominated in foreign currency may also result in a positive impact on profit or loss for the year.

USD capital funds (31 December 2020):

	Net asset value 31.12.2020 (DEV)	Carrying amount 31/12/2020 (mHUF)	Impact of negative outcome on profit or loss for the year (mHUF)	Impact of positive outcome on profit or loss for the year (mHUF)
China CEE Fund	42,023,621	12,496	-57	1,162
China CEE Fund II.	16,751,898	4,981	-22	463
IFC FIG Fund	17,247,390	5,129	-24	476
Kazakh Hungarian Agriculture Fund	6,585,551	1,958	-9	182

USD capital funds (31 December 2019):

	Net asset value 31.12.2019 (DEV)	Carrying amount 31/12/2019 (mHUF)	Impact of negative outcome on profit or loss for the year (mHUF)*	Impact of positive outcome on profit or loss for the year (mHUF)
China CEE Fund	36,406,932	10,730	920	2,012
China CEE Fund II.	14,839,487	4,374	375	820
IFC FIG Fund	18,759,462	5,529	474	1,037
Kazakh Hungarian Agriculture Fund	8,803,795	2,595	222	486

* A decrease in the net asset value denominated in foreign currency may also result in a positive impact on profit or loss for the year.

The fair value of the funds is determined by the Bank on the basis of the net asset value calculation published periodically by each fund, taking into account the Bank's ownership share in the fund. In case the net asset value calculation for the current quarter is not available at the time of the compilation of the current financial statements of the Bank, the Bank takes into account the net asset value calculation of the previous quarter and adjusts it for any investment contributions and/or repayments from investments made since then.

China CEE Fund

The fund calculates its net asset value by subtracting liabilities from total assets according to the detailed valuation rules outlined in the private placement memorandum dated November 2013 and provided to the investors before investing into the fund. The private placement memorandum was approved by the Commission de Surveillance du Secteur Financier of Luxemburg at the establishment of the fund.

The net asset value of the fund is established at least once a year with the assistance of an independent appraiser (TPA Horwath), which is also reviewed by the alternative investment fund manager of the fund (LIS). In determining the net asset value, the Fund always seeks to ensure that the assets it holds and the liabilities it assumes reflect the fair value, taking into account similar, recent transactions between independent market participants, a discounted cash flow analysis and other valuation techniques commonly used by market participants. The alternative investment fund manager ensures that the valuation methods are in line with IFRS rules and informs the investors of the current net asset value of the fund.

Since the participation units of the fund are denominated in USD, however, the participation units owned by the Bank are recognised in HUF in its books, the Bank performs a sensitivity analysis of the received current (or adjusted) net asset value data in order to estimate to what extent the proceeds from the sale of the participation units of the fund may be affected by future exchange rate changes.

The COVID-19 pandemic did not have a significant negative impact on the business operations of the companies in the fund's portfolio; in fact, the net asset value of the capital fund increased slightly compared to the value recorded at the end of 2019. Therefore, the fund manager did not see any need to change the valuation methodology used so far.

China CEE Fund II

The net asset value of the fund is calculated by subtracting liabilities from total assets according to the detailed valuation rules outlined in the private placement memorandum dated January 2018 and provided to the investors before investing into the fund. By investing into the fund, all investors have accepted and expressed their consent to be bound by the content of the private placement memorandum that was also approved by the Commission de Surveillance du Secteur Financier of Luxemburg.

The net asset value of the fund is established at least once a year with the assistance of an independent appraiser (TPA Horwath), which is also reviewed by the alternative investment fund manager of the fund (LIS). In determining its net asset value, the Fund always seeks to ensure that the assets it holds and the liabilities it assumes reflect the fair value, taking into account similar, recent transactions between independent market participants, a discounted cash flow analysis and other valuation techniques commonly used by market participants. The alternative investment fund manager ensures that the valuation methods are in line with IFRS rules and informs the investors of the current net asset value of the fund.

