HUNGARIAN EXPORT-IMPORT BANK
PRIVATE LIMITED COMPANY

INDIVIDUAL FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS AS ADOPTED BY THE EUROPEAN UNION

FOR THE YEAR ENDED
31 DECEMBER 2018

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Independent Auditors' Report

To the shareholder of Magyar Export-Import Bank Private Limited Company

Opinion

We have audited the individual financial statements of Magyar Export-Import Bank Private Limited Company ("the Bank"), which comprise the individual statement of financial position as at 31 December 2018, the individual statements of comprehensive income, changes in Shareholder's 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 individual financial statements give a true and fair view of the individual financial position of the Bank as at 31 December 2018, and of its individual financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Individual Financial Statements section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (hereinafter referred to as the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

KPMG Hungária Kft., a Hungarian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Company registration: Budapest, Fővárosi Törvényszék Cégbírósága, no: 01-09-063183

Valuation of loans and advances to customers (2018: HUF 272,811 million, 2017: 241,323 million)

Refer to Note (7) to the individual financial statements.

The key audit matter	*How the matter was addressed in our audit*
The impairment on loans are considered to be a key audit matter owing to the significance of loans and advances to customers, and the high degree of complexity and judgment applied by the Bank in determining impairment. Net loans and advances to customers, amounting to HUF 272,811 million represents 28.0% of the total assets of the Bank. The gross impairment amounts to HUF 17,147 million. Without having appropriate impairment assessment the carrying value of the loans might be overstated. Net loans and advances contain individually significant loans, including several project finance loans being in the early phase. The individual impairments on these loans are based on the Bank's judgment in estimating the performance of the project and the present value of expected future cash flows which are inherently uncertain. This is challenging from an audit perspective especially in relation to the project finance loans being in early phases as the valuation of the loans contains significant estimation uncertainty.	Our audit procedures included: • Testing the key controls over impairment calculations, customer ratings, annual reviews, and internal approvals on quarterly impairment changes. • Inspecting and assessing the historical accuracy of estimation of impairment losses made by the Bank by comparing prior period estimates to actual credit losses. • Performing specific loan review for a sample of individually significant customer loans. Our sampling methodology ensures that the conclusion based on this sample can be projected to the whole population. Our loan review – among others - included examination of financial performance, project status, business plans completions, inspection of the latest correspondence with the borrower, provision estimates prepared by credit risk officers and consideration of the resolution period estimated for the impaired loans. We challenged assumptions based on our professional judgment and industry knowledge. We assessed collateral values with reference to valuations performed by approved appraisers engaged by the Bank. We also reperformed calculation of impairment loss relating to the specific loans reviewed.

Determining the level of influence of the Bank over certain venture capital funds (2018: 20,926 million, 2017: HUF 17,398 million)

Refer to Note (10) to the individual financial statements.

The key audit matter	*How the matter was addressed in our audit*
The determination of the level of influence of the Bank over certain venture capital funds is considered to be a key audit matter owing to the significance of the effect of the method used to account for different investments to the individual financial statements (i.e. consolidation vs. equity method), and the high degree of complexity and judgment applied by the Bank in determining the level of influence. Investments in venture capital funds accounted for using the equity method amounts to HUF 20,926 million out of which the amount of Investments in venture capital funds accounted for using the equity method where the determination of the level of influence of the Bank over the funds was regarded to be a key audit matter is HUF 15,503 million. The method applied for accounting of these venture capital funds is based on the Bank's judgment of the level of influence of the Bank over the funds considering all facts and circumstances. This is challenging from audit point of view as: • the Bank's share in the total net assets of these funds is 100%, however, these funds are managed by a fund manager unrelated to the Bank; and • the structure of these venture capital funds is complex with both the Bank and the fund manager having rights to participate in decisions over the relevant activities of the funds and the funds are in the early phases with no long histories of how the different parties to the fund actually participate in decisions over the relevant activities of the funds in practice.	Our audit procedures included: • Evaluating the key controls over the consolidation process, including controls over the determination made by the Bank of whether the Bank controls, jointly controls or has significant influence in another entity. • Inspecting the Bank's analysis of the key terms and conditions of the arrangements of the venture capital funds and its assessment of the level of influence of the Bank over the funds. • Inspecting the arrangements of the venture capital funds and making inquiries of the Bank on its interpretation of certain provisions of the arrangements to understand the design and purpose of the funds, and determine of the relevant activities of the funds and how decisions over the relevant activities of the funds are taken.

KPMG

IFRS 9 transition – impairment

Refer to Note (3.7), Note (3.20) and Note (7) to the individual financial statements.

The key audit matter	*How the matter was addressed in our audit*
The Bank applies *IFRS 9 Financial instruments* in the individual financial statements as of 1 January 2018 for the first time. Due to the change from the incurred loss model to the expected loss (ECL) model as a result of adopting IFRS 9, new accounting policies and disclosures had to be established. As a result, the calculation methodology of ECL model changed, new assumptions / judgments (such as macro inputs) had to be applied, relevance and reliability of the used data had to be determined, and new or modified processes, systems and controls had to be implemented.	Our audit procedures included: • Understanding the decisions of the Bank and the introduced controls that ensure the completeness, compliance and accuracy of the impairment relating to loans and advances to customers. • Examining the valuation of significant individually impaired loans and advances to customers whether it is compliant with IFRS 9 (scenario-based impairment). • Assessing the adequacy of the accounting policies, impairment policies and model documentation based on the regulations of IFRS 9, our business understanding and industry practice. • Examining the supervisory authority discussions regarding estimation and reserving levels. • Assessing the model validation documents. • Recalculating the amount of ECL, examine the sensitivity of impairment parameters. • Involving our Financial Risk Management specialists to assess the impairment models and estimation of parameters used. • Considering the completeness, adequacy and relevance of the disclosures in respect of IFRS 9 provisioning and impairment models in the individual financial statements.

Other Matter

We draw your attention to Note 2.1 to the individual financial statements which describes that these individual financial statements are not intended for statutory filing purposes. Therefore, this report does not constitute an independent auditors' report in accordance with Section 156-158 of the Act C of 2000 on Accounting in force in Hungary.

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

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

In preparing the individual financial statements, management is responsible for assessing the 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 Individual Financial Statements

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

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

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

- 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 individual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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 individual financial statements, including the disclosures, and whether the individual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the individual 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.

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

Budapest, 28 June 2019

KPMG Hungária Kft.

István Henye
Partner

HUNGARIAN EXPORT-IMPORT BANK PLC.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
(All amounts in HUF million unless otherwise stated)

	Note	31.12.2018	31.12.2017*
Cash and cash balances with National Bank of Hungary	4	3,756	3,558
Available-for-sale financial assets, net of impairment losses	5	-	56,534
Securities measured at amortised cost	5	40,749	-
Loans and advances to banks and insurance companies	6	590,904	588,186
Loans and advances to other customers	7	272,811	241,323
Derivative financial assets	8	11,913	11,646
Financial assets at fair value through profit or loss other than derivatives	9	23,204	-
Investments accounted for using the equity method	10	20,926	17,398
Intangibles	11	1,869	1,459
Property, plant and equipment	12	1,047	1,293
Current income tax assets	13	689	666
Other tax assets	13	41	1,936
Deferred tax assets	13	-	116
Other assets	14	5,184	1,408
Total Assets		**973,093**	**925,523**
Loans and deposits from other banks and insurance companies	16	486,135	336,064
Deposits from customers	17	2,108	9,874
Financial liabilities at fair value through profit or loss	8	1,156	-
Debt securities issued	18	316,564	428,129
Provision for guarantees and contingencies	15	1,644	857
Other tax liabilities	13	158	175
Deferred tax liabilities	13	217	-
Other liabilities	19	9,208	4,675
Total Liabilities		**817,190**	**779,774**
Share capital	20	133,700	133,700
Retained earnings	20	5,958	(2,257)
Other reserves	20	16,245	14,306
Total Shareholder's Equity		**155,903**	**145,749**
Total Liabilities and Equity		**973,093**	**925,523**

* For detailed information please refer to Note 3.21 and 3.22.

28 June 2019
Authorised for issue by

Gergely Jákli
Chief Executive Officer

Dr. József Dancsó
Deputy Chief Executive Officer

The accompanying notes to the individual financial statements on pages 13-131 form an integral part of these individual financial statements.

HUNGARIAN EXPORT-IMPORT BANK PLC.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts in HUF million unless otherwise stated)

	Note	31.12.2018	31.12.2017
Interest income calculated using the effective interest method	22	34,314	35,550
Other interest income	22	4,751	7,801
Interest expense	22	(25,036)	(28,121)
Net interest income		**14,029**	**15,230**
Fee and commission income	23	570	628
Fee and commission expense	23	(239)	(1,349)
Net income from fees and commissions		**331**	**(721)**
Gains or losses on derecognition of financial assets measured at amortised cost	24	(1)	-
Impairment/provision or reversal of impairment/provision on financial instruments	15	(2,685)	(4,677)
Impairment or reversal of impairment on non-financial assets	15	11	(35)
Provision or reversal of provision under IAS 37	15	297	(129)
Gains and (losses) from trading and investment activities, net	25	4,419	(632)
Operating income	26	536	-
Operating expenses, net	26	(3,754)	(3,443)
Staff expenses	26	(3,766)	(4,052)
Depreciation	26	(774)	(524)
Share of profit/(loss) of joint ventures and associates	10	(76)	(105)
Profit/(loss) before income tax		**8,567**	**912**
Income taxes	13	(1,498)	(620)
Profit/(loss) for the period		**7,069**	**292**
Items that will be reclassified to profit or loss		-	**271**
Fair value differences of available-for-sale debt instruments	5	-	305
Related income tax	10	-	(34)
Items that will not be reclassified to profit or loss		**471**	**597**
Share of other comprehensive income of equity accounted investees, net of tax	10	532	(289)
Fair value differences of available-for-sale equity instruments	9	0	960
Related income tax	13	(61)	(74)
Other comprehensive income for the period, net of income tax		**471**	**868**
Total comprehensive income/ (loss) for the period		**7,540**	**1,160**

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Chief Executive Officer

Dr. József Dancsó
Deputy Chief Executive Officer

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HUNGARIAN EXPORT-IMPORT BANK PLC.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts in HUF million unless otherwise stated)

	Share Capital	Share Premium	Retained Earnings	Statutory reserves	Fair value reserves	Total
Balance as at 31 December 2017	**133,700**	**400**	**(2,257)**	**10,747**	**3,159**	**145,749**
IFRS 9 transition effect	-	-	5,565		(3,159)	2,406
Other effect (Note 3.22)	-	-	241		(33)	208
Balance as at 1 January 2018	**133,700**	**400**	**3,549**	**10,747**	**(33)**	**148,363**
Total comprehensive income for the period						
Profit or loss for the period			7,069			7,069
Other comprehensive income						
Share of other comprehensive income of equity accounted investees, net of tax					471	471
Total comprehensive income for the period			***7,069***		***471***	***7,540***
Other transactions, recorded directly in equity						
Reclassification of retained earnings to general reserve (Note 3.8)			(4,660)	4,660		-
Total other transactions	-	-	***(4,660)***	***4,660***	-	-
Balance as at 31 December 2018	**133,700**	**400**	**5,958**	**15,407**	**438**	**155,903**

28 June 2019
Authorised for issue by

Gergely Jákli
Chief Executive Officer

Dr. József Dancsó
Deputy Chief Executive Officer

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STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts in HUF million unless otherwise stated)

	Share Capital	Share Premium	Retained Earnings	Statutory reserves	Fair value reserve	Total
Balance as at 1 January 2017	**133,700**	**400**	**(1,416)**	**9,614**	**2,289**	**144,587**
Total comprehensive income for the period						
Profit or loss for the period			292			292
Other comprehensive income						
Net change in fair value of available-for-sale financial assets, net of tax					1,126	1,126
Share of other comprehensive income of equity accounted investees, net of tax					(256)	(256)
Total comprehensive income for the period			*292*		*870*	*1,162*
Other transactions, recorded directly in equity						
Reclassification of retained earnings to general reserve (Note 3.8)			(1,133)	1,133		
Total other transactions	-	-	*(1,133)*	*1,133*	-	-
Balance as at 31 December 2017	**133,700**	**400**	**(2,257)**	**10,747**	**3,159**	**145,749**

28 June 2019
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Deputy Chief Executive Officer

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HUNGARIAN EXPORT-IMPORT BANK PLC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts in HUF million unless otherwise stated)

	Note	31.12.2018	31.12.2017
OPERATING ACTIVITIES			
Profit/(loss) for the period		7,069	293
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortisation	26	774	524
Impairment losses on assets	15	2,079	4,693
(Profit)/loss from revaluation to fair value		(5,181)	23,503
Share of the profit and loss of joint ventures and associates accounted for using the equity method	10	76	105
Foreign exchange (gains) and losses relating to non-operating cash-flows	18	(14,362)	(34,167)
Other non-cash items		28,806	3,948
Net interest income	22	(14,029)	(13,132)
Tax expense	13	1,498	620
Changes in operating assets and liabilities:			
Net (increase)/decrease in loans and advances to other banks and insurance companies, before impairment losses		(2,801)	(19,985)
Net (increase)/decrease in loans and advances to customers, before impairment losses		(23,105)	4,824
Net (increase)/decrease in other assets		(1,904)	(316)
Net increase/(decrease) in loans and deposits from other banks and insurance companies		150,023	23,947
Net increase/(decrease) in deposits from customers		(7,760)	(18,741)
Net increase/(decrease) other liabilities and provision		1,655	566
Interest received		34,249	35,072
Interest paid		(22,706)	(22,720)
Income taxes paid		(1,339)	(974)
Net cash provided by/(used in) operating activities		**133,042**	**(11,940)**
INVESTING ACTIVITIES			
Net (purchase of)/proceeds from available-for-sale financial assets	5	-	(3,176)
Net (purchase of)/proceeds from securities		(864)	
Net (purchase of)/proceeds from investing in joint ventures and associates	10	(3,071)	(2,313)
Net (increase)/decrease in financial assets at FVTPL other than derivatives	9	(762)	-
Acquisition of intangible assets and property and equipment	11-12	(930)	(1,525)
Disposal of intangible assets and property and equipment	11-12	3	28
Net cash used in investing activities		**(5,624)**	**(6,986)**

The accompanying notes to the individual financial statements on pages 13-131 form an integral part of these individual financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts in HUF million unless otherwise stated)

		31.12.2018	31.12.2017
FINANCING ACTIVITIES:			
Proceeds from issuance of debt securities	18	-	45,179
Repayment of debt securities	18	(127,220)	(23,389)
Net cash provided by financing activities		**(127,220)**	**21,790**
Net increase/(decrease) in cash and cash equivalents		**198**	**2,864**
Net foreign exchange difference		-	(13)
Cash and cash equivalents at the beginning of the year	4	3,558	707
Cash and cash equivalents at the end of the year	4	**3,756**	**3,558**

28 June 2019

Authorised for issue by

Gergely Jákli
Chief Executive Officer

Dr. József Dancsó
Deputy Chief Executive Officer

NOTE 1. GENERAL INFORMATION

Hungarian Export-Import Bank Private Limited Company ("Eximbank", "the Bank") was established on 26 May 1994 as the legal successor of the Export Guarantee Corporation. The legal status and the activities of the Bank are regulated by Act XLII of 1994 on the Hungarian Export-Import Bank Ltd. and the Hungarian Export Credit Insurance Ltd. ("Act on Eximbank"). Eximbank's primary business goal is to promote Hungarian exports by granting loans and guarantees.

The Bank is a limited liability company incorporated and domiciled in Hungary. The Bank's registered office is at Nagymező St. 46-48., H-1065 Budapest, Hungary.

On 12 April 2012, the Hungarian Government announced that the Hungarian State acquired the shares of Eximbank owned by the Hungarian Development Bank Ltd. and all the shareholders' rights were to be exercised by the Minister for National Economy. This was followed by a new announcement of the Hungarian Government in June 2014 when control of all shareholders' rights was taken over by the Minister of Foreign Affairs and Trade. The relating modification of the Act on Eximbank is effective from 6 June 2014.

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

Under the Act on Eximbank, Eximbank is charged with the public policy task of providing financing for the export of Hungarian goods and services, as well as financing Hungarian investments abroad and export related investments in Hungary, thereby enabling companies operating in Hungary – primarily small or medium-sized enterprises but also large corporations – to maximise their export opportunities, while contributing to the maintenance and creation of jobs in Hungary, and as well as promoting the development of the national economy by way of improving the competitiveness of Hungarian exports in foreign markets.

In support of its mandate, Eximbank may lend directly to the exporters of Hungarian products and services, just as to their suppliers or their foreign purchasers, moreover, as it is more prevalent, indirectly through refinancing facilities to domestic commercial banks (and, to a lesser extent, foreign commercial banks) providing financing to Hungarian export related transactions. Eximbank offers the majority of its loans in accordance with OECD rules in the form of medium- to long-term credits at favourable fixed interest rates. These rates are based on the Commercial Interest Reference Rate ("CIRR"), which is the OECD minimum interest rate for officially-supported export financing, being effective on the date of the loan contract coming into force.

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

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

NOTE 1. GENERAL INFORMATION (CONTINUED)

As an export credit agency in the traditional sense, Eximbank provides products and services which represent either alternative or supplementary financial tools, the purpose of which is to fill the gaps in trade finance created by the lack of capacity or willingness from commercial banks' side to provide loans at rates attractive to Hungarian exporters, and to provide Hungarian exporters with a more level playing field in terms of access to financing compared to exporters from other countries. The majority of Eximbank's direct customers are small or medium-sized enterprises that tend to export to geographic markets where financing provided by Eximbank has the potential to deliver significant competitive advantages to exporters. Most of Eximbank's loans are provided indirectly through commercial banks. While Eximbank does not seek to compete directly with commercial banks, it does provide direct lending to customers upon customer request, or where commercial banks are unable or unwilling to lend to customers directly. In addition, Eximbank provides buyer's credit to support foreign purchasers of Hungarian exports and plays the role of lender in tied-aid agreements concluded between the Hungarian government and governments of tied-aid eligible countries.

The functions of the state export credit agency in Hungary are divided between Eximbank and the Hungarian Export Credit Insurance Plc. ("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 export-related guarantees, MEHIB provides export credit insurance to exporters or their banks, including Eximbank's borrowers as well.

NOTE 2. BASIS OF PREPARATION

2.1 Statement of compliance

These individual financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU.

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.

These individual financial statements for the year ended 31 December 2018 include the accounts of Eximbank. The Bank has a joint venture and three associates, which are accounted for using the equity method in accordance with *IAS 28 Investments in Associates and Joint Ventures*.
No consolidated accounts are presented by Eximbank, given that Eximbank has no subsidiaries.

These individual financial statements were authorised for issue by the Chief Executive Officer and the Deputy Chief Executive Officer on 28 June 2019 and are not intended to be used for statutory filing purposes.

Pursuant to Article 105 (3) of the 159/2017 Act (law amending certain laws and certain other laws related to the entry into force of the Act on the General Administrative Order), Eximbank is required to mandatory adopt EU IFRSs in its separate statutory financial statements only for annual periods beginning on or after 1st of January 2019.

NOTE 2. BASIS OF PREPARATION (CONTINUED)

2.2 Basis of measurement

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

- Derivative financial instruments are measured at fair value,
- Financial instruments at fair value through profit or loss are measured at fair value,
- Other financial instruments are measured at amortised cost,
- Investment accounted for using the equity method.

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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 described in Note 33.

2.3 Functional and presentation currency

These individual financial statements are presented in Hungarian Forints ('HUF'), which is the Bank's functional currency. Except as indicated, financial information presented in Hungarian Forints has been rounded to the nearest million (MHUF).

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by the Bank in preparing and presenting financial statements. The accounting policies set out below have been applied consistently to all periods presented in these individual financial statements.

The Bank presents its statements of financial position broadly in 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.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1. Financial instruments

3.1.1. Policies applicable before 1 January 2018

Any contract that gives rise to a financial asset, a financial liability or equity is classified as a financial instrument.
The Bank classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

The Bank classifies non-derivative financial liabilities into the following categories: financial liabilities at fair value through profit or loss and other financial liabilities category.

All financial instruments are initially recognised at their fair values in the Bank's statement of financial position. Initial fair values represent given or received considerations and are adjusted by transaction costs except for financial instruments at fair value through profit or loss, for which transaction costs are charged to profit or loss.
The Bank initially recognizes loans and advances, deposits, debt securities issued on the date settlement date. The Bank initially recognizes available for sale financial assets on settlement date. All other financial assets and financial liabilities are initially recognized on the trade date when the entity becomes a party to the contractual provisions of the instrument.

Subsequent to initial recognition, financial instruments are measured by specific valuation principles disclosed at each relevant category of financial assets and financial liabilities below.

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Bank is recognized as a separate asset or liability.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realize the asset.

3.1.2. Policies applicable from 1 January 2018

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.
However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

– the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
– the remaining amount of change in the fair value is presented in profit or loss.

The Bank has not designated any financial liabilities at FVTPL and the Bank has no current intention to do so. The Bank's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

A financial asset or a financial liability shall be recognised in an entity's statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument.

In accordance with the provisions of IFRS 9 the Bank classifies financial assets into the following categories: financial assets measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss.

Financial liabilities shall be measured consequently at amortised cost, except for financial liabilities at fair value through profit or loss. Financial guarantee contracts and loan commitments at below market interest rate shall be measured at FVTPL, as well.

The Bank shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The Bank initially recognises its financial instruments on the settlement date with the exception of those financial instruments which are measured at fair value through profit or loss (FVTPL). FVTPL assets and liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument. When an entity uses settlement date accounting for an asset that is subsequently measured at amortised cost, the asset is recognised initially at its fair value on the trade date. In cases when there is reporting date between the trade date and the settlement date, the Bank recognises the fair value difference that occurs between the trade and reporting date in case of financial instruments measured at fair value.

Subsequent to initial recognition, financial instruments are measured by specific valuation principles disclosed at each relevant category of financial assets and financial liabilities below.

An entity shall derecognise a financial asset when, and only when the contractual rights to the cash flows from the financial asset expire, or it transfers the financial asset. An entity transfers a financial asset if, and only if, it either: (a) transfers the contractual rights to receive the cash flows of the financial asset, or (b) retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions in IFRS9:3.2.5.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Modification of contractual terms of financial liabilities

In case of modification of the contractual terms of financial liabilities, the Bank assesses whether the modification is substantial, i.e. the terms of the financial liability after modification are substantially different from those of the financial liability before modification.

