

**Hungarian Export-Import Bank  
Private Limited Company**

**Separate 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 2019**

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KPMG Hungária Kft.      Tel.: +36 (1) 887 71 00  
Váci út 31.              Fax: +36 (1) 887 71 01  
H-1134 Budapest      E-mail: info@kpmg.hu  
Hungary                Internet: kpmg.hu

## Independent Auditors' Report

To the shareholder of Magyar Export-Import Bank Zrt.

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the 2019 financial statements of Magyar Export-Import Bank Zrt. (hereinafter referred to as "the Bank"), which comprise the statement of financial position as at 31 December 2019, which shows total assets of MHUF 992,450, the statement of profit or loss and other comprehensive income, which shows profit for the year of MHUF 1,879 and the statements of changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter referred to as "EU IFRSs") and those are prepared, in all material respects, in accordance with the provisions applicable to entities preparing annual financial statements in accordance with EU IFRSs of Act C of 2000 on Accounting in force in Hungary (hereinafter referred to as "the Act on Accounting").

#### *Basis for Opinion*

We conducted our audit in accordance with Hungarian National Standards on Auditing and applicable laws and regulations in Hungary. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank for the purposes of our audit of the financial statements, as provided in applicable laws in force in Hungary, "The Policy on Rules of Conduct (Ethics) of the Audit Profession and on Disciplinary Procedures" of the Chamber of Hungarian Auditors, as well as with respect to issues not covered by these, in the "Code of Ethics for Professional Accountants" issued by the International Ethics Standards Board for Accountants (the IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Emphasis of Matter*

We draw the attention to Note (32) to the financial statements which presents the initial assessment of the Bank of the effect of the Coronavirus (COVID-19) pandemic. Our opinion on this matter is not qualified.

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*Key Audit Matters*

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

**Valuation of loans and advances to banks and insurance companies, loans and advances to other customers (2019: HUF 526,304 million and HUF 248,244 million, 2018: HUF 590,904 million and HUF 272,811 million)**

Refer to Note (3.4.2); (6); (7) and (30) to the individual financial statements

The key audit matter	How the matter was addressed in our audit
<p>Impairment on loans to banks and insurance companies; and on loans to other customers is considered to be a key audit matter owing to the significance of loans as well as to the high degree of judgment applied by the Bank in determining impairment.</p> <p>As at 31 December 2019 net amount of loans to banks and insurance companies is HUF 526,304 million that represents 53% of the total assets of the Bank. Net amount of loans to other customers is HUF 248,244 million that represents 25% of the total assets of the Bank. Without having appropriate impairment assessment the carrying value of the loans might be overstated.</p> <p>The portfolio of loans to other customers contains individually significant loans, including several project finance loans. The valuation of these loans and determination of their individual impairments are based on the Bank’s estimate of the future performance and cash flows of the project 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.</p> <p>Complex impairment models and parameters are used to determine the levels of impairment:</p> <ul style="list-style-type: none"> <li>The impairment of individually assessed loans is determined by consideration of recoveries expected under different possible scenarios using a discounted cash flow method. The estimation of probability, cash-flows and discount rates assigned to each scenario is complex and requires professional expertise.</li> </ul>	<p>Our audit procedures included amongst others the following procedures:</p> <ul style="list-style-type: none"> <li>We understood the key controls over impairment calculations and customer ratings and tested internal approvals on quarterly monitoring sheets.</li> <li>We understood the estimation methods of the Bank, assessed their appropriateness and tested the accuracy of the data/information applied in making estimates.</li> <li>We performed detailed loan review on a sample of individually assessed (stage 3) customer loans. The sampling size was designed so that the conclusion reached based on the sample provides reasonable assurance for the whole population of individually significant customer loans. Our loan review included the examination of loan documentation and the assessment of provision estimates prepared by credit risk officers. We assessed whether the assumptions are reasonable under the given circumstances based on our professional judgment and industry knowledge. We assessed collateral values with reference to valuations performed by approved appraisers engaged by the Bank, furthermore we involved valuation specialists. We also reperformed key calculations.</li> <li>We involved our IT specialists to test relevant systems and application level controls.</li> <li>We involved Financial Risk Management specialists to assess the impairment models and key assumptions used for collectively assessed (Stage 1 and Stage 2) loans.</li> </ul>

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<ul style="list-style-type: none"><li>• The Bank calculates the impairment for the loans that are subject to collective impairment assessment by using parameters determined for each portfolio based on historical data and expert estimates, including probability of default and loss given default. Determination of the applied model parameters require professional judgement.</li></ul> <p>IFRS 9 related disclosures are likely to be subject to scrutiny from investors and regulators.</p>	<ul style="list-style-type: none"><li>• We tested the completeness, accuracy and relevance of the data related to significant assumptions.</li><li>• We assessed the adequacy and the mathematical accuracy of the applied model.</li><li>• We assessed the completeness, accuracy and relevance of the disclosures required by IFRS 9.</li></ul>
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**Valuation of Investments measured at fair value through profit or loss and Investments accounted for using the equity method (2019: HUF 26,284 million and HUF 60,998 million, 2018: HUF 23,204 million and HUF 20,926 million)**

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

<b>The key audit matter</b>	<i>How the matter was addressed in our audit</i>
<p>Valuation of investments in venture capital and private equity funds recognized under investments measured at fair value through profit or loss and investments accounted for using the equity method is considered to be a key audit matter due to significant judgment applied in the valuation.</p> <p>As at 31 December 2019 total amount of investments measured at fair value through profit or loss and investments accounted for using the equity method amounted to HUF 87,918 million, of which 99.9% is an investment in venture capital and private equity funds.</p> <p>The Bank measures these investments in venture capital and private equity funds based on the net asset value determined by the fund manager by analysing it. The net asset value of the funds are determined on a fair value basis by the fund manager. The venture capital and private equity funds made individually significant investments, which underlying investments are mostly in the early investment phases, therefore the determination of fair value of the underlying investments involves significant estimation uncertainty and judgement.</p>	<p>Our audit procedures included amongst others the following procedures:</p> <ul style="list-style-type: none"><li>• We understood the Bank's process of investing into venture capital and private equity funds.</li><li>• We tested the controls applied in the process of regular reconciliation of net asset values between the fund manager and the Bank and tested the process how the Bank monitors the reports prepared by the fund managers supporting the net asset value and the financial position of the underlying investments.</li><li>• We assessed whether the net asset values of venture capital and private equity funds reported by the fund managers provide appropriate basis for valuation purposes.</li><li>• We examined the mathematical accuracy of calculations related to the valuation of investments as of the balance sheet date.</li></ul>

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### *Other Information*

The other information comprises the 2019 business report and the 2019 management report of the Bank. Management is responsible for the other information, including the preparation of the business report in accordance with the Act on Accounting and other applicable legal requirements, if any.

Our opinion on the financial statements expressed in the Opinion section of our report does not cover the business report and the management report. We do not express any form of assurance conclusion on the management report.

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

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

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

In our opinion the 2019 business report of the Bank is consistent, in all material respects, with the 2019 financial statements of the Bank and the applicable provisions of the Act on Accounting.

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

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

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

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

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

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

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

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

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### *Auditors' Responsibilities for the Audit of the Financial Statements*

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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 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.

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Magyar Export-Import Bank Zrt. - K31 - 2019.12.31.



## Report on Other Legal and Regulatory Requirements

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

- unredeemed liabilities arising from export oriented full payment guarantees covered by the Hungarian state for the year ended 31 December 2019 (hereinafter "Liabilities") are rated in all material respects in accordance with the Decree; and
- Liabilities classified to each rating category, as set out in Note (21) to the individual financial statements, discloses the Liabilities classified in each rating category in all material respects in accordance with the Decree.

We were appointed by members meeting on 5 April 2019 to audit the financial statements of the Bank for the financial year ended 31 December 2019. Our total uninterrupted period of engagement is 20 years (8 years since the Bank became a public interest entity), covering the periods ending 31 December 2000 (covering the periods ending 31 December 2012 since the Bank became a public interest entity) to 31 December 2019.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank dated 1 April 2020;
- we have not provided to the Bank the prohibited non-audit services (NASs) as set out by Article 5(1) of EU Regulation (EU) No 537/2014 and in terms of the member state derogations by the Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors in force in Hungary. We also remained independent of the audited entity in conducting the audit.

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

Budapest, 8 April 2020

KPMG Hungária Kft.

Registration number: 000202

István Henye

*Partner, Professional Accountant*

Registration number: 005674

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Magyar Export-Import Bank Zrt. - K31 - 2019.12.31.

**HUNGARIAN EXPORT-IMPORT BANK PLC.**

**STATEMENT OF FINANCIAL POSITION**

**AS AT 31 DECEMBER 2019**

*(All amounts in HUF million unless otherwise stated)*

	Note	31.12.2019	31.12.2018	01.01.2018
Cash and cash equivalents	4	63,584	3,756	3,558
Securities measured at amortised cost	5	43,123	40,749	39,764
Loans and advances to banks and insurance companies	6	526,303	590,904	587,960
Loans and advances to other customers	7	248,245	272,811	246,027
Financial assets measured at fair value through profit or loss (Derivatives)	8	14,819	11,913	13,877
Investments measured at fair value through profit or loss	9	26,284	23,204	16,402
Investments accounted for using the equity method	10	60,998	20,926	17,398
Intangibles	11	1,996	1,869	1,459
Property, plant and equipments	12	2,858	1,047	1,293
Current income tax assets	13	361	689	666
Other tax assets	13	84	41	1,936
Deferred tax assets	13	17	-	85
Other assets	14	3,778	5,184	1,408
<b>Total Assets</b>		<b>992,450</b>	<b>973,093</b>	<b>931,833</b>
Loans and deposits from banks and insurance companies	16	572,332	486,135	333,887
Deposits from other customers	17	6,657	2,108	9,874
Financial liabilities measured at fair value through profit or loss (Derivatives)	8	199	1,156	2,226
Debt securities issued	18	220,025	316,564	428,129
Provisions	15	505	1,644	2,444
Tax liabilities	13	206	158	175
Deferred tax liabilities	13	44	217	-
Other liabilities	19	9,470	9,208	6,735
<b>Total Liabilities</b>		<b>809,438</b>	<b>817,190</b>	<b>783,470</b>
Share capital	20	158,930	133,700	133,700
Retained earnings	20	3,595	6,396	3,516
Other reserves	20	20,487	15,807	11,147
<b>Total Shareholders' Equity</b>		<b>183,012</b>	<b>155,903</b>	<b>148,363</b>
<b>Total Liabilities and Equity</b>		<b>992,450</b>	<b>973,093</b>	<b>931,833</b>

8 April 2020

Authorised for issue by

*Gergely Jákli*  
Chairman and Chief Executive Officer

*Dr. József Dancsó*  
Deputy Chief Executive Officer

The accompanying notes to the separate financial statements on pages 14-160 form an integral part of these separate financial statements.

**HUNGARIAN EXPORT-IMPORT BANK PLC.**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2019  
(All amounts in HUF million unless otherwise stated)**

	Note	2019	2018
Interest income calculated using the effective interest method	22	27,664	34,314
Other interest income	22	4,797	4,751
Interest expense	22	-20,463	-25,036
<b>Net interest income</b>		<b>11,998</b>	<b>14,029</b>
Fee and commission income	23	576	570
Fee and commission expense	23	-634	-239
<b>Net income/(loss) from fees and commissions</b>		<b>-58</b>	<b>331</b>
Gains or losses on derecognition of financial assets measured at amortised cost	24	339	-1
Impairment/provision or reversal of impairment/provision on financial instruments	15	-2,119	-2,131
Impairment or reversal of impairment on non-financial assets	15	-231	11
Gains and (losses) from trading and investment activities, net	25	391	3,865
Other operating income	26	2,959	1,047
Other operating expenses	26	-3,713	-3,788
Staff expenses	26	-4,147	-3,946
Depreciation	26	-1,244	-774
Share of profit/(loss) of joint ventures and associates	10	-1,017	456
<b>Profit/(loss) before income tax</b>		<b>3,158</b>	<b>9,099</b>
Income taxes	13	-1,279	-1,559
<b>Profit/(loss) for the period</b>		<b>1,879</b>	<b>7,540</b>
<b>Other comprehensive income for the period, net of income tax</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income/ (loss) for the period</b>		<b>1,879</b>	<b>7,540</b>

8 April 2020  
Authorised for issue by

*Gergely Jákli*  
Chairman Chief Executive Officer

*Dr. József Dancsó*  
Deputy Chief Executive Officer

The accompanying notes to the separate financial statements on pages 14-160 form an integral part of these separate financial statements.

**HUNGARIAN EXPORT-IMPORT BANK PLC.**  
**STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**  
*(All amounts in HUF million unless otherwise stated)*

	Share Capital	Share Premium	Retained earnings	General reserves	Total
<b>Balance as at 31 December 2018</b>	<b>133,700</b>	<b>400</b>	<b>6,396</b>	<b>15,407</b>	<b>155,903</b>
<i>Total comprehensive income for the period</i>					
Profit for the period			1,879		1,879
<i>Other comprehensive income</i>					
Share of other comprehensive income of equity accounted investees, net of tax					
<i>Total comprehensive income for the period</i>			<i>1,879</i>		<i>1,879</i>
<i>Other transactions, recorded directly in equity</i>					
Share capital increase	25,230				25,230
Reclassification of retained earnings to general reserve			-4,680	4,680	-
<i>Total other transactions</i>	<i>25,230</i>	<i>-</i>	<i>-4,680</i>	<i>4,680</i>	<i>25,230</i>
<b>Balance as at 31 December 2019</b>	<b>158,930</b>	<b>400</b>	<b>3,595</b>	<b>20,087</b>	<b>183,012</b>

8 April 2020  
 Authorised for issue by

*Gergely Jákli*  
 Chairman and Chief Executive Officer

*Dr. József Dancsó*  
 Deputy Chief Executive Officer

The accompanying notes to the separate financial statements on pages 14-160 form an integral part of these separate financial statements.

**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	General Reserves	Fair value Reserves	Total
<b>Balance as at 31 December 2017</b>	133,700	400	-2,257	10,747	3,159	145,749
IFRS 9 transition effect	-	-	5,565		-3,159	2,406
Other effect	-	-	208			208
<b>Balance as at 1 January 2018</b>	133,700	400	3,516	10,747	-	148,363
<b>Total comprehensive income for the period</b>						
Profit for the period			7,540			7,540
<b>Other comprehensive income</b>						
Share of other comprehensive income of equity accounted investees, net of tax						
<b>Total comprehensive income for the period</b>			7,540			7,540
<b>Other transactions, recorded directly in equity</b>						
Reclassification of retained earnings to general reserve			-4,660	4,660		-
<b>Total other transactions</b>	-	-	-4,660	4,660	-	-
<b>Balance as at 31 December 2018</b>	133,700	400	6,396	15,407	-	155,903

8 April 2020  
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*Gergely Jákli*  
 Chairman and Chief Executive Officer

*Dr. József Dancsó*  
 Deputy Chief Executive Office

The accompanying notes to the separate financial statements on pages 14-160 form an integral part of these separate financial statements.

HUNGARIAN EXPORT-IMPORT BANK PLC.

**STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY**  
**FOR THE YEAR ENDED 1 JANUARY 2018**  
*(All amounts in HUF million unless otherwise stated)*

	Share Capital	Share Premium	Retained earnings	General Reserves	Fair value Reserves	Total
<b>Balance as at 31 December 2016</b>	<b>133,700</b>	<b>400</b>	<b>-1,416</b>	<b>9,614</b>	<b>2,289</b>	<b>144,587</b>
<i><b>Total comprehensive income for the period</b></i>						
Profit for the period			292			292
<i><b>Other comprehensive income</b></i>						
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
<i><b>Total comprehensive income for the period</b></i>			<i><b>292</b></i>		<i><b>870</b></i>	<i><b>1,162</b></i>
<i><b>Other transactions, recorded directly in equity</b></i>						
Reclassification of retained earnings to general reserve			-1,133	1,133		
<i><b>Total other transactions</b></i>	<i><b>-</b></i>	<i><b>-</b></i>	<i><b>-1,133</b></i>	<i><b>1,133</b></i>	<i><b>-</b></i>	<i><b>-</b></i>
<b>Balance as at 31 December 2017</b>	<b>133,700</b>	<b>400</b>	<b>-2,257</b>	<b>10,747</b>	<b>3,159</b>	<b>145,749</b>

8 April 2020  
 Authorised for issue by

*Gergely Jákli*  
 Chairman Chief Executive Officer

*Dr. József Dancsó*  
 Deputy Chief Executive Officer

The accompanying notes to the separate financial statements on pages 14-160 form an integral part of these separate financial statements.

HUNGARIAN EXPORT-IMPORT BANK PLC.

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**  
*(All amounts in HUF million unless otherwise stated)*

	Notes	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>OPERATING ACTIVITIES</b>			
Profit for the period		1,879	7,540
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>			
Depreciation and amortisation	26	1,244	774
Impairment losses on assets	15	-335	2,079
(Profit)/loss from revaluation to fair value		-3,685	-5,181
Share of the profit and loss of joint ventures and associates accounted for using the equity method	10	1,017	-456
Foreign exchange (gains) and losses relating to non-operating cash-flows	18	8,826	-14,362
Other items without cash movements		-2,315	28,806
Net interest income	22	-11,998	-14,029
Tax expense	13	1,279	1,559
<i>Changes in operating assets and liabilities:</i>			
Net (increase)/decrease in loans and advances to other banks and insurance companies, before impairment losses		64,464	-2,801
Net (increase)/decrease in loans and advances to customers, before impairment losses		22,634	-23,105
Net (increase)/decrease in other assets		1,413	-1,982
Net increase/(decrease) in loans and deposits from other banks and insurance companies		84,471	150,023
Net increase/(decrease) in deposits from customers		4,539	-7,760
Net increase/(decrease) other liabilities and provision		-743	1,655
Interest received		36,250	34,249
Interest paid		-18,340	-22,706
Income taxes paid		-1,138	-1,339
<b>Net cash provided by/(used in) operating activities</b>		<b>189,462</b>	<b>132,964</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of Government Bonds		-16,071	-8,469
Disposal of Government Bonds		13,489	7,605
Acquisition of investments accounted for using the equity method	10	-41,088	-3,071
Acquisition of FVTPL investments	9	-8,068	-3,489
Repayment of FVTPL investments		4,874	2,727
Acquisition of intangible assets and property and equipment	11-12	-1,009	-930
Disposal of intangible assets and property and equipment	11-12	0	3
<b>Net cash used in investing activities</b>		<b>-47,873</b>	<b>-5,624</b>

The accompanying notes to the separate financial statements on pages 14-160 form an integral part of these separate financial statements.



HUNGARIAN EXPORT-IMPORT BANK PLC.