Since the participation units of the fund are denominated in USD, however, the participation units owned by Eximbank are recognised in HUF in its books, Eximbank performs a sensitivity analysis of the received current (or adjusted) net asset value data in order to estimate to what extent the proceeds from the sale of the participation units of the fund may be affected by future exchange rate changes.

The COVID-19 pandemic did not have a significant negative impact on the business operations of the companies in the fund's portfolio; in fact, the net asset value of the capital fund increased slightly compared to the value recorded at the end of 2019. Therefore, the fund manager did not see any need to change the valuation methodology used so far.

East West VC Fund

The Fund Manager establishes the net asset value quarterly and calculates the value of the participation units on that basis. It measures financial instruments that are not traded on regulated markets or in multilateral trading facilities and all other shares that do not qualify as financial assets at fair value in the following ways:

- within 12 months of the transaction, at cost,
- relevant transactions carried out in the 12 months preceding the valuation date by entities independent of the fund and the fund manager, taking into account all facts and circumstances that may have subsequently affected the value determined at the time of the transaction,
- market multiples, taking into account other companies' area of activity, size, leverage, and profitability,
- discounted cash flows,
- for shares in collective investment undertakings, the last valuation disclosed by the management body,
- in exceptional circumstances, other criteria that are widely accepted in the international markets, provided that the fund manager justifies in writing the valid reasons to use these.

In the case of financial instruments traded on regulated markets or multilateral trading facilities, as a general rule, assets are valued at the closing trading price or the reference price. Liabilities that are not traded on regulated markets or multilateral trading facilities are, as a general rule, valued on a DCF basis.

Since the participation units of the fund are denominated in EUR, but Eximbank recognises the participation units it owns in its books in HUF, Eximbank performs a sensitivity analysis on the current (or adjusted) net asset value data provided to it to estimate the extent to which future changes in the exchange rate may affect the proceeds from the sale of the fund's participation units.

Although the fund's investments are all software development and digitalisation companies, all of them have been negatively affected to varying degrees by the COVID-19 epidemic. In particular, the main problem was the breakdown of certain sales channels.

Hungarian – Kazakh Cooperation Fund

The Limited Partnership Agreement dated 7 December 2015 provides the rules of the establishment of fair value. Accordingly, the fair value of the fund is calculated according to the International Private Equity and Venture Capital Valuation Guidelines or any other valuation method unanimously accepted by the advisory board.

Since the participation units of the fund are denominated in USD, however, the participation units owned by Eximbank are recognised in HUF in its books, Eximbank performs a sensitivity analysis of the received current (or adjusted) net asset value data in order to estimate to what extent the proceeds from the sale of the participation units of the fund may be affected by future exchange rate changes.
The COVID-19 pandemic had a significant negative impact on the business of the companies in the fund's portfolio: as regards the revenue of the greenhouse investment, the partial loss of exports had to be replaced by domestic sources, which meant lower realised crop prices – and

sales are expected to remain at this level in the future. The fund manager left the methodology used unchanged.

IFC FIG Fund

The fund manager calculates the net asset value of the fund according to the valuation methodology of the International Finance Corporation (IFC), outlined in the private placement memorandum dated November 2013 and provided to the investors before investing into the fund. The portfolio managers of the fund manager prepare the quarterly valuations which are verified by a central valuation team of the financial and accounting department of IFC. Valuations of equity, quasi-equity and equity-related assets are based on the principle of fair value and are updated quarterly. In active markets, the real-time prices are the fair value. Unlisted shares are held at cost for 12 months, unless subsequent events over this period have a significant impact on fair value. If this latter occurs, or after 12 months in all cases, the fair value of direct equity investments is determined on a quarterly basis using the DCF method or other methods such as industry multiples or methods based on market transactions.

The fund manager also values the assets and liabilities of the fund in the audited annual financial statements. In addition, the fund manager provides the investors with non-audited valuations quarterly.

Since the participation units of the fund are denominated in USD, however, the participation units owned by Eximbank are recognised in HUF in its books, Eximbank performs a sensitivity analysis of the received current (or adjusted) net asset value data in order to estimate to what extent the proceeds from the sale of the participation units of the fund may be affected by future exchange rate changes.