In case of a substantial modification the Bank considers financial liability to be extinguished and as a consequence it derecognises the original financial liability and recognises the modified financial liability at fair value. Any difference between the derecognised carrying amount of the original financial liability and the recognised amount of the modified financial liability is taken to profit or loss.

In case of a non-substantial modification, the Bank recognises the difference between

a. the present value of the modified cash-flows discounted using the financial liability's original effective interest rate or revised effective interest rate where applicable, at the date of the modification; and
b. the financial liability's gross carrying amount at the date of modification,

is recognised in profit or loss. Any costs or fees incurred adjust the carrying amount of the financial liability after accounting for the above difference.

For assessing whether a contract modification is substantial, the Bank performs

- a quantitative; and
- a qualitative test

A contract modification is substantial, if it is substantial based on either test above.

A contract modification is considered to be substantial based on the quantitative test, if – at the date of contract modification – the modified cash flows (including any fees paid net of fees received) discounted using the financial liability's original effective interest rate or revised effective interest rate where applicable is at least 10% different from the present value of the remaining future cash flows of the original financial liability (using the same discount rate as mentioned above).

A contract modification is considered to be substantial based on the qualitative test, if the Bank concludes, based on all relevant facts and circumstances of the individual case assessed, that the modified financial liability's risks are fundamentally different from those of the original financial liabilities.
In particular, a contract modification is considered substantial in the following cases:

- change in currency
- fundamental change in the instrument's nature (type)
- changing interest rate from fixed to variable or vice versa

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Modification of contractual terms of financial assets

In case of modification of the contractual terms of financial assets, the Bank assesses whether the modification is substantial, i.e. the terms of the financial asset after modification are substantially different from those of the financial asset before modification.

In case of a substantial modification the Bank considers the contractual rights to the cash-flows of the financial asset to be expired and as a consequence it derecognises the original financial asset and recognises the modified financial asset at fair value. Any difference between the derecognised carrying amount of the original financial asset and the recognised amount of the modified financial asset is taken to profit or loss.

In case of a non-substantial modification, the Bank recognises the modification gain or loss in profit or loss. Modification gain or loss is the difference between

a. the present value of the modified cash-flows discounted using the financial asset's original effective interest rate or revised effective interest rate where applicable, at the date of the modification; and
b. the financial asset's gross carrying amount at the date of modification,

Any costs or fees incurred adjust the carrying amount of the financial asset after accounting for the above difference.

For assessing whether a contract modification is substantial, the Bank performs

- a quantitative; and
- a qualitative test

A contract modification is substantial, if it is substantial based on either test above.

A contract modification is considered to be substantial based on the quantitative test, if – at the date of contract modification – the modified cash flows (including any fees paid net of fees received) discounted using the financial asset's original effective interest rate or revised effective interest rate where applicable is at least 10% different from the present value of the remaining future cash flows of the original financial asset (using the same discount rate as mentioned above).

A contract modification is considered to be substantial based on the qualitative test, if the Bank concludes, based on all relevant facts and circumstances of the individual case assessed, that the modified financial asset's risks are fundamentally different from those of the original financial assets.
In particular, a contract modification is considered substantial in the following cases:

- change in currency
- fundamental change in the instrument's nature (type)
- changing interest rate from fixed to variable or vice versa
- features introduced by the contract modification that would alter the result of the SPPI test when performed at the date of modification

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset.

3.2. Financial instruments measured at FVTPL (derivatives)

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income in accordance with IFRS 9. However an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

Trading debt and equity instruments are generally held for the short term in anticipation of market gains and resale, and are measured initially at their fair values, with transaction costs taken to profit or loss. Subsequently, their fair values are remeasured and all gains and losses on these instruments are recognised in profit or loss under 'Gains and losses from trading and investment activities'.

Debt and equity instruments held for trading are reported as financial assets at fair value through profit or loss. Interest earned on debt securities is reported as interest income, and dividends earned on equity instruments are taken to 'Gains and losses from trading and investment activities' when declared. Interest payable on such securities is reported as interest expense.

The Bank uses foreign currency exchange contracts for economic hedging purposes, however, hedge accounting according to IFRS 9 is not applied. These contracts include cross currency interest rate swaps. All derivative financial instruments are carried at fair value. All gains and losses on these instruments are recognised in 'Gains and losses from trading and investment activities' in profit or loss.

3.3. Financial instruments measured at FVTPL (other than derivatives)

Smaller part of the Banks's equity investments represents shares held in certain entities in order to benefit in terms of banking relationships. The majority of the equity investments represent interest in investment funds. Dividend income, when declared (unless the dividend clearly represents a recovery of part of the cost of the investment), and any gains or losses on the Bank's shares in investment funds is taken to 'Gains and losses from trading and investment activities'.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Financial Instruments measured at Amortised cost

A financial asset shall be measured at amortised cost if the asset is held within a business model whose objective is to hold financial assets in order 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 on the principal amount outstanding (SPPI). Interest revenue of financial assets shall be calculated by using the effective interest method.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established at initial recognition or at repricing of the financial asset and liability and is not revised subsequently, effective interest rate is to be recalculated also in cases when such new fees or costs arise that become integral part of the effective interest rate. 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 not future credit losses. The calculation includes all amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

The Bank carried out the SPPI test and the business model test for classification (see Note 3.20.).

Financial liabilities shall be measured at amortised costs, unless stated otherwise.

3.4.1. Cash and cash balances with National Bank of Hungary

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturity of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. These items are carried at amortised cost in the statement of financial position.

3.4.2. Securities measured at amortised cost

Debt securities are carried at amortised cost in the statement of financial position, as both the SPPI criteria has been met, and during the business model analysis showed that such securities are held to collect contractual cash-flows. Premiums and discounts are amortised against net profit using the effective interest rate method.

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 customers are classified as financial asset at amortised cost. Loans are reported at amortised cost, net of expected loss.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4.4. Loans and deposits from other banks and insurance companies, Deposits from customers, Debt securities issued

Loans and deposits from other banks and insurance companies, deposits from customers and issued debt securities are the Bank's source of debt funding. Loans and deposits from other banks and insurance companies, deposits from customers and issued debt securities are initially measured at fair value less incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method. An analysis of the Bank issued debt is disclosed in Note 16, 17 and 18.

3.5. Financial guarantees

In the ordinary course of business, the Bank gives guarantees, consisting of letters of credit and credit related guarantees. Financial guarantees are initially recognised in the financial statements in 'Other liabilities' at fair value, which is the premium received. After initial recognition, an issuer of such a contract shall subsequently measure it at the higher of: the amount of the loss allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.
The premium received is recognised in the profit or loss in 'Fee and commission income' on a straight-line basis over the life of the guarantee.

3.6. Determination of Fair Values

A number of the Bank's accounting policies and disclosures require the determination of fair value for financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. 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 fair value 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 significantly differs from the transaction price the Bank recognises initial (day1) fair value difference.

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 held and ask prices for liabilities issued (level 1). When independent prices are not available, fair value is determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, and other valuation techniques commonly used by market participants (level 2).

For financial instruments, fair value may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data (level 3). Determination of fair values is more detailed in Note 34.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7. Impairment of financial assets

3.7.1. Policies applicable before 1 January 2018

Impairment of loans and advances to banks, insurance companies and customers

At each balance sheet date the Bank assesses whether there is objective evidence that loans and advances are impaired. Loans and advances are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that loans and advances are impaired can include significant financial difficulty of the borrower; default or delinquency by a borrower; restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider; indications that a borrower or issuer will enter bankruptcy.

The Bank considers evidence of impairment for loans and advances at both a specific asset and a collective level. All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.
In assessing collective impairment, the Bank uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.
Impairment losses are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted by the financial asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables.

Reversals of impairment
If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, loan impairments are reversed through profit or loss.

Write-off of loans and advances
Bad loans are not written off against the related provisions until the conclusion of the liquidation process or until considered to be legally uncollectible as set out under statutory regulations. Subsequent recoveries are credited to profit or loss if previously written off.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR (effective interest rate) as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur and also reviews whether derecognition criterias are met. The loans continue to be subject to an individual impairment assessment, calculated using the loan's original EIR.

Impairment of available-for-sale financial assets

Investments in available-for-sale securities are considered to be impaired if their carrying amount is greater than the estimated recoverable amount assessed at each balance sheet date on the basis of objective evidence such as significant financial difficulty of the issuer, actual breaches of contracts, high probability of bankruptcy or other financial reorganization of the issuer. Impairment losses on available-for-sale securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity instrument is recognised in other comprehensive income.

3.7.2. Policies applicable from 1 January 2018

Impairment of loans and advances to banks, insurance companies and customers, cash and cash balances with National Bank of Hungary, securities measured at amortised cost and other assets

The Bank recognizes an impairment or provision on expected credit loss for financial assets measured at amortized cost or for loan commitments that are subject to impairment requirements in accordance with IFRS 9.

At each valuation date the Bank classifies the financial instruments into stages, and determines the expected credit loss to calculate impairment. On the basis of IFRS-9 staging logic, financial instruments are classified into three stages:

- **Stage 1** classification is applied to financial instruments at initial recognition date, except for Purchased Originated Credit Impaired (POCI) receivables. Instruments remain in Stage 1 until significant deterioration of credit risk occurs. 12 months of expected credit loss is considered to Stage 1 instruments, using the appropriate lifetime PD (Probability of Default) models, LGDs (Loss Given Default) and CCFs (Credit Conversion Factor) in case of off-balance sheet items.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **Stage 2** classification is applied to financial instruments where significant deterioration of credit risk can be observed, however, the criteria of non-performing exposure are not yet met. On a 7-grade scale from 1 to 3 rating categories 2 category deterioration, while rating categories 4, 5 and 6 already 1 rating deterioration is significant. Lifetime expected credit loss is considered to Stage 2 instruments, using the projected EADs (Exposure At Default), appropriate lifetime PD models, LGDs and CFFs in case of off-balance sheet items.
- **Stage 3** classification is applied to non-performing, defaulted instruments. The Bank uses the NPL (Non-Performing Loans) definition of the Hungarian National Bank. All Stage 3 instruments are evaluated individually, using probability weighted cash flow scenarios discounted by EIR.

The Bank uses different credit risk models and parameters for different portfolio segments. For each instrument the Bank regards the below indicators as significant credit risk deterioriation, accordingly classifies the affected deals into Stage 2:

- 30+ days past due, except for technical delinquency.
- Significant worsening of rating compared to the initial rating class.
- Performing restructured loans.

The Bank identifies LCR (Low Credit Risk) boundaries for investment grade exposures to sovereigns and banks, however, does not identify LCR boundary for corporate exposures. At the same time the Bank identifies more rigorous criteria for rating decline in the worse rating classes for each segment. In addition the Bank uses the EWI (Early Warning Indicators) indicators defined by the National Bank for corporate clients and project financing exposures with the aim to finance real estate investments.

Reclassification from Stage 2 to Stage 1 can happen in the case, if neither criteria of significant deteriorition of credit risk can be observed in the valuation date.

Reclassification from Stage 3 to Stage 2 can happen after a 180-day-long recovery period if there is no 90+ days past due.

In the case of undrawn credit lines and guarantees issued by the Bank, the method of provisioning takes place in the same way as in the case of loans disbursed, with the exception that in the case of off-balance exposures, the credit conversion factor has also to be taken into account in the calculations. The provisioning is based on individual CF calculation in the case of off-balance exposures belonging to customers having Stage 3 on-balance exposures, which takes into account expected future disbursements and expected future returns. Off-balance exposures without Stage 3 on-balance exposures are classified into Stage 1 or Stage 2 and PD and LGD parameters are determined by the portfolio and the deterioration factors of that particular contract. In the case of Stage 1 and 2 the EAD value is the same for every relevant period that is equal to the exposure on the valuation date. For Stage 1, 2 exposures the CCF factor is set at 50% as the default.

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

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reversals of impairment and provision
If in a subsequent period the amount of impairment loss or provision decreases, loan impairment or provision is reversed through profit or loss.

Write-off of loans and advances
Irrecoverable loans are written off against the related provisions if the legally uncollectible criteria set in workout policy are met or there is no reasonable expectation of recovery. Subsequent recoveries are credited to profit or loss, if the loans were previously written off. The Bank may also partially write off a loan, if it is not reasonable to collect it completely, however, the Bank still intends to fully recover partially written off claims. Complete or partial write off of claims on IFRS basis is possible after three years of the default event when individual business forecast shows the lack of future cash inflows from the debtor, and a reasonable liquidation plan prepared by the liquidator exists.

Renegotiated loans
In line with its NPL strategy, the Bank attempts to restructure loans rather than initiate legal proceedings to collect the receivables. This may involve extending the payment arrangements, the modification of payment schedule or the revision of loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR (effective interest rate) as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur and also reviews whether derecognition criteria are met. Non-performing restructured loans are classified to Stage 3 and are subject to individual impairment assessment, calculated using the original EIR.

3.8. General reserve

The provisions of the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises ("Hungarian Banking Act") prescribes that the Bank has to set a general reserve in the amount of 10 % of the current year profit after tax figure, which will be eliminated to cover the future losses. It is treated as appropriation from retained earnings to statutory reserves. Based on management decision and the Owner's approval the Bank also places all of its profit for a period (after setting the general reserve of 10%) from retained earnings into statutory reserves. As this decision with respect to the given financial year is made by the Owner in the following financial year, the re-appropriation of profit for a period (after setting the general reserve of 10%) is made in that year. The calculation of the amount of the general reserve is based on Hungarian Accounting Standards.

3.9. Foreign currency translation

The Bank's functional currency is the Hungarian Forint. Income and expenditure arising in foreign currencies are translated at rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at rates quoted by the National Bank of Hungary ("NBH") ruling at the end of the year. Resulting exchange differences are recognised in profit or loss.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity investments (relevant only before 1 January 2018).

3.10. Intangibles, property and equipment

Intangibles, property and equipment are measured cost, less accumulated amortisation depreciation and any accumulated impairment losses.
Cost includes expenditures that are directly attributable to the acquisition of the asset. In case of property and equipment cost of maintenance and repairs are recognised in profit or loss as incurred. Major improvements and the cost of replacing a part of an item of property and equipment are recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised.

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

Leasehold improvements	4.94 % to 48.69 %
Software	20 % to 50 %
Furniture, fixtures and office equipment	14.5 % to 50 %

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. Items of intangibles, property and equipment are subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

Gains and losses on disposal of an item of intangibles, property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognised net within 'Operating expenses' in profit or loss.

3.11. Income taxes

Income tax for the period comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Corporate income tax, local tax and innovation contribution are categorised as current income tax.

Current tax is the calculated tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date as well as any adjustments to tax payable in respect of previous years.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.12. Interest income and expense

3.12.1. Policies applicable before 1 January 2018

Interest income and expense for all financial instruments except for those classified as held for trading are recognised in 'Interest income' and 'Interest expense' in profit or loss using the effective interest method. The effective interest method is a way of calculating 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 the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established at initial recognition or at repricing of the financial asset and liability and is not revised subsequently. 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 not future credit losses. The calculation includes all amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.
Interest income is recognised on available-for-sale debt securities using the effective interest rate method, calculated over the asset's expected life.

3.12.2. Policies applicable from 1 January 2018

Interest income and expense for all financial instruments are recognised in 'Interest income' and 'Interest expense' in profit or loss. 'Interest income' is divided into 'Interest income calculated using the effective interest method' and 'Other interest income'. The effective interest method is a way of calculating 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.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Effective interest shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- purchased or originated credit-impaired financial assets. For those financial assets, the entity shall apply the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition
- financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets (Stage 3). For those financial assets, the entity shall apply the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

3.12.3. Policies applicable for both reporting periods presented

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, as agreed with the representative of the Ministry for National Economy. Eximbank receives the interest equalisation payment after applying to the Hungarian State within 15 days of the end of each quarter, and the payment for that quarter is received by Eximbank within 30 days of the application.

Interest equalisation and support are intended to promote stability and sustainability for Eximbank, and contribute to interest risk management. The level of interest equalisation and support provided by the Hungarian State is also intended to hold Eximbank's profit at near market rate for loans covered by these programmes, however, Eximbank serves as an instrument of economic policy of the Hungarian State rather than as a traditional profit-oriented bank.

Eximbank receives a form of interest support with respect to tied-aid credits (Eximbank plays the role of lender in tied-aid agreements) concluded between the Hungarian government and governments of tied-aid eligible countries.

Interest compensation and interest support received from the Hungarian State is considered to be integral part of the loans' cash flows and, as a result, the amortised cost of the loans.

All other loans provided by Eximbank (i.e. loans that are not covered by the interest equalisation and interest support programmes) are variable rate and are priced with reference to LIBOR/EURIBOR/Budapest Interbank Offering Rate ("BUBOR") accordance with Eximbank's average costs.

3.13. 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.

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate method.
Fee and commission income are recognised as the related services are performed. Fee and commission expense relate mainly to transaction and service fees that are expensed when the services are received.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The IFRS 15 displaced IAS 11 and IAS 18 standards, and this relates to all income due from contracts with customers unless covered by other standards. The new standard prescribes a method consisting of 5 steps in order to account for income due from customers. In accordance with IFRS 15 the income is the amount the entity is expecting to receive for providing the product or service. The standard requires the use of estimates for all relevant facts and conditions that is to be used in all 5 steps of the model used for assessing customer contracts. The standard also covers the settlement of incremental costs arising in obtaining the contract and costs arising in the process of fulfilling the contract (see Note 23).

3.14. Provisions under 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 current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Contingent liabilities, which include certain guarantees, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Bank. Such contingencies are guarantees and commitments to extend credit lines into which the Bank enters in the ordinary course of business. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Provision for possible losses is recognised only if the Bank considers that it is more likely than not that a present obligation exists at the reporting date. Management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

3.15. Segment reporting

Based on the management 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 these individual financial statements. However in accordance with the requirements of IFRS 8 Operating Segments the Bank continues to show its assets, liabilities and revenues by geographical areas (see Note 31).

3.16. Investment in associates and joint ventures

An associate is an entity over which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but does not mean control or joint control over those policies.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.
The Bank's investment in its associate and joint venture is accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Bank's share of net assets of the associate or joint venture since the acquisition date.

The statement of comprehensive income reflects the Bank's share of the results of operations of the associate or joint venture. 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 associate or joint venture, the Bank recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Bank and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Bank's share of profit or loss of an associate and a joint venture is shown on the face of the statement of comprehensive income as 'Share of profit/(loss) of joint ventures and associates', and 'Share of other comprehensive income of equity accounted investees, net of tax' and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Bank. The Bank expects the associate and joint venture companies to prepare audited IFRS statement of financial position and statement of comprehensive income in accordance with the Bank's accounting policy.

After application of the equity method, the Bank determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Bank determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit/(loss) of an associate and a joint venture' in the statement of comprehensive income.

3.17. Change in accounting policy

The Bank has consistently applied the accounting policies as set out in Note 3 above to all periods presented in these individual financial statements, except for IFRS 9 which was applied from 1 January 2018 while not restating the comparatives.

Several new standards (see Note 3.19) and amendments apply for the first time in 2018. However they do not impact the annual individual financial statements of the Bank significantly.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Bank elected to apply new format for statement of financial position and statement of comprehensive income from 2018. The reconciliation of the new and previous format is explained in Note 3.21.

3.18. New standards and interpretations not yet adopted

IFRS 16 *Leases*

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16. The Bank did not elect to apply early adoption of the standard.

i. Determining whether an arrangement contains a lease

On transition to IFRS 16, the Bank can choose whether to:
- Apply the IFRS 16 definition of a lease to all its contracts; or
- Apply a practical expedient and not reassess whether a contract is, or contains, a lease.

The Bank is assessing whether to apply the practical expedient and the potential impact on its financial statements, and whether this will affect the number of contracts identified as leases on transition.

ii. Transition

As a lessee, the Bank can either apply the standard using a:
- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Bank will apply IFRS 16 initially on 1 January 2019. The Bank applies modified retrospective transition approach therefore comparative data will not be restated.

The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the Bank's lease portfolio, the Bank's assessment of whether it will exercise any lease renewal options and the extent to which the Bank chooses to use practical expedients and recognition exemptions. The Bank will recognise new assets and liabilities primarily for its operating leases of office premises. The nature of expenses related to these leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of use assets and interest expense on lease liabilities.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Previously, the Bank recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

The Bank applies the following practical expedients available:
- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Adjust the lease liability at the date of initial application by the amount of any accrued or deferred lease fees.
- Apply a simplified method for contracts mature within 12 months for the date of initial application.

The Bank makes use of expedients with respect to short-term leases (less than 12 months) as well as in the case of leases in respect of which the underlying asset has a low value (less than HUF 1 million) and for which agreements the Bank will not recognise financial liabilities nor any respective right-of-use assets. These types of lease payments will be recognised as costs using the straight-line method during the life of the lease.

According to initial assessments on 1 January 2019 the Bank will recognise HUF 654 million right-of-use asset and HUF 644 million lease liability. The difference between the amount of lease liability and right-of-use asset derives from the accrued and deferred lease fees as of 31 December 2018.

3.19. New standards are not expected to have a significant effect

IFRS 15 ***Revenue recognition***
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. The IFRS 15 standard doesn't have a significant effect on the Banks Financial Statements. The Bank applies the cumulative effect transition approach defined by IFRS 15. The fee and commission income accounted applying IFRS 15 is reported in Note 23.

3.20. IFRS 9 transition

The Bank started applying the requirements of IFRS 9 Financial Instruments Standard accepted by the EU for the period starting 1 January 2018. The accounting policy, classification, measurement and presentation methods were modified to be in line with the new standard. The amounts deriving from remeasurement differences of financial assets and liabilities for 1 January 2018 have been presented in the retained earnings. Items relating to previous periods have not been remeasured, thus the data provided for year 2017 doesn't contain the effects of IFRS 9 transition, therefore cannot be compared to the data for 2018 containing the IFRS 9 transition effects. 'Other' column in this paragraph is explained in Note 3.22. These adjustments primarily relate to new IFRS system implementation and prior year adjustments.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transition to IFRS 9 indicated the following changes in the financial statements:

i. Changes in the classification method: for financial asset instruments both business model analysis and the SPPI test (examining the cash-flow characteristics) was carried out. The Bank examined the contractual conditions to decide whether the contractual cash-flows contain solely capital and interest payments (SPPI test). In line with the outcome of the test the former financial asset categories defined as held to maturity, available for sale, loans and receivables under IAS 39 were reclassified to meet the requirements of IFRS 9 either as financial instruments at amortised cost or fair value through profit or loss or fair value through other comprehensive income. For equity instruments the previously applied available-for-sale category (including investments in investment fund and other shares) has been reclassified with the introduction of IFRS 9 into FVTPL. Financial liabilities were not reclassified, the Bank measures its trading liabilities as FVTPL, non-trading financial liabilities are measured at amortised cost. The Bank doesn't use the option to measure liabilities at FVTPL.

ii. Changes in impairment method: impairment methodology has changed significantly, the new forward looking expected loss model has replaced the previously applied incurred loss model. According to this new model the Bank has performed categorising into 3 stages, the result of which is that for the 1st stage 12 month expected credit loss, for other stages, meaning the when the financial instrument's credit risk has increased significantly since initial recognition, life time expected loss will be accounted for. The new impairment model has to be applied for the following financial instruments not categorised as FVTPL: debt instruments, loan commitments, issued financial guarantees. IFRS 9 standard's requirements for calculating impairments require complex management decisions, estimates and assumptions particularly in the below two areas:
   a. deciding whether the instrument's credit risk has increased significantly since initial recognition
   b. applying forward looking information for calculating the expected loss.

iii. Changes in hedge accounting: the Bank doesn't apply hedge accounting.