**NOTES TO THE SEPERATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**  
(All amounts in HUF million unless otherwise stated)

FINANCING ACTIVITIES:			
Proceeds from share capital increase	20	25,230	-
Lease payments	12	-221	-
Proceeds from issuance of debt securities	18	50,518	-
Repayment of debt securities	18	-157,298	-127,220
<b>Net cash provided by financing activities</b>		<b>-81,771</b>	<b>-127,220</b>
<hr/>			
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>59,818</b>	<b>120</b>
Net foreign exchange difference		10	78
Cash and cash equivalents at the beginning of the year	4	3,756	3,558
<b>Cash and cash equivalents at the end of the year</b>	<b>4</b>	<b>63,584</b>	<b>3,756</b>

8 April 2020

Authorised for issue by

*Gergely Jákli*  
*Chairman and Chief Executive Officer*

*Dr. József Dancsó*  
*Deputy Chief Executive Officer*

## HUNGARIAN EXPORT-IMPORT BANK PLC.

### **NOTES TO THE SEPERATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (All amounts in HUF million unless otherwise stated)**

#### **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 private liability company incorporated and domiciled in Hungary. The Bank’s registered office is at Nagymező St. 46-48., H-1065 Budapest, Hungary.

Eximbank is a specialised credit institution, wholly owned by the Hungarian State. All shareholders’ rights are exercised by the Minister of Foreign Affairs and Trade.

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.

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

The accompanying notes to the separate financial statements on pages 14-160 form an integral part of these separate financial statements.

## HUNGARIAN EXPORT-IMPORT BANK PLC.

### **NOTES TO THE SEPERATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (All amounts in HUF million unless otherwise stated)**

customers upon customer request, or in cases when 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.

Other disclosures required by the Hungarian Accounting Law:

- Address of Gergely Jáklí Chairman of the Board, CEO: Üröm, Hungary
- Address of Dr. József Dancsó Financial deputy CEO: Orosháza, Hungary
- Personal data of the person responsible for managing and directing accounting tasks:
  - o Name: Szocska Györgyi; mother's name.: Tompa Valéria, ID number: 015671; registration number: MK181626; specialization: IFRS for enterprises
- Eximbank website: <https://exim.hu>

There is a statutory obligation for Eximbank's financial statements to be audited. The audit fee for the current financial year was 14,9 M HUF, the fee for other assurance services amounted to 12,3 M HUF, and other non-audit related fees cost 13,2 M HUF.

## HUNGARIAN EXPORT-IMPORT BANK PLC.

### **NOTES TO THE SEPERATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (All amounts in HUF million unless otherwise stated)**

#### **NOTE 2. BASIS OF PREPARATION**

##### **2.1 Statement of compliance**

These separate financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU and also in accordance with those regulations of the Act C of 2000 on Accounting that are to be applied by entities preparing their financial statements in accordance with IFRSs.

IFRSs comprise accounting standards issued by the IASB and its predecessor body and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body as adopted by the EU.

2019 is the first year the Bank prepares separate financial statements in accordance with the IFRSs.

No consolidated statements are presented by Eximbank, given that Eximbank has no subsidiaries.

Until the year ended 31 December 2018 the Bank prepared individual financial statements in accordance to IFRSs because the Bank had associates and a joint venture. Since the standards do not require the preparation of individual financial statements, individual statements are not presented parallel to the separate financial statements.

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 mandatorily adopt EU IFRSs in its separate statutory financial statements only for annual periods beginning or after 1<sup>st</sup> of January 2019.

##### **2.2 Basis of measurement**

The separate 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,
- 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, expenses and disclosure of contingent assets and liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions are assessed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which a certain 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 presented in Note 33.

The accompanying notes to the separate financial statements on pages 14-160 form an integral part of these separate financial statements.

## HUNGARIAN EXPORT-IMPORT BANK PLC.

### **NOTES TO THE SEPERATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (All amounts in HUF million unless otherwise stated)**

#### **2.3 Functional and presentation currency**

These separate financial statements are presented in Hungarian Forints ('HUF'), which is the Bank's functional currency. Except as otherwise 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 separate 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.

##### **3.1. Financial instruments**

A financial assets or a financial liability is recognized in the statement of financial position when, and only when, the Bank becomes party to the contractual provisions of the instrument.

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

Financial instruments at fair value through profit or loss are initially recognised at their fair values in the Bank's statement of financial position. Initial fair values of other financial assets and liabilities are adjusted by transaction costs. Fair value of a financial instrument is at initial recognition usually the market price.

In accordance with the provisions of IFRS 9 the Bank classifies financial assets at the initial recognition into the following categories:

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

A financial asset shall be measured at amortised cost if it is not classified as at fair value through profit or loss and

- 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).

The accompanying notes to the separate financial statements on pages 14-160 form an integral part of these separate financial statements.

## HUNGARIAN EXPORT-IMPORT BANK PLC.

### **NOTES TO THE SEPERATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (All amounts in HUF million unless otherwise stated)**

A debt instrument shall be measured at fair value through other comprehensive income if it is not classified as at fair value through profit or loss and

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

The following table shows the result of the SPPI test:

Financial asset type	Result of SPPI test
Loans qualified for interest compensation	SPPI cash-flow characteristics
NHP loans	SPPI cash-flow characteristics
Tied-aid	SPPI cash-flow characteristics
Loans to employees	SPPI cash-flow characteristics
Other loans (on market rate)	SPPI cash-flow characteristics
Government Bonds	SPPI cash-flow characteristics

In the analysis it was established that the Eximbank has contractual rights to collect the unpaid amounts of the outstanding capital and its interests. The contractual cash flows of the loans are basically consistent with the SPPI criteria. Cash flows fully or partially are not bound by the performance of the debtor or any other related factor. Payments are not deferred regardless of interest accrual. There is no pre-defined term in the contracts that allows the non-repayment of any outstanding amount.

Overall, the financial assets managed by the Bank are designed to manage the Bank's liquidity so that the Bank can meet the required liquidity indicators. Based on previous experience, the further sale of these assets is not typical, the primary objective for each acquisition is to hold the financial instruments in order to collect contractual cash flows over the maturity. In fact, the Act on Eximbank expressly prohibits security transactions for trading purposes.

The Business department of the Bank deals with the conclusion of lending and guarantee contracts. The purpose of the loans and the guarantees is in all cases to collect interest and capital at maturity. The Bank does not conclude transactions where the original purpose is to transfer it at a later stage to other parties and there is no previous experience of sales transactions either. In case if the claim becomes irrecoverable, a dedicated department of the Bank takes it over and handles the recovery the outstanding debts. Even in such cases claims are not sold.

The performance assessment and compensation of the employees is not linked to the return on securities (neither to the fair value of the securities nor to the collected contractual cash flows).

The Bank may make an irrevocable election at initial recognition for investments in equity instruments not held for trading that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. There is an option to make this election per instrument.

Every other financial asset and liability is measured at fair value through profit or loss.

The accompanying notes to the separate financial statements on pages 14-160 form an integral part of these separate financial statements.

## HUNGARIAN EXPORT-IMPORT BANK PLC.

### **NOTES TO THE SEPERATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (All amounts in HUF million unless otherwise stated)**

The Bank classifies financial liabilities at the initial recognition into the following categories:

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

Financial guarantee contracts and loan commitments (credit lines) are initially measured at fair value.

The Bank did not elect fair value through profit or loss method for financial instruments which can also be measured at amortised cost.

Derivatives are presented at fair value in the statement for financial position.

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 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. This fair value difference is presented in the statement for financial position as 'Other asset' or 'Other liability'.

An entity shall derecognise a financial asset when, and only when

- the contractual rights to the cash flows from the financial asset expire, or
- the Bank transfers the contractual rights to receive the cash flows of the financial asset, or 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 following conditions
  - the Bank transfers substantially all risks and rewards from the ownership of the asset, or
  - the Bank does not transfer and does not retained all risks and rewards from the ownership and does not retained the control over the financial asset.

#### *Modification of contractual terms of financial assets and liabilities*

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

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

Costs or fees incurred adjust the fair value of the new financial asset after accounting for the above difference. Income from fees are presented as gain or loss on derecognition, except for fees which adjust the fair value of the new financial asset. Fees which are compensating transaction costs are taking into account at the initial recognition of the new financial asset.

In case of a non-substantial modification the Bank calculates the gross carrying amount of the financial asset or the amortised cost of the financial liability with the original effective interest rate. The difference between the present value of the modified cash-flows discounted using

The accompanying notes to the seperate financial statements on pages 14-160 form an integral part of these seperate financial statements.

## HUNGARIAN EXPORT-IMPORT BANK PLC.

### **NOTES TO THE SEPERATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (All amounts in HUF million unless otherwise stated)**

the financial instruments original effective interest rate and the financial instruments gross carrying amount at the date of modification is called modification gain or loss and is presented in profit or loss. To calculate the modification gain or loss of a financial instrument with variable interest rate the original effective interest rate has to be revised to reflect the current condition of the market at the date of modification.

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).

In case of financial difficulties of the debtor if the Bank modifies a financial instrument by remittal of cash flows, the Bank considers to write-off the asset or part of it before modification. This has an effect on the quantitative test because conditions of derecognition may not fulfill.

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

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 is 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.



## HUNGARIAN EXPORT-IMPORT BANK PLC.

### **NOTES TO THE SEPERATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (All amounts in HUF million unless otherwise stated)**

#### **3.1.1. Financial instruments measured at FVTPL (Derivatives)**

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

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.

#### **3.1.2. 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.

Investments in associates and joint ventures, where the Bank has significant influence are accounted for using the equity method (see Note 3.13). Since these investments do not meet the criteria of the SPPI (see Note 3.1), all the other investments are measured at fair value through profit or loss.

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'.

The Bank measures beyond the derivatives no other financial liabilities at fair value through profit or loss.

#### **3.1.3. Financial instruments measured at Amortised cost**

Interest income of the financial assets at amortised cost are calculated with the effective interest rate method.

When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but 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.

After initial recognition financial liabilities shall be measured at amortised costs, except for the derivative financial liabilities.

##### **3.1.3.1. Cash and cash equivalents**

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

## HUNGARIAN EXPORT-IMPORT BANK PLC.

### **NOTES TO THE SEPERATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (All amounts in HUF million unless otherwise stated)**

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.

#### **3.1.3.2. Securities measured at amortised cost**

Debt securities that meet the SPPI criteria are carried after the initial recognition at amortised cost in the statement for financial position.

#### **3.1.3.3. Loans and advances to banks and insurance companies and Loans and advances to other customers**

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

#### **3.1.3.4. Loans and deposits form other banks and insurance companies, Deposits from customers, Debt securities issued**

Loans and deposits form other banks and insurance companies, Deposits from customers, Debt securities issued are carried after the initial recognition at amortised cost in the statement for financial position.

### **3.2. Financial guarantees and loan commitments (credit lines)**

A financial guarantee is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debtor instrument.

A loan commitment is a certain commitment to grant credit under predetermined conditions.

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.

Financial guarantees and loan commitments are presented in the statement of financial position as 'Provisions' and are recognised in the statement of comprehensive income in 'Impairment/provision or reversal of impairment/provision on financial instruments'.

### **3.3. 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.

The accompanying notes to the seperate financial statements on pages 14-160 form an integral part of these seperate financial statements.

## HUNGARIAN EXPORT-IMPORT BANK PLC.

### **NOTES TO THE SEPERATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (All amounts in HUF million unless otherwise stated)**

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.

If the determination of fair value is based on quoted price of identical asset or liability in active markets, or based on valuation techniques which use only quoted prices as input, changes in fair value of the instrument is recognised in the profit or loss of the Bank. Otherwise the Bank adjusts the book value of the financial instrument to defer the presentation of the difference. In this case only that part of the initial fair value difference is shown in the profit or loss of the Bank which comes from the changes of factors which were taken into consideration by market participants at the measurement.

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.

### **3.4 Loss allowance of financial instruments**

#### **3.4.1 Loss allowance policy applied before 1st January 2019**

In line with the loss allowance policy meeting the ordinances of Act C of 2000 on Accounting the necessary impairment amount to the classified risk undertakings were in all cases quantified on the basis of individual assessment. The Bank did not determine limit for significance, and regarded all impairments derived from the classification as significant.

Impairment was determined in the amount that covered the expected loss of the affected deals. Throughout quantification, the expected loss from declining client payments, expected recovery from realizing collaterals or from other sources (i.e. debt selling) were considered together with cost of selling, administration and other incurring elements. Impairment was the result of comparing the expected and contractual cash flows.

In case of foreign currency instruments, the impairment was calculated first in foreign currency, and then was translated to HUF using the foreign exchange rate of the National Bank of Hungary applicable on the evaluation date.

## HUNGARIAN EXPORT-IMPORT BANK PLC.

### **NOTES TO THE SEPERATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (All amounts in HUF million unless otherwise stated)**

#### ***Write-off policy***

Irrecoverable receivables were written off, when the liquidation or execution procedure had been finished, and no expected recovery remained for the Bank, in addition, any of the irrecoverable events codified in the Act C of 2000 on Accounting occurred. Credit loss has been accounted within other expenditures.

#### ***Restructured loans***

The Bank regarded loans as restructured, when the original contractual conditions had been modified containing forbearance to prevent non-payment of the client, because the debtor could not or without forbearance would not meet its financial obligations according to the original contractual conditions.

#### ***Impairment of investments***

The Bank impaired its investments applying the NAV (Net Asset Value) method, in line with the procedure set in internal regulations.

### **3.4.2 The currently applied loss allowance policy**

#### **Loss allowance of loans and advances to banks, insurance companies and other customers measured at amortized cost, cash and cash equivalents, debt securities measured at amortized cost, and other assets**

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

- financial instruments classified as debt instruments;
- leasing receivables;
- financial guarantees;
- loan commitments (credit lines).

No loss allowance is recognized for equity instruments.

The Bank evaluates loss allowance equal to the amount of lifetime expected credit loss, except for the followings, where it is assessed as the amount of 12-month-expected credit loss:

- debt securities classified by the Bank as LCR (Low Credit Risk) at the effective date of annual report;
- other financial instruments (except for lease receivables), for which credit risk has not increased significantly since initial recognition.

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

The 12-month-expected credit loss is a part of lifetime expected credit loss, which incorporates the expected credit loss that can possibly happen within 12 months after the effective date of annual report as a result of non-performing events relating to the financial instrument.

Lifetime expected credit loss is the expected credit loss that can be derived from all the possible non-performing events throughout the expected lifetime of the financial instrument.

The accompanying notes to the seperate financial statements on pages 14-160 form an integral part of these seperate financial statements.

## HUNGARIAN EXPORT-IMPORT BANK PLC.

### **NOTES TO THE SEPERATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (All amounts in HUF million unless otherwise stated)**

The expected credit loss is the probability-weighted average of credit losses.

At each valuation date, the Bank classifies the financial instruments into Stages, and determines the expected credit loss to calculate loss allowance. Financial instruments are classified into three stages:

- Stage 1 classification is applied to financial instruments at initial recognition date, except for POCI (purchased or originated credit impaired) receivables. Financial instruments remain in Stage 1 until significant deterioration of credit risk occurs. In addition, financial instruments are also classified into Stage 1, which the Bank regards as LCR at the valuation date. 12-month-expected credit loss is quantified to Stage 1 financial instruments, using the segmented lifetime PD (probability of default) models, LGDs (loss given default) and CCFs (credit conversion factor) 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/default/credit impaired exposure are not met. The Bank quantifies lifetime expected credit loss to Stage 2 financial instruments, using the future exposures derived from contractual cash flows, segmented lifetime PD models, LGDs and CCFs in case of off-balance sheet items.
- Stage 3 classification is applied to non-performing, defaulted, credit impaired financial instruments. The Bank uses the NPL (non-performing loan) definition of the NBH (National Bank of Hungary), and the definition of Article 178 in CRR in a unified way. The Bank evaluates all Stage 3 financial instruments individually, using probability weighted cash flow scenarios discounted by EIR (effective interest rate).

The Bank applies different credit risk models and parameters for each portfolio segment. The evaluation of Stage 1 and Stage 2 financial instruments are underpinned by lifetime PD models and LGD parameters developed for the following portfolio segments:

- Corporate;
- Sovereign/sub-sovereign;
- Domestic financial institutions;
- Foreign financial institutions.

The Bank developed its lifetime PD models in a vintage approach by analyzing and forecasting historical empirical default time series from external source, using the historical default rates published by Standard&Poor's and applying Weibull-curves on them. Lifetime PD curves were estimated for each portfolio segment for each international rating classification, which were mapped with the internal 7 scale rating classes of the Bank.

The Bank carries out PD-correction on its corporate lifetime PD model applying the ARMA (Auto Regressive Moving Average) forward-looking macroeconomic model developed in line with the expectations of the NBH. When estimating corporate PDs in a forward-looking manner the Bank uses the macroeconomic forecasts published in the NBH Inflation Report. The Bank has developed its macroeconomic model for PD-correction using the autoregressive variable expressing the previous value of the time series, the moving average variable expressing the estimation error in the previous period, the inflation rate lagged by 4 quarters and the difference of unemployment rate lagged by 4 quarters, in line with NBH Inflation Report. Due to the fact that based on the IFRS 9 standard the Bank must consider its

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expectations towards the macroeconomic environment in an unbiased manner when calculating expected credit loss, and considering the fact that the relationship between macroeconomic indicators and expected credit loss is non-linear (a negative macroeconomic shock might have a higher impact on expected credit loss, than a positive economic shock), the Bank developed its unbiased forward-looking estimation using the weighted average of three scenarios.

At the time of developing and implementing the model the Bank forecasted the corporate default rate applying the macroeconomic model in a quarterly breakdown between 30 September 2019 and 30 September 2020. Since the model applies the 4-quarter lag for both the inflation rate and the difference of unemployment rate, the Bank used the actual data published in NBH Inflation Report to prepare the baseline forecast. For the pessimistic forecast scenario, the Bank stressed the model variables and assumed that they achieve their observed worst values in the historical observation period after a linear growth. It meant 8.61% inflation rate and 11.35% unemployment rate. For the optimistic forecast scenario, the Bank assumed that the inflation rate achieves the NBH inflation target (3%) through a linear trend and the unemployment rate might decrease to 2.5%.

In the corporate segment, the Bank applies modelled LGD developed on internal data using the collection LGD methodology in vintage approach to determine expected loss. In the sovereign/sub-sovereign segment the Bank applies a benchmark LGD underpinned by external empirical study. Whereas in case of financial institutions the Bank applies CDS-implied LGD derived from a relevant, robust external benchmark study.

Considering the fact that the very low number of historical data does not enable to model CCFs based on internal data, the Bank applies CCF parameters in line with the supervisory parameters published in the CRR.

The in-depth disclosure of formulae to determine expected credit loss can be found in NOTE 30.

For each financial instrument the Bank regards the below indicators as significant credit risk deterioration, accordingly classifies the affected deals into Stage2:

- 30+ days past due, except for justified technical delinquency.
- Significant worsening of rating compared to the initial rating class. Within its 7 scale internal rating system the Bank regards 2 rating category worsening as significant in case of 1-3 ratings, however, regards 1 rating category worsening as significant in case of 4-6 ratings.
- Performing restructured loans.

The Bank identifies LCR boundaries for 'investment grade' exposures against sovereigns and banks, however, does not identify LCR boundary for corporate exposures. At the same time, the Bank applies more rigorous criteria for rating decline in the worse rating classes for each segment. In addition, the Bank uses the following EWIs (Early Warning Indicators) for domestic corporate clients and real estate project financing exposures to determine significant credit risk deterioration:

- Regular order of collection against the client's current account.
- New commitment or failure event appearing in the Central Credit Information System (CCIS) jeopardizing the operation of the client.