The COVID-19 pandemic had a significant impact on the establishment of the fair value of the companies in the fund's portfolio, as in accordance with the chosen valuation methodology the financial ratios and share prices of listed companies with similar activities form the basis of the valuation. The correction in equity markets therefore had a significant impact on fair value. Another corrective factor is that the business of financial institutions and insurance companies, which make up a large part of the portfolio, slowed in the wake of the pandemic, with a fall in the pace of placements and an increase in the share of non-performing loans.

SINO-CEE Fund

The net asset value of the fund is determined at least once a year, on the last business day of the financial year, by the fund manager or its agent appointed to carry out this task, taking into account IFRS rules and the fund's valuation rules. Before any change to the fund's valuation policies, the fund manager is required to inform the investors about the changes.

Under the alternative fund management agreement, the alternative investment fund manager (Carne Global Fund Managers) carries out the valuation of the fund's assets, with the proviso that the valuation process is carried out independently of the portfolio management functions, in accordance with the AIFM Directive.
The valuation of the fund is carried out annually and the alternative investment fund manager may use the services of an independent appraiser in the valuation of certain assets, but as internal valuer it remains fully responsible for the valuation of the fund's assets. The valuation is done in accordance with internationally accepted valuation principles and the fund's own valuation policies, which are set out in the "Limited Partnership Agreement", consolidated on 23 July 2018.

Since the participation units of the fund are denominated in EUR, however, the participation units owned by Eximbank are recognised in HUF in its books, Eximbank performs a sensitivity analysis of the received current (or adjusted) net asset value data in order to estimate to what extent the proceeds from the sale of the participation units of the fund may be affected by future exchange rate changes.

The COVID-19 pandemic had a significant impact on the establishment of the fair value of the companies in the fund's portfolio, as in accordance with the chosen valuation methodology the financial ratios and share prices of listed companies with similar activities form the basis of the valuation. The correction in equity markets therefore had a significant impact on fair value. Another corrective factor is that hotel investments, which make up the majority of the portfolio, have seen a significant fall in business as a result of the pandemic, with hotels having to close for extended periods and therefore losing revenue, but incurring operating costs nonetheless.

Three Seas Initiative Investment Fund

The net asset value of the fund is determined at least once a year, on the last business day of the financial year, by the fund manager or its agent appointed to carry out this task, taking into account IFRS rules and the fund's valuation policy. Before any change to the fund's valuation policy, the fund manager is required to inform the investors about the changes.

Under the alternative fund management agreement, the alternative investment fund manager (Fuchs Asset Management) carries out the valuation of the fund's assets, with the proviso that the valuation process is carried out independently of the portfolio management functions, in accordance with the AIFM Directive, with the objective at all times that the valuation process of the fund's portfolio should be reliable, transparent, comprehensive and well documented. The valuation of the fund is carried out annually and the alternative investment fund manager may use the services of an independent appraiser in the valuation of certain assets, but as internal valuer it remains fully responsible for the valuation of the fund's assets. The valuation is done in accordance with internationally accepted valuation principles and the fund's own valuation policy, which is set out in the "Private Placement Memorandum", consolidated on 20 October 2020.

Since the shares of the fund are denominated in EUR, however, the shares owned by Eximbank are recognised in HUF in its books, Eximbank performs a sensitivity analysis of the received current (or adjusted) net asset value data in order to estimate to what extent the proceeds from the sale of the shares of the fund may be affected by future exchange rate changes.

Valuation techniques for financial instruments measured at fair value

Level 2:

- Foreign currency swaps are measured based on observable spot exchange rates, the yield curves of the respective currencies as well as the basis swap spreads between the respective currencies.

Level 3:

- The fair value of investments in private capital funds is determined on the basis of the net asset value presented by the investment funds.