(All amounts in HUF million unless otherwise stated)

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The changes in accounting policy relating to IFRS 9 transition were applied starting 1 January 2018. The Bank chose the option which allowed the comparative data not to be recalculated due to changes in classification and measurement (including impairment). The IFRS 9 transition caused changes in the carrying amount of financial instruments which were presented in equity as of 1 January 2018. The below chart shows the IFRS 9 transition's summarised effect on equity:

	IAS 39 closing balance	**IFRS 9 remeasu-rement**	**Other (Note 3.22)**	**IFRS 9 opening balance**
Share capital	133,700			133,700
Share premium	400			400
Retained earnings	(2,257)	5,565	241	3,549
Fair value reserve, net of tax	3,159	(3,159)	(33)	(33)
Statutory reserves	10,747			10,747
thereof: general reserve	*10,747*			*10,747*
Total	**145,749**	**2,406**	**208**	**148,363**

'IFRS 9 remeasurement' column represents the transition effect of

- changing impairment model from incurred loss to expected loss (HUF 4,270 million impairment and HUF (1,585) million provision) increasing retained earnings by HUF 2,685 million,
- derecognition of AFS fair value differences (with deferred tax effect) on debt securities as a result of business model evaluation decreasing fair value reserves by HUF 279 million, and
- reclassification of AFS fair value differences accumulated in OCI (with deferred tax effect) decreasing fair value reserves and increasing retained earnings by HUF 2,880 million.

'Other' column represent other adjustments due to the new IFRS system implementation see further explanation in Note 3.22.

The following charts summarise the classification and remeasurement transition effects. The 'Reclass' column shows changes relating to those items, which were applied due to the outcome of the business model test (HUF 40,132 million debt security reclassification from AFS to amortised cost). As of the Bank's business model debt securities are being held to collect contractual cash flows. The SPPI test didn't indicate any necessity for reclassification. 'Remeasurement' column represents the transition effect of changing impairment model from incurred loss to expected loss (HUF 4,270 million impairment and HUF (1,585) million provision. 'Other' column represent other adjustments due to the new IFRS system implementation see further explanation in Note 3.22.

(All amounts in HUF million unless otherwise stated)

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	IAS 39 carrying amount 31.12.2017	Reclass	Remeasu-rement	Other (Note 3.22)	IFRS 9 carrying amount 01.01.2018
Financial assets measured at amortised cost (AC)					
Cash and cash equivalent, balances with the National Bank of Hungary	**3,558**	**-**	**(1)**	**1**	**3,558**
IAS 39 closing balance	3,558				
Remeas.: ECL model			*(1)*		
Remeas.: other				*1*	
IFRS 9 opening balance					3,558
Debt securities - AC	**-**	**40,132**	**(337)**	**(31)**	**39,764**
IAS 39 closing balance	-				
Reclass from AFS		*40,132*			
Remeas.: ECL model			*(337)*		
Remeas.: other				*(31)*	
IFRS 9 opening balance					39,764
Loans and advances to other banks and insurance companies	**588,186**	**-**	**(226)**	**-**	**587,960**
IAS 39 closing balance	588,186				
Remeas.: ECL model			*(226)*		
IFRS 9 opening balance					587,960
Loans and advances to customers	**241,323**	**-**	**4,519**	**185**	**246,027**
IAS 39 closing balance	241,323				
Remeas.: ECL model			*4,519*		
Remeas.: other				*185*	
IFRS 9 opening balance					246,027
Total financial assets measured at AC	**833,067**	**40,132**	**3,955**	**155**	**877,309**

(All amounts in HUF million unless otherwise stated)

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets measured at fair value through profit and loss (FVTPL)

Financial assets measured at fair value through profit and loss	**11,646**	**16,402**	**-**	**2,231**	**30,279**
IAS 39 closing balance	11,646				
Reclass: other (3.22.a)).				*2,226*	
Reclass from AFS		*16,402*			
Remeas.: other				*5*	
IFRS 9 opening balance					30,279
Total financial assets measured at FVTPL	**11,646**	**16,402**	**-**	**2,231**	**30,279**

AFS financial assets

AFS Debt securities	**40,132**	**(40,132)**	**-**	**-**	**-**
IAS 39 clos. bal. (AFS)	40,132				
Reclass to AC		*(40,132)*			
IFRS 9 opening balance					-
AFS Equity instrument	**16,402**	**(16,402)**	**-**	**-**	**-**
IAS 39 clos. bal. (AFS)	16,402				
Reclass to FVTPL		*(16,402)*			
IFRS 9 opening balance					-
Total AFS financial assets	**56,534**	**(56,534)**	**-**	**-**	**-**
Total financial assets	**901,247**	**-**	**3,955**	**2,386**	**907,588**

(All amounts in HUF million unless otherwise stated)

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities measured at amortised cost (AC)

Loans and deposits from banks and insurance companies	**336,064**	**-**	**-**	**(2,177)**	**333,887**
IAS 39 closing balance	336,064				
Reclass: other (3.22. b))				*(2,077)*	
Remeas.: other				*(100)*	
IFRS 9 opening balance					333,887
Deposits from other customers	**9,874**	**-**	**-**	**-**	**9,874**
IAS 39 closing balance	9,874				
IFRS 9 opening balance					9,874
Debt securities issued	**428,129**	**-**	**-**	**-**	**428,129**
IAS 39 closing balance	428,129				
IFRS 9 opening balance					428,129
Other liabilities	**4,675**	**-**	**-**	**2,061**	**6,736**
IAS 39 closing balance	4,675				
Reclass: other (3.22. b))				*2,077*	
Remeas.: other				*(16)*	
IFRS 9 opening balance					6,736

Financial liabilities measured at fair value through profit and loss (FVTPL)

Financial liabilities measured at FVTPL	**-**	**-**	**-**	**2,226**	**2,226**
IAS 39 closing balance	-				
Reclass:other (3.22. a))				*2,226*	
IFRS 9 opening balance					2,226
Total financial liabilities	**778,742**	**-**	**-**	**(2,110)**	**780,852**

(All amounts in HUF million unless otherwise stated)

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The differences between IAS 39 and IFRS 9 methodology for impairment of financial instruments are as follows:

- instead of calculating incurred credit loss, expected credit loss model is to be applied as per IFRS 9;
- the impairment method will change due to staging requirements of IFRS 9 (expected credit loss either for 12 months, or lifetime);
- based on staging classification the scope of collective or individual impairment basis will change.
- equity instruments measured at FVTPL under IFRS 9 (but measured as AFS under IAS 39) are taken out from the scope of the IFRS 9 impairment requirements. As a result, HUF 2,259 million impairment has been reclassified to fair value difference (recognized in retained earnings).

	Impairment (IAS 39) for credit losses and provision (IAS 37)	**Reclass**	**Remeasu-rement**	**Expected credit losses and provision (IFRS 9)**
Cash and cash equivalent, balances with the National Bank of Hungary	-	-	1	**1**
Debt securities AC	-	-	22	**22**
Debt securities AFS	-	-	-	-
Loans and advances to other banks and insurance companies	**720**	-	226	**946**
Loans and advances to customers*	**19,610**	-	(4,519)	**15,091**
Equity instruments AFS	**2,259**	(2,259)	-	-
Provision for ECL	**5**	-	1,585	**1,590**
Total	**22,594**	**(2,259)**	**(2,685)**	**17,650**

(All amounts in HUF million unless otherwise stated)

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

* Impairment allowance on Loans and advances to customers decreased by HUF 4,519 million. The reason for this decrease was as follows:

- a significant portion of 31 December 2017 impairment loss allowance (HUF 6,034 million) was measured on a portfolio (collective) basis and the model calculating that portfolio based loss allowance under IAS 39 was replaced with a more sophisticated model in order to comply with IFRS 9, resulting in lower default probabilities (and thus in lower loss rates) and as a consequence in a lower portfolio based expected credit loss allowance as at 1 December 2018 compared to 31 December 2017.
- The above mentioned effect overcompensated the effect that – due to IFRS 9 expected credit loss model replacing IAS 39 incurred credit loss model – exposures subject to impairment loss calculation increased on introducing IFRS 9.

01.01.2018	Stage 1	Stage 2	Stage 3	POCI	Total
Cash and cash equivalent, balances with the National Bank of Hungary	3,559	-	-	-	**3,559**
Debt securities measured at amortised cost	39,786	-	-	-	**39,786**
Debt securities measured at fair value through other comprehensive income	-	-	-	-	**-**
Loans and advances to other banks and insurance companies	570,125	18,301	480	-	**588,906**
Loans and advances to customers	193,396	45,286	22,436	-	**261,118**
Total gross carrying amount	**806,866**	**63,587**	**22,916**	**-**	**893,369**
Cash and cash equivalent, balances with the National Bank of Hungary	(1)	-	-	-	**(1)**
Debt securities measured at amortised cost	(22)	-	-	-	**(22)**
Debt securities measured at fair value through other comprehensive income	-	-	-	-	**-**
Loans and advances to other banks and insurance companies	(412)	(64)	(470)	-	**(946)**
Loans and advances to customers	(1,080)	(671)	(13,340)	-	**(15,091)**
Provision for loan commitments and financial guarantees	(797)	(79)	(714)	-	**(1,590)**
Total credit loss	**(2,312)**	**(814)**	**(14,524)**	**-**	**(17,650)**

(All amounts in HUF million unless otherwise stated)

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

From 1 January 2018 the Bank measures 'Cash and cash equivalent, balances with the National Bank of Hungary', 'Loans and advances to banks and insurance companies', 'Loans and advances to other customers', and 'Securities measured at amortised cost' at amortised cost only when both conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order 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 on the principal amount outstanding (SPPI).

The details are as follows:

	IAS 39		IFRS 9	
	Measurement category	**Carrying amount 31.12.2017**	**Measurement category**	**Carrying amount 01.01.2018**
Cash and cash equivalent, balances with the National Bank of Hungary	L&R	3,558	AC	3,558
Debt securities	HTM	0	AC	-
Debt securities	AFS	40,132	AC	39,764*
Loans and advances to other banks and insurance companies	L&R	588,186	AC	587,960
Loans and advances to customers	L&R	241,323	AC	246,027
Financial assets measured at fair value through profit and loss	HFT	11,646	FVTPL	30,279
Equity instruments	AFS	16,402	FVTOCI	-
Total financial assets		**901,247**		**907,588**

(All amounts in HUF million unless otherwise stated)

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and deposits from banks and insurance companies	OFL	336,064	AC	333,887
Deposits from other customers	OFL	9,874	AC	9,874
Financial liabilities measured at fair value through profit or loss	FVTPL	0	FVTPL	2,226
Debt securities issued	OFL	428,129	AC	428,129
Other liabilities	OFL	4,675	AC	6,736
Total financial liabilities		**778,742**		**780,852**

Explanation of abbreviations:
AC – amortised cost
AFS – available for sale
FVTOCI – fair value through other comprehensive income
FVTPL – fair value through profit or loss
HFT – held for trading
HTM – held to maturity
L&R – loans and receivables
OFL – other financial liabilities

* As of 31 December 2018 the fair value (carrying amount) of debt securities would be HUF 39,988 million if the Bank did not classified them as amortised cost financial asset. As a result, the accumulated fair value difference would be HUF (761) million and the fair value loss in the other comprehensive income would be HUF (1,076) million.

Business model test

The Bank's business model was defined to present how groups of financial assets are treated for achieving business objectives. The entity's business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed;
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- frequency, volume and timing of sales are also important part of the evaluation.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The business model evaluation shall be carried out based on reasonable scenarios, without assessing the "worst case" of „stress situation" scenarios. When the subsequent cash-flows will change compared to the estimates at initial recognition, the Bank shall not change the classification of assets within the business model, but use such information for future evaluation of new or recently acquired financial assets. The Bank categorised the full credit portfolio to „held for collecting cash-flows", as the main aim is to collect interest and principal collection.

During its business model assessment the Bank concluded that its debt securities (comprising only Hungarian government bonds) are managed in the held to collect business model. The Bank's primary objective is to realise those debt securities through collection of their cash-flows and sales does not form an integral part of the Bank's business model to manage those securities. No significant sales of the debt securities occurred in the past. Part of the debt security portfolio cannot be sold in the future are they are pledged as collateral. Taken this into consideration, analysing the business model as a whole, the Bank concluded that future expected sales in the debt security portfolio are not inconsistent with the held-to-collect business model.

The Bank holds no securities for trading, so the „sales" business model is not relevant.

SPPI test

The second step of classification process is when the Bank evaluates the contractual conditions in order to decide whether those correspond with the SPPI-test. The Bank is to assess the contractual conditions in order to be able to decide whether the contractual cash-flows consist solely of interest and principal. This implies the evaluation whether other contractual conditions relate to the asset, which may change the amount of contractual cash-flows so that in the end it will result the cash-flows not corresponding to the SPPI test. SPPI test is performed for groups of items. The most important components of interest concluded in the loan agreement is the time value of money and credit risk. For SPPI assessment the Bank evaluates assumptions and estimates and considers such important factors as the financial asset's currency, and the period for which the interest rate is defined. However such contractual conditions that result in a higher than insignificant increase of risks and volatility not directly relating to the loan agreement do not meet the solely interest and principal condition. In such cases the asset will be classified as FVTPL. The Bank didn't identify any instruments that doesn't comply with SPPI requirements.

Initial classification of financial instruments is dependent on the contractual conditions and the business model analysis. Financial instruments are initially recognised at fair value. Except for financial assets and liabilities classified as FVTPL the transaction costs will be added to or taken from the initial value. Account receivables are to be presented at transaction value. When at initial recognition the fair value of financial instruments differ from the transactional value, the Bank will account for initial fair value difference into profit/loss as follows. If the instrument's transactional value differs from the fair value, and the fair value is based on a technique that uses only observable inputs, the Bank recognises the difference between the transactional value and the fair value, and shows these as profit/loss, in 'Operating expenses'. However in cases when fair value is assessed based on models that contain no observable input, the difference between the transactional value and the fair value needs to be accrued and account in profit/loss only when the input parameters become observable or when the assets gets derecognised.

(All amounts in HUF million unless otherwise stated)

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21. Changes in the format of statement of financial position and the statement of comprehensive income as a result of change in accounting policy

The Bank has elected to apply new format for statement of financial position and statement of comprehensive income from 2018 to facilitate the reconciliation with NBH statutory reports and comply with the new financial instrument categories of IFRS 9. As a result of the new format the financial statements will provide more transparent picture about the Bank. Items relating to previous periods have not been remeasured and reclassified according to IFRS 9 but those format changes which are not related to IFRS 9 transition will be applied for the comparative period, as well. As a result of the change of some lines of the statement of financial position and statement of comprehensive income is not comparable with the 2017 financial statement. Therefore the Bank has prepared a reconciliation table between the 2017 and 2018 format for those items which are not related to IFRS 9 transition.

Statement of financial position	2017.12.31 before reclass	2017.12.31 after reclass	Ref.
Intangibles, property and equipment, net	2,752	n/a	a
Intangibles	n/a	1,459	a
Property, plant and equipment	n/a	1,293	a
Current tax assets	666	n/a	b
Current income tax assets	n/a	666	b
Other tax assets	n/a	1,936	b
Other assets	3,344	1,408	b

Explanation of references:

a) 'Intangibles, property and equipment' has been separated to 'Intangibles' and 'Property, plant and equipment' in 2018.
b) 'Current tax assets' has been separated to 'Current income tax assets' and 'Other tax assets'. Tax related items have been removed from 'Other assets' in the amount of HUF 1,936 million.

(All amounts in HUF million unless otherwise stated)

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement of comprehensive income	2017.12.31 before reclass	2017.12.31 after reclass	Ref.
Interest income	35,558	n/a	a
Interest income calculated using the effective interest method	n/a	35,550	a
Other interest income	n/a	7,801	a
Interest expense	(22,425)	(28,121)	b
Provisions and impairment (losses)/reversal	(4,841)	n/a	c
Impairment/provision or reversal of impairment/provision on financial instruments	n/a	(4,677)	c
Impairment or reversal of impairment on non-financial assets	n/a	(35)	c
Provision or reversal of provision under IAS 37	n/a	(129)	c
Gains and (losses) from trading and investment activities, net	1,465	(632)	d
Operating expenses, net	(8,019)	(3,443)	e
Staff expenses	n/a	(4,052)	e
Depreciation	n/a	(524)	e

Explanation of references:

a) 'Interest income' has been separated to 'Interest income calculated using effective interest method' and 'Other interest'. Derivative interest income has been reclassified from 'Gains and (losses) from trading and investment activities' in the amount of HUF 7,793 million.

b) Derivative interest expense has been reclassified from 'Gains and (losses) from trading and investment activities' in the amount of HUF 5,696 million.

c) 'Provision and impairment losses/reversal' has been separated to the followings: 'Impairment/provision or reversal of impairment/provision on financial instruments'; 'Impairment or reversal of impairment on non-financial assets'; 'Provision or reversal of provision under IAS 37'

d) Derivative interest expense/income have been reclassified to interest income/expense in the amount of HUF 2,097 million.

e) 'Staff expenses' and 'Depreciation' have been removed from 'Operating expenses' in 2018 and reported separately.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22. Other significant adjustments which are not related to IFRS 9 transition

The figures of other significant adjustments have been presented in Note 3.20, the reason of these adjustments are stated below:

a) **Financial assets and liabilities measured at fair value through profit and loss:** HUF 2,226 million reclassification has been occurred to FVTPL liabilities as a consequence that the Bank applies instrument-by-instrument classification method from 2018.
b) **Loans and deposits from banks and insurance companies:** Initial fair value difference on these loans and deposits has been initially recognised in 2018 in the amount of HUF 2,077 million therefore the Bank made a reclassification from 'Loans and deposits from banks and insurance companies' to 'Other liabilities'.

3.23. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2018

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),

- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 **"Effective date of IFRS 15"** - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),

- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).

- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014 -2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018). The adoption of these amendments to the existing standards has not led to any material changes in the Bank's financial statements.

The above mentioned standards (except for IFRS 9) doesn't have a significant impact on the Bank's Financial Statements.

3.24. New and revised Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:

- IFRS 16 "Leases" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),

- Amendments to IAS 19 "Employee Benefits" - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),

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

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

The Bank has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Bank anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Bank in the period of initial application with the exception of IFRS 16, where the transition effect is presented in the Note 3.18.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.25. Standards and Interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the IASB except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at date of publication of these financial statements:

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),

- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material (effective for annual periods beginning on or after 1 January 2020),

- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

The Bank anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

(All amounts in HUF million unless otherwise stated)

NOTE 4. CASH AND CASH EQUIVALENTS

	31.12.2018	31.12.2017
Balances with the National Bank of Hungary (NBH) in HUF	644	2,366
Money market placements in HUF	900	900
Money market placements in foreign currency	2,208	-
Nostro accounts in HUF	3	19
Nostro accounts in foreign currency	-	271
Petty cash in foreign currency	2	2
Other	2	-
Impairment	(3)	-
Total	**3,756**	**3,558**

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 644 million as at 31 December 2018 and HUF 2,366 million as at 31 December 2017, respectively (compulsory reserves required to meet certain level on a monthly average basis).
According to its accounting policy, the Bank classifies highly liquid financial assets with original maturity of less than three months as cash and cash equivalents.

NOTE 5. SECURITIES MEASURED AT AMORTISED COST

According to IFRS 9 Hungarian Government Bonds are classified as securities measured at amortised cost. For shares please refer to Note 9e.

	31.12.2018
Hungarian Government Bonds at amortised cost	40,773
Less: accumulated impairment losses (see Note 15)	(24)
Total	**40,749**

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (All amounts in HUF million unless otherwise stated)

NOTE 5. SECURITIES MEASURED AT AMORTISED COST (CONTINUED)

According to IAS 39 Hungarian Government Bonds and shares were classified as available-for-sale financial assets.

	31.12.2017
Hungarian Government Bonds in HUF at initial fair value	39,817
Accumulated fair value gains or losses recognised in OCI	315
Sub-total	**40,132**
HUF shares at initial fair value	12
FCY shares at initial fair value	15,413
Accumulated impairment losses (Note 15) recognised in profit or loss	(2,259)
Accumulated fair value gains or losses recognised in OCI	3,236
Sub-total	**16,402**
Total	**56,534**

Remaining maturity of Hungarian Government Bonds as at 31 December 2018 and 31 December 2017 are detailed below:

Remaining Maturity	31.12.2018 Gross value	31.12.2017 Gross value
Up to 1 month	-	-
1 to 3 months	-	-
3 months to 1 year	13,516	7,608
1 to 5 years	27,257	32,524
Over 5 years	-	-
Total	**40,773**	**40,132**

(All amounts in HUF million unless otherwise stated)

NOTE 6. LOANS AND ADVANCES TO BANKS AND INSURANCE COMPANIES

	31.12.2018	31.12.2017
Short-term (up to 1 year)		
- in foreign currency	157,272	153,049
- in HUF	32,597	16,356
Sub-total	**189,869**	**169,405**
Long-term (over 1 year), in foreign currency		
- in foreign currency	302,076	346,294
- in HUF	99,932	73,207
Sub-total	**402,008**	**419,501**
Total	**591,877**	**588,906**
Less: impairment losses (see Note 15)	(973)	(720)
Total	**590,904**	**588,186**

As at 31 December 2018, 100% of loans and advances to banks and insurance companies qualified for interest compensation from the Hungarian State. (as at 31 December 2017: 100%) For details about interest equalisation programme please refer to Note 3.12.3.