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- Negative changes in company data having obligation to notify on behalf of the client (owner, seat, company registry number, tax number, scope of activities).
- Unfavorable decline of turnover and/or clientele negatively affecting debt service.
- Substantial decline of debtor's equity.
- Significant changes, decline in the number of employees.
- The project is not or just partially realized, or it cannot exploit the debt service.
- Not paying insurance fee (30+ delinquency or the contract becomes inactive).
- Significant execution initiated against the company (e.g. by Tax Authority).
- Substantial decrease in collateral coverage ratio.
- Breaching covenants and undertakings in loan contracts jeopardizing the recovery.
- Worsening discipline of providing compulsory data service.
- Changing legal environment negatively affecting the business management of the client.
- Negative information in media affecting the client, client group, their partners or industry.
- Declining level of constantly monitored financial ratios jeopardizing the financial stability of the client.
- Substantially unfavorable industrial outlooks threatening the financial stability of the client.
- In case of real estate financing project loans, the LTV (Loan To Value) Ratio exceeds 1 (except for: development phase).
- In case of real estate financing project loans, the PDSCR (Projected Debt Service Cover Ratio) falls behind 1.05.
- In case of real estate financing project loans, more than 1-year delay in the development phase.
- In case of real estate financing project loans, risk-increasing modification took place in the conditions.

Reclassification from Stage 2 to Stage 1 can only happen if in the valuation date neither criterion of significant credit risk deterioration can be observed.

Quantitative disclosure of Stage 2 exposures and loss allowances having significant credit risk deterioration can be found in NOTE 30.

In line with Article 178 of CRR and the 39/2016. NBH ordinance the Bank regards as non-performing, default and credit impaired, and classifies the deals into Stage 3, where:

- On the effective date of classification, the exposure is past due by more than 90 days, if the past due amount is significant. The Bank considers 500 EUR as significant past due amount.
- Based on the examination of the client's financial situation it can be assumed that without realizing the collaterals the client might not be able to completely fulfill its financial obligation (independently of the fact whether the exposure is past due).
- Exposures for which individual loss allowance has been recognized, except for loss allowance recognized for Stage 1 and Stage 2 deals quantified by the IFRS 9 lifetime expected credit loss models.
- All exposures against a client, if individual loss allowance has been recognized for any of the client's deals, except for loss allowance recognized for Stage 1 and Stage 2 deals quantified by the IFRS 9 lifetime expected credit loss models.
- The Bank has initiated liquidation or execution procedure against the client to collect the receivable.

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- The client has initiated liquidation or bankruptcy procedure against itself in order to prevent or delay the fulfillment of obligation to the Bank.
- The guarantee issued by the Bank has been drawn down or expected to be drawn down.
- The loan contract has been terminated.
- Deals that have gone under Workout handling or legal enforcement (liquidation, bankruptcy, execution initiated by the Bank).
- Restructuring which results in a significant forbearance for the client.

The 13/2019. NBH Guidance, which will be in forth starting from 2021, is expected to bring changes in the applied default definition. As soon as the revised default definition will be applied for internal risk management purposes, the Bank will apply the same to measure expected credit losses, and to identify financial instruments getting under credit impaired status. The Bank does not expect significant impact from the changing default definition.

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

Accounting policy of financial guarantees and loan commitments is disclosed in Chapter 3.2, whereas the calculation formulae of loss allowance can be found in NOTE 30.

#### ***Reversal of loss allowance***

If in a subsequent period a loss allowance is reversed, it is accounted for in profit or loss.

#### ***Write-off policy***

Irrecoverable loans are written off against the related loss allowance, if the legally uncollectible criteria set in workout policy are met, or if there is no reasonably expected recovery. If recovery is realized later on previously written-off loans, subsequent recoveries are credited to profit or loss. 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 the partially written-off claims. Partially or fully write-off on IFRS basis might happen at least three years after the occurrence of the non-performing event, if individual assessment justifies that cash recovery from the debtor cannot be reasonably expected, and distribution of assets plan is available from the liquidator.

#### ***Restructured loans***

In line with its effective NPL strategy, the Bank first attempts to restructure loans in cooperation with the debtors, instead of initiating legal procedures to collect the receivables. It might include the prolongation of tenor, the modification of payment schedule, or the revision of the loan. After restructuring the Bank calculates loss allowance using the original EIR, like it was the case before modifying the conditions, independently of the fact whether the loan is delinquent. The management continuously monitors the fulfillment of restructured loan conditions to ensure that the prescribed criteria are met, scheduled cash flows are realized and whether criteria for derecognition are apparent. The Bank classifies the non-performing restructured loans in all cases into Stage 3, and calculates the impairment by discounting the cash flows with original EIR.

### **3.5 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

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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.

Based on Owner decision the Bank placed 100% of its current year profit to retained earnings and the whole amount of retained earnings to general reserve.

### **3.6 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 exchanged 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.

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.

### **3.7. 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.

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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 'Other operating expenses' and 'Other operating income' in profit or loss.

#### **3.8. 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 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. If the amount of the minimum tax is higher than the current tax, the difference is presented as other operating expense. The amount of current income tax asset or liability is the best estimate of current income tax asset or liability which reflect the uncertainty of income taxes.

Deferred tax is calculated 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 and which are not business combinations.

Deferred tax asset is recognised for carryforward of unused tax losses, for carryforward of unused tax credits and for deductible temporary differences to the extent that is probable to be recoverable in future periods. Deferred tax assets are reassessed at each reporting day and are decreased with the amount which is not probable to be recovered. Deferred tax assets which could not be recognised are also overviewed at each reporting day to access whether there are probably future taxable profit available against which the deferred tax asset can be deducted.

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 and reflecting any uncertainty regarding to income taxes.

#### **3.9. Interest income and expense**

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' (see Note 3.1.3) and 'Other interest income'. 'Interest income calculated using the effective interest method' contains the interest of financial assets at amortised cost, while the interest income of the interest rate swap and Nostro accounts are presented as 'Other interest income'. The interest expense of the financial liabilities at amortised cost and the interest rate swap transactions are presented in 'Interest expense'.

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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 estimated future cash payments or receipts through the expected life of the financial instrument to one of the following:

- to the gross carrying amount of the financial asset or
- to the amortised cost of a financial liability.

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

Gross carrying amount of a financial asset is the amortised cost of a financial asset, before adjusting for any loss allowance.

When calculating the effective interest rate for financial assets other than purchased or originated credit-impaired financial assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

Basis of the effective interest rate is the gross carrying amount of financial assets (in case of not credit-impaired assets) or the amortised cost of financial liabilities in the calculation of interest income or expense. The effective interest rate is revised as a result of the reestimation of the cash flows of instruments with variable interest rate to reflect changes in market rates.

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

For financial assets that are not purchased or originated credit-impaired but subsequently have become credit-impaired financial assets (Stage 3), the Bank applies the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods. If the financial asset is no more credit-impaired, interest calculated is based on the gross carrying amount again.

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.

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Interest compensation and interest support received from the Hungarian State is not considered to be government grant for the Bank as they represent a form of government grant to the debtor.

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.

#### **3.10. 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.

If the drawdown of a loan commitment is not expected, the Bank recognises the related commitment fee during the period of commitment in a time-proportional manner.

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.

For more detailed information see Note 23.

#### **3.11. 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 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.

Special taxes payable by the Bank which cannot be considered as income taxes are recognised when the condition for payment of the tax is met. Such tax is special tax of financial institutions which has to be calculated based on the balance sheet total for the second tax year preceding the current tax year according to the 59/2006 Act. The Bank recognises the obligation to pay

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the special tax of financial institutions on the first day of the financial year in which it becomes due. Special taxes also include financial transaction duty according to 116/20112. These taxes are presented as 'Other operating expenses' in the statement of comprehensive income and as 'Other liabilities' in the statement of financial positions. (See Note 26)

#### **3.12. 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 seperate financial statements. However the Bank continues to show its assets, liabilities and revenues by geographical areas (see Note 31).

#### **3.13. 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.

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, but not rights to its assets and obligation to its liabilities.

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 which is adjusted by transactional costs. 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, however unrealised losses are eliminated only in case if there is no indication to impairment.

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 and are in line with the Bank's accounting policies.

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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 ‘Impairment or reversal of impairment on non-financial assets’ in the statement of comprehensive income.

#### **3.14. Changes in accounting policies**

The Bank applies accounting policies defined in Note 3 consistently for all presented period in the separate financial statements.

New standards applied from 1 January 2019 (see Note 3.15.) do not have a significant effect on the financial statements of the Bank.

#### **3.15. New standards applied from 1 January 2019**

##### **IFRS 16 Leases**

IFRS 16 introduces a single, on-balance 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*.

##### ***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 decided to apply the practical expedient.

##### ***ii. Initial application as of 1 January 2019***

As a lessee, the Bank can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The Bank as lessee applies modified retrospective transition approach consistently to all of its leases, therefore comparative data will not be restated. Comparative data is presented in line with the Bank’s accounting policy according to the guidance of IAS17 and IFRIC4.

The Bank applies IFRS16 first as at 1 January 2019. During the transition the Bank reviewed its lease agreements in which the Bank as lessee identified the agreements which contained lease according to IFRS 16. Regarding to the identified contracts the Bank recognized right-

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of-use assets and lease liabilities as at 1 January 2019. The initial recognition of the right-of-use asset is on cost while lease liabilities which were classified as operating leases according to IAS17 are initially recognized at the present value of the remaining lease payments. The Bank took following elements into consideration when calculating the initial cost of the asset:

- the amount of the initial measurement of the lease liability
- any lease payments made at or before the commencement date
- any initial direct costs incurred by the Bank
- lease incentives received as cost decreasing element
- estimated costs for dismantling, removing and restoring

Lease liability is initially recognised and measured at the present value of the lease payments that are not paid at that day. The Bank discounted the payments at first application using the interest rate implicit in the lease. With this discounted rate the present value of lease payments and unguaranteed residual value equal the sum of fair value of the leased asset and the lessor's initial direct costs.

The Bank recognises new assets and liabilities primarily related to operating leasing of office spaces. Costs related to these leases are now subject to change: instead of operating lease costs settled in a linear way depreciation of right-of-use asset and interest on the lease liability is recognised in the statement of comprehensive income according to IFRS16.

Previously the Bank accounted for costs related to operating leases in a linear method during the lease term and recognised assets and liabilities only in cases when time difference between actual lease payments and accounted costs was relevant.

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

The Bank uses the practical 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.

As initial recognition related to IFRS16 the Bank recognised HUF 616 million right-of-use asset and HUF 609 million lease liability as at 1 January 2019. The difference between the amount of lease liability and right-of-use asset derives from the accrued and deferred lease fees. Undiscounted cash flow of the leases is HUF 638 million as at 1 January 2019 from which HUF 194 million is due within 1 year.

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#### **3.16. New and revised International Financial Reporting Standards effective from 1 January 2019**

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 16 “Leases” – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- Amendment of IAS 19 “Employee Benefits” – plan amendment, curtailment or settlement – adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- Amendment of 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),
- Amendment of IFRS9 “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 above mentioned standards (except for IFRS 16, see transition effects Note 3.15) doesn't have a significant impact on the Bank's Financial Statements.

#### **3.17. 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 there are no new and revised Standards and Interpretations issued by IASB and adopted by the EU which are expected to have a significant effect on the financial statements of the Bank in the period of the first adoption.

- Amendments to References to the Conceptual Framework in IFRS Standards (adopted by the EU on 29 November 2019, effective for annual periods beginning on or after 1 January 2020),
- Amendment of IAS1 “Presentation of Financial Statements” and IAS8 “Accounting Policies, Changes in Accounting Estimates and Errors” – definition of material (adopted by the EU on 29 November 2019, effective for annual periods beginning on or after 1 January 2020).



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#### **3.18. 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 IFRS9 “Financial Instruments”, IAS39 “Financial Instruments: Recognition and Measurement“ and IFRS7 “Financial Instruments: Disclosures” – interest rate benchmark reform (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.

#### **3.19. Summary of significant accounting policies before adoption of IFRS**

##### **3.19.1. Valuation rules and methods of assets, liabilities and equity**

The Bank does not apply fair value method.

##### **3.19.1.1. General valuation method of foreign currency assets and liabilities**

Foreign currency assets and foreign currency liabilities are translated at rates quoted by the National Bank of Hungary („NBH”) at a daily basis to Hungarian Forint.

Foreign currency assets and liabilities for which there are no rates quoted by NBH are presented on a Forint value which is calculated from the Euro rate quoted by the central bank of the given country and the Euro-Forint rate quoted by the NBH.

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Exchange differences (gains and losses) resulting from daily translating foreign currency assets and liabilities are recognised on a foreign currency exchange settlement account along the Bank's other assets against the translated foreign currency asset or liability account.

On the last working day of each month the Bank transfers the balance of the FX settlement account depending on the balance to the gains or losses of other financial services. At the first day of the month FX gains and losses are transferred back to the settlement account.

At the end of the reporting period the Bank transfers the balance of the FX settlement account depending on the balance to the gains or losses of other financial services.

#### **3.19.1.2. Cash and cash equivalents**

Cash and cash equivalents include Forint and foreign currency payment accounts and short term (less than 1 year) deposits with National Bank of Hungary, Forint payment deposit accounts held by other credit institutions, Forint and foreign currency petty cash, settlement accounts used for cash movements across these payment accounts, and also cash, electronic money and cheque balances.

#### **3.19.1.3. Securities**

Government securities, debt securities, shares and other variable-yield securities, investments and other equity securities are carried at cost less impairment. The Bank applies FIFO method for security valuation.

#### **3.19.1.4. Cost of securities**

##### **A) Acquisition**

The cost of debt securities held for investment purposes is the purchase price increased by commission fee paid in connection with the purchase and by the fee of the purchase option. Cost of debt securities held for trading (presented as current asset) equal to their purchase prices (and do not contain commission fee or fee of purchase option). The cost of interest bearing securities may not include the amount of accrued interest which was part of the purchase price.

##### **B) Cost of investments in companies at founding and capital increase is**

- the actually paid deposit and
- the non-cash deposit which was made available in the amount defined
  - in the memorandum of association, amendments to memorandum
  - in the general assembly-, founding- and shareholder's decisionas the total of the share capital provided, the difference between the issued amount and the par value, and the amount asset contribution defined as cover for the capital in excess of the share capital

##### **C) Securities received in return for a claim or through exchange**

Cost of securities received in return for a claim is the (invoiced, documented) amount defined in the security agreement, in the asset allocation proposal.

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#### **3.19.1.5. Government securities**

The Bank presents bonds, treasury bills, compensation notes and other debt interest-bearing and discount securities issued by the Hungarian State as well as debt securities issued by the NBH as government securities.

Government securities with trading purposes are presented as current assets and include:

- available for sale government securities and
- those held to maturity government securities
  - which are short term, have a maturity within one year or
  - which are long term, but expire the in the year following current year

Government securities with investment purpose, presented as non-current assets are those held to maturity government securities which expire later than the date of the balance sheet date of the financial year following the current year.

#### **3.19.1.6. Debt securities**

The department responsible for the acquisition of the debt securities classifies the securities into trading or investment purpose category on the basis of the following classification principles.

Trading debt securities are:

- available for sale securities and
- those held to maturity securities
  - which are short term, have a maturity within one year or
  - which are long term, but expire the in the year following current year

Debt securities with investment purpose are those held to maturity securities which expire later than the date of the balance sheet date of the financial year following the current year.

#### **3.19.1.7. Shares, interests and other variable-yield securities**

The department responsible for the acquisition of equity investments classifies the equity investments at initial recognition to trading or investment category on the basis of the following classification principles:

- The classification of the same type of security representing shares in the same company may only be for the same purpose.
- Equity securities held for intvestment are purchased with long-term income-earning (dividend) goal or with the purpose to influence, manage or to have control over the company.
- Equity securities held for trading are purchased with non-long-term holding goal.

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#### **3.19.1.8. Receivables**

According to the paragraphs 85.§ (1) and 84.§ (1) of Hungarian Act on Credit Institutions and Financial Enterprises and the Annex 7 of 250/2000 decree and based on the rating policy of the Bank, receivables within the scope of Annex 7 of 250/2000 decree are quarterly rated. If the credit rating of the receivable is deteriorating, the Bank calculates impairment according to the impairment loss policy, if the rating of the receivable improves, carrying amount of the receivable increases by the impairment reversal.

If on basis of the information available, the difference between the carrying amount of the receivable and the amount expected to be recovered is considered to be permanent (based on the trend calculated from historical and expected data), impairment is recognised in the amount of the loss. Otherwise previously recognised impairment charges are reversed with the amount of the difference but maximum up to the amount of the charged impairment.

The Bank does not set a minimum amount for impairment, it considers the impairment determined by the rating to be significant in all cases.

#### **3.19.1.9. Inventories**

Purchases during the year are immediately taken to costs. The value of the purchased inventories at the reporting date (based on the inventory count as at the reporting date) arise from the last purchases. Exceptions are purchase of stamp duty and vouchers for employees that cannot be given as cash benefits: their stock is registered at the day of purchase as inventory. At the end of each month consumption is recognised as a cost using FIFO method on the basis of the posting of the responsible department.

The cost of those assets which are not classified as securities and have been owned by the bank in connection with enforcement of a lien or other form of unsettled claim, or are used not for own purposes but with the intention to sell are classified as inventory.

#### **3.19.1.10. Intangibles, Property, plant and equipment**

The Bank presents intangibles, property, plant and equipment at cost less accumulated depreciation, decreased by impairment and increased by impairment reversals.

#### **3.19.1.11. Liabilities**

The Bank presents its liabilities at their carrying amount.

The Banks presents as the liabilities from financial institutes:

- liabilities repayable on demand to other banks and the National Bank of Hungary
- liabilities 'with agreed maturity dates or periods of notice in connection with financial services' - the latter further broken down according to maturity (less or more than one year) - and the liabilities in connection with financial services, regardless of their individual designation, with the exception of bonds and other transferable securities obligation arising from investment service
- other liabilities to financial institutions

The Bank presents as liabilities to other customers liabilities from financial and investment services with customers other than banks, included obligations to financial enterprises and collected deposits from MEHIB, broken down to short term and long term liabilities.

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Debt securities issued include liabilities arising from own-issue bonds and other tradable, interest-bearing or discount debt securities issued – excluding shares – broken down by short term and long term categories.

#### **3.19.1.12. Shareholder's Equity**

Elements of equity are valued at book value.

Elements of equity are share capital less capital subscribed but not paid in, share premium, retained earnings, tied-up reserve, general reserve and profit or loss for the period.

Share capital is the capital registered in the registry court in the amount defined in the memorandum of association. The change in registered capital resulting from the increase or reduction of the capital shall be recorded on the basis of entry in the register on the date of registration.

Funds made available for capital increase based on the decision made by the main body of the Bank shall be presented as liabilities to founders until the registration by the registry court.

Within the share premium the Bank presents separately:

- the capital reserves arising from the difference between the consideration of the shares at issue (including capital increase) and their nominal value
- and capital reserves available for other purposes.

Tied-up reserve includes the amounts transferred from the capital reserve and from retained earnings and the amount of the additional payment received. The Bank presents the tied-up reserve items separately.