Classifying of the fair value of financial instruments not measured at fair value within each hierarchy level

The determination of the estimated fair value shown below is based on the price that would be received when selling an asset or transferring a liability in an orderly transaction between market participants at the measurement date or, in the absence of a primary market, in the most advantageous market for the asset or liability. However, many financial instruments do not have an active market, so fair value is determined based on estimates using net present value and other valuation techniques, which are significantly affected by assumptions about the amount and timing of estimated future cash flows and discounts. Furthermore, due to the use of subjective judgement and uncertainties, aggregate fair values should not be construed as sale prices of these instruments that could immediately be realised in case of a sale.

Cash and cash equivalents

Due to their short-term nature, the fair values of cash and cash equivalents approximate their carrying amount.

Securities measured at amortised cost

The fair value of Hungarian Government bonds is determined based on observable market prices published by Government Debt Management Agency Ltd. (ÁKK Zrt.). The fair value of short-term bonds and treasury bills issued by the National Bank of Hungary is determined using a model based on a discounted cash flow model using yield curves observable and available on the market, as published by ÁKK Zrt.

Loans and advances to other banks and insurance companies and Receivables from other customers

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, the fair value is estimated using valuation models, such as techniques based on discounted cash flows. Inputs used for the valuation include expected losses, interest rates, and primary issue or secondary market premiums. For impaired loans secured by collateral, the realisable value of the underlying collateral is taken into account when determining fair value.

Derivative financial assets and liabilities

Derivative financial instruments are carried at their fair values in the statement of financial position. The fair value of derivative financial instruments is calculated using discounted cash flow techniques, which take into account assumptions based on market data.

Investments measured at fair value through profit or loss

The carrying amount of equity investments measured at fair value through profit or loss is disclosed in Note 9 to the financial statements. The valuation of these assets is explained earlier in this chapter.

Other assets and liabilities

The carrying amounts of other financial assets and other financial liabilities approximate their fair values.

(All amounts in HUF million, unless otherwise stated)

Financial liabilities measured at amortised cost

The Bank measures the fair value of Loans and advances from other banks and insurance companies and Loans and advances from other customers using the discounted cash flow method, which takes into account assumptions and inputs based on market data. Market data includes Bloomberg swap yield curves in the instrument's currency. The reference yield curves are calculated by shifting the sovereign yield curves. The extent of the shift is based on historical data. The cash flow of the instrument is calculated by the Inforex system using contractual cash flows.

Securities issued

All bond series issued under Hungarian law have been listed on the Budapest Stock Exchange. Fair value of these bonds is determined based on observable market prices.

The following table sets out the fair values of financial instruments not measured at fair value and their classification in the fair value hierarchy.

As at 31 December 2020	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
Cash and cash equivalents		2,529		2,529	2,529
Securities measured at amortised cost		106,028		106,028	105,261
Loans and advances to banks and insurance companies			764,905	764,905	762,366
Receivables from other customers			329,415	329,415	323,538
Other financial assets			4,066	4,066	4,066
Total		**108,557**	**1,098,386**	**1,206,943**	**1,197,760**
Loans and advances from other banks and insurance companies			863,528	863,528	850,323
Loans and advances from other customers			3,676	3,676	3,675
Securities issued	203,493			203,493	201,400
Other financial liabilities			6,505	6,505	6,505
Total	**203,493**		**873,709**	**1,077,202**	**1,061,903**

As at 31 December 2019	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
Cash and cash equivalents		63,587		63,587	63,584
Securities measured at amortised cost		43,440		43,440	43,123
Loans and advances to banks and insurance companies			528,499	528,499	526,303
Receivables from other customers			250,271	250,271	248,245
Other financial assets			3,777	3,777	3,777
Total		**107,027**	**782,547**	**889,574**	**885,032**
Loans and advances from other banks and insurance companies			586,188	586,188	572,332

(All amounts in HUF million, unless otherwise stated)

Loans and advances from other customers		6,657	6,657	6,657
Securities issued	220,827		220,827	220,025
Other financial liabilities		7,108	7,108	7,108
Total	**220,827**	**599,953**	**820,780**	**806,122**

13 April 2021
Authorised for issue by

Gergely Jákli
Chairman and Chief Executive Officer

Dr. József Dancsó
Deputy Chief Financial Officer