(All amounts in HUF million unless otherwise stated)

NOTE 6. LOANS AND ADVANCES TO BANKS AND INSURANCE COMPANIES (CONTINUED)

The table below shows an analysis of Loans and advances to banks and insurance companies by remaining maturity as at 31 December 2018 and 31 December 2017.

Remaining Maturity	31.12.2018 Gross value	31.12.2017 Gross value
Placements in foreign currency:		
Up to 1 month	2,256	10,214
1 to 3 months	5,198	18,847
3 months to 1 year	16,036	123,988
1 to 5 years	392,933	325,962
Over 5 years	43,266	20,332
Sub-total	**459,689**	**499,343**
Placements in HUF		
Up to 1 month	41	1,846
1 to 3 months	1,284	1,503
3 months to 1 year	15,617	13,007
1 to 5 years	30,333	52,929
Over 5 years	84,913	20,278
Sub-total	**132,188**	**89,563**
Total	**591,877**	**588,906**

Loans and advances to other banks and insurance companies include refinancing loans disbursed. While 98.7% of total loans and advances to other banks and insurance companies were refinancing loans as at 31 December 2017 this ratio was 98.8% as at 31 December 2018 by nominal amount. All of the refinancing loans qualified for interest compensation from the Hungarian State. For details about interest equalisation programme please refer to Note 3.12.3

(All amounts in HUF million unless otherwise stated)

NOTE 7. LOANS AND ADVANCES TO OTHER CUSTOMERS

	31.12.2018	31.12.2017
Short-term:		
- in foreign currency	44,622	42,688
- in HUF	4,451	12,292
Sub-total	**49,073**	**54,980**
Long-term:		
- in foreign currency	225,496	179,866
- in HUF	15,389	26,087
Sub-total	**240,885**	**205,953**
Total	**289,958**	**260,933**
Less: accumulated impairment losses (see Note 15)	(17,147)	(19,610)
Total	**272,811**	**241,323**

As at 31 December 2018, 76% of loans and advances to customers qualified for interest compensation from the Hungarian State (as at 31 December 2017: 79%). In addition to receiving payments from the Hungarian State under the interest equalisation programme (for details please refer to Note 3.12.3).Tied-aid loans represented 17% of total loans and advances to customers as at 31 December 2018 (as at 31 December 2017: 10%).

(All amounts in HUF million unless otherwise stated)

NOTE 7. LOANS AND ADVANCES TO OTHER CUSTOMERS (CONTINUED)

The table below shows an analysis of loans and advances to customers by remaining maturity as at 31 December 2018 and 31 December 2017.

	31.12.2018	31.12.2017
Remaining Maturity	Gross value	Gross value
In foreign currency:		
Up to 1 month	4,567	10,153
1 to 3 months	3,438	3,640
3 months to 1 year	21,372	28,895
1 to 5 years	43,788	99,115
Over 5 years	188,373	80,751
Sub-total	**261,538**	**222,554**
In HUF		
Up to 1 month	7,614	8,205
1 to 3 months	427	431
3 months to 1 year	1,668	3,656
1 to 5 years	3,474	14,606
Over 5 years	15,237	11,481
Sub-total	**28,420**	**38,379**
Total	**289,958**	**260,933**

NOTE 8. DERIVATIVES

Eximbank enters into currency swap transactions intended to mitigate foreign exchange risks and does not enter into derivatives for speculative purposes.

Financial assets and liabilities at fair value through profit or loss as at 31 December 2018 and 31 December 2017 are as follows:

	31.12.2018		31.12.2017	
	FV Assets	**FV Liab.**	**FV Assets**	**FV Liab.**
Foreign exchange swaps	124	37	168	-
Cross currency interest rate swaps	11,789	1,119	11,478	-
Total	**11,913**	**1,156**	**11,646**	**-**

Profit from the revaluation to fair value was HUF (860) million at 31 December 2018 which is recorded to 'Gains and (losses) from trading and investment activities'.

The details of FX swaps and cross currency interest rate swaps as at 31 December 2018 are shown below:

Remaining maturity	Receive notional at forward rate		Notional in HUF million	Pay notional at forward rate		Notional in HUF million
Less than 1 month	51,000,000	EUR	16,397	58033220	USD	16,304
Less than 1 month	46,100,000	EUR	14,822	14,856,221,500	HUF	14,856
Less than 1 month	34,323,000	USD	9,643	30,000,000	EUR	9,645
Over 1 month less than 2 months	30,000,000	EUR	9,645	34,418,600	USD	9,670
Over 1 year less than 5 years	400,000,000	USD	112,376	314,561,240	EUR	101,135
Over 5 years	2,066,718,680	HUF	2,067	6,634,092	EUR	2,133
Over 5 years	183,497	EUR	59	57,164,821	HUF	57
Total			**165,009**			**153,800**

NOTE 8. DERIVATIVES (CONTINUED)

The details of FX swaps as at 31 December 2017 are shown below:

Remaining maturity	Receive notional at forward rate		Notional in HUF million	Pay notional at forward rate		Notional in HUF million
Less than 1 month	32,000,000	EUR	9,924	38,036,910	USD	9,845
Over 5 years	823,469,118	HUF	823	2,643,306	EUR	820
Total			**10,747**			**10,665**

NOTE 9. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS OTHER THAN DERIVATIVES

HUF shares as at 31 December 2017 and as at 31 December 2018 are detailed below.

	Equity owned	Face Value	Cost	Fair value difference	Carrying amount
Garantiqa Hitelgarancia Ltd.	0.15%	12	12	0	12
Total		12	12	0	12

Foreign currency (FCY) shares represent the following investments:

Name of investment	Share (%)		Cost			
	31.12.2018.	31.12.2017	31.12.2018		31.12.2017	
			FCY	mHUF	FCY	mHUF
China CEE Fund I. - USD	6.99%	6.91%	28,809,893	7,750	27,775,733	7,466
China CEE Fund II - USD	8.75%	-	3,953 442	1,102	-	-
China CEE Management S.Á.R.L. - EUR	10.00%	10.00%	1,250	0.4	1,250	0.4
East West VC Fund - EUR	22.80%	23.44%	334,000	105	45,000	14
Hungarian - Kazakh Cooperation Fund - USD	49.55%	49.50%	11,715,771	3,153	10,684,735	2,787
IFC FIG Fund - USD	11.49%	11.69%	14,387,947	4,051	18,331,430	5,132
Total				**16,161**		**15,399**

(All amounts in HUF million unless otherwise stated)

NOTE 9. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS OTHER THAN DERIVATIVES (CONTINUED)

Name of investment	Fair value difference		Carrying amount	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
China CEE Fund I. - USD	2,497	2,384	10,247	9,850
China CEE Fund II - USD	-137	-	965	-
China CEE Management S.Á.R.L. - EUR	0	92	0	92
East West VC Fund - EUR	-41	0	64	14
Hungarian - Kazakh Cooperation Fund - USD	-340	-1,505	2,813	1,282
IFC FIG Fund - USD	5,052	20	9,103	5,152
Total	**7,031**	**991**	**23,192**	**16,390**

China CEE Management S.á.r.l., China-CEE Fund I and China-CEE Fund II: China-CEE Management S.á.r.l. ("the General Partner") was established in November 2013 by CEEF Holdings Limited and Eximbank Zrt. The share capital of the company is EUR 12,500. Its registered office is in Luxemburg. The objective of the General Partner is to render advisory, management, accounting and administrative services to China-CEE Fund I. and China-CEE Fund II.
China-CEE Fund I was set up in November 2013 as a limited partnership under the laws of Luxemburg. It is a closed-end specialised investment fund managed by the General Partner. The Fund's final maturity is set at 30 November 2023. The Fund's main objective is to seek long term capital appreciation and achieve attractive return in excess of comparable public markets by investing funds available to it in private equity assets, primarily in Central and Eastern Europe for the benefit of its investors while reducing investment risks through diversification.
China-CEE Fund II was established in February 2018 as a limited partnership under the laws of Luxemburg. It is a closed-end specialised investment fund managed by the General Partner. Fund II is aimed to continue the well-established investment procedure of Fund I.

In accordance with the private placement memorandum of China-CEE Fund I and the respective subscription agreement Eximbank was committed to subscribe for interests in the Fund for a maximum amount of USD 30,000,000 during the commitment period. By the end of December 2018 Eximbank already subscribed to USD 28,809,893 (HUF 7,750 million) worth of interests. The remaining amount of USD 1,190,107 (HUF 334 million) is classified as contingent liability as at 31 December 2018.

NOTE 9. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS OTHER THAN DERIVATIVES (CONTINUED)

The Subscription Agreement for China-CEE Fund II was signed by Eximbank on November 2017 with a commitment of up to USD 70,000,000. By the end of December 2018 Eximbank already subscribed to USD 3,953,442 (HUF 1,102 million) worth of interests. The remaining amount of USD 66,046,558 (HUF 18,555 million) is classified as contingent liability as at 31 December 2018.

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. The fund's total size is EUR 20,000,000, with Eximbank committing to contribute up to EUR 4,500,000. The fund is managed by Alpac Capital (with offices in Lisbon and Budapest) and primarily aims to invest in early-stage technology companies in Hungary, Portugal and neighbouring countries.
By the end of December 2018 Eximbank subscribed to participation units worth EUR 334,000 (HUF 105 million) in the fund. The remaining commitment of EUR 4,166,000 (HUF 1,339 million) is classified as contingent liability as at 31 December 2018.

Kazakhstan Hungarian Investment Private Equity Fund C.V./Kazakhstan "Silk Road" Agriculture Growth Fund (Kazakhstan Hungarian Fund): In 2015, Eximbank and JSC "National Management Holding KazAgro" established a limited partnership under the laws of the Netherlands. The commitment of both partners is USD 20 million. Furthermore the general partner has committed to invest 1% of the total commitments of the Fund. The primary investment objective of the partnership is to focus on equity, quasi equity and convertible debt investments into agriculture and food chain companies (including production, processing, storage and logistics) that are operating in the growth categories of meat, dairy, grains, oilseeds, vegetables, fruits and fish in Kazakhstan.
Eximbank does not have a significant influence in the Kazakh Hungarian Investment Fund as is does not have the power to participate in the financial and operating policy decisions of the fund, nor does it have representatives in the respective investment decision-making bodies of the fund. Eximbank's representation is limited to objecting to whether a proposed investment's beneficial owners are suitable counterparties.

Eximbank made capital contributions worth USD 11,715,771 (HUF 3,153 million) until 31 December 2018. The remaining commitment of USD 8,284,230 (HUF 2,327 million) was classified as contingent liability at 31 December 2018.

IFC FIG Fund: IFC Asset Management Company, LLC, a wholly owned subsidiary of the International Finance Corporation ("IFC"), established IFC Financial Institutions Growth Fund, LP with total commitments of USD 505 million. The Fund is seeking to make equity investments in financial institutions in IFC member countries that IFC classifies as emerging markets.
In March 2015 Eximbank joined IFC FIG Fund as a limited partner. Eximbank was committed to pay up to USD 50 million. By the end of December 2018, the Bank has contributed by USD 14,387,947 (HUF 4,051 million). The remaining commitment of USD 35,612,053 (HUF 10,005 million) is classified as contingent liability as at 31 December 2018.

NOTE 9. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS OTHER THAN DERIVATIVES (CONTINUED)

SINO CEE Fund: SINO CEE Fund was formed as a special limited partnership, under the laws of Luxembourg, on 26 October 2016. The principal purpose of the partnership, managed by SINO CEE Fund GP Limited, is the collective investment of its funds, both directly and indirectly, primarily in equity, equity-related and mezzanine investments (including private investments in public equity) in infrastructure, advanced manufacturing and mass consumer sectors focused within Central and Eastern Europe, and potentially expanding to the broader European regions and other geographies around the world. In November 2018 Eximbank was admitted to the partnership with a commitment of investing up to EUR 50 million into the partnership. Eximbank did not make any capital contributions until 31 December 2018 and the remaining commitment of USD 50,000,000 (HUF 16,076 million) was classified as contingent liability at 31 December 2018.

When Eximbank signed the subscription agreements of the above mention funds it irrevocably undertook to make aggregate payments up to the amount of those commitments. Should Eximbank fail to pay any part of its undrawn, but called for, commitment after a warning letter by the general partner of the fund, it will lose its investor rights (representation rights in various committees of a fund, as well as have the entire balance its capital accounts, pro rata, redistributed among the non-defaulting investors of the fund, and shall automatically cease to be an investor of the fund and shall have no further interest, right or claim in or against the fund.

Regarding to the establishing documents (PPM, LPA, Subscription Agreement) of the fund, Fund Manager/General Partner is entitled to drawdown committed amounts for investment that have been identified and approved by the funds' relevant committee or to cover already incurred fees and expenses of the Fund (e.g. audit fees, investment management fees, etc.). Based on experience, in most of the cases the whole committed amount will not be drawdown. Therefore Eximbank does not consider capital commitments to the Funds as an obligation to an unconditional transfer, so it does not recognize it as a financial liability as long as the conditions for drawn down above are not met, but treats it as a contingent liability which is presented in Notes 21. The Bank may refuse to call a commitment in case of conflict of interest.

NOTE 10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

PortfoLion Regionális Magántőke-alap ("the PortfoLion Fund") was launched in June 2012 with a share capital of HUF 5,000 million. It was established by OTP Bank Plc. In 2013, Eximbank started negotiations with OTP Bank Plc. and PortfoLion Venture Capital Fund Management Private Limited Company, the fund management company, to join as a new investor by raising the share capital with an additional HUF 5,000 million to HUF 10,000 million.

PortfoLion Regionális Magántőke-alap is a private equity fund. Its targets are well-established medium-sized companies that offer a promising business model, having already established product lines and a wide range of clients, but which may be facing financial difficulties. The targeted companies had demonstrated good financial results and high margins before the financial crisis of 2008. They continue to have favorable opportunities in their markets, but as a result of the crisis, an inadequate capital structure does not allow them to make full use of their potential and does not allow them to finance their future growth.

NOTE 10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

According to the principal of its legal document of the Portfolion Fund Eximbank committed itself to pay a total of HUF 5,000 million by the end of 2018, which represented 50% of the issued capital of the PortfoLion Fund. Eximbank has already paid the total committed amount.

In 2015 the Bank – as international export credit agencies and development institutions - established an economic growth fund (**EXIM Növekedési Magántőkealap**), which is intended to provide financing to micro, small and medium enterprises operating in Hungary with strong growth potential and ability to export. The Bank made a commitment of HUF 6,000 million and the whole amount had been paid until 31 December 2018.

The Bank's contribution to the share capital is 100% as at 31 December 2018.

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 with existing or prospective export capacity in products and services. The Bank made a commitment amounted to HUF 10,000 million. In 2016 the Bank paid the whole amount.

The Bank's contribution to the share capital is 100% as at 31 December 2018.

The Bank's contribution to the share capital of EXIM Növekedési Magántőkealap and EXIM Exportösztönző Magántőkealap, respectively, amounts to 100%, however, these funds are managed by a third party fund manager GB & Partners Venture Capital Fund Management Plc. Based on the decision making structure, the Bank has no control, but significant influence over those funds. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Eximbank's interest in the Funds is accounted for using the equity method in accordance with *IAS 28 Investments in Associates and Joint Ventures.*

Enter Tomorrow Europe Magántőkealap was launched in July 2018 with a share capital of EUR 50 million. It was established by MOL Group and Eximbank. It is a private equity fund registered in Hungary managed by a third party fund manager Lead Ventures Investment Management Plc., which is intended to provide financing to early enterprises operating in Europe with existing products, services or prototype with patent.
The Bank made a commitment of up to EUR 25 million in the fund. By the end of December 2018 Eximbank has invested EUR 2.5 million (HUF 810 million) in the fund. The Bank's remaining commitment, as at 31 December 2018, stood at EUR 22.5 million (HUF 7,234 million).

There weren't any other transactions between Eximbank and PortfoLion Regionális Magántőkealap, EXIM Növekedési Magántőkealap, EXIM Exportösztönző Magántőkealap, Enter Tomorrow Europe Magántőkealap. The principal place of business of these funds is Hungary.

(All amounts in HUF million unless otherwise stated)

NOTE 10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

When Eximbank signed the subscription agreements of the above mention funds it irrevocably undertook to make aggregate payments up to the amount of those commitments. Should Eximbank fail to pay any part of its undrawn, but called for, commitment after a warning letter by the general partner of the fund, it will lose its investor rights (representation rights in various committees of a fund, as well as have the entire balance its capital accounts, pro rata, redistributed among the non-defaulting investors of the fund, and shall automatically cease to be an investor of the fund and shall have no further interest, right or claim in or against the fund.

Regarding to the establishing documents (PPM, LPA, Subscription Agreement) of the fund, Fund Manager/General Partner is entitled to drawdown committed amounts for investment that have been identified and approved by the funds' relevant committee or to cover already incurred fees and expenses of the Fund (e.g. audit fees, investment management fees, etc.). Based on experience, in most of the cases the whole committed amount will not be drawdown. Therefore Eximbank does not consider capital commitments to the Funds as an obligation to an unconditional transfer, so it does not recognize it as a financial liability as long as the conditions for drawn down above are not met, but treats it as a contingent liability which is presented in Notes 21. The Bank may refuse to call a commitment in case of conflict of interest.

Adjustment to recognise changes in the Bank's share of net assets of the Funds since the acquisition date amounted to HUF (884) million (decrease) as at 31 December 2018 and HUF (1,341) million (decrease) as at 31 December 2017.

	31.12.2018	**31.12.2017**
Initial recognition at cost	21,810	18,739
Adjustment	(884)	(1,341)
Carrying value	**20,926**	**17,398**

	31.12.2018	**31.12.2017**
Bank's share of the annual loss of the Funds	(1,432)	(1,052)
Bank's share of other comprehensive income of the Funds	548	(289)
Total	**(884)**	**(1,341)**

(All amounts in HUF million unless otherwise stated)

NOTE 11. INTANGLIBE ASSETS

Movement table of intangible assets as at 31 December 2018 is as follows:

	Intangible assets available for use	Intangible assets not yet available for use	Total
Cost			
31 December 2017	2,637	758	3,395
Additions	1,171	856	2,027
Transfer to available for use	-	(1,183)	(1,183)
31 December 2018	3,808	431	4,239
Accumulated depreciation and amortisation			
31 December 2017	1,936	-	1,936
Charge for year (Note 26)	434	-	434
Impairment (Note 15)	-	-	-
Disposals	-	-	-
31 December 2018	2,370	-	2,370
Net book value			
31 December 2017	**701**	**758**	**1,459**
31 December 2018	**1,438**	**431**	**1,869**

(All amounts in HUF million unless otherwise stated)

NOTE 11. INTANGLIBE ASSETS (CONTINUED)

Movement table of intangible assets as at 31 December 2017 is as follows:

	Intangible assets available for use	Intangible assets not yet available for use	Total
Cost			
31 December 2016	2,002	430	2,432
Additions	636	976	1,612
Transfer to available for use	(1)	(648)	(649)
31 December 2017	2,637	758	3,395
Accumulated depreciation and amortisation			
31 December 2016	1,673	-	1,673
Charge for year (Note 26)	264	-	264
Impairment (Note 15)	-	-	-
Disposals	(1)	-	(1)
31 December 2017	1,936	-	1936
Net book value			
31 December 2016	**329**	**430**	**759**
31 December 2017	**701**	**758**	**1,459**

(All amounts in HUF million unless otherwise stated)

NOTE 12. PROPERTY, PLANT AND EQUIPMENTS

Movement table of tangible assets as at 31 December 2018 is as follows:

	Leasehold improvements	Furniture, fixtures & office equipment	Assets under construction	Total
Cost				
31 December 2017	372	1,719	27	2,118
Additions	3	62	96	161
Disposals	-	(17)	(75)	(92)
31 December 2018	375	1,764	48	2,187
Accumulated depreciation and amortisation				
31 December 2017	107	718	-	825
Charge for year (Note 26)	42	298	-	340
Impairment (Note 15)	-	4	-	4
Disposals	-	(29)	0	(29)
31 December 2018	149	991	-	1,140
Net book value				
31 December 2017	**265**	**1,001**	**27**	**1,293**
31 December 2018	**226**	**773**	**48**	**1,047**

(All amounts in HUF million unless otherwise stated)

NOTE 12. PROPERTY, PLANT AND EQUIPMENTS (CONTINUED)

Movement table of tangible assets as at 31 December 2017 is as follows:

	Leasehold improvements	Furniture, fixtures & office equipment	Assets under construction	Total
Cost				
31 December 2016	426	1,213	28	1,667
Additions	-	562	939	1,501
Disposals	(54)	(56)	(940)	(1,050)
31 December 2017	372	1,719	27	2,118
Accumulated depreciation and amortisation				
31 December 2016	93	538	-	631
Charge for year (Note 26)	45	214		259
Impairment (Note 15)	-	18	-	18
Disposals	(31)	(52)	-	(83)
31 December 2017	107	718	-	825
Net book value				
31 December 2016	**333**	**675**	**28**	**1,036**
31 December 2017	**265**	**1,001**	**27**	**1,293**

The following table shows acquisition of intangibles, property and equipment and proceeds from the sale of intangible assets and property and equipment in both years.

	31.12.2018	31.12.2017
Acquisition of intangibles, property and equipment	930	1,525
Proceeds from the sale of intangible assets and property and equipment	3	28

(All amounts in HUF million unless otherwise stated)

NOTE 13. TAXATION

The components of tax expense and assets for the year ended 31 December 2018 and 31 December 2017 are as follows:

	31.12.2018	31.12.2017
Corporate income tax expense	466	516
Local tax expense	688	424
Innovation contribution expense	103	64
Current income tax	**1,257**	**1,004**
Deferred tax expense / (income)	241	(385)
Total income tax	**1,498**	**619**
Net profit before income tax	8,567	912
Effective tax rate after adjustments	**17%**	**68%**
Current income tax asset	689	666
Other tax asset*	41	1,936
Deferred tax asset	0	116
Deferred tax liability	(217)	0
Other tax liability	158	175

*Other tax asset significantly decreased in 2018 as a result of termination of interest annuity.

In 2017 and 2018 the corporate income tax rate was 9%. The tax base is the net profit before tax – calculated in accordance with the Hungarian accounting rules - modified by certain tax deductible and non-deductible items, as required the local tax law.

In 2017 and 2018, local business tax and innovation contributions are payable 2% and 0.3% respectively on statutory net interest and gross fee income modified by certain cost elements.