The Bank does not take advantage of items accounted for in revaluation reserve.

General reserve: Based on paragraph 83. § of the Act on Credit Institutions and Financial Enterprises 10% of the profit for the period after tax shall be transferred to general reserve. In case of loss for the period general reserve shall be used to the amount of the loss or to the amount of the reserve. Retained earnings are also transferred to general reserve when approved by the Founder based on paragraph 83. § (6) of the Act on Credit Institutions and Financial Enterprises.

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#### **3.19.1.13. Effects of IFRS adoption**

The Bank prepares and discloses financial statements in accordance with International Financial Reporting Standard as adopted by the EU since 2013. Parallel to these statements the Bank prepared its financial statements with statutory purposes according to the Hungarian Act on Accounting until 2018. The Bank disclosed its IFRS financial statements on its website and on the London Stock Exchange, in spite of the fact that Hungarian legislation did not require the disclosure. 2019 is the first year when the Bank prepares separate financial statements according to IFRS required by domestic legislation as a result of which Exim is no longer obliged to prepare statements according to the Act on Accounting.

Accordingly, the Bank performs the transition of financial statements from Hungarian Accounting Act to IFRS as adopted by the EU. The date of IFRS transition is 1 January 2018 therefore the statement of financial position and the related notes are prepared with three column approach. Accordingly, the comparative information is also presented in line with IFRS in these separate financial statements.

The Bank attains IFRS transition in case of the separate financial statements in the way that it uses classification and measurement approach of individual financial statements without any changes (as a result, the Bank does not remeasure its assets and liabilities, and based on paragraph D17 of IFRS 1 assets and liabilities in the comparative period have been measured at the amount as in the individual financial statements of 31.12.2018).

The Bank applies the same accounting policies in the opening balances of statement of financial position and to all presented period in the first IFRS financial statements with the exception of the accounting policy change as a result of the initial application of IFRS 16 (see Note 3.15.). These accounting policies comply with all IFRSs as adopted by the EU at the end of reporting date. In this regard the Bank does not apply any exemptions determined by IFRS 1.

Reconciliation items between the financial statements prepared according to Hungarian accounting rules and the separate financial statements prepared in accordance with IFRSs are presented in the table below:

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**31.12.2018 Statement of financial position**

<b>Assets (Hungarian Accounting Act)</b>	<b>973,577</b>
FVTPL investments' fair valuation (a)	7,094
Amortised cost corrections (b)	-3,981
Expected credit loss model (c)	-2,659
Derivatives' fair valuation (d)	-1,322
Corrections for investments accounted for using the equity method (e)	384

<b>Assets (IFRS)</b>	<b>973,093</b>
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**31.12.2018 Statement of financial position**

<b>Liabilities (Hungarian Accounting Act)</b>	<b>819,578</b>
Amortised cost corrections (b)	-1,020
Expected credit loss model (f)	920
Derivatives' fair valuation (g)	26
Initial fair value difference (h)	-2,529
Deferred tax liability (i)	215

<b>Liabilities (IFRS)</b>	<b>817,190</b>
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**31.12.2018 Statement of financial position**

<b>Equity (Hungarian Accounting Act)</b>	<b>154,000</b>
FVTPL investments' fair valuation (a)	7,094
Amortised cost corrections (b)	-2,962
Expected credit loss model (c, f)	-3,579
Derivatives' fair valuation (d, g)	-1,348
Corrections for investments accounted for using the equity method (e)	384
Initial fair value difference (h)	2,529
Deferred tax liability (i)	-215

<b>Equity (IFRS)</b>	<b>155,903</b>
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- (a) Fair value difference of those investments which are measured at fair value through profit or loss according to IFRS 9 and IFRS 13. These items are measured at cost less impairment according to Hungarian accounting rules.
- (b) Correction as a result of application of the effective interest rate based amortised cost measurement of financial assets and financial liabilities in line with IFRS 9. According to the Hungarian accounting rules effective interest rate method and amortised cost measurement should not be applied. According to Hungarian accounting rules financial assets are measured at cost less impairment and financial liabilities are measured at cost. In the statement of financial position the following assets and liabilities are affected with the corrections:
- a. Securities measured at amortised cost: 138 MHUF
  - b. Loans and advances to banks and insurance companies: -152 MHUF
  - c. Loans and advances to other customers: -381 MHUF
  - d. Loans and deposits from banks and insurance companies: -264 MHUF
  - e. Deposits from other customers: 30 MHUF
  - f. Debt securities issued: -2,177 MHUF

The accompanying notes to the separate financial statements on pages 14-160 form an integral part of these separate financial statements.

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- g. Other liabilities: -156 MHUF
- (c) Reconciliation as a result of IFRS 9 expected loss model for financial instruments. In the statement of financial position the following assets and liabilities are affected with the corrections:
  - a. Cash and cash equivalents: -3 MHUF
  - b. Securities measured at amortised cost: -24 MHUF
  - c. Loans and advances to banks and insurance companies: -477 MHUF
  - d. Loans and advances to other customers: -2,173 MHUF
  - e. Other assets: 18 MHUF
  - f. Provisions: -920 MHUF

The Hungarian accounting rules for impairment are based on incurred loss model and as a result the impairment loss is recognized in a later point of time than under IFRS 9 expected credit loss model.

- (d) Reconciliation as a result of fair value difference of derivatives according to IFRS 9 and IFRS 13.
- (e) Reconciliation for investment funds as a result of equity method measurement according to IAS 28 for investments in associates and joint ventures. According to Hungarian accounting rules these investments are measured at cost less impairment.
- (f) Reconciliation for IFRS 9 expected loss model that was applied to provisions which are presented among liabilities. Hungarian accounting rules do not stipulate provisioning with expected loss model for contingent liabilities related to credit lines, promissory notes, and guarantees while IFRS sets out the application of provisioning for these items which is presented on the line item "Impairment/provision or reversal of impairment/provision on financial instruments" of statement of comprehensive income.
- (g) Reconciliation of fair value difference of derivatives according to IFRS 9 and IFRS 13.
- (h) Reconciliation of initial fair value difference of "Loans and deposits from banks and insurance companies" because the Bank was able to obtain resources under the market rate and therefore the initial fair value of these liabilities was under the transaction cost at initial recognition. According to Hungarian accounting rules these liabilities are initially recognized at nominal value and such a difference does not arise between fair value and nominal value at initial recognition. These corrections were recorded to retained earnings upon IFRS transition.
- (i) Reconciliation of deferred tax liability according to IAS 12. Hungarian accounting rules do not determine any rules for deferred tax therefore no deferred tax liability is recognised under Hungarian accounting.



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<b>2018 Statement of comprehensive income</b>	
<b>Profit after tax (Hungarian Accounting Act)</b>	<b>4,991</b>
FVTPL investments' fair valuation (a)	5,291
Amortised cost corrections (b)	-1,810
Expected credit loss model (c)	-874
Derivatives' fair valuation (d)	-989
Corrections for investments accounted for using the equity method (e)	698
Deferred tax expense (f)	-303
Initial fair value difference (g)	536
<b>Profit after tax (IFRS)</b>	<b>7,540</b>

- (a) Gains or losses from fair value measurement of investment funds measured at FVTPL
- (b) Gains or losses from IFRS 9 amortised cost measurement of financial assets and financial liabilities. In the statement of comprehensive income the following items are affected with the reconciliation:
- a. Interest income calculated using the effective interest method: -758 MHUF
  - b. Other interest income: 62 MHUF
  - c. Interest expense: -1,296 MHUF
  - d. Fee and commission income: 141 MHUF
  - e. Fee and commission expense: 41 MHUF
- (c) The effect of IFRS 9 expected credit loss model is presented on "Impairment/provision or reversal of impairment/provision on financial instruments" line in the statement of comprehensive income.
- (d) Gains or losses from fair valuation of derivatives according to IFRS 9 and IFRS 13.
- (e) Gains or losses from equity accounting method for investments in associates and joint ventures applied to investment funds.
- (f) Deferred tax expense according to IAS 12 which should not be applied under Hungarian accounting rules.
- (g) Amortisation of initial fair value difference of "Loans and deposits from banks and insurance companies."

<b>01.01.2018 Statement of financial position</b>	
<b>Assets (Hungarian Accounting Act)</b>	<b>939,777</b>
FVTPL investments' fair valuation (a)	2,406
Amortised cost corrections (b)	-7,438
Expected credit loss model (c)	-1,935
Derivatives' fair valuation (d)	-748
Corrections for investments accounted for using the equity method (e)	-313
Deferred tax asset (f)	84
<b>Assets (IFRS)</b>	<b>931,833</b>

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**01.01.2018 Statement of financial position**

<b>Liabilities (Hungarian Accounting Act)</b>	<b>790,768</b>
Amortised cost corrections (b)	-8,240
Expected credit loss model (g)	1,107
Derivatives' fair valuation (h)	-165
<b>Liabilities (IFRS)</b>	<b>783,470</b>

**01.01.2018 Statement of financial position**

<b>Equity (Hungarian Accounting Act)</b>	<b>149,009</b>
FVTPL investments' fair valuation (a)	2,406
Amortised cost corrections (b)	801
Expected credit loss model (c)	-3,042
Derivatives' fair valuation (d)	-582
Corrections for investments accounted for using the equity method (e)	-313
Deferred tax asset (f)	84
<b>Equity (IFRS)</b>	<b>148,363</b>

- (a) See note (a) under the reconciliation table of financial position for 31.12.3018
- (b) See note (b) under the reconciliation table of financial position for 31.12.3018. In the statement of financial position the following assets and liabilities are affected with the corrections:
- a. Cash and cash equivalents: 1 MHUF
  - b. Securities measured at amortised cost: -31 MHUF
  - c. Loans and advances to banks and insurance companies: -140 MHUF
  - d. Loans and advances to other customers: -257 MHUF
  - e. Other assets: 5 MHUF
  - f. Loans and deposits from banks and insurance companies: 5,112 MHUF
  - g. Debt securities issued: -1,885 MHUF
  - h. Other liabilities: -2,004 MHUF
- (c) See note (c) under the reconciliation table of financial position for 31.12.3018. In the statement of financial position the following assets and liabilities are affected with the corrections:
- a. Cash and cash equivalents: -1 MHUF
  - b. Securities measured at amortised cost: -22 MHUF
  - c. Loans and advances to banks and insurance companies: -5,403 MHUF
  - d. Loans and advances to other customers: 3,491 MHUF
  - e. Provisions: -1,107 MHUF
- (d) See note (d) under the reconciliation table of financial position for 31.12.3018
- (e) See note (e) under the reconciliation table of financial position for 31.12.3018
- (f) See note (i) under the reconciliation table of financial position for 31.12.3018
- (g) See note (f) under the reconciliation table of financial position for 31.12.3018
- (h) See note (g) under the reconciliation table of financial position for 31.12.3018

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<b>2018 Cash flow statement</b>	
<b>Net decrease of cash and cash equivalents under Hungarian Accounting Act</b>	<b>-1,737</b>
Reclassification of nostro balance	1,938
Correction of expected credit loss model	-3
<b>Net increase of cash and cash equivalents under IFRS</b>	<b>198</b>

Main reason for the difference in the balance of cash are the classification of nostro balances (see changes in nostro balances between 01.01.2018 and 31.12.2018 in Note 4) and the expected credit loss of the Cash and cash equivalents as shown in the table above. Nostro balances were presented according to the Hungarian Act on Accounting as Loans to banks while according to IFRS as Cash and cash equivalents. So the changes in the balance of nostro accounts are presented in the statement of cash flows according to IFRS as Net increase/decrease in cash and cash equivalents while according to Act on Accounting as Operating cash flow.

Comparative data presented for 2018 differs from the comparative data presented in the individual financial statements for the year 2018 because a simplification relating to previous years will be retrospectively corrected. With the simplification the share of comprehensive income Portfolion Fund accounted for using the equity method was presented in the other comprehensive income instead of the profit or loss. The following table shows the effect of the correction:

	<b>31.12.2018</b>	<b>01.01.2018</b>
<b>Statement of financial position:</b>		
Retained earnings	438	33
Fair value reserve	-438	-33
<b>Statement of comprehensive income:</b>		
Share of other comprehensive income of equity accounted investees	532	-
Income tax	-61	
<b>Other comprehensive income</b>	<b>-471</b>	<b>-</b>

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**NOTE 4. CASH AND CASH EQUIVALENTS**

	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>01.01.2018</b>
Balances with the National Bank of Hungary (NBH) in HUF	3,836	644	2,366
Money market placements in HUF	16,751	900	900
Money market placements in foreign currency	10,317	0	-
Nostro accounts in HUF	4	3	19
Nostro accounts in foreign currency	32,690	2,208	271
Petty cash in HUF	0	0	-
Petty cash in foreign currency	1	2	2
Other	1	2	-
Impairment	-16	-3	-
<b>Total</b>	<b>63,584</b>	<b>3,756</b>	<b>3,558</b>

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 3,836 million as at 31 December 2019, HUF 644 million as at 31 December 2018, and HUF 2,366 million as at 01 January 2018 respectively (compulsory reserves required to meet certain level on a monthly average basis).

**NOTE 5. SECURITIES MEASURED AT AMORTISED COST**

According to IFRS 9, Hungarian Government Bonds are classified as securities measured at amortised cost.

The amount of Hungarian Government Bonds as at 31 December 2019, 31 December 2018 and 01 January 2018 are presented in the following table:

	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>01.01.2018</b>
Gross carrying amount of Hungarian Government bonds	43,200	40,773	39,786
Less: accumulated impairment losses	-77	-24	-22
<b>Total</b>	<b>43,123</b>	<b>40,749</b>	<b>39,764</b>

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The table below represents an analysis of securities by remaining maturity as at 31 December 2019, 31 December 2018 and 1 January 2018:

	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>01.01.2018</b>
3 months to 1 year	0	13,516	7,562
1 to 5 years	43,200	27,257	32,224
<b>Total</b>	<b>43,200</b>	<b>40,773</b>	<b>39,786</b>

**NOTE 6. LOANS AND ADVANCES TO BANKS AND INSURANCE COMPANIES**

	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>01.01.2018</b>
Short-term (up to 1 year)			
- in foreign currency	130,523	157,272	153,049
- in HUF	24,145	32,597	16,356
<b>Sub-total</b>	<b>154,668</b>	<b>189,869</b>	<b>169,405</b>
Long-term (over 1 year), in foreign currency			
- in foreign currency	236,121	302,076	346,294
- in HUF	136,333	99,932	73,207
<b>Sub-total</b>	<b>372,454</b>	<b>402,008</b>	<b>419,501</b>
<b>Total</b>	<b>527,122</b>	<b>591,877</b>	<b>588,906</b>
Less: impairment losses (see Note 15)	-819	-973	-946
<b>Total</b>	<b>526,303</b>	<b>590,904</b>	<b>587,960</b>

As at 31 December 2019, 100% of loans and advances to banks and insurance companies qualified for interest compensation from the Hungarian State (as at 31 December 2018: 100%, 1 January 2018: 100%). For details about interest equalisation programme please refer to Note 3.9

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The table below shows an analysis of Loans and advances to banks and insurance companies by remaining maturity as at 31 December 2019, 31 December 2018 and 1 January 2018.

<u>Remaining Maturity</u>	<u>31.12.2019</u>	<u>31.12.2018</u>	<u>01.01.2018</u>
	<u>Gross value</u>	<u>Gross value</u>	<u>Gross value</u>
<u>Placements in foreign currency:</u>			
Up to 1 month	1,266	2,256	10,214
1 to 3 months	4,614	5,198	18,847
3 months to 1 year	31,681	16,036	123,988
1 to 5 years	261,851	392,933	325,962
Over 5 years	67,232	43,266	20,332
<b>Sub-total</b>	<b>366,644</b>	<b>459,689</b>	<b>499,343</b>
<u>Placements in HUF</u>			
Up to 1 month	128	41	1,846
1 to 3 months	872	1,284	1,503
3 months to 1 year	4,141	15,617	13,007
1 to 5 years	33,717	30,333	52,929
Over 5 years	121,620	84,913	20,278
<b>Sub-total</b>	<b>160,478</b>	<b>132,188</b>	<b>89,563</b>
<b>Total</b>	<b>527,122</b>	<b>591,877</b>	<b>588,906</b>

Loans and advances to other banks and insurance companies include refinancing loans disbursed. While 98,6% of total loans and advances to other banks and insurance companies were refinancing loans as at 31 December 2019 this ratio was 98,7% as at 31 December 2018 and 98,8% as at 1 January 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 3.9.

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**NOTE 7. LOANS AND ADVANCES TO OTHER CUSTOMERS**

	<u>31.12.2019</u>	<u>31.12.2018</u>	<u>01.01.2018</u>
Short-term:			
- in foreign currency	54,319	44,622	42,688
- in HUF	11,171	4,451	12,292
<b>Sub-total</b>	<b><u>65,490</u></b>	<b><u>49,073</u></b>	<b><u>54,980</u></b>
Long-term:			
- in foreign currency	186,581	225,496	180,051
- in HUF	12,871	15,389	26,087
<b>Sub-total</b>	<b><u>199,452</u></b>	<b><u>240,885</u></b>	<b><u>206,138</u></b>
<b>Total</b>	<b><u>264,942</u></b>	<b><u>289,958</u></b>	<b><u>261,118</u></b>
Less: accumulated impairment losses (see Note 15)	-16,697	-17,147	-15,091
<b>Total</b>	<b><u>248,245</u></b>	<b><u>272,811</u></b>	<b><u>246,027</u></b>

As at 31 December 2019, 70% of loans and advances to other customers qualified for interest compensation from the Hungarian State (as at 31 December 2018: 76%, as at 01 January 2018: 79%). In addition to receiving payments from the Hungarian State under the interest equalisation programme (for details please refer to Note 3.9) tied-aid loans represented 24% of total loans and advances to customers as at 31 December 2019 (as at 31 December 2018: 17%, ast at 1 January 2018: 10%).

The table below shows an analysis of Loans and advances to other customers by remaining maturity as at 31 December 2019, 31 December 2018 and 1 January 2018.