The tax base of the local business tax and innovation contribution is the net interest and gross fee income of the tax year with the following deductions:

- cost of goods and services and mediated services
- subcontractors' deliverables
- cost of materials
- direct cost of fundamental and applied research and experimental development incurred in the tax year

(All amounts in HUF million unless otherwise stated)

NOTE 13. TAXATION (CONTINUED)

Reconciliation of the total tax charge

Reconciliation between the tax expense and the accounting profit multiplied by the Bank's domestic tax rate for the years ended 31 December 2018 and 2017 is as follows:

		31.12.2018	31.12.2017
Profit (loss) before income tax		**8,567**	**912**
Corporate income tax in 2017 and 2018	9%	771	82
Average tax rate	9%	771	82
Adjustments:			
Local business tax and innovation contribution		791	488
Tax base modification items		(64)	50
Total adjustments		727	538
Income tax reported in the Statement of Comprehensive Income		1,498	620
Effective tax		**17%**	**68%**

(All amounts in HUF million unless otherwise stated)

NOTE 13. TAXATION (CONTINUED)

Deferred tax

The deferred tax included in the statement of financial position and changes recorded in the statement of comprehensive income as at 1 January 2018 (at IFRS 9 transition), 31 December 2018 and 31 December 2017 are as follows:

	01.01.2018				
	Deferred tax assets	Deferred tax liabilities	Net	Recognised in retained earnings	Recognised in fair value reserve
Financial assets measured at amortised cost	200		200	(356)	35
Derivative financial assets	83		83	(249)	2
Financial assets measured at fair value through profit and loss other than derivatives	(299)		(299)	(388)	356
Investment accounted with equity method	54		54	66	(47)
Other financial and non financial assets	2		2	64	
Financial liabilities measured at amortised cost	(340)		(340)	(240)	
Financial liabilities measured at fair value through profit and loss	(18)		(18)	247	
Provision	177		177	254	
Other financial and non financial liabilities	226		226	226	
	85		**85**	**(376)**	**346**

(All amounts in HUF million unless otherwise stated)

NOTE 13. TAXATION (CONTINUED)

	31.12.2018				
	Deferred tax assets	Deferred tax liabilities	Net	Recognised in profit or loss	Recognised in other comprehen-sive income
Financial assets measured at amortised cost		284	284	84	
Derivative financial assets		147	147	64	
Financial assets measured at fair value through profit and loss other than derivatives		(686)	(686)	(387)	
Investment accounted with equity method		(109)	(109)	(102)	(61)
Other financial and non financial assets		7	7	5	
Financial liabilities measured at amortised cost		(18)	(18)	322	
Financial liabilities measured at fair value through profit and loss		12	12	30	
Provision		134	134	(43)	
Other financial and non financial liabilities		12	12	(214)	
		(217)	**(217)**	**(241)**	**(61)**

(All amounts in HUF million unless otherwise stated)

NOTE 13. TAXATION (CONTINUED)

	31 December 2017				
	Deferred tax assets	Deferred tax liabilities	Net	Recognised in profit or loss	Recognised in other comprehen-sive income
Impairment allowance for loans and advances to customers	516		516	296	-
Financial instruments held at amortised cost	(59)		(59)	(12)	-
Fair value adjustments of financial instruments at fair value through profit or loss	65		65	216	-
Available-for-sale financial assets	(302)		(302)	(24)	(394)
Investments accounted for using the equity method	-		-	-	-
Other temporary differences	(104)		(104)	(92)	-
	116		**116**	**384**	**(394)**

NOTE 14. OTHER ASSETS

	31.12.2018	31.12.2017
Accrued income*	4,889	1,080
Prepaid expenses	114	144
Other	198	201
Sub-total	5,201	1,425
Less: impairment loss (see Note 15)	(17)	(17)
Total other assets	**5,184**	**1,411**

*Accrued income has significantly increased in 2018 as a result of the volume growth of those accrued MEHIB insurance fees to be received from the government.

(All amounts in HUF million unless otherwise stated)

NOTE 15. PROVISIONS AND IMPAIRMENT LOSSES

The tables below show impairment and provision made and released for financial instruments related to their expected credit losses during the year ended 31 December 2018 and during the year ended 31 December 2017.
The provisions were made for commitments and contingent liabilities from which HUF 175 million relates to commitments and contingent liabilities provided to banks and insurance companies, HUF 902 million to other companies.

	Cash and cash balances with National Bank of Hungary	Securities measured at amortised cost	Loans and advances to banks and insurance companies	Loans and advances to other customers	Total impairment	Provision under IFRS9	Total impairment and provision
As at 1 January 2018	**1**	**22**	**946**	**15,091**	**16,060**	**1,590**	**17,650**
Write-offs	-	-	-	(1,101)	(1,101)	-	(1,101)
Charge for the year	3	6	121	7,358	7,488	1,581	9,069
Reversed during the year	(1)	(4)	(141)	(4,698)	(4,844)	(2,094)	(6,938)
Effect of foreign currency movements	-	-	47	497	544		544
As at 31 December 2018	**3**	**24**	**973**	**17,147**	**18,147**	**1,077**	**19,224**

(All amounts in HUF million unless otherwise stated)

NOTE 15. PROVISIONS AND IMPAIRMENT LOSSES (CONTINUED)

	Loans and advances to other banks and insurance companies	**Loans and advances to customers**	**Available-for-sale securities**	**Total impairment**
As at 31 December 2016 (IAS 39)	**829**	**16,175**	**947**	**17 951**
Write-offs	-	-	(40)	- 40
Charge for the year	-	5,697	1,357	7 054
Reversed during the year	(65)	(2,224)	-	- 2 289
Effect of foreign currency movements	(44)	(38)	(5)	- 87
As at 31 December 2017 (IAS 39)	**720**	**19,610**	**2,259**	**22 589**

(All amounts in HUF million unless otherwise stated)

NOTE 15. PROVISIONS AND IMPAIRMENT LOSSES (CONTINUED)

The table below shows impairment made and reversed for non-financial assets during the year ended 31 December 2018 and during the year ended 31 December 2017.

	Property and equipment	Other asset	Total
As at 1 January 2018	**18**	**17**	**35**
Write-offs	(3)		(3)
Charge for the year	-	-	-
Reversed during the year	(11)	-	(11)
Effect of foreign currency movements	-	-	-
As at 31 December 2018	**4**	**17**	**21**

	Property and equipment	Other asset	Total
As at 31 December 2016	**1**	**19**	**20**
Write-offs	(19)	-	(19)
Charge for the year	36	-	36
Reversed during the year	-	(2)	(2)
Effect of foreign currency movements	-	-	-
As at 31 December 2017	**18**	**17**	**35**

The table below shows provisions under IAS 37 made and reversed during the year ended 31 December 2018 and during the year ended 31 December 2017.

	Provisions
As at 1 Januar 2018	**854**
Provision made during the period (net)	259
Provision reversed during the period	(556)
Provision used during the period	
Effect of foreign currency movements	10
As at 31 December 2018	**567**

(All amounts in HUF million unless otherwise stated)

NOTE 15. PROVISIONS AND IMPAIRMENT LOSSES (CONTINUED)

	Provisions
As at 31 December 2016	**728**
Provision made during the period (net)	1,049
Provision reversed during the period	(918)
Provision used during the period	-
Effect of foreign currency movements	(2)
As at 31 December 2017	**857**

As at 31 December 2018, out of the total HUF 567 million provisions which was made according to the rules of IAS 37 HUF 219 million was made for management bonuses, HUF 348 million was made for litigation.
The other part of provisions – HUF 1,077 million – was made for commitments and contingent liabilities from which HUF 175 million relates to commitments and contingent liabilities provided to banks and insurance companies, HUF 902 million to other companies.

NOTE 16. LOANS AND DEPOSITS FROM OTHER BANKS AND INSURANCE COMPANIES

	31.12.2018	31.12.2017
Short-term		
- in foreign currency	46,667	40,275
- in HUF	26,817	11,493
Sub-total	**73,484**	**51,768**
Long-term		
- in foreign currency	409,701	281,748
- in HUF	2,950	2,548
Sub-total	**412,651**	**284,296**
Total	**486,135**	**336,064**

(All amounts in HUF million unless otherwise stated)

NOTE 16. LOANS AND DEPOSITS FROM OTHER BANKS AND INSURANCE COMPANIES (CONTINUED)

The table below shows an analysis of loans and deposits from other banks by remaining maturity as at 31 December 2018 and 31 December 2017.

	31.12.2018	31.12.2017
Remaining maturity		
In foreign currency:		
Up to 1 month	10,490	22,533
1 to 3 months	1,504	4,197
3 months to 1 year	11,831	13,545
1 to 5 years	398,556	173,199
Over 5 years	32,171	108,549
Sub-total	**454,552**	**322,023**
In HUF		
Up to 1 month	15,296	4,847
1 to 3 months	11,678	6,115
3 months to 1 year	850	531
1 to 5 years	1,562	1,674
Over 5 years	2,197	874
Sub-total	**31,583**	**14,041**
Total	**486,135**	**336,064**

(All amounts in HUF million unless otherwise stated)

NOTE 17. DEPOSITS FROM CUSTOMERS

	31.12.2018	31.12.2017
Short-term		
- in foreign currency	2,108	2,357
- in HUF	0	7,517
Total	**2,108**	**9,874**

The table below shows an analysis of deposits from customers by remaining maturity as at 31 December 2018 and 31 December 2017.

	31.12.2018	31.12.2017
Remaining maturity		
In foreign currency:		
Up to 1 month	1,729	-
1 to 3 months	379	1,571
3 months to 1 year		786
Sub-total	**2,108**	**2,357**
In HUF:		
Up to 1 month	-	-
1 to 3 months	-	7,517
Sub-total	**-**	**7,517**
Total	**2,108**	**9,874**

NOTE 18. DEBT SECURITIES ISSUED

On 1 October 2013, under the EUR 2 billion MTN (MEDIUM TERM NOTE) Program, the Bank issued EUR 400 million of fixed-rate notes. The rate of interest is 2.125% per annum payable semi-annually in advance, and 4.297% for the final interest period. The first interest payment date was the issue date, and thereafter 15 February and 15 August in each year up to, and including 15 August 2018. There was a short first interest period from, and including the issue date to, but excluding 15 February 2014.

On 2 October 2014, under the EUR 2 billion MTN Program, the Bank issued USD 500 million of fixed-rate notes. Proceeds from issuance of debt securities were HUF 121,423 million calculated with exchange rate on issue date. The rate of interest is 4% per annum payable semi-annually in arrears. The first interest payment date is 30 January 2015. The bonds mature 5 years 4 months from the issue date at nominal value.
Bonds are listed on London Stock Exchange's regulated market with effect from the issue date.

On 5 July 2017 the Bank continued to issue two series of bonds under Hungarian law. The first series are having EUR 83,000 million notional, fixed 0.05% coupon and 21 October 2019 maturity. The average issue price was 99.9036%. The second series are having HUF 7,499,980 billion notional, fixed 0.80% coupon and 23 September 2020 maturity. The average issue price was 99.6538%.

On 18 October 2017 the Bank issued bond series with HUF 12.1 billion under Hungarian law. The bond series are having fixed 1.30% coupon and 24 July 2022 maturity. The average issue price was 100.5108%.

The bond series issued under Hungarian law are listed on Budapest Stock Exchange.

On 24 November 2017 the Bank decided to terminate its EUR 2 billion MTN programme. As a result of the decision international bond issuances may be carried out on a standalone basis outside of any bond programme frameworks.

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

(All amounts in HUF million unless otherwise stated)

NOTE 18. DEBT SECURITIES ISSUED (CONTINUED)

The effective interest on the bonds recorded in interest expense was HUF 14,482 million (in 2017: HUF 19,009 million) using effective rates between 4% and 6%.

Main data of bonds listed on London Stock Exchange:

ISIN code	XS0953951711	XS1115429372; US55977W2B78
Issue date	01.10.2013	02.10.2014
Maturity date	13.02.2019	30.01.2020
Date of redemption		
Currency	EUR	USD
Nominal value	400,000,000	500,000,000
Rate of interest	2.125%	4.00%
Last day of first interest period	15 February 2014	30 January 2015
Frequency of interest payment after the first interest period	semi-annually	semi-annually
Timing of interest payment	in advance	in arrears

Main data of outstanding bonds listed on Budapest Stock Exchange:

ISIN code	HU0000357777	HU0000357769	HU0000357926
Issue date	05.07.2017	05.07.2017	18.10.2017
Maturity date	21.10.2019	23.09.2020	24.06.2022
Currency	EUR	HUF	HUF
Nominal value	83,000,000	7,499,980,000	12,100,000,000
Rate of interest	0.05%	0.80%	1.30%
Last day of first interest period	21 October 2018	23 September 2018	24 June 2018
Frequency of interest payment after the first interest period	annually	annually	annually
Timing of interest payment	in arrears	in arrears	in arrears

(All amounts in HUF million unless otherwise stated)

NOTE 18. DEBT SECURITIES ISSUED (CONTINUED)

The structure of the issuance in 2013 was different from standard issuances in capital markets before. The notes issued by Eximbank – that are unconditionally and irrevocably guaranteed by the government of Hungary - were completely subscribed by MAEXIM Secured Funding Ltd (MAEXIM Ltd). This company is an SPV registered in the Republic of Ireland with the sole purpose of issuing EUR 400 million notes.
TMF Administration Services Limited acts as the corporate services provider for the SPV as well based on a corporate services agreement.
The SPV issued EUR 400 million notes in two tranches: EUR 380 million fixed-rate class A1 notes and EUR 20 million fixed-rate class A2 notes.
The transaction is backed by EUR 400 million notes ("collateral securities") issued by Eximbank under its EUR 2 billion MTN Program. Proceeds of the issuance by SPV were used to pay issuer expenses payable upfront and to purchase the bonds issued by Eximbank.
The SPV entered into a contract of guarantee with a member of the World Bank Group, the Multilateral Investment Guarantee Agency (MIGA). Under this contract, MIGA agrees to cover 95% of the payments due to the SPV under the collateral securities in the event of Hungary failing to make payment when due under the funding guarantee. MIGA is obligated to pay all amounts due (scheduled interest and principal) when an event of default on the collateral securities occurs and the custodian has made a demand for payment under the funding guarantee, and upon the lapse of the 30 days required thereunder for payment by the sovereign.
Since class A1 notes represent 95% of the total series 1-2013 note issuance, payments received by the SPV under the MIGA contract will exclusively be used to pay class A1 noteholders. While payments of principal and interest on class A1 notes are fully covered by the guarantee, class A2 notes will not benefit.
Eximbank paid guarantee fee to MIGA in the amount of 10,527,772.05 EUR.

Fitch Ratings has assigned ratings to the notes issuance by the SPV as indicated in the table below. The 'AAA' rating assigned to class A1 notes is consistent with the credit quality of the guarantee provider, MIGA. The rating assigned to class A2 notes is linked to the 'BB+' rating assigned to the collateral securities, which benefit from an irrevocable guarantee by Hungary.
Main data of bonds issued by the Bank and by MAEXIM Ltd.:

Issuer	Eximbank	MAEXIM Ltd	
Issue date	01.10.2013	01.10.2013	
Maturity date	13.02.2019	13.02.2019	
Currency	EUR	EUR	
Tranche number	1	A1	A2
Nominal value	400,000,000	380,000,000	20,000,000
Collateral	Unconditional and irrevocable guarantee by Hungary	MIGA guarantee and debt issued by Eximbank	Debt issued by Eximbank
Rating at issue date	BB+	AAA	BB+
Rate of interest	2.125%	2.125%	2.125%
Last day of first interest period	15 February 2014	15 February 2014	15 February 2014
Frequency of interest payment after the first interest period	semi-annually	semi-annually	
Timing of interest payment	in advance	in arrear	

(All amounts in HUF million unless otherwise stated)

NOTE 18. DEBT SECURITIES ISSUED (CONTINUED)

The structure resulted in significant interest savings for the Bank. Eximbank has not repurchased any of its own debt or debt issued by MAEXIM Ltd. since the issue date.

The table below supports an item in cash-flow, namely Foreign exchange (gains) and losses relating to non-operating cash-flows.

	31.12.2018	31.12.2017
FX of debt securities issued	(14,362)	(34,180)
Net foreign exchange difference	-	13
Total	**(14,362)**	**(34,167)**

NOTE 19. OTHER LIABILITIES

	31.12.2018	31.12.2017
MEHIB insurance fee	4,481	1,583
Accrued expenses	1,908	1,961
Accrued revenue	98	187
Other	2,721	944
Total other liabilities	**9,208**	**4,675**

NOTE 20. SHAREHOLDER'S EQUITY

	31.12.2018	31.12.2017
Share capital	133,700	133,700
Share premium	400	400
Retained earnings	5,958	(2,257)
Statutory reserves	15,407	10,747
Thereof:		
General reserve	*15,407*	*10,747*
Other reserves	438	3,159
Fair value reserve – AFS equity instruments	-	*2,879*
Fair value reserve – AFS debt instruments	-	*280*
Share of OCI of investments accounted with equity method	*438*	-
Total	**155,903**	**145,749**

NOTE 20. SHAREHOLDER'S EQUITY (CONTINUED)

As at 31 December 2017 and as at 31 December 2018, the Bank's shareholder was the Hungarian State represented by the Minister of Foreign Affairs and Trade.
As at 31 December 2016, the Bank's share capital was comprised of 17,800 fully paid shares, each with a par value of HUF 5 million. The shares origination of HUF 44,700 million transferred in December 2016 was made formally in February 2017. As at 28 February 2017 and as at 31 December 2017, the Bank's share capital was comprised of 26,740 fully paid shares, each with a par value of HUF 5 million. In 2018 the share capital of the Bank has not changed.

The provisions of the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises ("Hungarian Banking Act") prescribes that the Bank has to set a general reserve in the amount of 10 % of the current year profit after tax figure, which will be eliminated to cover the future losses. It is treated as appropriation from retained earnings to statutory reserves. See also Note 3.8.

For 2018 the Bank set HUF 499 million (in 2017 HUF 462 million). The general reserve cannot be distributed as dividends.
According to the opportunity included in the Hungarian Banking Act the Bank reclassifies HUF 4,161 from retained earnings to general reserve in 2018 (in 2017 HUF 671 million).

NOTE 21. COMMITMENTS AND CONTINGENT LIABILITIES

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

The Hungarian State's obligations in respect of this back-to-back statutory guarantee are subject to an upper limit set by the annual central budget. According to the 2018 Budget Act, the upper limit combined HUF 150 billion in respect of Eximbank's export-credit and other export-related guarantees. By government decree, the back-to-back statutory guarantee is also subject to certain conditions, including that any credit agreement over which Eximbank extends a state-backed export-credit guarantee must conform to OECD guidelines.

As at 31 December 2018, HUF 12,585 million of Eximbank's overall guarantee portfolio of HUF 13,475 million was backed by State guarantees.

The remaining 7% of Eximbank's guarantee portfolio (which are guarantees issued at its own risk) related to export-credit guarantees where the underlying loans, due mainly to the nature of the export or tenor, are outside OECD guidelines, and accordingly, outside the statutory guarantee.

(All amounts in HUF million unless otherwise stated)

NOTE 21. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Commitments and contingent liabilities as at 31 December 2018 and 31 December 2017 are summarised as follows:

	31.12.2018	31.12.2017
Unutilised part of discount and credit lines	382,418	349,028
Guarantees counter-guaranteed by Hungary	12,585	19,623
Guarantees not counter-guaranteed by Hungary	889	1,370
Letter of credit	1,322	216
Total	**397,214**	**370,237**

Loan commitments constitute undrawn amounts under Eximbank's existing loan agreements. Eximbank's loan commitments primarily relate to its pre-export refinancing products entered into with banks.

100% of the Funding for Growth scheme NBH loans are secured – as required by NBH – over government bonds and trade receivables with a carrying amount of HUF 3,821 million. There aren't any other assets of the Bank that are pledged as collateral.

The above figures do not contain the remaining unpaid part of the commitments and contributions in respect of Enter Tomorrow Europe Magántőkealap, China-CEE Fund I., China-CEE Fund II., IFC FIG Fund, East West VC Fund EuVECA, CCL Kazakhstan "Silk Road" Agriculture Growth Fund and SINO-CEE Fund there are presented as follows. The payments of the remaining amounts depends on the future investments and drown-down request of the fund managers, therefore, they are recognised as commitments as Eximbank is required to pay the remaining contribution upon request.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (All amounts in HUF million unless otherwise stated)

NOTE 21. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Name	Commitments		
	31.12.2018	31.12.2017	
Portfolion Regionális Magántőkealap	HUF 0 million	HUF 2,261 million	Please, refer to Note 10.
Enter Tomorrow Europe Magántőkealap	EUR 22,500,000 HUF 7,234 million	HUF 0 million	Please, refer to Note 10.
China-CEE Fund I.	USD 1,190,107 (HUF 334 million)	USD 2,224,267 (HUF 576 million)	Please, refer to Note 9.
China-CEE Fund II.	USD 66,046,558 (HUF 18,555 million)	USD 70,000,000 (HUF 18,117 million)	Please, refer to Note 9.
IFC FIG Fund	USD 35,612,053 (HUF 10,005 million)	USD 31,668,570 (HUF 8,196 million)	Please, refer to Note 9.
East West	EUR 4,166,000 (HUF 1,339 million)	EUR 4,455,000 (HUF 1,382 million)	Please, refer to Note 9.
Hungarian - Kazakh Cooperation Fund	USD 8,284,230 (HUF 2,327 million)	USD 9,315,265 HUF 2,411 million	Please, refer to Note 9.
SINO-CEE Fund	EUR 50,000,000 HUF 16,076 million	HUF 0 million	Please, refer to Note 9.

(All amounts in HUF million unless otherwise stated)

NOTE 22. INTEREST INCOME AND INTEREST EXPENSE

	31.12.2018	31.12.2017
Interest income using the effective interest method:		
Loans and advances to other banks and insurance companies	1,287	1,763
Loans and advances to customers	6,029	6,563
Interest compensation*	26,716	27,087
Securities	282	137
Sub-total	**34,314**	**35,550**
Other interest income		
Derivatives	4,725	7,793
Other	26	8
Sub-total	**4,751**	**7,801**
Total	**39,065**	**43,351**
Interest expense using the effective interest method:		
Loans and deposits from other banks	7,529	3,314
Deposits from companies	166	102
Interest compensation	70	0
Debt securities issued	14,482	19,009
Sub-total	**22,247**	**22,425**
Other interest expense		
Derivatives	2,789	5,696
Sub-total	**2,789**	**5,696**
Total	**25,036**	**28,121**
Net interest income	**14,029**	**15,230**

In 2018 the unwinding interest revenue on Stage 3 instruments ('Loans and advances to customers') was HUF 1,028 million (interest revenue on gross amortised cost would be HUF 1,397 million)

* In accordance with the rules and conditions of the Government Decree 85/1998 (V.6.) on the interest compensation system and of the Government Decree 232/2003 (XII.16.) on the tied-aid credits the Bank receives interest compensation from the Hungarian State for special financing facilities. Please refer to Note 3.12.

(All amounts in HUF million unless otherwise stated)

NOTE 23. NET INCOME FROM FEES AND COMMISSIONS

	31.12.2018	31.12.2017
Fee and commission income:		
Guarantees counter-guaranteed by the state	205	193
Guarantees not counter-guaranteed by the state	45	21
Other	320	414
Total	**570**	**628**
Fee and commission expense:		
Other	239	1,349
Total	**239**	**1,349**
Total	**331**	**(721)**

The functions of the state export credit agency in Hungary are divided 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 to certain of Eximbank's borrowers.

A significant portion of Eximbank's buyer's credit loans are mandated by the Hungarian State to provide buyer's credit through a system of tied-aid credits based on intergovernmental agreements, with the aim of reaching new markets in developing countries. Tied-aid credits must be disbursed to the Hungarian exporter, and the tied-aid provided by Eximbank incorporates special interest terms and aid in the form of an insurance premium.

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

The insurance fee to be paid by Eximbank to MEHIB is considered to be a transaction cost of the related loan receivables and the insurance fee to be reclaimed from the Hungarian State (to cover the insurance fees payable to MEHIB) is considered to be an integral part of the effective interest rate of those loan receivables, therefore no fee income and fee expense is presented for those amounts.

Under OECD guidelines, interest charged to borrowers under tied-aid credits must be at least 35% lower than that charged under Eximbank's standard buyer's credit facility.

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

NOTE 23. NET INCOME FROM FEES AND COMMISSIONS (CONTINUED)

The following table sets out the nature and timing of satisfaction of the performance obligations under the Banks significant types of contracts with customers resulting in fee income recognition, together with the significant payment terms under such contracts and related IFRS 15 revenue recognition method:

Type of fee income	Nature of performance obligation and significant payment terms	IFRS 15 revenue recognition
Guarantee fee income	There are two parts of fees related to guarantees. Handling fees are bank service fees, postal fees, eg. and occur at the issue of the guarantee. The other guarantee fee is paid time-proportional. The fee is charged for guarantees with a guarantee period less than one year at the start of the deal in advance. In case of guarantees with a maturity which is longer than 12 months fee is charged in advance for each half year period.	Guarantee fees are recognized as revenue on a linear basis until the end of the guarantee's lifetime.
Other	Fees that are not significant in the Banks total income are included in Other fees category. These fees are not integral part of the effective interest rate. Such fees are administrative fees, commitment fees, export and import fees, etc.	Fees for ongoing services are charged on a monthly basis during the period when they are provided. Fees for ad hoc services are charged when the transaction takes places.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by Eximbank.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (All amounts in HUF million unless otherwise stated)

NOTE 24. GAINS OR LOSSES ON DERECOGNITION OF FINANCIAL INSTRUMENTS

	Carrying amount 31.12.2018	Gain/loss 2018
Loans and advances to other banks and insurance companies	2	(1)
Loans and advances to customers	129	-
Total	**131**	**(1)**

NOTE 25. GAINS AND LOSSES FROM TRADING AND INVESTMENT ACTIVITIES, NET

	31.12.2018	31.12.2017
Gain and losses on foreign currency swap deals, net	2,795	(230)
Other foreign currency gains and losses, net	(4,416)	(491)
Foreign currency gains and losses, net	(1,621)	(721)
Available for sale financial assets gains and losses, net	-	97
Gains and losses on FVTPL financial assets other than derivatives, net (Note 9)	6,040	-
Other trading gains and losses, net	-	(8)
Total	**4,419**	**(632)**

(All amounts in HUF million unless otherwise stated)

NOTE 26. OPERATING INCOME, OPERATING AND PERSONNEL EXPENSES, DEPRECIATION AND AMORTISATION

	31.12.2018	31.12.2017
Initial fair value difference amortisation *	536	-
Operating income	**536**	**-**
Material and service expenses	2,759	2,655
Bank tax **	769	623
Other administration expenses	310	326
Other expenses/ (income), net	(84)	(161)
Operating expenses, net	**3,754**	**3,443**
Personnel expenses	**3,766**	**4,052**
Depreciation and amortisation	**774**	**524**

The average number of employees in 2018 was 190 (2017: 189).

* Initial fair value difference of below market loans and deposits from other Banks is classified as other liabilities because the Bank considers it as government grant. The government grant is amortised over the term of the deposit using the effective interest rate.

** The Hungarian Parliament approved an Act in August 2010 which provided a framework for the levying of a "bank tax" on financial institutions. According to this act each financial institution - that already had a closed financial year and related financial statements on 1 July 2010 - would be subject to assessment and payment of the bank tax for 2010. The basis and the rate of the bank tax that is payable differs depending on the type of financial institutions. For credit institutions the legislation has been changed and from 1 January 2017 the Bank has to consider the total assets for the second year preceding the tax year as tax base.
The tax rate is 0.15% up to HUF 50,000 million and 0.53% above HUF 50,000 million. The bank tax is recorded as an expense in the financial period in which it is legally payable. As the bank tax is payable based on non-net income therefore it does not meet the definition of income tax under IFRS and is therefore presented as an operating expense in the statement of comprehensive income.

(All amounts in HUF million unless otherwise stated)

NOTE 27. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

As at 31 December 2018	**Within 12 months**	**After 12 months**	**Total**
Assets			
Cash and cash balances with National Bank of Hungary	3,756	-	3,756
Securities measured at amortised cost	13,508	27,241	40,749
Loans and advances to banks and insurance companies	189,557	401,347	590,904
Loans and advances to other customers	46,170	226,641	272,811
Derivative financial assets	124	11,789	11,913
Financial assets measured at fair value through profit or loss other than derivative	-	23,204	23,204
Investment accounted with equity method	-	20,926	20,926
Intangibles	-	1,869	1,869
Property, plant and equipments	-	1,047	1,047
Current income tax assets	689	-	689
Other tax assets	41	-	41
Deferred tax assets	-	-	-
Other assets	5,184	-	5,184
Total Assets	**259,029**	**714,064**	**973,093**
Liabilities			
Loans and deposits from banks and insurance companies	73,484	412,651	486,135
Deposits from other customers	2,108	-	2,108
Financial liabilities measured at fair value through profit or loss	37	1,119	1,156
Debt securities issued	154,324	162,240	316,564
Provisions	1,644	-	1,644
Income tax liabilities	-	-	-
Other tax liabilities	158	-	158
Deferred tax liabilities	217	-	217
Other liabilities	8,264	944	9,208
Total Liabilities	**240,236**	**576,954**	**817,190**
Net	**18,793**	**137,110**	**155,903**

(All amounts in HUF million unless otherwise stated)

NOTE 27. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

As at 31 December 2017	**Within 12 months**	**After 12 months**	**Total**
Assets			
Cash and cash equivalents	3,558	-	3,558
Available-for-sale financial assets, net of impairment loss	7,608	48,926	56,534
Loans and advances to customers, net of impairment losses	46,643	194,680	241,323
Loans and advances to other banks and insurance companies, net of impairment losses	168,863	419,323	588,186
Derivative financial assets	5,394	6,252	11,646
Investments accounted for using the equity method	-	17,398	17,398
Intangibles, property and equipment, net	-	2,752	2,752
Deferred tax assets	116	-	116
Current tax assets and other assets, net	4,010	-	4,010
Total Assets	**236,192**	**689,331**	**925,523**
Liabilities			
Loans and deposits from other banks and insurance companies	51,768	284,296	336,064
Deposits from customers	9,874	-	9,874
Financial liabilities at fair value through profit or loss	-	-	-
Debt securities issued	132,074	296,055	428,129
Provision for guarantees and contingencies	857	-	857
Other liabilities	4,712	138	4,850
Total Liabilities	**199,285**	**580,489**	**779,774**
Net	**36,907**	**108,842**	**145,749**

NOTE 28. RELATED PARTY TRANSACTIONS

28.1 Management and employees

Loans to employees of the Bank amounted to HUF 279 million and HUF 210 million as at 31 December 2018 and 31 December 2017, respectively. As at 31 December 2017 and as at 31 December 2018 there was not any loan granted to the management.

The remuneration of the Board of Directors and the Supervisory Board amended to HUF 70 million in 2018 (2017: HUF 63 million). There are no share-based payments to the Boards or the key management personnel.

The remuneration of the key management personnel amounted to HUF 117 million and HUF 164 million in 2018 and 2017, respectively. The remuneration of the management includes the termination benefits paid to the management, which amounted to HUF 26 million in 2017 and HUF 0 million in 2018.

28.2 Companies

The exerciser of shareholders' rights is the Minister of Foreign Affairs and Trade from 6 June 2014.

Eximbank, as state owned company, applies the exemption allowed by IAS 24.25-27. Hungarian Development Bank is considered to be a significant as therefore, are presented here.

All transactions with the Hungarian Development Bank Ltd. ("MFB") as one of the most significant related party, owned by the Hungarian State and MFB's subsidiaries, associates and jointly controlled entities and other state-owned companies are conducted at market rates. MEHIB is also solely owned by the Hungarian State like the Bank since May 2012.

Eximbank has several investments in joint ventures and associates. For further information please refer to Note 10.

Balances with related party companies as at 31 December 2018, representing 9.57% of total assets (as at 31 December 2017: 7.88%), 6.75% of total liabilities (as at 31 December 2017: 7.15%) and 7.69% of total commitments and contingent liabilities (as at 31 December 2017: 4.69%) are presented below:

(All amounts in HUF million unless otherwise stated)

NOTE 28. RELATED PARTY TRANSACTIONS (CONTINUED)

	31.12.2018	31.12.2017
Balances with other related parties	638	577
Cash, due from banks and balances with the National Bank of Hungary	**638**	**577**
Hungarian Government bonds	-	40,132
Total available for sale financial assets to related parties	**-**	**40,132**
Hungarian Government bonds	40,749	-
Total securities measured at amortised cost to related parties	**40,749**	**-**
Loans to other related parties incl. interest receivable	40,302	25,999
Receivable against the State from interest compensation systems	6,561	5,384
Total loans and advances to related parties, net of impairment losses	**46,863**	**31,383**
Foreign currency swap with other related parties	-	88
CCIRS with other related parties	3	-
Total financial assets at fair value to related parties	**3**	**88**
Accrued income and receivable from the State in respect of tied-aid credits	4,481	599
Accrued income from other related parties	400	363
Total other assets	**4,881**	**962**
Total Assets	**93,134**	**73,142**
Loans and deposits from other related parties incl. accrued interest payables	51,321	53,701
Total loans and deposits from related parties	**51,321**	**53,701**
CCIRS with other related parties	95	-
Total financial liabilities at fair value to related parties	**95**	**-**
Other liabilities to other related parties	2,898	1,583
Accrued expense against other related parties related to cost sharing	856	706
Total other liabilities to related parties	**3,754**	**2,289**
Total Liabilities	**55,170**	**55,990**
Other commitments and contingent liabilities	30,532	17,377
Total commitments and contingent liabilities	**30,532**	**17,377**

(All amounts in HUF million unless otherwise stated)

NOTE 28. RELATED PARTY TRANSACTIONS (CONTINUED)

	31.12.2018	31.12.2017
Interest income:		
State interest compensation	26,716	27,087
Hungarian discounted treasury bills, discounted bonds issued by NBH and Hungarian Government bonds	282	97
Loans and short-term placements to other related parties	964	202
Total	**27,962**	**27,386**
Interest expense:		
Loans and deposits from other related parties	467	66
Total	**467**	**66**
Fee and commission expense:		
Other	431	433
Total	**431**	**433**
Net interest income and net income from fees and commissions	**27,064**	**26,887**
Operating income/(expenses):		
Hungarian State: refund of insurance fees of tied-aid credits	-	65
Net operating income from MEHIB and MFB's subsidiaries	(357)	(166)
Net income/(expense) related to sharing personal type expenditures	575	564
Total	**218**	**463**

As a result of closer organisational cooperation between Eximbank and MEHIB (majority of the employees including CEO and deputy CEO are employed 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 sharing and accounting of costs incurred in connection with closer organisational cooperation. The agreement was modified several times.

According to the agreement the following costs are shared between the two companies:

1) costs related to commonly used fixed assets
2) personal type expenditures of employees employed by both Eximbank and MEHIB
3) other personal type expenditures
4) intermediary services
5) material type expenditures and other administration expenses

(All amounts in HUF million unless otherwise stated)

NOTE 28. RELATED PARTY TRANSACTIONS (CONTINUED)

Effects of the cost sharing to the Bank's profit and loss in 2017 and in 2018 are the following:

1) Commonly used fixed assets:

Income and (expense) related to commonly used fixed assets		31.12.2018	31.12.2017
a) Asset usage/rental fee invoiced by the Bank to MEHIB	– Other income	129	98
b) Asset usage fee/ rental invoiced by MEHIB to the Bank	– Other expenses	(41)	(47)

2) Personnel type expenditures: jointly employed employees

Income and (expense) related to sharing personal type expenditures		31.12.2018	31.12.2017
a) Personnel type expenditures invoiced by the Bank to MEHIB	– Personal type expenditures (cost decreasing item)	598	595
b) Personnel type expenditures invoiced by MEHIB to the Bank	– Personal type expenditures	(23)	(31)

3) Other personal type expenditures

Income and (expense) related to sharing other personal type expenditures		31.12.2018	31.12.2017
a) Personal type expenditures invoiced by the Bank to MEHIB	– Other income	41	54
b) Personal type expenditures invoiced by MEHIB to the Bank	– Other administration expenses	(91)	(65)

(All amounts in HUF million unless otherwise stated)

NOTE 28. RELATED PARTY TRANSACTIONS (CONTINUED)

4) Intermediary services

Income and (expense) related to sharing intermediary services		**31.12.2018**	**31.12.2017**
a) Expenses invoiced by the Bank to MEHIB	– Other income	60	64
b) Expenses incurred by MEHIB and invoiced to the Bank	– Other expenses	(158)	(157)

5) Material type expenditures and other administration expenses

Income and (expense) related to sharing material type expenditures and other administration expenses		**31.12.2018**	**31.12.2017**
a) Expenses invoiced by the Bank to MEHIB	– Other income	182	210
b) Expenses incurred by MEHIB and invoiced to the Bank	– Other expenses	(445)	(359)

NOTE 29. REMAINING CONTRACTUAL MATURITIES OF UNDISCOUNTED CASH FLOWS OF FINANCIAL ASSETS AND LIABILITIES

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2018 and 2017. In case of non-derivative financial assets and liabilities the undiscounted cash flows include estimated interest payments. Trading derivatives are shown at fair value in a separate column. For further information about maturity of them please refer to Note 8.
Repayments which are subject to notice are treated as if notice were to be given immediately. For contingent liabilities and commitments the maximum amount of them are allocated to the earliest period in which they could be called.
As part of the management of liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents. In addition the Bank maintains agreed lines of credit with other banks amounted to HUF 272,373 million as at 31 December 2018 and HUF 75,179 million as at 31 December 2017.

(All amounts in HUF million unless otherwise stated)

NOTE 29. REMAINING CONTRACTUAL MATURITIES OF UNDISCOUNTED CASH FLOWS OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

As at 31 December 2018	Carrying amount	Gross nominal inflow / outflow*	Up to 1 months	1-3 months	3 months to 1 year	1- 5 years	Over 5 years
Cash, due from banks and balances with National Bank of Hungary	3,756	3,756	3,756	-	-	-	-
Securities measured at amortised cost	40,749	41,155	-	-	13,489	27,666	-
Loans and advances to banks and insurance companies	590,904	609,794	15,728	29,104	148,759	351,950	64,253
Loans and advances to other customers	272,811	304,355	5,622	7,600	38,312	116,701	136,120
Derivative financial assets	11,913	11,913	124	-	-	11,786	3
Foreign exchange contracts	*124*	*124*	*124*	-	-	-	-
Cross currency interest rate swaps	*11,789*	*11,789*	-	-	-	*11,786*	*3*
Financial assets measured at fair value through profit or loss other than derivatives	23,204	23,204	-	-	-	-	23,204
Other financial assets	5,182	5,182	5,182	-	-	-	-
Financial assets	**948,519**	**999,359**	**30,412**	**36,704**	**200,560**	**508,103**	**223,580**
Loans and deposits from other banks and insurance companies	486,135	515,993	27,289	10,704	40,003	404,749	33,248
Deposits from customers	2,108	2,115	1,730	-	385	-	-
Debt securities issued	316,564	322,800	2,809	126,855	29,725	163,411	-
Financial liabilities at fair value through profit or loss	1,156	1,156	31	6	-	1,024	95
Foreign exchange contracts	*37*	*37*	*31*	6	-	-	-
Cross currency interest rate swaps	*1,119*	*1,119*	-	-	-	1,024	95
Other financial liabilities	9,021	9,021	9,021	-	-	-	-
Financial liabilities	**814,984**	**851,085**	**40,880**	**137,565**	**70,113**	**569,184**	**33,343**
Liquidity (deficiency)/excess	**133,535**	**148,273**	**(10,468)**	**(100,861)**	**130,447**	**(61,081)**	**190,237**
Unutilised loan commitments	-	*382,418*	*382,418*				
Financial guarantee contracts	-	*13,474*	*13,474*				
Letter of credit	-	*1,322*	*1,322*				

(All amounts in HUF million unless otherwise stated)

NOTE 29. REMAINING CONTRACTUAL MATURITIES OF UNDISCOUNTED CASH FLOWS OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

As at 31 December 2017	Carrying amount	Gross nominal inflow / outflow*	Trading derivatives	Up to 1 months	1-3 months	3 months to 1 year	1- 5 years	Over 5 years
Cash, due from banks and balances with National Bank of Hungary	3,558	3,558	-	3,558	-	-	-	-
Available-for sale financial assets	56,534	58,951	-	-	-	7,605	32,685	18,661
Loans and advances to customers, net of impairment losses	241,323	285,862	-	17,147	4,548	36,123	128,202	99,842
Loans and advances to other banks, net of impairment losses	588,186	595,115	-	13,917	21,225	137,827	380,996	41,150
Derivate financial assets	11,646	11,646	11,646	-	-	-	-	-
Foreign exchange contracts	*168*	*168*	*168*	-	-	-	-	-
Cross currency interest rate swaps	*11,478*	*11,478*	*11,478*	-	-	-	-	-
Other financial assets	4,188	4,188	-	4,188	-	-	-	-
Financial assets	**905,435**	**959,320**	**11,646**	**38,810**	**25,773**	**181,555**	**541,883**	**159,653**
Loans and deposits from other banks	336,064	350,016	-	27,442	10,535	16,954	184,587	110,498
Deposits from customers	9,874	9,887	-	-	1,578	8,309	-	-
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-
Foreign exchange contracts	-	-	-	-	-	-	-	-
Debt securities issued	428,129	447,815	-	2,588	134,287	5,450	305,490	-
Other financial liabilities	4,496	4,496	-	4,496	-	-	-	-
Financial liabilities	**778,563**	**812,214**	**-**	**34,526**	**146,400**	**30,713**	**490,077**	**110,498**
Liquidity (deficiency)/excess	**126,872**	**147,106**	**11,646**	**4,284**	**(120,627)**	**150,842**	**51,806**	**49,155**
Unutilised loan commitments	-	349,028	-	349,028	-	-	-	-
Financial guarantee contracts	-	20,993	-	20,993	-	-	-	-
Letter of credit	-	216	-	216	-	-	-	-

*Gross amount without impairment,

NOTE 30. FINANCIAL RISK MANAGEMENT

Risk management activity of Eximbank is determined by its specific role and position in the Hungarian economy. The Bank's ultimate owner is the state with a 100% direct shareholding and it operates under the governance of the Minister of Foreign Affairs and Trade. The Bank is a credit institution and its primary task is to promote Hungarian exporters on external markets.

In order to mitigate the risk of open positions the Bank holds assets with low credit risk exclusively and does not deal with futures or options. The security portfolio consists primarily of Hungarian government bonds held to collect their contractual cash flows. Eximbank neither speculates on the stock exchange nor buys derivatives for speculative reasons. Eximbank enters into currency swap transactions intended to hedge foreign exchange risks.
The Bank's policies for managing interest rate, credit, foreign currency exchange risk and liquidity risk are reviewed regularly by the Asset and Liability Committee (ALCO), Credit Committee and the Board of Directors. The policies are summarised as follows:

Risk management policies

The Bank is exposed to interest rate, liquidity and foreign currency exchange risk, while the most significant risk is the credit risk. Risk management is carried out by the Risk Management Department under policies approved by ALCO, the Credit Committee and the Board of Directors. These principles are determined within the prescriptions established by the National Bank of Hungary. The Asset and Liability Committee, the Credit Committee and the Board of Directors are responsible for review of risk management and control environment. The risk profile is assessed before concluding a transaction, which is authorised by the appropriate level of seniority within the Bank. The service pattern reflects the entire process of exporting, and the risk is shared with commercial banks. The specific character of the credit risk can mostly be detected by differentiating by product and consumer categories.

Risk strategy and risk profile

The Bank's risk strategy includes the identification, measurement, monitoring and management of risks, furthermore the assessment of the risk level and weight of them. The risk identification process gives a detailed specification of risk categories concerning the Bank's regular course of business and economic environment. The first dimension of the risks is the type (according to the Basel taxonomy defined by ICAAP framework) and the second one is the bank-specific aspect of the services and products. The overall risk level of an individual risk category is determined by the risk assessment of the appropriate risk type weighted by its significance in line with the operational characteristics of the Bank. Most of the weighted rates point to the fact that the majority of the risks are low or represent moderate risk level. The risk profile report takes into consideration the extent of the exposure and the seriousness of the risk. This method gives us a general overview about the Bank's risk profile and an opportunity to perform continuous monitoring activity. The level of credit risk is moderate, since the credit portfolio mainly consists of products with lower risk level: exposures to domestic banks, counter-guarantees of state, and foreign exposures are secured by export credit insurance facilities.

(All amounts in HUF million unless otherwise stated)

NOTE 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

30.1. Credit risk

Management of credit risk, credit rating systems

The Bank manages and controls credit risk by rating and setting limits on the amount of risk it is willing to accept for clients, counterparties and for country concentrations, and by monitoring exposures in relation to such limits. The exposure to any one borrower is further restricted by sub-limits for different maturity and transaction types. The credit risk management is based on a client rating system, which applies different essentials for sovereigns, sub-sovereign entities, financial institutions and for corporate clients. The Bank risk assessment is based on the Bank's own internal rating model. The rating system takes into account inter alia the business activity, financial position, probability of default, market position, management, organisation and its role in the given business sector.