	<u>31.12.2019</u>	<u>31.12.2018</u>	<u>01.01.2018</u>
<u>Remaining Maturity</u>	<u>Gross value</u>	<u>Gross value</u>	<u>Gross value</u>
<u>In foreign currency:</u>			
Up to 1 month	8,587	4,567	10,153
1 to 3 months	2,569	3,438	3,640
3 months to 1 year	22,937	21,372	28,895
1 to 5 years	17,165	43,788	99,300
Over 5 years	189,642	188,373	80,751
<b>Sub-total</b>	<b><u>240,900</u></b>	<b><u>261,538</u></b>	<b><u>222,739</u></b>

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<u>In HUF</u>			
Up to 1 month	5,681	7,614	8,205
1 to 3 months	-	427	431
3 months to 1 year	2,213	1,668	3,656
1 to 5 years	1,534	3,474	14,606
Over 5 years	14,614	15,237	11,481
<b>Sub-total</b>	<b>24,042</b>	<b>28,420</b>	<b>38,379</b>
<b>Total</b>	<b>264,942</b>	<b>289,958</b>	<b>261,118</b>

**NOTE 8. DERIVATIVES**

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

Financial assets and liabilities, measured at fair value through profit or loss, as at 31 December 2019, 31 December 2018 and 1 January 2018 are presented in the following table:

	<b>31.12.2019</b>		<b>31.12.2018</b>		<b>01.01.2018</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
Foreign exchange swaps	0	125	124	37	93	7
Cross currency interest rate swaps	14,819	74	11,789	1,119	13,783	2,219
<b>Total</b>	<b>14,819</b>	<b>199</b>	<b>11,913</b>	<b>1,156</b>	<b>13,877</b>	<b>2,226</b>

Profit from the revaluation to fair value was HUF 3,798 million as at 31. December 2019 and HUF 860 million loss 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 2019 are presented in the following table:



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Remaining maturity	Received nominal amount in foreign currency	Foreign currency	Received nominal amount in HUF million	Payed nominal amount in foreign currency	Foreign currency	Payed nominal amount in HUF million*
Less than 1 month	45,000,000	EUR	14,873	14,926,865,000	HUF	14,927
Less than 1 month	45,000,000	EUR	14,873	50,449,500	USD	14,869
Less than 1 month	20,000,000	USD	5,895	5,963,000,000	HUF	5,963
Less than 1 month	400,000,000	USD	117,896	314,561,240	EUR	103,969
Over 5 years	1,838,857,227	HUF	1,839	5,902,665	EUR	1,951
<b>Total</b>			155,376			141,679

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

The details of FX swaps and cross currency interest rate swaps as at 31 December 2018 are presented in the following table:

Remaining maturity	Received nominal amount in foreign currency	Foreign currency	Received nominal amount in HUF million	Payed nominal amount in foreign currency	Foreign currency	Payed nominal amount in HUF million*
1 hónapon belül	51,000,000	EUR	16,397	58,033,220	USD	16,304
1 hónapon belül	46,100,000	EUR	14,822	14,856,221,500	HUF	14,856
1 hónapon belül	34,323,000	USD	9,643	30,000,000	EUR	9,645
1 - 3 hónap	30,000,000	EUR	9,645	34,418,600	USD	9,670
3 hónap - 1 év	0	0	0	0	0	0
1 - 5 év	400,000,000	USD	112,376	314,561,240	EUR	101,135
5 éven túl	2,066,718,680	HUF	2,067	6,634,092	EUR	2,133
5 éven túl	183,497	EUR	59	57,164,821	HUF	57
<b>Total</b>			165,009			153,800

\* The HUF amount was determined on the basis of the exchange rate set by the Hungarian National Bank on 31 December 2018.

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The details of FX swaps and cross currency interest rate swaps as at 1 January 2018 are presented in the following table:

Remaining maturity	Received nominal amount in foreign currency	Foreign currency	Received nominal amount in HUF million	Payed nominal amount in foreign currency	Foreign currency	Payed nominal amount in HUF million*
Less than 1 month	32,000,000	EUR	9,924	37,959,600	USD	9,845
1 to 3 months	250,000,000	USD	64,705	191,659,000	EUR	59,441
1 to 5 years	400,000,000	USD	103,528	314,561,240	EUR	97,558
Over 5 years	823,469,118	HUF	823	2,643,306	EUR	820
<b>Total</b>			<b>178,980</b>			<b>167,664</b>

\* The HUF amount was determined on the basis of the exchange rate set by the Hungarian National Bank on 31 December 2017.

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**NOTE 9. INVESTMENTS MEASURED AT FAIR VALUE THROUGH  
PROFIT OR LOSS**

HUF shares as at 31 December 2019, as at 31 December 2018, and as at 1 January 2018 are detailed below.

	<b>Equity owned</b>	<b>Face Value</b>	<b>Cost</b>	<b>Fair value difference</b>	<b>Carrying amount</b>
Garantiqua	0,15%	12	12	0	12
<b>Total</b>		<b>12</b>	<b>12</b>	<b>0</b>	<b>12</b>

The book value of investment in Garantiqua has not changed compared to comparative periods.

Foreign currency (FCY) shares represent the following investments:

<b>Name of investment</b>	<b>Share %</b>		
	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>01.01.2018</b>
China CEE Fund - USD	7,00%	6,99%	6,91%
China CEE Fund II - USD	8,75%	8,75%	0%
China CEE Management S.Á.R.L. - EUR	10,00%	10,00%	10,00%
East West - EUR	22,90%	22,80%	23,44%
Hungarian - Kazakh Cooperation Fund - USD	49,56%	49,55%	49,50%
IFC FIG Fund - USD	8,75%	11,49%	11,69%
SINO-CEE Fund - EUR	2,10%	0%	0%

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Name of investment	Cost					
	31.12.2019		31.12.2018		01.01.2018	
	FCY	MHUF	FCY	MHUF	FCY	mHUF
China CEE Fund - USD	25,489,301	6,989	28,809,893	7,750	27,775,733	7,466
China CEE Fund II - USD	16,152,275	4,631	3,953,442	1,102	0	0
China CEE Management S.Á.R.L. - EUR	1,250	0	1,250	0	1,250	0
East West - EUR	853,000	274	334,000	105	45,000	14
Hungarian - Kazakh Cooperation Fund - USD	12,055,585	3,253	11,715,771	3,153	10,684,735	2,787
IFC FIG Fund - USD	3,720,017	1,051	14,387,947	4,051	18,331,430	5,132
SINO-CEE Fund - EUR	9,875,811	3,156	0	0	0	0
<b>Total</b>		<b>19,354</b>		<b>16,161</b>		<b>15,399</b>

Name of investment	Fair value difference			Carrying amount		
	31.12.2019	31.12.2018	01.01.2018	31.12.2019	31.12.2018	01.01.2018
	China CEE Fund - USD	3,741	2,497	2,384	10,730	10,247
China CEE Fund II - USD	-257	-137	0	4,374	965	0
China CEE Management S.Á.R.L. - EUR	0	0	92	0	0	92
East West - EUR	-92	-41	0	182	64	14
Hungarian - Kazakh Cooperation Fund - USD	-658	-340	-1,505	2,595	2,813	1,282
IFC FIG Fund - USD	4,478	5,052	20	5,529	9,103	5,152
SINO-CEE Fund - EUR	-294	0	0	2,862	0	0
<b>Total</b>	<b>6,918</b>	<b>7,031</b>	<b>991</b>	<b>26,272</b>	<b>23,192</b>	<b>16,390</b>

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### **NOTES TO THE SEPERATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (All amounts in HUF million unless otherwise stated)**

#### **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 established 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.

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. By the end of December 2019 Eximbank subscribed to USD 25,489,301 (HUF 6,989 million) worth of interests. The remaining amount of USD 4,510,700 (HUF 1,329 million) is classified as contingent liability as at 31 December 2019.

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. 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. The Fund’s final maturity is set at 31 March 2027.

By the end of December 2019 Eximbank already subscribed to USD 16,152,275 (HUF 4,631 million) worth of interests. The remaining amount of USD 53,847,725 (HUF 15,871 million) is classified as contingent liability as at 31 December 2019.

#### **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 2019 Eximbank subscribed to participation units worth EUR 853,000 (HUF 274 million) in the fund. The remaining commitment of EUR 3,647,000 (HUF 1,205 million) is classified as contingent liability as at 31 December 2019.

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#### **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 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 it 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 body of the fund. Eximbank’s representation is limited to objecting whether a proposed investment’s beneficial owners are suitable counterparties.

Eximbank made capital contributions worth USD 12,055,585 (HUF 3,253 million) until 31 December 2019. The remaining commitment of USD 7,944,415 (HUF 2,342 million) was classified as contingent liability at 31 December 2019.

#### **IFC FIG Fund**

IFC Asset Management Company, LLC, a wholly owned subsidiary of the International Finance Corporation (“IFC”), established IFC Financial Institutions Growth Fund with total commitments of USD 505 million by the limited partners. 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 2019 Eximbank subscribed to participation units worth USD 3,720,017 (HUF 1,051 million) in the fund. The remaining commitment of USD 46,279,983 (HUF 13,641 million) is classified as contingent liability as at 31 December 2019.

#### **SINO CEE Fund**

SINO CEE Fund was formed as a special limited partnership, under the laws of Luxembourg, in 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.

By the end of December 2019 Eximbank subscribed to participation units worth USD 9,875,811 (HUF 3,156 million) in the fund. The remaining commitment of USD 40,124,189 (HUF 13,262 million) is classified as contingent liability as at 31 December 2019.

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#### **COMMITMENTS TOWARDS THE FUNDS**

When Eximbank signed the subscription agreements of the above mentioned 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 can lose its investor rights (including representation rights in various committees of a fund), as well as have the entire balance of 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.

According to the foundation 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 incurred fees and expenses of the Fund (e.g. audit fees, investment management fees, portfolio management fees etc.). Based on experience, in most of the cases the whole committed amount will not be drawdown. Since neither the capital call of future investments, nor of future incurred fees and expenses can be predicted exactly, Eximbank does not consider capital commitments to the Funds as an obligation to an unconditional transfer, but as contracts to be performed in the future (since neither party has performed yet) 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 Note 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 Regional 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.

In 2018, Eximbank has committed itself to invest up to HUF 750 million more into the Fund. By the end of December 2019 Eximbank subscribed to participation units worth HUF 5,008 million in the Fund. Its remaining commitment was HUF 743 million as at 31 December 2019.

The Fund targets well-established, medium-sized companies that offer a promising business model, having already established product lines and a wide range of clients. The key for their growth is either entering the international market or boosting their already existing exports.

#### **EXIM Exportösztönző Magántőkealap**

The Bank's contribution to the share capital is nearly 100% as at 31 December 2019.

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.

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The Bank made a commitment amounted to HUF 10,000 million, and paid the whole amount in 2016.

In 2019, Eximbank was committed to invest up to HUF 40,000 million more into the Fund. Eximbank's commitment to the Fund increased to HUF 56,000 million when it merged with EXIM Growth Fund on 31 October 2019. By the end of December 2019 Eximbank has paid all its commitment.

The Bank's contribution to the share capital of EXIM Exportösztönző Magántőkealap amounts to nearly 100%, however the fund is managed by a third party fund manager GB & Partners Venture Capital Fund Management Plc. Based on the decision making structure, the Bank has no control over the operation of the fund. Eximbank, as an investor, only has the right to appoint one member of the interim (not final) decision-making committee (Investment Committee) of three, where the other two members are appointed by the fund manager. The committee makes decisions with a simple majority, where the delegate of Eximbank does not have veto rights.

**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 and managed by a third party fund manager Lead Ventures Investment Management Plc. The fund is intended to provide financing to early stage enterprises operating in Europe with existing products, services or prototype with patent.

The Bank was committed to invest up to EUR 25 million into the fund. By the end of December 2019 Eximbank has invested EUR 3,675,280 in the fund. The Bank's remaining commitment was EUR 21,324,720 as at 31 December 2019.

#### **Columbus Magántőkealap**

The fund was registered by the Hungarian National Bank on 8 October 2019 and its investors are Eximbank and Carion Holding. The fund is managed by CARION Befektetési Alapkezelő Zrt., a company, registered in Hungary, and holding a fund manager license since 2015. The aim of the fund is to help SMEs from CEE, primarily from Hungary, to expand internationally, particularly in the US. The entry of Hungarian products and services to one of the greatest markets of the world allows the fund to achieve potentially higher yields than current market returns, boosts Hungary's exports and potentially serve as a reference for entry to other developed markets. The total size of the fund is HUF 10 billion. EXIM's capital commitment is HUF 7 billion, while the remaining HUF 3 billion is Carion Holding's commitment. By the end of December 2019 Eximbank has invested HUF 700 million in the fund. The Bank's remaining commitment was HUF 6,300 million as at 31 December 2019.

There were no transactions between Eximbank and PortfoLion Regionális Magántőkealap, EXIM Exportösztönző Magántőkealap, COLUMBUS Magántőkealap and the Enter Tomorrow Europe Magántőkealap.

#### **COMMITMENTS TOWARDS FUNDS**

When Eximbank signed the subscription agreements of the above mentioned funds and agreed to the PPM, it irrevocably undertook to make aggregate payments up to the amount of the commitments recorded in those documents, in case it receives the rightful call of the fund manager. Should Eximbank fail to pay any part of its undrawn, but called for, commitment after a 30-day extra deadline provided by the fund manager, it will lose its investor rights. In this case the Fund Managers will be in account with the Eximbank, as a non-performing

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participation unit holder, at the end of the duration of the Fund, but Eximbank will receive maximum the amount of its paid in contributions (it depends on the fund, 50-100%).

According to the foundation documents (PPM, LPA, Subscription Agreement) of the fund, Fund Manager is entitled to drawdown committed amounts for investments that have been approved or to cover already incurred fees and expenses of the Fund (e.g. audit fees, investment management fees, due diligence expenses etc.). Since neither the capital call of future investments, nor of future incurred fees and expenses can be predicted exactly, Eximbank does not consider capital commitments to the Funds as an obligation to an unconditional transfer, but as contracts to be performed in the future (since neither party has performed yet) 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 Note 21.

The net asset value of the funds at Eximbank's financial performance has increased with 99% from HUF 44,1 billion of 31 December 2018 to HUF 87,8 billion of 31 December 2019. Since Eximbank invests also in funds denominated in foreign currencies, the fluctuations in exchange rates constituted HUF 1,1 billion of the growth.

Investment	Share %			Cost		
	31.12.2019	31.12.2018	01.01.2018	31.12.2019	31.12.2018	01.01.2018
Enter Tomorrow Europe Magántőkealap - EUR	50%	50%	0%	1,191	810	0
EXIM Exportösztönző Magántőkealap - HUF	100%	100%	100%	56,000	10,000	10,000
EXIM Növekedési Magántőkealap - HUF	0%	100%	100%	0	6,000	6,000
Portfolion Regionális Magántőkealap (Fordulat) - HUF	50%	50%	50%	5,008	5,000	2,739
COLUMBUS - HUF	70%	0%	0%	700	0	0
<b>Total</b>				<b>62,899</b>	<b>21,810</b>	<b>18,739</b>

Investment	Equity method adjustment			Carrying amount		
	31.12.2019	31.12.2018	01.01.2018	31.12.2019	31.12.2018	01.01.2018
Enter Tomorrow Europe Magántőkealap - EUR	-288	-98	0	903	712	0
EXIM Exportösztönző Magántőkealap - HUF	-2,940	-1,232	-699	53,060	8,768	9,301
EXIM Növekedési Magántőkealap - HUF	0	24	-570	0	6,024	5,430
Portfolion Regionális Magántőkealap (Fordulat) - HUF	1,327	422	-72	6,335	5,422	2,667
COLUMBUS - HUF	0	0	0	700	0	0
<b>Total</b>	<b>-1,901</b>	<b>-884</b>	<b>-1,341</b>	<b>60,988</b>	<b>20,926</b>	<b>17,398</b>

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In 2019 the Bank did not received and dividend from investments accounted for using the equity method. The financial information of investments accounted for using the equity method as at 31.12.2019 is detailed below:

	<b>Enter Tomorrow*</b>	<b>Export Ösztönző</b>	<b>Portfolion</b>	<b>COLUMBUS</b>
Non-current assets	1,768	6,748	11,060	2,932
Current assets	42	50,976	1,843	29
Short term liabilities	4	3,213	34	210
Long term liabilities	0	472	0	0
Revenue	0	11,710	2,332	1,812
Profit after tax (cont. activities)	-427	-1,603	1,931	1,751
Equity	1,806	54,039	12,869	2,751
Owners' equity	1,806	53,060	12,869	2,751
Share of the Bank	50%	100%	50%	70%
<b>Equity method amount</b>	<b>903</b>	<b>53,060</b>	<b>6,435</b>	<b>1,926</b>
Consolidation adjustment**	-	-	-100	-1,226
<b>Carrying amount</b>	<b>903</b>	<b>53,060</b>	<b>6,335</b>	<b>700</b>

\*The Enter Tomorrow Private Equity Fund prepares its financial statements in EUR, and the Bank made the conversion to its functional currency (MHUF) by using the FX rate as of 31.12.2019 in case of statement of financial position items (330,52 EUR/HUF) and by using the average EUR rate (325,35 EUR/HUF) of 2019 in case of comprehensive income items.

\*\* The two investors (OTP Bank, Eximbank) entered the Portfolion Regional Fund at different dates. The OTP paid its first contribution on 1 June 2012, while Eximbank paid it on 26 November 2013, therefore in the statements, thus at the periodic statements as well, the date of the payments of the capital contribution is taken into account at the yield calculation besides the shareholder ratios. This leads to a difference in the net asset value of the two investors. Moreover, due to the capital raise of the fund, the two investors hold different participation units (OTP holds type A and C, Eximbank holds type B and C). The Columbus Magántőkealap took into account the valuation guidelines (the fair value of Biopharma Group was calculated with DCF method by a third party expert) of the PPM in force when it prepared the valuation of its investments as at 31 December 2019. The PPM does not allow digression from these guidelines. However, in regard to the short period passed between the investment date (especially in case of Biopharma Group) and the balance sheet date, and to the fact that no significant economic transaction took place between these dates, the Eximbank has adjusted the fair value of the investment for the compilation of its own financial statements, because it considers the transactional price (historical cost) agreed by third parties more in line with the real value of the investment.