Credit portfolio quality

The following table sets out information about the credit quality of financial assets measured at amortised cost in 2018. The amounts in the table represent gross carrying amounts. Explanation of the terms Stage 1, Stage 2 and Stage 3 is included in Note 3.7.2.

31.12.2018	Stage 1 12 month expected loss	Stage 2 Lifetime expected loss	Stage 3 Lifetime expected loss	POCI	Total
Cash and cash equivalent, balances with the National Bank of Hungary	3,759	-	-	-	**3,759**
Debt securities measured at amortised cost	40,773	-	-	-	**40,773**
Debt securities measured at fair value through other comprehensive income	-	-	-	-	-
Loans and advances to other banks and insurance companies	577,330	14,033	514	-	**591,877**
Loans and advances to customers	169,164	63,236	57,558	-	**289,958**
Total gross carrying amount	**791,026**	**77,269**	**58,072**	-	**926,367**

(All amounts in HUF million unless otherwise stated)

NOTE 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table sets out information about the expected loss of financial assets measured at amortised cost in 2018.

31.12.2018	Stage 1 12 month expected loss	Stage 2 Lifetime expected loss	Stage 3 Lifetime expected loss	POCI	Total
Cash and cash equivalent, balances with the National Bank of Hungary	(3)	-	-	-	**(3)**
Debt securities measured at amortised cost	(24)	-	-	-	**(24)**
Debt securities measured at fair value through other comprehensive income	-	-	-	-	**-**
Loans and advances to other banks and insurance companies	(430)	(36)	(507)	-	**(973)**
Loans and advances to customers	(301)	(1,293)	(15,553)	-	**(17,147)**
Total expected loss	**(758)**	**(1,329)**	**(16,060)**	**-**	**(18,147)**

(All amounts in HUF million unless otherwise stated)

NOTE 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank's exposure to credit risk at the previous year (IAS 39) and the reporting date (IFRS 9) are shown below:

IAS 39

		31.12.2017
	Loans and advances to banks and insurance companies	**Loans and advances to customers**
Loans with renegotiated terms:		
Gross amount	324	9,803
Allowance for impairment	(324)	(4,269)
Carrying amount	-	5,534
Individually impaired:		
Watch list	-	-
Substandard	-	-
Doubtful	-	-
Loss	-	-
Performing	-	2,141
Non-performing	470	22,350
Gross amount	470	24,491
Allowance for impairment	(146)	(9,333)
Carrying amount	324	15,158
Past due but not impaired:	-	958
Neither past due nor impaired:	588,112	225,682
Allowance for impairment		
Individual	470	13,576
Collective	250	6,034
Total allowance for impairment	720	19,610
Total carrying amount	**588,186**	**241,323**

(All amounts in HUF million unless otherwise stated)

NOTE 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

IFRS 9

The following table sets out information about the credit quality of financial assets measured at amortised cost:

Loans and advances to banks and insurance companies at amortised cost	31.12.2018					01.01.2018
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Grades 1 - 3: Low - fair risk	478,809	-	-	-	478,809	493,050
Grades 4: Higher risk	98,269	6,413	-	-	104,682	82,287
Grades 5: Substandard	252	7,487	-	-	7,739	12,647
Grades 6: Doubtful	-	133	-	-	133	442
Grades 7: Loss	-	-	514	-	514	480
Total	**577,330**	**14,033**	**514**	-	**591,877**	**588,906**
Loss allowance	(430)	(36)	(507)	-	(973)	(946)
Carrying amount	**576,900**	**13,997**	**7**	-	**590,904**	**587,960**

Loans and advances to customers at amortised cost	31.12.2018					01.01.2018
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Grades 1 - 3: Low - fair risk	39,117	2,952	916	-	42,985	44,661
Grades 4: Higher risk	79,351	2,949	-	-	82,300	84,551
Grades 5: Substandard	26,801	35,048	3,684	-	65,533	44,174
Grades 6: Doubtful	23,895	18,891	38,987	-	81,773	63,950
Grades 7: Loss	-	3,396	13,971	-	17,367	23,782
Total	**169,164**	**63,236**	**57,558**	-	**289,958**	**261,118**
Loss allowance	(301)	(1,293)	(15,553)	-	(17,147)	(15,091)
Carrying amount	**168,863**	**61,943**	**42,005**	-	**272,811**	**246,027**

The following table sets out information about the overdue status of loans and advances to customers in Stages 1, 2 and 3.

Loans and advances to customers at amortised cost - gross carrying amount	31.12.2018					01.01.2018
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Current	168,919	62,795	45,827	-	277,541	242,908
Overdue < 30 days	245	442	352	-	1,039	1,893
Overdue > 30 days	-	-	11,378	-	11,378	16,317
Total	**169,164**	**63,237**	**57,557**	-	**289,958**	**261,118**

(All amounts in HUF million unless otherwise stated)

NOTE 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table sets out information about the restructured loans in Stages 1, 2 and 3.

Loans and advances to customers at amortised cost - gross carrying amount	31.12.2018					01.01.2018
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Restructured loans	-	-	40,302	-	40,302	9,803

The highest share within the Bank's portfolio is represented by exposures to financial institutions. The Bank uses a 7 scale internal rating system for banks. The tables below contain credit exposures to banks grouped by the internal rating categories by gross carrying amounts at 31 December 2018 and 1 January 2018:

Bank's internal rating	Rating definition	31.12.2018	31.12.2017
1	Banks with extremely good financial conditions, and/or high possibility of efficient external support.	165,031	147,789
2	Banks with good financial conditions, and/or possibility of substantial access to external support.	307,765	282,365
3	Banks with above average financial performance, and/or appropriate access to external support.	6,013	63,703
4	Banks with medium grade financial performance, and/or limited access to external support.	104,682	82,273
5	Banks with bellow average financial performance, and/or limited access to external support.	7,739	12,644
6	Banks with weak financial performance without any possible external support.	133	441
7	Banks with very weak financial performance and/or that are effectively in default.	514	463
Total		**591,877**	**589,678**

Global limits for banks are divided into sublimits:

- credit sublimit
- guarantee sublimit
- money market sublimit and
- trading sublimit

Trading sublimit is used for derivative transactions with a 20% weight on face value. As a result derivative positions affect 20% of global limit.

(All amounts in HUF million unless otherwise stated)

NOTE 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

Regarding customers, the Bank uses a 7-grade scale classification system for corporates, where 1 represents the lowest risk and 7 represents the highest risk. Beyond client risk classification loan quality analysis takes collateral into consideration as well as it is shown below by gross carrying amount at 31 December 2018.

Customer's internal rating	Level of collaterals behind claims			
	less than 50%	50%-70%	more than 70%	Total
1	6,861	-	6,221	**13,082**
2	7,437	-	2,006	**9,443**
3	10,323	-	10,153	**20,476**
4	11,884	151	70,180	**82,215**
5	13,903	-	51,640	**65,543**
6	42,094	7,044	31,975	**81,113**
7	10,512	107	7,467	**18,086**
Total	**103,014**	**7,302**	**179,642**	**289,958**

The table above does not contain the balances with the Hungarian State from interest compensation systems and the loan receivable that relates to purchases of Hungarian Government bonds.

30.1. Credit risk (continued)

Classification and valuation

At each valuation date the Bank classifies the financial instruments into stages, and determines the expected credit loss to calculate impairment/provision. On the basis of IFRS-9 staging logic, financial instruments are classified into three stages:

- **Stage 1** classification is applied to financial instruments at initial recognition date, except for POCI receivables. Instruments remain in Stage 1 until significant deterioration of credit risk occurs. 12 months of expected credit loss is considered to Stage 1 instruments, using the appropriate lifetime PD models, LGDs and CCFs in case of off-balance sheet items.
- **Stage 2** classification is applied to financial instruments where significant deterioration of credit risk can be observed since initial recognition, however, the criteria of non-performing exposure are not yet met. On a 7-grade scale from 1 to 3 rating categories 2 category deterioration, while rating categories 4, 5 and 6 already 1 rating deterioration is significant. Lifetime expected credit loss is considered to Stage 2 instruments, using the projected EADs, appropriate lifetime PD models, LGDs and CFFs in case of off-balance sheet items.
- **Stage 3** classification is applied to non-performing, defaulted instruments. The Bank uses the NPL definition of the Hungarian National Bank (39/2016. ordinance). All Stage 3 instruments are evaluated individually, using probability weighted cash flow scenarios discounted by EIR.

NOTE 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank uses different credit risk models and parameters for different portfolio segments. For each instrument the Bank regards the below indicators as significant credit risk deterioriation, accordingly classifies the affected deals into Stage 2:

- 30+ days past due, except for technical delinquency.
- Significant worsening of rating compared to the initial rating class.
- Performing restructured loans.

The Bank identifies LCR boundaries (according to the International Credit Rating Agencies) for investment grade exposures to sovereigns and banks, however, does not identify LCR boundary for corporate exposures. At the same time the Bank identifies more rigorous criteria for rating decline in the worse rating classes for each segment. In addition the Bank uses the EWI indicators defined by the National Bank for corporate clients and project financing exposures with the aim to finance real estate investments.

Reclassification from Stage 2 to Stage 1 can happen in the case, if neither criteria of significant deteriorition of credit risk can be observed in the valuation date.

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

For Stage 1 instruments the impairment or provision is calculated using the 12 months of expected credit loss based on the below formula:

$$\textit{Stage 1 impairment} = PD \times LGD \times EAD$$

$$\textit{Stage 1 provision} = PD \times LGD \times EAD \times CCF$$

where:

EAD: gross carrying amount of the financial instrument, and the value of commitment in case of off-balance sheet items.
PD: one year forward looking marginal PD in the function of elapsed time from initial recognition per segmented lifetime PD model.
LGD: loss given default percentage for the given segment.
CCF: credit conversion factor for off-balance sheet items.

NOTE 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

For Stage 2 instruments the impairment or provision is calculated using the lifetime expected credit loss based on the below formula:

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

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

where:

n: elapsed time since initial recognition (year)
p: term (year)
EAD_t: estimated gross carrying amount for future dates from contractual cash flows and the value of commitment in case of off-balance sheet items.
PD_t: one year forward looking marginal PD for future years in the function of elapsed time from initial recognition per segmented lifetime PD model.
LGD: loss given default percentage for the given segment.
CCF: credit conversion factor for off-balance sheet items.
EIR: effective interest rate

The insurance issued by MEHIB and the financial guarantees issued by the State are regarded as high quality collaterals which are considered as sovereign risk. They are typically triggered to exposures with high coverage ratio, resulting in a positive effect on the ECL through the LGD as a low LGD ratio. These collaterals are considered as covenant with high return ratio for the purpose of loss calculation.

If it can be reasonably assumed that individual assessment provides more reliable impairment or provision than the modelled Stage 1 or Stage 2 expected credit loss, it is possible to assess Stage 1 or Stage 2 instruments individually using probability weighted cash flow scenarios discounted by EIR.

Different lifetime PD models and LGDs are in use for corporates, sovereign/subsovereign entities, domestic and foreign financial institutions

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2017 represent the allowance account for credit losses and reflect the measurement basis under IAS 39. For any further details please refer to Note 15.

(All amounts in HUF million unless otherwise stated)

NOTE 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

	2018			2018	2017
	Stage 1	Stage 2	Stage 3	Total	Total
Cash and cash balances with National Bank of Hungary					
Balance at 31 December 2017 (IAS 39)	-	-	-	-	-
IFRS 9 transition	-	-	-	1	-
Balance at 1 January	1	-	-	1	-
Net remeasurement of loss allowance	-	-	-	-	-
Net decrease in cash	-	-	-	-	-
Foreign exchange and other movements	2	-	-	2	-
Balance at 31 December	3	-	-	3	-
Securities measured at amortised cost					
Balance at 31 December 2017 (IAS 39)	-	-	-	-	-
IFRS 9 transition	-	-	-	22	-
Balance at 1 January	22	-	-	22	-
Net remeasurement of loss allowance	-	-	-	-	-
New financial assets originated or purchased	2	-	-	2	-
Financial assets that have been derecognized	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-
Balance at 31 December	24	-	-	24	-

(All amounts in HUF million unless otherwise stated)

NOTE 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

Loans and advances to banks and insurance companies

Balance at 31 December 2017 (IAS 39)	-	-	-	-	720
IFRS 9 transition	-	-	-	226	-
Balance at 1 January	**412**	**64**	**470**	**946**	**829**
Transfer to Stage 1	-	10	-	**10**	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net remeasurement of loss allowance	(90)	(27)	4	**(113)**	-
New financial assets originated or purchased	148	-	-	**148**	-
Financial assets that have been derecognized	(49)	(2)	-	**(51)**	-
Write-offs	-	-	-	-	-
Unwind of discounts	-	-	-	-	-
Foreign exchange and other movements	9	1	33	**43**	-
Balance at 31 December	**430**	**36**	**507**	**973**	**720**

Loans and advances to other customers

Balance at 31 December 2017 (IAS 39)	-	-	-	-	19,610
IFRS 9 transition	-	-	-	(4,519)	-
Balance at 1 January	**1,080**	**671**	**13,340**	**15,091**	**16,175**
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	31			**31**	-
Transfer to Stage 3	55	70	-	**125**	-
Net remeasurement of loss allowance	(261)	396	2,207	**2,342**	-
New financial assets originated or purchased	65	214	4,215	**4,494**	-
Financial assets that have been derecognized	(589)	(21)	(3,586)	**(4,196)**	-
Write-offs	-	-	(1,325)	**(1,325)**	-
Unwind of discounts	-	-	369	**369**	-
Foreign exchange and other movements	6	33	333	**372**	-
Balance at 31 December	**301**	**1,293**	**15,553**	**17,147**	**19,610**

(All amounts in HUF million unless otherwise stated)

NOTE 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

Other assets

Balance at 31 December 2017 (IAS 39)	-	-	-	-	17
IFRS 9 transition	-	-	-	-	-
Balance at 1 January	17	-	-	17	19
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-	-
New financial assets originated or purchased	-	-	-	-	-
Financial assets that have been derecognized	-	-	-	-	-
Write-offs	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-
Balance at 31 December	17	-	-	17	17

Loan commitments and financial guarantee contracts

Balance at 31 December 2017 (IAS 39)	-	-	-	-	5
IFRS 9 transition	-	-	-	**1,585**	-
Balance at 1 January	797	79	714	**1,590**	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	20	-	-	**20**	-
Transfer to Stage 3	49	-	-	**49**	-
Net remeasurement of loss allowance	(55)	179	(42)	**82**	-
New loan commitments and financial guarantees issued	211	435	-	**646**	-
Loan committments and financial guaratees that have been derecognized	(717)	(78)	(461)	**(1,256)**	-
Foreign exchange and other movements	1	6	8	**15**	-
Balance at 31 December	**237**	**621**	**219**	**1,077**	-

NOTE 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

30.1. Credit risk (continued)

Loans with renegotiated terms

A loan is labelled as renegotiated, when restructuring activities, including extended payment agreements, modification and deferral of payments are applied. In line with its NPL strategy, the Bank attempts to restructure loans rather than initiate legal proceedings to collect the receivables.

Write-off policy

Irrecoverable loans are written off against the related provisions if the legally uncollectible criteria set in workout policy are met or there is no reasonable expectation of recovery. Subsequent recoveries are credited to profit or loss, if the loans were previously written off. The Bank may also partially write off a loan, if it is not reasonable to collect it completely, however, the Bank still intends to fully recover partially written off claims. Complete or partial write off of claims on IFRS basis is possible after three years of the default event when individual business forecast shows the lack of future cash inflows from the debtor, and a reasonable liquidation plan prepared by the liquidator exists.

Collateral

The Bank actively uses collaterals and guarantees to reduce its credit risk. In order to minimise the credit loss, the Bank seeks additional collateral from the consumer, like for instance charges over accounts receivable. Most of the guarantees issued by the Eximbank are state-backed instruments.

The functions of the state export credit agency in Hungary are divided between Eximbank and Hungarian Export Credit Insurance Ltd. (MEHIB) which were both established by the Eximbank Act. MEHIB provides export credit insurance to exporters or their banks, including to certain of Eximbank's borrowers. Eximbank and MEHIB currently share the same management.

Eximbank benefits from export credit insurance policies sold to its customers by MEHIB with respect to its buyer's credit and discounting portfolios. The majority of Eximbank's loans granted to entities resident outside are insured by MEHIB, and these insurances are also state-backed.

If a MEHIB-insured loan becomes non-performing, MEHIB continues to make interest and principal payments including delinquent payments according to the terms agreed by the original borrower up to its coverage amount.

(All amounts in HUF million unless otherwise stated)

NOTE 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets at 31 December 2018. The figures in the table below indicate the collateral values. Explanation of the terms Stage 1, Stage 2 and Stage 3 is included in Note 3.7.2.

	Loans and advances to banks and insurance companies		Loans and advances to customers	
	31.12.2018	01.01.2018	31.12.2018	01.01.2018
Stage 1				
Insured by MEHIB	-	-	98,865	71,327
Cash Collateral	-	-	377	422
Bank guarantees	15,145	6,724	-	-
Property	-	-	21,292	22,756
Other	156,218	142,694	10,074	9,526
Stage 2				
Insured by MEHIB	6,217	6 ,14	16,529	16,382
Cash Collateral	-	-	41	40
Bank guarantees	-	1,704	-	-
Property	-	-	3,166	2,143
Other	-	-	24,139	16,252
Stage 3				
Insured by MEHIB	-	-	1,694	73
Cash Collateral	-	-	60	69
Bank guarantees	-	-	-	-
Property	-	-	8,410	3,253
Other	-	-	10,894	1,137
POCI				
Insured by MEHIB	-	-	-	-
Cash Collateral	-	-	-	-
Bank guarantees	-	-	-	-
Property	-	-	-	-
Other	-	-	-	-
Total	**177,580**	**157,436**	**195,542**	**143,379**

Other collaterals behind loans to banks consists of pledges on claims that represent loans originated by commercial banks to exporters and that are refinanced by Eximbank. 53% of other collaterals behind loans to customers consists of pledge on movables. A 60% part of these pledges came from vehicles, engines and devices while 40% made up from inventories. 29% of other collaterals comes from surety guarantees issued by enterprises, and 11% represents pledges on sales. Collateral valuation method considers different haircuts concerning on different collateral types defined in internal collateral regulations.

NOTE 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

As Eximbank's business focus is mainly on promoting export activity of Hungarian enterprises with different kinds of credit facilities and guarantees, many functions of the usual commercial banking treasury activity remains in the background. As a consequence, Eximbank's treasury does not make derivative transactions with speculative intentions, but operates only on the FX swap market so as to cover open FX positions between assets and liabilities. The main risk mitigation technique for eliminating the inherent credit risk in FX swaps is the use of FX trading limits that should be allocated only for the highest quality western banks.

30.2. Liquidity risk

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

The maturity analysis table set out in Note 29 shows the undiscounted, gross nominal cash in- and outflows on the Bank's non-derivative financial liabilities, the related total expected undiscounted interest cash-flows up to the date of maturity when they are due and the issued financial guarantee contracts on the basis of their earliest possible maturity. Trading derivatives are shown at fair value in a separate column. The gross nominal inflow / (outflow) disclosed in the table is the remaining contractual, undiscounted cash flow on the non-derivative financial liability and the issued financial guarantees.

The maturity analysis table shows gross nominal in- and out-cash flows of both the financial assets and the financial liabilities. The Bank considers maturity gap significant if the cash outflow becomes due 180 days earlier than it is defined in the corresponding loan agreement irrespectively of the extent of the amount. During year 2018 and also 2017 there were not any significant maturity gaps.

Loans borrowed from domestic and foreign banks and the issued global medium-term notes are secured by the general guarantee of the Government of Hungary as defined in the Act on the Budget of Hungary with respect to the maximum amount of guarantee. Some loan agreements define maturity extension option in favour of the Bank. Termination of short term money market deals is not possible due to its market characteristic. Based on the legal background of the Bank and its experiences, Eximbank reckons the probability of the premature termination of funds as extremely low. It is possible to terminate the unutilised loan commitments based on the 'Material Adverse Changes Clause' defined in all loan agreements, which can mitigate the liquidity risk if necessary.

Under the Act on Eximbank, the Hungarian State is liable, as absolute guarantor, for the fulfilment of Eximbank's obligations to pay principal and interest arising from its borrowings, including debt instruments issued by Eximbank, loans from Hungarian and foreign credit institutions and Eximbank's payment obligations arising from the replacement costs of foreign exchange and interest rate swap transactions (together called: "Funding Guarantee").

(All amounts in HUF million unless otherwise stated)

NOTE 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Hungarian State's obligations to Eximbank in respect of the Funding Guarantee are subject to an upper limit set by the annual budget. Under the 2018 Budget Act, the upper limit of the Funding Guarantee is currently HUF 1,200 billion. As at 31 December 2018, Eximbank had total amounts drawn, or available to be drawn but undrawn, under the Funding Guarantee (calculated as Eximbank's balance sheet liabilities plus the amount yet undrawn under the Medium Term Note Programme) of HUF 750.8 billion, representing approximately 62.6% of the HUF 1,200 billion upper limit (as at 31 December 2017: 61.5 %).

The Hungarian State does not charge any fee in respect of the Funding Guarantee. In accordance with Hungarian law, if Eximbank fails to perform any of its payment obligations which are guaranteed by the Hungarian State, creditors may seek to recover directly from the Hungarian State by filing a petition with the minister responsible for public finances without first seeking to recover from Eximbank.

The Funding for Growth scheme NBH loans are secured – as required by NBH – over government bonds and trade receivables with a carrying amount of HUF 3,821 million. For any further information on the maturity breakdown and liquidity risks please refer to Note 27. and 29.

30.3. Market risk

Eximbank does not undertake speculative positions. In 2018 and in 2017 according to Article 351 of EU Regulations 575/2013 capital requirement was not generated.

The following table shows the capital requirement covering risks from the trading book at 31 December 2018 and 2017:

	31.12.2018	31.12.2017
Capital requirement of the trading book	-	-
Solvency margin	184,282	178,564
Capital requirement of the trading book as a percentage of solvency margin	-	-

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 the banking book under re-pricing of the loans, furthermore using gap analysis shows 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 inherent risk in banking products. One of the most important elements of government support for exporters through Eximbank is the interest equalisation system that largely reduces interest rate risk occurs in Eximbank's operation. That kind of 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 budgetary law.

(All amounts in HUF million unless otherwise stated)

NOTE 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

Where Eximbank provides loans based on OECD criteria in the form of medium- to long-term credit at favourable fixed interest rates, the Hungarian state provides Eximbank with periodic interest equalisation payments.

Under the interest equalisation programme, the amount of interest compensation provided by the Hungarian state is determined by the difference between (i) the interest rate paid by the borrower and (ii) the sum of Eximbank's funding costs, operating expenses and the applicable risk premium, as agreed with the representative of the Ministry of Finance. Eximbank receives the interest equalisation payment after applying to the Hungarian state within 15 days of the end of each quarter, and the payment for that quarter is received by Eximbank within 30 days of the application.

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

All other loans provided by Eximbank (i.e., loans that are not covered by the interest equalisation and interest support programmes) are variable rate and are priced by reference to LIBOR/EURIBOR/Budapest Interbank Offering Rate (''BUBOR'') according to Eximbank's average costs. Interest equalisation and support are intended to promote stability and sustainability for Eximbank, and contribute to interest risk. The level of interest equalisation and support provided by the Hungarian State is also intended to hold Eximbank's profit at near market rate for loans covered by these programmes, however, Eximbank serves as an instrument of economic policy of the Hungarian State rather than as a traditional profit-oriented bank.

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

	31.12.2018	31.12.2017
Fixed rate financial instruments		
Financial assets	50,791	59,020
Financial liabilities	718,570	573,922
Total fixed rate instruments	**769,361**	**632,942**
Variable rate financial instruments		
Financial assets	8,037	12,949
Financial liabilities	87,269	200,145
Total variable rate instruments	**95,306**	**213,094**
Financial assets under interest compensation system	**807,342**	**784,440**
Tied-aid credits	**49,188**	**28,436**

NOTE 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial assets under interest compensation system and tied-aid credits are fixed rate or zero interest-bearing financial instruments in case of some tied-aid credits in the clients' point of view, however the Bank receives interest compensation on these assets from the Hungarian State. The interest compensation is quarterly calculated and due, based on the weighted average of the daily balances.

Net interest rate risk is assessed using a static gap model regarding parallel shift for the entire statement of financial position calculated by VAR based estimation of changes of interest rates of different currencies (EUR, USD, HUF) in a three month term. The VAR based estimation of decrease in the market interest rates using a confidence level of 99% would affect negatively the net interest income for the next twelve months in total by HUF 73 million (it was HUF 847 million in previous year). The calculation assumes that other conditions (including foreign exchange rates) are unchanged during the period. The reasonably possible interest rate changes used by the Bank in its VAR model are: EUR: -0.62%; USD: 0.34%; HUF: 0.13%). (These rates are calculated by the Bank.) Needs of capital requirement in respect of interest rate risk are calculated with duration gap methodology based on a basis point value model regarding VAR of changes in interest rates. Stress test is used for monitoring interest rate risks monthly.

30.3.2. Foreign currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The ALCO also sets limits to the level of exposure by currency and in aggregate both for overnight and intra-day positions, which are monitored and reported daily. Furthermore, calculating foreign currency exchange risk conforms to the norms of the standard method. The Bank manages its foreign currency risk and position based on its financial position kept calculated in accordance with Hungarian accounting regulation and rules. Eximbank does not speculate on the FX market and opens FX positions within the frameworks of highly restricted rules. Foreign currency positions are subject to stress test to ensure that the Bank would withstand an extreme market event.

Foreign currency exposure and foreign currency risk as at 31 December 2018 (data shown in million HUF) are as follows:

(All amounts in HUF million unless otherwise stated)

NOTE 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

	EUR	USD	GBP	RUB	RSD	TRY
Foreign currency assets:						
Loans and advances to other customers, net of impairment losses	161,013	85,675			-	-
Loans and advances to banks and insurance companies, net of impairment losses	385,584	73,249			-	-
Other	3,115	17,954	3	3	4	1
Total foreign currency assets	549,712	176,878	3	3	4	1
Total foreign currency liabilities	482,986	273,506	-	-	-	-
Foreign currency assets and liabilities, net	**66,726**	**(96,628)**	**3**	**3**	**4**	**1**
Effect of derivatives	(71,990)	96,072	-	-	-	-
Net exposure	**(5,264)**	**(556)**	**3**	**3**	**4**	**1**

NOTE 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

30.3.2. Foreign currency risk (continued)

Foreign currency exposure and foreign currency risk as at 31 December 2017 (data shown in million HUF) are as follows:

	EUR	USD	GBP	RUB	RSD	TRY
Foreign currency assets:						
Loans and advances to customers, net of impairment losses	141,570	63,489			-	-
Loans and advances to other banks and insurance companies, net of impairment losses	424,348	74,310			-	-
Other	326	16,375	3	1	4	
Total foreign currency assets	566,244	154,174	3	1	4	
Total foreign currency liabilities	395,454	312,179			-	-
Foreign currency assets and liabilities, net	**170,790**	**(158,005)**	**3**	**1**	**4**	**-**
Effect of derivatives	(147,894)	158,760			-	-
Net exposure	**22,896**	**755**	**3**	**1**	**4**	-

The Bank's net currency exposure was subject to a stress test examining how it would react to extreme exchange rates. The following tables show the change in the Bank's net foreign currency exposure at the extreme currency situations explained above compared with the actual exposure as at 31 December 2018 and as at 31 December 2017 resulting in profit or loss. In equity there is no foreign currency position, therefore the effect of an extreme change in exchange rates on equity cannot be examined. The calculation assumes that other conditions are unchanged during the period.

(All amounts in HUF million unless otherwise stated)

NOTE 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

Extreme foreign currency risk calculation as at 31 December 2018

	EUR	USD	Total
Foreign currency exchange rate as at 31 December 2018	321.51	280.94	
Exchange rates at strong HUF (minimum of historical rates in 2018)	308.33	247.76	
Effect on profit or (loss)	**216**	**66**	**281**
Effect on OCI	**(3)**	**(1,893)**	**(1,896)**
Exchange rates at weak HUF (maximum of historical rates in 2018)	330.04	287.49	
Effect on profit or (loss)	**(355)**	**(79)**	**(434)**
Effect on OCI	**2**	**374**	**376**

Extreme foreign currency risk calculation as at 31 December 2017

	EUR	USD	Total
Foreign currency exchange rate as at 31 December 2017	310.14	258.82	
Exchange rates at strong HUF (minimum of historical rates in 2017)	302.84	252.77	
Effect on profit or (loss)	**(375)**	**(184)**	**(559)**
Exchange rates at weak HUF (maximum of historical rates in 2017)	314.62	297.38	
Effect on profit or (loss)	**230**	**780**	**1,009**
Effect on OCI	**1**	**390**	**392**

30.4. Capital management

In 2018, the requirement of the "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 (ie. CRR)" were met. Measures on own funds are laid down in Part Two of CRR. Capital requirements are kept according to Part Three.

A subordinated loan in the amount of EUR 100 million granted by MFB matured at September 2017 has been extended for 7 years. That supplementary capital instrument can be taken into account in the solvency capital for a total of two years (more than HUF 30 billion). In maturity of the 5-year amortisation period, from September 2019 until the expiration date of 12 September 2024, the supplementary capital instrument shall be taken into account an amortised value in the solvency capital, as laid down in Article 92 of CRR.

(All amounts in HUF million unless otherwise stated)

NOTE 30. FINANCIAL RISK MANAGEMENT (CONTINUED)

In line with the referred provisions, the amount of the supplementary capital is to be considered as a positive component of the guarantee capital of Eximbank. The amount of the long-term liability arising from the loan agreement is HUF 32,151 million as at 31 December 2018, and HUF 31,014 million as at 31 December 2017, respectively.

The Bank fulfilled the legal and prudential requirements in 2018 and in 2017. The capital adequacy ratio has always significantly exceeded the 8 percent required by the law as stated above.

The provision of capital handling is controlled by the National Bank of Hungary.

	31.12.2018	31.12.2017
Core capital	152,131	147,550
Supplementary capital	32,151	31,014
Solvency capital	184,282	178,564
Total risk-weighted exposure to credit risk	892,957	907,133
Total risk exposure amount for operational risk	33,888	30,278
Total risk exposure amount	926,845	937,411
Solvency ratio	19.88%	19.05%

(All amounts in HUF million unless otherwise stated)

NOTE 31. GEOGRAPHICAL INFORMATION

Concentration of assets and liabilities by geographical areas as at 31 December 2018

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Cash and cash balances with National Bank of Hungary	3,724	3	6	23	3,756
Securities measured at amortised cost	40,749	-	-	-	40,749
Loans and advances to banks and insurance companies	584,256	103	6,412	133	590,904
Loans and advances to other customers	155,301	2,561	7,632	107,317	272,811
Derivative financial assets	7,398	4,515	-	-	11,913
Financial assets measured at fair value through profit or loss other than derivatives	12	14,089	9,103	-	23,204
Investment accounted with equity method	20,926	-	-	-	20,926
Intangibles	1,869	-	-	-	1,869
Property, plant and equipments	1,047	-	-	-	1,047
Current income tax assets	689	-	-	-	689
Other tax assets	41	-	-	-	41
Deferred tax assets	-	-	-	-	-
Other assets	676	7	20	4,481	5,184
Total Assets	**816,688**	**21,278**	**23,173**	**111,954**	**973,093**
Loans and deposits from banks and insurance companies	225,878	260,257	-	-	486,135
Deposits from other customers	2,108	-	-	-	2,108
Financial liabilities measured at fair value through profit or loss	753	403	-	-	1,156
Debt securities issued *	46,399	127,649	-	142,516	316,564
Provisions	1,625	-	5	14	1,644
Other tax liabilities	158	-	-	-	158
Deferred tax liabilities	217	-	-	-	217
Other liabilities	7,597	1,611	-	-	9,208
Total Liabilities	**284,735**	**389,920**	**5**	**142,530**	**817,190**
Share capital	133,700	-	-	-	133,700
Retained earnings	5,958	-	-	-	5,958
Other reserves	16,245	-	-	-	16,245
Total Shareholder's Equity	**155,903**	**-**	**-**	**-**	**155,903**
Total Liabilities and Equity	**440,638**	**389,920**	**5**	**142,530**	**973,093**

* The bonds issued by the Bank in October 2017, July 2017 are traded on Budapest Stock Exchange and those that are issued in October 2014 are traded on London Stock Exchange and on OTC markets. The Bank has no detailed information about the breakdown of investors by geographical segments as at 31 December 2018. As a result the Bank classified debt securities issued into Other Countries segment. Bonds issued in October 2013 were wholly subscribed by MAEXIM Ltd incorporated in Ireland.

(All amounts in HUF million unless otherwise stated)

NOTE 31. GEOGRAPHICAL INFORMATION (CONTINUED)

Off-balance sheet financial instruments

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Unutilised part of credit lines	333,766	1,384	3,653	43,615	382,418
Guarantees insured by the state	12,296	-	289	-	12,585
Guarantees not counter-guaranteed by the state	874	-	15	-	889
Letter of Credit	28	-	-	1,294	1,322
Funds	7,234	38,631	10,005	-	55,870
Total	**354,198**	**40,015**	**13,962**	**44,909**	**453,084**

(All amounts in HUF million unless otherwise stated)

NOTE 31. GEOGRAPHICAL INFORMATION (CONTINUED)

Concentration of assets and liabilities by geographical areas as at 31 December 2017

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Cash, due from banks and balances with NBH	3,373	92	5	88	3,558
Available-for-sale financial assets	40,144	11,238	-	5,152	56,534
Loans and advances to customers, net of impairment losses	149,894	497	8,738	82,194	241,323
Loans and advances to other banks and insurance companies net of impairment losses	581,046	-	6,905	235	588,186
Derivative financial assets	4,093	7,553	-	-	11,646
Investments accounted for using the equity method	17,398	-	-	-	17,398
Intangibles, property and equipment, net	2,752	-	-	-	2,752
Deferred tax assets	116				116
Current tax- and other assets	3,991	18	1		4,010
Total Assets	**802,807**	**19,398**	**15,649**	**87,669**	**925,523**
Loans and deposits from other banks	125,402	210,662		-	336,064
Deposits from customers	9,874				9,874
Financial liabilities at fair value through profit or loss	-	-	-	-	-
Debt securities issued*	45,411	119,594		263,124	428,129
Other liabilities incl. provision	5,548		159		5,707
Total Liabilities	**186,235**	**330,256**	**159**	**263,124**	**779,774**
Share capital	133,700	-	-	-	133,700
Reserves	12,049		-	-	12,049
Total Shareholder's Equity	**145,749**				**145,749**
Total Liabilities and Equity	**331,984**	**330, 256**	**159**	**263,124**	**925,523**
Off-balance sheet financial instruments					
Unutilised part of credit lines	327,642		3,210	18,176	349,028
Guarantees insured by the state	15,164		4,459		19,623
Guarantees not counter-guaranteed by the state	1,052		235	83	1,370
Letter of Credit		182		34	216
Funds		5,719		14.673	20,392
Total	**343,858**	**5,901**	**7,904**	**32,966**	**390,629**

* Bonds issued in December 2012 and in October 2014 are actively traded on London Stock Exchange and on OTC markets. The Bank has no detailed information about the breakdown of investors by geographical segments as at 31 December 2015. As a result the Bank classified debt securities issued into Other Countries segment. Bonds issued in October 2013 were wholly subscribed by MAEXIM Ltd incorporated in Ireland.

(All amounts in HUF million unless otherwise stated)

NOTE 31. GEOGRAPHICAL INFORMATION (CONTINUED)

Segmented revenue by geographical areas for the year ended 31 December 2018

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Interest income:					
Loans and advances to banks and insurance companies	1,140	-	170	4	1,314
Loans to other customers	4,194	42	211	1,581	6,028
Interest compensation system	26,716	-	-	-	26,716
Securities	282	-	-	-	282
Cross currency interest rate swaps	2,700	2,025	-	-	4,725
Total interest income	**35,032**	**2,067**	**381**	**1,585**	**39,065**
Income from fees and commissions:					
Guarantees counter-guaranteed by the state	57	-	148	-	205
Guarantees not counter-guaranteed by the state	37	-	8	-	45
Other	313	1	1	5	320
Total income from fees and commissions	**407**	**1**	**157**	**5**	**570**
Total income	**35,439**	**2,068**	**538**	**1,590**	**39,635**

(All amounts in HUF million unless otherwise stated)

NOTE 31. GEOGRAPHICAL INFORMATION (CONTINUED)

Segmented revenue by geographical areas for the year ended 31 December 2017

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Interest income:					
Loans to customers	4,594	3	262	1,704	6,563
Loans and advances to other banks and insurance companies	1,430	7	328	6	1,771
Interest compensation system	27,087				27,087
Securities	97			40	137
Total interest income	**33,208**	**10**	**590**	**1,750**	**35,558**
Income from fees and commissions:					
Guarantees counter-guaranteed by the state	188		5		193
Guarantees not counter-guaranteed by the state	20			1	21
Other	17	1		396	414
Total income from fees and commissions	**225**	**1**	**5**	**397**	**628**
Total income	**33,433**	**11**	**595**	**2,147**	**36,186**

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2018 or 2017 excluding the Hungarian State. For details please refer to Note 28.

NOTE 32. EVENTS AFTER THE REPORTING DATE

There were no events after the reporting date that would have a significant effect on figures in the financial statements for year 2018. Non-adjusting events after the reporting date are not material.

Court of appeal delivered an interlocutory judgement at 2 May 2019 in the action brought by Exim against Döb-68 Zrt the owner of Lánchíd palace. The decision adopted in favor of the Exim's claim and annulled the lease agreement that was concluded between Exim and Döb-68 Zrt in 2014. Döb-68 Zrt. has lodged an application for review against interlocutory judgement.

NOTE 33. USE OF ESTIMATES AND JUDGEMENTS

Management discusses with 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 commentary on financial risk management (see Note 30.).

Key sources of estimation uncertainty

Allowances for credit losses

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

The specific counterparty component of the total allowances for impairment applies to financial assets tested individually for impairment and is based upon management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Provisions

Provision is recognised and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. 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 the amount of potential financial losses which are appropriately provided for. IAS 37 provision for off-balance sheet items includes provision for litigation, and provision for employee premiums. A provision is recognised by the Bank when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

NOTE 33. USE OF ESTIMATES AND JUDGEMENTS

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 valuation techniques as described in accounting policy. For financial instruments that are traded infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Bank's accounting policies include:

Determination of influence level for investments

However, the Bank's contribution to the share capital of EXIM Növekedési Magántőkelap and EXIM Exportösztönző Magántőkealap is 100% and in case of Enter Tomorrow Europe Magántőkealap is 50%, the Bank does not have a control, but significant influence over them. Significant influence is the power to participate in the financial and operating policy decisions of the investee, Eximbank does have the power to minority participation in the investment policy decisions of the fund only but is not control or joint control of those policies. Eximbank's interest in the Funds is accounted for using the equity method in accordance with *IAS 28 Investments in Associates and Joint Ventures*.

Eximbank does not have a significant influence in the Kazakh Hungarian Investment Fund as is does not have the power to participate in the financial and operating policy decisions of the fund, nor does it have representatives in the respective investment decision-making bodies of the fund. Eximbank's representation is limited to objecting to whether a proposed investment's beneficial owners are suitable counterparties.

NOTE 34. FAIR VALUE OF FINANCIAL INSTRUMENTS

A number of the Bank's accounting policies and disclosures require the determination of fair value 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 on 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 held and ask prices for liabilities issued. When independent prices are not available, fair value is determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, and other valuation techniques commonly used by market participants.
For financial instruments, fair value may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data.

(All amounts in HUF million unless otherwise stated)

NOTE 34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The Bank measures fair value using the following hierarchy of methods:

- Level 1: unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Bank has no FVTPL financial instruments where the fair value is determined using significant unobservable inputs (Level 3).

The table below analyses financial instruments carried at fair value, by valuation method:

31 December 2018	**Level 1**	**Level 2**	**Total**
Financial assets at fair value through profit or loss			
Derivative instruments	-	11,913	11,913
Equity instruments	23,204	-	23,204
Financial liabilities at fair value through profit or loss			
Derivative instruments	-	1,156	1,156

31 December 2017	**Level 1**	**Level 2**	**Total**
Financial assets at fair value			
Derivative instruments (FVTPL)	-	11,646	11,646
Available-for-sale financial assets	56,534	-	56,534
Financial liabilities at fair value through profit or loss			
Derivative instruments	-	-	-

There have been no transfers between Level 1 and Level 2 of the fair value hierarchy.

NOTE 34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Valuation techniques

Level 1:

- The fair value of investments in private equity funds is determined the net asset value presented by the investment fund managements.

Level 2:

- The foreign currency swaps are measured based on observable spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies.

The estimated fair values disclosed below are designated to an approximate price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. However, many of the financial instruments have no active market and therefore, fair values are based on estimates using net present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of the estimated future cash flows and discount rates, which reflect varying degrees of risk. Furthermore, due to the use of subjective judgement and uncertainties, the aggregate fair value amounts should not be interpreted as being realisable in an immediate settlement of the instruments.

Cash and cash balances with National Bank of Hungary

Due to their short term nature, the fair value of cash, amounts due from banks and balances with the National Bank of Hungary is assumed to approximate the carrying amount.

Securities measured at amortised cost

The fair value of Hungarian Government bonds are determined based on observable market prices published by Government Debt Management Agency Private Ltd (ÁKK Zrt.). The fair value of short term bonds issued by National Bank of Hungary and short term Treasury bills is determined using the discounted cash flow model based observable yield curves available on observable market published by ÁKK Zrt.

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

Where available the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash-flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates, prepayment rates and primary origination or secondary market spreads. For collateral-dependent impaired loans, the fair value is measured based on the value of underlying collateral.

NOTE 34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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 consideration assumptions based on market data.

Financial assets measured at fair value through profit or loss other than derivative

The carrying value of FVTPL equity investments are provided in Note 9 to the financial statements. These are based on quoted market prices.

Other assets/liabilities

The carrying amounts of other financial assets and other financial liabilities approximate their fair values.

Financial liabilities valued at amortised cost

The fair value of Loans and deposits from banks and insurance companies and Deposits from other customer is calculated using discounted cash flow techniques, which take into consideration assumptions based on market data. Market data includes Bloomberg swap yield curves in the instrument's currency. The reference yield curves is 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 Inforex system using the contractual cash flows.

Debt securities issued

The bonds issued by the Bank in October 2017, July 2017 are traded on Budapest Stock Exchange and those that are issued in October 2014 are traded on London Stock Exchange and on OTC markets. Fair value of these bonds is determined based on the observable market prices.

The bonds issued by the Bank in October 2013 are not actively traded. The fair value of these bonds is calculated using discounted cash flow techniques, which take into consideration assumptions based on market data, similarly, than explained in the previous paragraph.

(All amounts in HUF million unless otherwise stated)

NOTE 34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following tables set out values of financial instruments not measured at fair value and analyse them by the level in the fair value hierarchy into which each fair value measurement is categorised.

As at 31 December 2018	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Cash and cash balances with National Bank of Hungary	-	3,756	-	3,756	3,756
Securities measured at amortised cost	-	39,988	-	39,988	40,749
Loans and advances to banks and insurance companies	-	-	591,617	591,617	590,904
Loans and advances to other customers	-	-	270,321	270,321	272,811
Other financial assets	-	5,182	-	5,182	5,182
Total	**-**	**48,926**	**861,938**	**910,863**	**913,402**
Loans and deposits from banks and insurance companies	-	485,796		485,796	486,135
Deposits from other customers	-	2,109		2,109	2,108
Debt securities issued	191,051	128,616	-	319,667	316,564
Other financial liabilities	-	-	9,021	9,021	9,021
Total	**191,051**	**616,521**	**9,021**	**816,593**	**813,828**

(All amounts in HUF million unless otherwise stated)

NOTE 34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 December 2017	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Cash due from banks and balances with National Bank of Hungary	-	3,558	-	3,558	3,558
Loans and advances to customers	-	-	240,881	240,881	241,323
Loans and advances to other banks and insurance companies	-	-	600,034	600,034	588,186
Other financial assets	-	4,188	-	4,188	4,188
Total	**-**	**7,746**	**840,915**	**848,661**	**837,255**
Loans and deposits from other banks	-	341,216	-	341,216	336,064
Deposits from customers	-	9,846	-	9,846	9,874
Debt securities issued	313,057	126,228	-	439,285	428,129
Other financial liabilities	-	4,496	-	4,496	4,496
Total	**313,057**	**481,786**	**-**	**794,843**	**778,563**

28 June 2019
Authorised for issue by

Gergely Jákli
Chief Executive Officer

Dr. József Dancsó
Deputy Chief Executive Officer