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**NOTE 11 INTANGLIBE ASSETS**

Changes in intangible assets as at 31 December 2019 are presented in the following table:

	<u>Intangible assets available for use</u>	<u>Intangible assets not yet available for use</u>	<u>Total</u>
<b>Cost</b>			
<b>01 January 2019</b>	<b>3,808</b>	<b>431</b>	<b>4,239</b>
<b>Additions</b>	<b>1,018</b>	<b>772</b>	<b>1,790</b>
Acquisition	1,018	772	
<b>Disposals</b>	<b>(60)</b>	<b>(1,035)</b>	<b>1,095)</b>
Disposals	(60)		
Transfer to available for use		(1,035)	
<b>31 December 2019</b>	<b>4,766</b>	<b>168</b>	<b>4,934</b>
<b>Accumulated amortisation</b>			
01 January 2019	2,370	-	2,370
Charge for year (note 26)	626	-	626
Impairment (Note 15)	-	-	-
Disposals	(58)	-	(58)
31 December 2019	2,938	-	2,938
<b>Net book value</b>			
<b>01 January 2019</b>	<b>1,438</b>	<b>431</b>	<b>1,869</b>
<b>31 December 2019</b>	<b>1,828</b>	<b>168</b>	<b>1,996</b>

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Changes of intangible assets as at 31 December 2018 are presented in the following table:

	<u>Intangible assets available for use</u>	<u>Intangible assets not yet available for use</u>	<u>Total</u>
<b>Cost</b>			
<b>01 January 2018</b>	<b>2,637</b>	<b>758</b>	<b>3,395</b>
<b>Additions</b>	<b>1,171</b>	<b>856</b>	<b>2,027</b>
Acquisition	1,171	856	
<b>Disposals</b>	<b>-</b>	<b>(1,183)</b>	<b>(1,183)</b>
Transfer to available for use		(1,183)	
<b>31 December 2018</b>	<b>3,808</b>	<b>431</b>	<b>4,239</b>
<b>Accumulated amortisation</b>			
01 January 2018	1,936	-	1,936
Charge for year (note 26)	434	-	434
Impairment (Note 15)	-	-	-
Disposals	-	-	-
31 December 2019	2,370	-	2,370
<b>Net book value</b>			
<b>01 January 2018</b>	<b>701</b>	<b>758</b>	<b>1,459</b>
<b>31 December 2018</b>	<b>1,438</b>	<b>431</b>	<b>1,869</b>

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**NOTE 12 PROPERTY, PLANT AND EQUIPMENTS**

Changes in property, plant and equipments as at 31 December 2019 are presented in the following table:

	<b>Leasehold improvements</b>	<b>Furniture, fixtures &amp; office equipment</b>	<b>Assets under construction</b>	<b>Right-of- use assets (Building)</b>	<b>Total</b>
<b>Cost</b>					
01 January 2019	375	1,764	48	-	2,187
Additions	148	223	484	2,315	3,170
Disposals	-320	-63	-510	-	-893
scrapping	-320	51	-510		
sales					
disposal free of charge		12			
31 December 2019	203	1,924	22	2,315	4,464
<b>Accumulated depreciation</b>					
01 January 2019	149	991	-	-	1,140
Charge for year (Note 26)	25	295	-	297	617
Impairment (Note 15)	-	5	-	-	5
Disposals	-121	-35	-	-	-156
31 December 2019	53	1,256	-	297	1,606
<b>Net book value</b>					
<b>01 January 2019</b>	<b>226</b>	<b>773</b>	<b>48</b>	<b>-</b>	<b>1,047</b>
<b>31 December 2019</b>	<b>150</b>	<b>668</b>	<b>22</b>	<b>2,018</b>	<b>2,858</b>

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Changes in property, plant and equipments as at 31 December 2018 are presented in the following table:

	Leasehold improvements	Furniture, fixtures & office equipment	Assets under construction	Total
<b>Cost</b>				
01 January 2018	372	1,719	27	2,118
Additions	3	62	96	161
Disposals	-	-17	-75	-92
sales		-12	-75	
scrapping		-5		
31 December 2018	375	1,764	48	2,187
<b>Accumulated depreciation</b>				
01 January 2018	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
<b>Net book value</b>				
<b>01 January 2018</b>	<b>265</b>	<b>1,001</b>	<b>27</b>	<b>1,293</b>
<b>31 December 2018</b>	<b>226</b>	<b>773</b>	<b>48</b>	<b>1,047</b>

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

	<b>31.12.2019</b>	<b>31.12.2018</b>
Acquisition of intangibles, property and equipment	1,009	930
Proceeds from the sale of intangible assets and property and equipment	0	3

**12.1 Leases**

The Bank recognizes new assets and liabilities in connection with office premises, which are classified as leases in accordance with IFRS 16.

The following table presents the movement of right-of-use assets in line with the IFRS 16 standard:

	<b>Right-of-use assets</b>
<b><u>Cost</u></b>	
<b>31 December 2018</b>	<b>0</b>
Additions	2,315
Disposals	-
<b>31 December 2019</b>	<b>2,315</b>
<b><u>Accumulated depreciation</u></b>	
<b>31 December 2018</b>	<b>0</b>
Charge for year	-297
Impairment	
Disposals	-
<b>31 December 2019</b>	<b>-297</b>
<b><u>Net book value</u></b>	
<b>31 December 2018</b>	<b>0</b>
<b>31 December 2019</b>	<b>2,018</b>

In the current year HUF 2.315 million right-of-use asset were activated.

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The following table analyses the lease liabilities based on their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows:

	<b>31.12.2019</b>
Up to 1 months	36
1-3 months	36
3 months to 1 year	267
1- 5 years	1,533
Over 5 years	308
<b>Total undiscounted cash flows</b>	<b>2,180</b>
Short-term	338
Long-term	1,841

The following table shows the effect of lease liabilities on profit or loss:

	<b>2019</b>
Interest expense	22

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**NOTE 13 TAXATION**

The components of tax expense and assets as at 31 December 2019 and 31 December 2018 are presented in the following table:

	<b>31.12.2019</b>	<b>31.12.2018</b>	
Corporate income tax expense	476	466	
Local tax expense	976	688	
Innovation contribution expense	147	103	
<b>Current income tax</b>	<b>1,470</b>	<b>1,257</b>	
Deferred tax expense / (income)	-191	302	
<b>Total income tax</b>	<b>1,279</b>	<b>1,559</b>	
<b>Net profit before income tax</b>	<b>3,158</b>	<b>9,099</b>	
<b>Effective tax rate after adjustments</b>	<b>41%</b>	<b>17%</b>	
	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>01.01.2018</b>
Current income tax asset	361	689	666
Other tax asset*	84	41	1,936
Deferred tax asset	17	0	85
Other tax liability**	206	158	175
Deferred tax liability	44	217	0

**Curent income tax:**

In 2018 and 2019 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:

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- 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

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

\*Other tax assets include the receivables of VAT, social contributions and extraordinary personal tax,

\*\*Tax liabilities contain the income tax and other tax liabilities.

**Reconciliation of the total tax charge**

	<b>31.12.2019</b>	<b>31.12.2018</b>
Profit (loss) before income tax	<b>3,158</b>	<b>9,099</b>
Profit before tax according to the Hungarian Accounting Act *	<b>0</b>	<b>6,225</b>
Profit before tax adjusted for minimum tax	<b>3,287</b>	<b>0</b>
Corporate income tax in 2017 and 2018	9% 296	819
Corporate income tax according to the Hunagrian Accounting Act	9% 0	560
<i>Adjustments:</i>		
Local business tax and innovation contribution	-1,123	0
Tax base modification items	-326	-978
Total adjustments	-1,449	-978
Effect of temporary difference on corporate income	2,011	0
Tax charge in line with IFRS	347	0
Minimum tax adjustment (other operating expenses)	129	0
Income tax reported in the Statement of Comprehensive Income	1,279**	1,559***
<b>Effective tax</b>	<b>41%</b>	<b>17%</b>

\* Corporate tax before date of transition, tha amount calculated from profit before tax according to the Hungarian Accounting Act

\*\* Income tax on the comprehensive income: Corporate tax HUF 347 million, Innovation contribution: HUF 147 million, Deffered tax expenses: HUF 43 million, Deffered tax income: HUF -234 million

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\*\*\* Income tax on the comprehensive income: Corporate tax HUF 466 million,  
Local business tax: HUF 688 million, Innovation contribution: HUF 103 million,  
Deffered tax expenses: HUF 241 million

In 2019 the Bank is first-time adopter so that the seperate financial statements have been prepared in accordance with International Financial Reporting Standards. The minimum tax rule contained in the Corporate Tax Act must be applied by the Bank. Under the minimum tax rule, in the first and second years after the date of transition, the Bank must pay at least the same amount of Corporate Tax as paid before the transition.

The Corporate Tax expense for 2019 is lower than the tax charged before transition, so the minimum tax rule will be applied in 2019. The Income tax calculated on the basis of the current year's tax base is considered to be income tax and if the minimum tax exceed the calculated Income tax, the difference is presented in the other operating expenses.

Amount of corporate tax for 2019: HUF 347 million  
Minimum tax expense: HUF 129 million  
Corporate Tax before day of transition: HUF 476 million

**Deferred tax**

The deferred tax preseted 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 2019 are presented in the following tables:

**01 Januay 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	
	<b>742</b>	<b>-657</b>	<b>85</b>	<b>-376</b>	<b>346</b>

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**31 December 2018**

	Deferred tax assets	Deferred tax liabilities	Net	Recognised in retained earnings	Recognised in fair value reserve
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	-163	
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	
	<b>596</b>	<b>-813</b>	<b>-217</b>	<b>-302</b>	<b>-</b>

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**31 December 2019**

	Deferred tax assets	Deferred tax liabilities	Net	Recognised in retained earnings	Recognised in fair value reserve
Financial assets measured at amortised cost		0	0	-284	
Derivative financial assets		0	0	-147	
Financial assets measured at fair value through profit and loss other than derivatives		-25	-25	661	
Investment accounted with equity method		-18	-18	-91	
Other financial and non financial assets		-5	-5	-12	
Financial liabilities measured at amortised cost		0	0	18	
Financial liabilities measured at fair value through profit and loss		0	0	-12	
Provision	22		22	-112	
Other financial and non financial liabilities		0	0	-12	
	<b>22</b>	<b>-48</b>	<b>-26</b>	<b>191</b>	<b>-</b>

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**NOTE 14. OTHER ASSETS**

	31.12.2019	31.12.2018	01.01.2018
Accrued income*	3,497	4,889	1,080
Prepaid expenses	82	114	144
Other	200	198	201
<i>of which: financial instruments:</i>	3,777	5,182	4,188
<b>Sub-total</b>	3,779	5,201	1,425
Impairment for financial instruments (see Note 15)	-1	-17	-17
<b>Total other assets</b>	<b>3,778</b>	<b>5,184</b>	<b>1,408</b>

\*Significant portion of the accrued income relates to accrued fees of tied-aid credits, which are compensated by the State.

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**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 2019 and during the year ended 31 December 2018.

	Cash and cash equivalents	Securities measured at amortised cost	Loans and advances to banks and insurance companies	Loans and advances to other customers	Other assets	Total impairment	Provision under IFRS9	Total impairment and provision
<b>As at 1 January 2019</b>	<b>3</b>	<b>24</b>	<b>973</b>	<b>17.147</b>	<b>17</b>	<b>18.164</b>	<b>1.077</b>	<b>19.241</b>
Charge for the year	16	61	69	6,977	6	7,129	141	7,270
Reversed during the year	-3	-8	-255	-3,908	-1	-4,175	-976	-5,151
Write-offs	-	-	-	-280	-	-280	-	-280
Disposals	-	-	-	-4,158	-21	-4,179	-	-4,179
Unwinding	-	-	-	490	-	490	-	490
Effect of foreign currency movements	-	-	32	429	-	461	19	480
<b>As at 31 December 2019</b>	<b>16</b>	<b>77</b>	<b>819</b>	<b>16,697</b>	<b>1</b>	<b>17,610</b>	<b>261</b>	<b>17,871</b>

Charge for the year contains impairment and provision relating to financial assets initially recognised during the current financial reporting period, which amounts for the Loans and advances to other customers HUF 156 million for the year ended 31 December 2019.

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*NOTES TO THE SEPERATE FINANCIAL STATEMENTS  
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	Cash and cash equivalents	Securities measured at amortised cost	Loans and advances to banks and insurance companies	Loans and advances to other customers	Other assets	Total impairment	Provision under IFRS9	Total impairment and provision
<b>As at 1 January 2018</b>	<b>1</b>	<b>22</b>	<b>946</b>	<b>15,091</b>	<b>17</b>	<b>16,077</b>	<b>1,590</b>	<b>17,667</b>
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
Write-offs	-	-	-	-1,101	-	-1,101	-	-1,101
Effect of foreign currency movements	-	-	47	497	-	544	-	544
<b>As at 31 December 2018</b>	<b>3</b>	<b>24</b>	<b>973</b>	<b>17,147</b>	<b>17</b>	<b>18,164</b>	<b>1,077</b>	<b>19,241</b>

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The table below shows impairment made and reversed for non-financial assets during the year ended 31 December 2019 and during the year ended 31 December 2018.

	<b>Property and equipment</b>
<b>As at 1 January 2019</b>	<b>4</b>
Write-offs	233
Charge for the year	-2
Reversed during the year	226
Effect of foreign currency movements	-
<b>As at 31 December 2019</b>	<b>9</b>

	<b>Property and equipment</b>
<b>As at 1 January 2018</b>	<b>18</b>
Write-offs	-
Charge for the year	-11
Reversed during the year	-3
Effect of foreign currency movements	-
<b>As at 31 December 2018</b>	<b>4</b>

The tables below show provisions under IAS 37 made and reversed during the year ended 31 December 2019 and during the year ended 31 December 2018. Provisions made and reversed during the year are presented among the Staff expenses and Other operating expenses in the Statement of comprehensive income.

	<b>Provisions</b>
<b>As at 1 Januar 2019</b>	<b>567</b>
Provision made during the period (net)	230
Provision reversed during the period	-212
Provision used during the period	-343
Effect of foreign currency movements	2
<b>As at 31 December 2019</b>	<b>244</b>

**Provisions**

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<b>As at 1 Januar 2018</b>	<b>854</b>
Provision made during the period (net)	259
Provision reversed during the period	-556
Provision used during the period	-
Effect of foreign currency movements	10
<b>As at 31 December 2018</b>	<b>567</b>

Line item „Provisions” in the statement of financial position contains the provisions accounted for based on IAS 37 and also the provisions under IFRS 9 as presented in the first two tables of this note.

	<u>31.12.2019</u>	<u>31.12.2018</u>	<u>01.01.2018</u>
Commitments to banks and insurance companies	80	175	381
Commitments to other customers	175	902	1,209
Loan commitment	6	-	-
<b>Provision under IFRS9</b>	<b>261</b>	<b>1,077</b>	<b>1,590</b>
Staff expenses	63	219	-
Litigation	181	348	815
Other commitments and contingent liabilities	-	-	39
<b>Provision under IAS37</b>	<b>244</b>	<b>567</b>	<b>854</b>
<b>Total</b>	<b>505</b>	<b>1,644</b>	<b>2,444</b>

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

	<u>31.12.2019</u>	<u>31.12.2018</u>	<u>01.01.2018</u>
Short-term			
- in foreign currency	13,740	46,667	23,779
- in HUF	17,656	26,817	11,238
<b>Sub-total</b>	<b>31,396</b>	<b>73,484</b>	<b>35,018</b>
Long-term			
- in foreign currency	522,724	409,701	296,067
- in HUF	18,212	2,950	2,802
<b>Sub-total</b>	<b>540,936</b>	<b>412,651</b>	<b>298,869</b>
<b>Total</b>	<b>572,332</b>	<b>486,135</b>	<b>333,887</b>

The table below shows an analysis of loans and deposits from other banks by remaining maturity as at 31 December 2019, 31 December 2018 and 01 January 2018.

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	31.12.2019	31.12.2018	01.01.2018
<u>Remaining maturity</u>			
<u>In foreign currency:</u>			
Up to 1 month	742	10,490	21,274
1 to 3 months	11,649	1,504	1,409
3 months to 1 year	1,350	11,831	1,096
1 to 5 years	472,896	398,556	176,850
Over 5 years	49,828	32,171	119,217
<b>Sub-total</b>	<b>536,465</b>	<b>454,552</b>	<b>319,846</b>
<u>In HUF</u>			
Up to 1 month	1,123	15,296	4,845
1 to 3 months	3,180	11,678	6,393
3 months to 1 year	13,352	850	0
1 to 5 years	16,213	1,562	0
Over 5 years	1,999	2,197	2,803
<b>Sub-total</b>	<b>35,867</b>	<b>31,583</b>	<b>14,041</b>
<b>Total</b>	<b>572,332</b>	<b>486,135</b>	<b>333,887</b>

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**NOTE 17.**

**DEPOSITS FROM CUSTOMERS**

	31.12.2019	31.12.2018	01.01.2018
Short-term			
- in foreign currency	4,669	2,108	2,357
- in HUF	1,988	0	7,517
<b>Total</b>	<b>6,657</b>	<b>2,108</b>	<b>9,874</b>

The table below shows an analysis of deposits from customers by remaining maturity as at 31 December 2019, 31 December 2018 and 1 January 2018.

	31.12.2019	31.12.2018	01.01.2018
<u>Remaining maturity</u>			
<u>In foreign currency:</u>			
Up to 1 month	3,158	1,729	-
1 to 3 months	1,511	379	1,571
3 months to 1 year	0		786
<b>Sub-total</b>	<b>4,669</b>	<b>2,108</b>	<b>2,357</b>
<u>In HUF:</u>			
Up to 1 month	1,712	-	-
1 to 3 months	276	-	7,517
<b>Sub-total</b>	<b>1,988</b>		<b>7,517</b>
<b>Total</b>	<b>6,657</b>	<b>2,108</b>	<b>9,874</b>

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**NOTE 18 DEBT SECURITIES ISSUED**

On 1 October 2013, under the 2 billion EUR Medium Term Note Program (MTN Program), the Bank issued EUR 400 million of fixed-rate notes. Bonds were listed on London Stock Exchange's regulated market with effect from the issue date.

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. The bonds were redeemed on maturity date.

On 2 October 2014, under the before-mentioned 2 billion EUR MTN Program, the Bank issued USD 500 million of fixed-rate notes. Bonds are listed on London Stock Exchange's regulated market with effect from the issue date.

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. The bonds were redeemed on maturity date, 30 January 2020.

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 bonds were redeemed on maturity date.

The second series are having HUF 7,49998 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 June 2022 maturity. The average issue price was 100,5108%.

On 20 February 2019 the Bank reopened the June 2022 maturity bond and issued another HUF 12,25 billion notional of the same bond under Hungarian law. The average issue price was 99,1150%.

On 19 December 2019 the Bank issued new bond series with HUF 34 billion notional under Hungarian law. The bond series are having fixed 1% coupon and 04 December 2024 maturity. The average issue price was 100,1813%.

On the same day, 19 December 2019 the Bank issued new bond series with USD 14,2 million notional under Hungarian law. The bond series are having fixed 2% coupon and 17<sup>th</sup> of November 2021 maturity. The average issue price was 99,6275%.

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

On 24 November 2017 the Bank decided to terminate its 2 billion EUR 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.

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	<b>31.12.2019</b>	<b>31.12.2018</b>
Proceeds from issuance of debt securities	50,518	-
Repayment of debt securities	-157,298	-127,220
Foreign exchange (gains) and losses relating to non-operating cash-flows	8,826	14,362
Amortization relating to non-operating cash-flows	1,414	1,293
<b>Movement of debt securities issued</b>	<b>-96,540</b>	<b>-111,565</b>

The effective interest on the bonds recorded in interest expense was HUF 7,470 million (in 2018: HUF 14,482 million) using effective rates between 4% and 6%.

	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>01.01.2018</b>
Short-term (up to 1 year)			
- in foreign currency	149,816	157,803	132,074
- in HUF	7,508	0	0
<b>Sub-total</b>	<b>157,324</b>	<b>157,803</b>	<b>132,074</b>
Long-term (over 1 year)			
- in foreign currency	4,172	139,037	276,365
- in HUF	58,529	19,724	19,690
<b>Sub-total</b>	<b>62,701</b>	<b>158,761</b>	<b>296,055</b>
<b>Total</b>	<b>220,025</b>	<b>316,564</b>	<b>428,129</b>

The table below shows an analysis of bonds issued by remaining maturity as at 31 December 2019, 31 December 2018 and 1 January 2018.

	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>01.01.2018</b>
<u>Remaining Maturity</u>			
<u>Placements in foreign currency:</u>			
Up to 1 month	0	0	0
1 to 3 months	149,816	131,127	132,074
3 months to 1 year	0	26,676	0
1 to 5 years	4,172	139,037	276,365
Over 5 years	0	0	0
<b>Sub-total</b>	<b>153,988</b>	<b>296,840</b>	<b>408,439</b>

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Placements in HUF

Up to 1 month	0	0	0
1 to 3 months	0	0	0
3 months to 1 year	7,508	0	0
1 to 5 years	58,529	19,724	19,690
Over 5 years	0	0	0

<b>Sub-total</b>	<b>66,037</b>	<b>19,724</b>	<b>19,690</b>
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<b>Total</b>	<b>220,025</b>	<b>316,564</b>	<b>428,129</b>
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The table below shows the outstanding amounts of bonds as at 31 December 2019, 31 December 2018 and 1 January 2018.

ISIN	31.12.2019	31.12.2018	01.01.2018
HU0000357769	7,508	7,500	7,504
HU0000357926	24,457	12,224	12,186
US55977W2B78	60,332	55,991	52,777
XS1115429372	89,487	83,045	78,273
HU0000359435	34,072	0	0
HU0000359443	4,173	0	0
HU0000357777	-4	26,676	25,721
XS0953951711	0	127,649	119,594
US55977W2A95	0	1,297	52,689
XS0864511588	0	2,182	79,385
<b>Total</b>	<b>220,025</b>	<b>316,564</b>	<b>428,129</b>

Main data of bonds listed on London Stock Exchange:

ISIN code	XS1115429372; XS0953951711	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

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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	24,350,000,000
Rate of interest	0,05%	0,80%	1,30%
Last day of first interest period	21.10.2018	23.09.2018	24.06.2018
Frequency of interest payment after the first interest period	annually	annually	annually
Timing of interest payment	in arrears	in arrears	in arrears

ISIN code	HU0000359435	HU0000359443
Issue date	19.12.2019	19.12.2019
Maturity date	04.12.2024	17.11.2021
Currency	HUF	USD
Nominal value	34,000,000,000	14,200,000
Rate of interest	1%	2%
Last day of first interest period	04.12.2019	17.11.2020
Frequency of interest payment after the first interest period	semi-annually	semi-annually
Timing of interest payment	in arrears	in arrears

**NOTE 19. OTHER LIABILITIES**

	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>01.01.2018</b>
MEHIB insurance fee	3,264	4,481	1,583
Accrued expenses	1,859	1,908	1,961
Accrued revenue	117	98	187
Lease liabilities	2,180	-	-
Initial FV difference of liabilities	917	1,611	2,076
Other	1,133	1,110	928
<i>of which: financial instruments</i>	<i>7,108</i>	<i>9,021</i>	<i>6,559</i>
<b>Total other liabilities</b>	<b>9,470</b>	<b>9,208</b>	<b>6,735</b>

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**NOTE 20. SHAREHOLDERS' EQUITY**

	31.12.2019	31.12.2018	01.01.2018
Share capital	158,930	133,700	133,700
Share premium	400	400	400
Retained earnings	3,595	6,396	3,516
General reserve	20,087	15,407	10,747
<b>Total</b>	<b>183,012</b>	<b>155,903</b>	<b>148,363</b>

The bank reclassifies the retained earnings to general reserves according to the provisions of the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises ("Hungarian Banking Act") 83 § (6), which is presented in the tables below. The Bank prepares equity reconciliation table according to the provision of Act C of 2000 on Accounting 114/B §.

31.12.2019	Share capital	Share premium	Retained earnings	Tied-up reserve	Fair value reserve	Total equity
SUBSCRIBED CAPITAL	158,930					158,930
SUBSCRIBED CAPITAL UNPAID (-)						-
CAPITAL RESERVE		400				400
GENERAL RESERVE				20,087		20,087
<i>general reserve according to Hung. Bank. Act</i>				2,078		2,078
RETAINED EARNINGS +/-			3,595			3,595
TIED-UP RESERVE						-
REVALUATION RESERVE						-
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>158,930</b>	<b>400</b>	<b>3,595</b>	<b>20,087</b>	<b>-</b>	<b>183,012</b>

31.12.2018	Share capital	Share premium	Retained earnings	Tied-up reserve	Fair value reserve	Total equity
SUBSCRIBED CAPITAL	133,700					133,700
SUBSCRIBED CAPITAL UNPAID (-)						-
CAPITAL RESERVE		400				400
GENERAL RESERVE				15,407		15,407
<i>general reserve according to Hung. Bank. Act</i>				1,891		1,891
RETAINED EARNINGS +/-			6,396			6,395
TIED-UP RESERVE						-
REVALUATION RESERVE						-
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>133,700</b>	<b>400</b>	<b>6,396</b>	<b>15,407</b>	<b>-</b>	<b>155,903</b>

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01.01.2018	Share capital	Share premium	Retained earnings	Tied-up reserve	Fair value reserve	Total equity
SUBSCRIBED CAPITAL	133,700					133,700
SUBSCRIBED CAPITAL UNPAID (-)						-
CAPITAL RESERVE		400				400
GENERAL RESERVE				10,747		10,747
<i>general reserve according to Hung. Bank. Act</i>				1,391		1,391
RETAINED EARNINGS +/-			3,516			3,515
TIED-UP RESERVE						-
REVALUATION RESERVE						-
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>133,700</b>	<b>400</b>	<b>3,515</b>	<b>10,747</b>	<b>-</b>	<b>148,363</b>

	31.12.2019	31.12.2018	01.01.2018
Subscribed capital registered by registry court	158,930	133,700	133,700
Instruments presented as liability (-)		-	-
Share capital according to IFRS	158,930	133,700	133,700
	2019.12.31	2018.12.31	2018.01.01.
Retained earnings	3,595	6,396	3,516
Accumulated non-realised gains on the increase in fair values of investment properties (-)		-	-
Related accumulated income tax according to IAS 12 standard (+)		-	-
<b>Retained earnings available for dividend payment</b>	<b>3,595</b>	<b>6,396</b>	<b>3,516</b>

On 18 March 2019 and on 25 November 2019 the Owner increased the Bank's share capital by 25,230 MHUF with cash contribution by issuing new ordinary limited shares. The newly issued shares are classified to the same series than previously issued ordinary shares. The number of newly issued shares is 5,046 and the face value is 5 MHUF per piece. The share capital after issuing new shares is amounted to 158,930 MHUF.

The provisions of the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises ("Hungarian Banking Act") 83. § (6) prescribes that the Bank has to set a general reserve in

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the amount of 10% of the current year profit after tax figure, which will be eliminated to cover the future losses.

According to the opportunity included in the Hungarian Banking Act the Bank reclassifies MHUF 4,492 from retained earnings to general reserve in 2019, furthermore 188 MHUF (10%) compulsory general reserve has been made.

#### **NOTE 21. COMMITMENTS, CREDIT PROMISSORY NOTES 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 2019 Budget Act L of 2018 50.§ (2), the upper limit combined 100 BHUF (150 BHUF in 2018) 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 2019, HUF 15,049 million of Eximbank's overall guarantee portfolio of HUF 15,642 million was backed by State guarantees (in 2018 12,585 MHUF out of the 13,475 MHUF).

The remaining 4% of Eximbank's guarantee portfolio (which are guarantees issued at 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.

The balance of unredeemed guarantees issued by Eximbank under full payment guarantee covered by the Hungarian State decreased from 19,622 MHUF (2017 year end figure) to 12,585 MHUF by the end of 2018 and increased to 15,049 MHUF by the end of 2019.

In accordance with 16/1998. (V.20.) regulation of the Ministry of Finance in Hungary, Eximbank regularly rates unredeemed liabilities arising from export oriented full payment guarantees covered by the State on a quarterly basis in order to assess the risk of the central budget. These liabilities are rated the same way as guarantees issued at the bank's own risk.

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According to the Decree the guarantees covered by state full payment guarantee are classified to following rating categories:

	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>01.01.2018</b>
Performing	13,943	12,585	17,432
Non-performing	1,106		2,190
<b>Total</b>	<b>15,049</b>	<b>12,585</b>	<b>19,622</b>

Financial guarantees and commitments as at 31 December 2019, 31 December 2018 and 1 January 2018 are summarised as follows:

	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>01.01.2018</b>
Unutilised part of credit lines, credit promissory notes	337,191	382,418	349,028
Guarantees counter-guaranteed by Hungary	15,049	12,585	19,623
Guarantees not counter-guaranteed by Hungary	593	889	1,370
Letter of credit	290	1,322	216
<b>Total</b>	<b>353,123</b>	<b>397,214</b>	<b>370,237</b>

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 liabilities under Funding for Growth scheme NBH loans (3,205 MHUF) are secured – as required by NBH – over government bonds and trade receivables. Funding for Growth scheme liabilities are presented among loans and advances from banks and insurance companies while government bonds are recognised among Securities measured at amortised cost.

The above figures do not contain the remaining unpaid part of the commitments and contributions in respect of investment funds, these are presented in the following table. The payments of the remaining amounts depends on the future investments and down-down request of the fund managers, therefore, they are recognised as commitments as Eximbank is required to pay the remaining contribution upon request.

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Name	Commitments		Note
	31.12.2019	31.12.2018	
Portfolion Regionális Magántőkealap	743 MHUF	0 MHUF	Note 10.
Enter Tomorrow Europe Magántőkealap	21,324,720 EUR (7,048 MHUF)	22,500,000 EUR (7,234 MHUF)	Note 10.
Columbus	6,300 MHUF	0 MHUF	Note 10.
China-CEE Fund I.	4,510,700 USD (1,329 MHUF)	1,190,107 USD (334 MHUF)	Note 9.
China-CEE Fund II.	53,847,725 USD (15,871 MHUF)	66,046,558 USD (18,555 MHUF)	Note 9.
IFC FIG Fund	46,279,983 USD (13,641 MHUF)	35,612,053 USD (10,005 MHUF)	Note 9.
East West	3,647,000 EUR (1,205 MHUF)	4,166,000 EUR (1,339 MHUF)	Note 9.
Hungarian - Kazakh Cooperation Fund	7,944,415 USD (2,342 mHUF)	8,284,230 USD (2,327 MHUF)	Note 9.
SINO-CEE Fund	40,124,189 EUR (13,262 MHUF)	50,000,000 EUR (16,076 MHUF)	Note 9.

The balance of off-balance sheet receivables from customers arising from the redemption of guarantees issued under full payment guarantee of the Hungarian State, which also embodies the balance of liabilities to the state, evolved in 2018 and 2019 as follows:

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

	Basic receivables	Late payment interest receivables	Total
<b>Opening balance 01.01.2018</b>	<b>2,673</b>	<b>1,328</b>	<b>4,001</b>
Increase as a result of redemption and other volume change	1,388	140	1,528
Recoveries (-)	-892	-	-892
<b>Closing balance 31.12.2018</b>	<b>3,169</b>	<b>1,468</b>	<b>4,637</b>
Remission during 2018	-121	-	-121
<b>Closing balance adjusted with releases as at 31.12.2018</b>	<b>3,048</b>	<b>1,468</b>	<b>4,516</b>
<b>Opening balance 01.01.2019</b>	<b>3,048</b>	<b>1,468</b>	<b>4,516</b>
Increase as a result of redemption and other volume change	-	139	139
Recoveries (-)	-375	-32	-407
<b>Closing balance 31.12.2019</b>	<b>2,673</b>	<b>1,575</b>	<b>4,248</b>

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**NOTE 22. INTEREST INCOME AND INTEREST EXPENSE**

	<u>2019</u>	<u>2018</u>
<b>Interest income using the effective interest method:</b>		
Loans and advances to other banks and insurance companies	1,205	1,287
Loans and advances to customers	6,148	6,029
Interest compensation*	20,008	26,716
Securities measured at amortised cost	303	282
<b>Sub-total</b>	<b><u>27,664</u></b>	<b><u>34,314</u></b>
<b>Other interest income</b>		
Derivatives (swap, CCIRS)	4,704	4,725
Other interest income	93	26
<b>Sub-total</b>	<b><u>4,797</u></b>	<b><u>4,751</u></b>
<b>Total</b>	<b><u>32,461</u></b>	<b><u>39,065</u></b>
<b>Interest expense using the effective interest method:</b>		
Loans and deposits from other banks and insurance companies	9,967	7,529
Deposits from customers	481	166
Interest compensation	10	70
Debt securities issued	7,470	14,482
<b>Sub-total</b>	<b><u>17,928</u></b>	<b><u>22,247</u></b>
<b>Other interest expense</b>		
Derivatives (swap, CCIRS)	2,513	2,789
Leasing interest	22	-
<b>Sub-total</b>	<b><u>2,535</u></b>	<b><u>2,789</u></b>
<b>Total</b>	<b><u>20,463</u></b>	<b><u>25,036</u></b>
<b>Net interest income</b>	<b><u>11,998</u></b>	<b><u>14,029</u></b>

In 2019 the unwinding interest revenue on Stage 3 instruments ('Loans and advances to customers') was 1,985 MHUF (interest revenue on gross amortised cost would be 2,475 MHUF)

\*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 3.9.

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**Settlements related to interest compensation system**

	<b>31.12.2019</b>	<b>31.12.2018</b>
Financially settled claim	20,353	26,079
Financially settled payment obligation	-342	-21
<b>Balance</b>	<b>20,011</b>	<b>26,058</b>

Under interest compensation system the budget appropriation for the settlement of interest compensation with the central budget is determined in 20,500 MHUF according to Budget Act L of 2018.

**Settlements related to tied-aid credits**

	<b>2019.12.31</b>	<b>2018.12.31</b>
Financially settled tied-aid claim	4,601	6,636
Financially settled interest compensation claim	1,532	1,250
Financially settled tied-aid payment obligation	-3	0
Financially settled fee refund	0	0
<b>Balance</b>	<b>6,130</b>	<b>7,886</b>

Under tied-aid credit system the budget appropriation for the settlement of interest compensation with the central budget is determined in 15,025.2 MHUF according to Budget Act L of 2018.

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**NOTE 23. NET INCOME FROM FEES AND COMMISSIONS**

	<u>2019</u>	<u>2018</u>
<b>Fee and commission income:</b>		
Guarantees counter-guaranteed by the state	561	205
Guarantees not counter-guaranteed by the state	10	45
Other	5	320
<b>Sub-total</b>	<u><b>576</b></u>	<u><b>570</b></u>
<b>Fee and commission expense:</b>		
Other	634	239
<b>Sub-total</b>	<u><b>634</b></u>	<u><b>239</b></u>
<b>Total net fee and commission income</b>	<u><u><b>-58</b></u></u>	<u><u><b>331</b></u></u>

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.

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In 2018 and 2019 the Bank performed the following payments and received and mediated grants for the Budget.

**Budget settlements related to redeemed guarantees and recoveries undertaken by Eximbank at the expense of the central budget**

	31.12.2019	31.12.2018
Claim against the State as a result of the redemption of State guarantees	0	1,388
Paid amounts to the State as a result of collected State guarantees	-407	-892
Fees claimed against the State in exchange to the collection of State guarantees.	19	44
<b>Balance</b>	<b>-388</b>	<b>540</b>

The 2019 budgetary framework for the budget payment obligation arising from redeemed export credit and other export guarantees issued by Eximbank under full payment guarantee covered by the State was set by Act L. of 2018 (on Central Budget) in a total of 300 MHUF.

The following table sets out the nature and timing of fulfillment 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 types of fees related to guarantees. Handling fees are bank service fees, postal fees, eg. and occur at the issue of the guarantee. The other type of guarantee fee is paid time-proportionally. 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 compared to the Banks total income are included in the 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.  The Bank charges the fees for ongoing services on a monthly basis during the period when they are provided. Fees for ad hoc services are charged when the transaction takes place.	The fees for ongoing services are recognized on a time proportion basis over the duration of the service. Ad hoc fees are recognized when the transaction is completed.

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

	<b>Carrying amount of derecognised assets 31.12.2019</b>	<b>Gain on derecognition 2019</b>
Loans and advances to other banks and insurance companies	-	-
Loans and advances to customers	625	339
<b>Total</b>	<b>625</b>	<b>339</b>

	<b>Carrying amount of derecognised assets 31.12.2018</b>	<b>Gain on derecognition 2018</b>
Loans and advances to other banks and insurance companies	2	-1
Loans and advances to customers	129	-
<b>Total</b>	<b>131</b>	<b>-1</b>

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

	<b>31.12.2019</b>	<b>31.12.2018</b>
Gain and losses on foreign currency swap deals, net	5,268	2,795
Other foreign currency gains and losses, net *	-4,764	-4,970
<b>Foreign currency gains and losses, net</b>	<b>504</b>	<b>-2,175</b>
Gains and losses on FVTPL financial assets other than derivatives, net (Note 9)	-113	6,040
Other trading gains and losses, net	0	-
<b>Total</b>	<b>391</b>	<b>3,865</b>

\* Net amount of other foreign currency gains and losses includes the client's trading exchange loss and the resulting of exchange differences.

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

	2019	2018
Initial fair value difference amortisation *	727	536
Settled MEHIB insurance own contribution	692	34
Other income from debt security issued **	1,371	-
Other	169	477
<b>Other operating income</b>	<b>2,959</b>	<b>1,047</b>
Material and service expenses	2,660	2,759
Bank tax ***	690	769
Other administration expenses	322	310
Other expenses/ (income), net	41	-50
<b>Other operating expense</b>	<b>3,713</b>	<b>3,788</b>
<b>Personnel expenses</b>	<b>4,147</b>	<b>3,946</b>
<b>Depreciation and amortisation</b>	<b>1,244</b>	<b>774</b>

The average number of employees in 2019 was 192 (2018: 190).

\* 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 amount owed to the Bank was retrospectively settled with the investor upon the repayment of the issued debt security.

\*\*\* 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 50,000 MHUF and 0,2% above 50,000 MHUF.

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**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.

<b>As at 31 December 2019</b>	<b>Within 12 months</b>	<b>After 12 months</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	63,584	-	63,584
Securities measured at amortised cost	78	43,045	43,123
Loans and advances to banks and insurance companies	154,045	372,258	526,303
Loans and advances to other customers	56,231	192,014	248,245
Financial assets measured at fair value through profit or loss (Derivatives)	14,819	-	14,819
Investments measured at fair value through profit or loss	-	26,284	26,284
Investment accounted with equity method	-	60,998	60,998
Intangibles	-	1,996	1,996
Property, plant and equipments	-	2,858	2,858
Current income tax assets	361	-	361
Other tax assets	84	-	84
Deferred tax assets	-	17	17
Other assets	3,778	-	3,778
<b>Total Assets</b>	<b>292,980</b>	<b>699,470</b>	<b>992,450</b>
<b>Liabilities</b>			
Loans and deposits from banks and insurance companies	54,179	518,153	572,332
Deposits from other customers	6,657	-	6,657
Financial liabilities measured at fair value through profit or loss (Derivatives)	160	39	199
Debt securities issued	156,335	63,690	220,025
Provisions	505	-	505
Tax liabilities	206	-	206
Deferred tax liabilities	-	44	44
Other liabilities	6,373	3,097	9,470
<b>Total Liabilities</b>	<b>224,415</b>	<b>585,023</b>	<b>809,438</b>
<b>Net</b>	<b>68,566</b>	<b>144,446</b>	<b>183,012</b>

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<b>As at 31 December 2018</b>	<b>Within 12 months</b>	<b>After 12 months</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	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
Financial assets measured at fair value through profit or loss (Derivatives)	124	11,789	11,913
Investments measured at fair value through profit or loss	-	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
<b>Total Assets</b>	<b>259,029</b>	<b>714,064</b>	<b>973,093</b>
<b>Liabilities</b>			
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 (Derivatives)	37	1,119	1,156
Debt securities issued	154,324	162,240	316,564
Provisions	1,644	-	1,644
Tax liabilities	158	-	158
Deferred tax liabilities	217	-	217
Other liabilities	8,264	944	9,208
<b>Total Liabilities</b>	<b>240,236</b>	<b>576,954</b>	<b>817,190</b>
<b>Net</b>	<b>18,793</b>	<b>137,110</b>	<b>155,903</b>

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As at 1 January 2018	Within 12 months	After 12 months	Total
<b>Assets</b>			
Cash and cash equivalents	3,558	-	3,558
Securities measured at amortised cost	7,506	32,258	39,764
Loans and advances to banks and insurance companies	170,889	417,071	587,960
Loans and advances to other customers	49,761	196,266	246,027
Financial assets measured at fair value through profit or loss (Derivatives)	13,877	-	13,877
Investments measured at fair value through profit or loss	-	16,402	16,402
Investment accounted with equity method	-	17,398	17,398
Intangibles	-	1,459	1,459
Property, plant and equipments	-	1,293	1,293
Current income tax assets	666	-	666
Other tax assets	1,936	-	1,936
Deferred tax assets	-	85	85
Other assets	1,408	-	1,408
<b>Total Assets</b>	<b>249,601</b>	<b>682,232</b>	<b>931,833</b>
<b>Liabilities</b>			
Loans and deposits from banks and insurance companies	52,400	281,487	333,887
Deposits from other customers	9,874	-	9,874
Financial liabilities measured at fair value through profit or loss (Derivatives)	2,226	-	2,226
Debt securities issued	136,069	292,060	428,129
Provisions	2,444	-	2,444
Tax liabilities	175	-	175
Deferred tax liabilities	-	-	-
Other liabilities	4,747	1,988	6,735
<b>Total Liabilities</b>	<b>207,935</b>	<b>575,535</b>	<b>783,470</b>
<b>Net</b>	<b>41,666</b>	<b>106,697</b>	<b>148,363</b>

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### **NOTES TO THE SEPERATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (All amounts in HUF million unless otherwise stated)**

#### **NOTE 28. RELATED PARTY TRANSACTIONS**

##### **28.1 Management and employees**

Loans to employees of the Bank amounted to HUF 327 million and HUF 279 million as at 31 December 2019 and 31 December 2018, respectively. As at 31 December 2019 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 75 million in 2019 (2018: HUF 70 million, 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 125 million and HUF 117 million in 2018, respectively.

##### **28.2 Companies**

The exerciser of shareholders' rights is the Minister of Foreign Affairs and Trade from 6 June 2014. Eximbank, as a state owned company, applies the exemption allowed by IAS 24.25-27 under which it does not disclose any transactions, outstanding balances and commitments with the Hungarian State and entities over which the Hungarian State has control, joint control or significant influence.

The Bank considers the following companies to be related parties:

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

Related party transactions are conducted at market rates. Total amount of receivables with related party companies were HUF 90,631 million as at 31 December 2019, representing 9,12% of total assets (as at 31 December 2018: 9,49% and as at 01. January 2018: 7,74%). Total amount of liabilities with related party companies were HUF 65.498 million as at 31 December 2019, representing 8,09% of total liabilities (as at 31 December 2018: 6,28% and as at 01. January 2018: 6,76%). Total amount of commitments and contingent liabilities with related party companies were HUF 28,111 million as at 31 December 2019, representing 7,96% of commitments and contingent liabilities (as at 31 December 2018: 8,65% and as at 01. January 2018: 6,98%)

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	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>01.01.2018</b>
Hungarian Government bonds	43,123	40,749	39,764
<b>Total securities measured at amortised cost to related parties</b>	<b>43,123</b>	<b>40,749</b>	<b>39,764</b>
Loans to other related parties incl. interest receivable	39,707	40,156	25,999
Receivable against the State from interest compensation systems	4,319	6,561	5,384
<b>Total loans and advances to related parties</b>	<b>44,026</b>	<b>46,717</b>	<b>31,383</b>
Accrued income and receivable from the State in respect of tied-aid credits	3,100	4,481	599
Accrued income from other related parties	382	400	363
<b>Total other assets</b>	<b>3,482</b>	<b>4,881</b>	<b>962</b>
<b>Total Assets</b>	<b>90,631</b>	<b>92,347</b>	<b>72,109</b>
Loans and deposits from other related parties incl. accrued interest payables	61,558	47,565	50,664
<b>Total loans and deposits from related parties</b>	<b>61,558</b>	<b>47,565</b>	<b>50,664</b>
Other liabilities to other related parties	3,100	2,898	1,583
Accrued expense against other related parties related to cost sharing	840	856	706
<b>Total other liabilities to related parties</b>	<b>3,940</b>	<b>3,754</b>	<b>2,289</b>
<b>Total Liabilities</b>	<b>65,498</b>	<b>51,319</b>	<b>52,953</b>
Other commitments and contingent liabilities	28,111	30,532	24,654
<b>Total commitments and contingent liabilities</b>	<b>28,111</b>	<b>30,532</b>	<b>24,654</b>

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	<u>31.12.2019</u>	<u>31.12.2018</u>
<b>Interest income:</b>		
State interest compensation	20,008	26,716
Hungarian discounted treasury bills, discounted bonds issued by NBH and Hungarian Government bonds	303	282
Loans, short-term placements to other related parties	1,107	944
<b>Total</b>	<u><b>21,418</b></u>	<u><b>27,942</b></u>
<b>Interest expense:</b>		
Loans and deposits from other related parties	476	0
<b>Total</b>	<u><b>476</b></u>	<u><b>0</b></u>
<b>Fee and commission expense:</b>		
Insurance fees paid to MEHIB*	29,704	19,513
<b>Net interest income and net income from fees and commissions</b>	<u><b>-8,762</b></u>	<u><b>8,429</b></u>
<b>Operating income/(expenses):</b>		
Hungarian State: refund of insurance fees of tied-aid credits	3,220	0
Net operating income from MEHIB and MFB's subsidiaries	328	-357
Net income/(expense) related to sharing personal type expenditures	591	575
<b>Total</b>	<u><b>4,139</b></u>	<u><b>218</b></u>

\* Expenses related to MEHIB fees are carried forward. The expense and income which related to the carry forward are part of the effective interest rate so that the interest income calculated by effective interest rate are presented on the Interest income. Only the expenses are presented in the table, as it is considered a related party transaction.

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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 integrated organisational cooperation. The agreement has been modified several times.

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

- 1) costs related to commonly used fixed assets (depreciation, insurance fee, taxes, impairment, other expenses related to commonly used 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

Effects of the cost sharing to the Bank's profit and loss in 2018 and 2019 are presented in the following tables:

**1) Commonly used fixed assets:**

Income and (expense) related to commonly used fixed assets	<b>31.12.2019</b>	<b>31.12.2018</b>
a) Asset usage/rental fee invoiced by the Bank to MEHIB, presented in the „Other income”	203	129
b) Asset usage fee/ rental invoiced by MEHIB to the Bank, presented in the “Other expenses”	-170	-41

**2) Personnel type expenditures: jointly employed employees**

Income and (expense) related to sharing personal type expenditures	<b>31.12.2019</b>	<b>31.12.2018</b>
a) Personnel type expenditures invoiced by the Bank to MEHIB, presented in the “Personal type expenditures (cost decreasing item)”	620	598
b) Personnel type expenditures invoiced by MEHIB to the Bank, presented in the “Personal type expenditures”	-29	-23

**3) Other personal type expenditures**

Income and (expense) related to sharing personal type expenditures	<b>31.12.2019</b>	<b>31.12.2018</b>
a) Income and (expense) related to sharing other personal type expenditures, presented in the “Other income”	54	41
b) Personal type expenditures invoiced by MEHIB to the Bank, presented in the “Other administration expenses”	-169	-91

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**4) Intermediary services**

Income and (expense) related to sharing intermediary services	<b>31.12.2019</b>	<b>31.12.2018</b>
a) Expenses invoiced by the Bank to MEHIB, presented in the "Other income"	3	60
b) Expenses incurred by MEHIB and invoiced to the Bank, presented in the "Other expenses"	-24	-158

**5) Material type expenditures and other administration expenses**

Income and (expense) related to sharing material type expenditures and other administration expenses	<b>31.12.2019</b>	<b>31.12.2018</b>
a) Expenses invoiced by the Bank to MEHIB, presented in the "Other income"	159	182
b) Expenses incurred by MEHIB and invoiced to the Bank, presented in the "Other expenses"	-468	-445

Based on separate agreements, the Bank charged HUF 43 million in 2018 and HUF 50 million in 2019 to MEHIB within the sublease agreements.

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**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. The undiscounted cash flows include estimated interest payments and interest compensation. For further information about maturity of derivatives please refer to Note 8.

Repayments which are subject to notice are treated as if notice were to be given immediately. For loan commitments, guarantees and letter of credits 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 28,220 MHUF as at 31 December 2019 and 272,373 MHUF as at 31 December 2018.

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

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<b>As at 31 December 2018</b>	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 and cash equivalents	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
Financial assets measured at fair value through profit or loss (derivatives)	11,913	14,393	1,113		1,020	12,260	
<i>Foreign exchange contracts - inflow</i>		16,751	16,751				
<i>Foreign exchange contracts - outflow</i>	124	-16,657	-16,657				
<i>CCIRS - inflow</i>		119,179	2,248		2,307	114,624	
<i>CCIRS - outflow</i>	11,789	-104,880	-1,229		-1,287	-102,364	
Investments measured at fair value through profit or loss	23,204	23,204					23,204
Other financial assets	5,182	5,182	5,182				
<b>Financial assets</b>	<b>948,519</b>	<b>1,001,839</b>	<b>31,401</b>	<b>36,704</b>	<b>201,580</b>	<b>508,577</b>	<b>223,577</b>
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 (derivatives)	1,156	98	33	20	45		
<i>Foreign exchange contracts - inflow</i>		-24,113	-14,468	-9,645			
<i>Foreign exchange contracts - outflow</i>	37	24,173	14,503	9,670			
<i>CCIRS - inflow</i>		-2,095	-2	-5	-2,088		
<i>CCIRS - outflow</i>	1,119	2,133			2,133		
Other financial liabilities	9,021	9,021	9,021				
<b>Financial liabilities</b>	<b>814,984</b>	<b>850,027</b>	<b>40,882</b>	<b>137,579</b>	<b>70,158</b>	<b>568,160</b>	<b>33,248</b>
<b>Liquidity (deficiency)/excess **</b>	<b>133,535</b>	<b>151,812</b>	<b>-9,481</b>	<b>-100,875</b>	<b>131,422</b>	<b>-59,583</b>	<b>190,329</b>
Unutilised loan commitments		382,418	382,418				
Financial guarantee contracts		13,474	13,474				
Letter of credit		1,322	1,322				

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<b>As at 1 January 2018</b>	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 and cash equivalents	3,558	3,558	3,558				
Securities measured at amortised cost	39,764	40,290			7,605	32,685	
Loans and advances to banks and insurance companies	587,960	595,115	13,917	21,225	137,827	380,996	41,150
Loans and advances to other customers	246,027	285,862	17,147	4,548	36,123	128,202	99,842
Financial assets measured at fair value through profit or loss (derivatives)	13,877	15,749	786	5,453	885	8,625	
<i>Foreign exchange contracts - inflow</i>	93	9,825	9,825				
<i>Foreign exchange contracts - outflow</i>		-9,924	-9,924				
<i>CCIRS - inflow</i>	13,784	180,366	2,071	66,484	2,071	109,740	
<i>CCIRS - outflow</i>		-164,518	-1,186	-61,031	-1,186	-101,115	
Investments measured at fair value through profit or loss	16,402	16,402					16,402
Other financial assets	4,188	4,188	4,188		-		
<b>Financial assets</b>	<b>911,776</b>	<b>961,164</b>	<b>39,596</b>	<b>31,226</b>	<b>182,440</b>	<b>550,508</b>	<b>157,394</b>
Loans and deposits from other banks and insurance companies	333,887	350,016	27,442	10,535	16,954	184,587	110,498
Deposits from customers	9,874	9,887		1,578	8,309		
Debt securities issued	428,129	447,815	2,588	134,287	5,450	305,490	
Financial liabilities at fair value through profit or loss (derivatives)	2,226	-8	-1	15	-8	-14	
<i>Foreign exchange contracts - inflow</i>		-8,976		-8,976			
<i>Foreign exchange contracts - outflow</i>	7	8,994		8,994			
<i>CCIRS - inflow</i>		-846	-1	-3	-8	-834	
<i>CCIRS - outflow</i>	2,219	820				820	
Other financial liabilities	6,559	6,559	6,559				
<b>Financial liabilities</b>	<b>780,675</b>	<b>814,269</b>	<b>36,588</b>	<b>146,415</b>	<b>30,705</b>	<b>490,063</b>	<b>110,498</b>
<b>Liquidity (deficiency)/excess **</b>	<b>131,101</b>	<b>146,895</b>	<b>3,008</b>	<b>-115,189</b>	<b>151,735</b>	<b>60,445</b>	<b>46,896</b>
Unutilised loan commitments		349,028	349,028				
Financial guarantee contracts		20,993	20,993				
Letter of credit							-
		216	216				

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\*Gross amount without impairment

\*\* By the end of January 2020 the debt security issued in 2014 in the amount of 500 MUSD was repaid at maturity. Likewise in 2018 and 2019, when similar magnitude of debt securities matured (in the amount of 500 MUSD, 400 MEUR) the repayment of these debt securities was transacted from several different resources. In 2019 the Owner increased the Bank's share capital with 12,6 BHUF, and a debt security in the amount of 34 BHUF and a small-sized dollar (14,2 MUSD) debt security were issued (2019 figures include these transactions because they appeared as interbank lending for a short period of time). By the end of January 2020 150 MEUR drowdown occurred from a loan contract with ERSTE Bank AG and contracting money market transactions for daily liquidity management in order to ensure adequate borrowings.



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#### **NOTE 30. FINANCIAL RISK MANAGEMENT**

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

As a part of the EXIM Strategy, the Bank enacted a new Risk Management Strategy in 2019, which regulates the fundamental principles of risk undertaking, risk management policy, risk appetite, risk profile, expected risk structure and ICAAP (Internal Capital Adequacy Assessment Process) framework. Each element of the risk management system is enforced through regulations approved by the Board of Directors and the ALCO (Asset and Liability Committee) regarding the organization of internal controls, decision competences and exact risk management procedures encompassing all relevant risk factors for the Bank.

#### *Risk Management Strategy*

The contents of Risk Management Strategy are normative instructions for processes and activities concerning risk undertaking. The Risk Management Strategy is the comprehensive framework document for the Bank's risk management regulations. Detailed rules for the risk categories, including the general and exceptional business provisions, methods, deadlines and tools to execute them, responsible organizational units, can be found in the risk management regulations.

The Risk Management Strategy encompasses the identification, measurement, monitoring and management of risks, in addition the exploration of risk levels and weights. The process of risk identification provides a detailed description about the regular risk categories that the Bank faces in its business and economic environment. The risks are firstly determined according to their types (in line with the Basel taxonomy specified in the ICAAP framework), secondly according to the Bank specific aspects of products and services. The general risk level of a risk category is derived from the risk evaluation of risk types, which are weighted as per their relevance in compliance with the operational characteristics of the Bank. Risk profile definition considers the extent of exposure and the severity of risk. This approach provides a comprehensive review on the Bank's risk profile and the scope on performing continuous monitoring.

The Bank's Business Strategy encloses business goals, which determine the business structure. The latter fundamentally outlines the Bank's risk structure, which necessarily changes, if business structure changes.

## HUNGARIAN EXPORT-IMPORT BANK PLC.

### *NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (All amounts in HUF million unless otherwise stated)*

#### **30.1. Credit risk**

##### *Credit risk management, 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.

By actively using MEHIB export credit insurance and guarantees having budgetary backgrounds the Bank transfers a great part of risks from the financed clients to the Hungarian State, accordingly significant risk exposure stands against the Hungarian State in the portfolio. In addition, since in case of credit institutions the export-oriented refinancing exposures are exempted from large exposure limits, substantial risk concentrations have evolved against banks. The management quarterly monitors concentration risks. Regarding the final risk takers the three most significant exposures were held at the end of 2019 against the Hungarian State (234,002 bn HUF) having Baa3 Moody's long term rating, against Unicredit Group (137,531 bn HUF) having A2 Moody's long term rating and against Raiffeisen Group (126,899 bn HUF) having A3 Standard&Poor's long term rating. All the three belong to the 'investment grade' category.

In case of derivatives the Bank exclusively has exposures against 'investment grade' category EU-based credit institutions or members of credit institutions and the National Bank of Hungary in the form of foreign currency swap transactions. Foreign currency swap transactions have been concluded based on ISDA agreements with credit institution counterparties, and the Bank has also concluded CSA agreements with domestic and foreign counterparties to mitigate counterparty risk. On the effective date of the annual report the Bank had live transactions with the following counterparties: National Bank of Hungary having Baa3 Moody's long term rating, CIB Bank having BBB- Fitch long term rating, ING Bank having Baa3 Moody's long term rating OTP Bank having Baa3 Moody's long term rating, Unicredit Bank having A2 Moody's long term rating and Deutsche Bank having A3 Moody's long term rating.

Undertaken exposure to any 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's 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.

Maximum credit risk exposure is the sum of gross carrying amounts of financial assets measured at amortized cost, the fair value amounts in the balance sheet in case of instruments measured at fair value, together with loan commitments and financial guarantees. Their detailed disclosure is presented in the subsequent sections and tables.

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*Credit risk portfolio quality*

The following two tables set out information about the credit quality of financial assets measured at amortised cost on 31 December 2019 and 31 December 2018. The amounts in the tables represent gross carrying amounts. Explanation of the terms Stage 1, Stage 2, Stage 3 and POCI is included in Chapter 3.4.

Debt securities measured at amortised cost comprise of state bonds issued by the Hungarian Government having Baa3 Moody's long-term rating. Baa3 rating belongs to the investment grade category.

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

<b>31.12.2018</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Purchased or originated credit impaired</b>	<b>Total</b>
	<b>12-month-expected credit loss</b>	<b>Lifetime expected credit loss</b>	<b>Lifetime expected credit loss</b>		
Cash and cash equivalents	3,759	-	-	-	<b>3,759</b>
Debt securities measured at amortised cost	40,773	-	-	-	<b>40,773</b>

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Loans and advances to banks and insurance companies	577,330	14,033	514	-	<b>591,877</b>
Loans and advances to other customers	169,164	63,236	57,558	-	<b>289,958</b>
<b>Total gross carrying amount</b>	<b>791,026</b>	<b>77,269</b>	<b>58,072</b>	-	<b>926,367</b>

The following two tables disclose information about the loss allowance of financial assets measured at amortised cost on 31 December 2019 and 31 December 2018.

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

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<b>31.12.2018</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Purchased or originated credit impaired</b>	<b>Total</b>
	<b>12-month-expected credit loss</b>	<b>Lifetime expected credit loss</b>	<b>Lifetime expected credit loss</b>		
Cash and cash equivalents	-3	-	-	-	<b>-3</b>
Debt securities measured at amortised cost	-24	-	-	-	<b>-24</b>
Loans and advances to banks and insurance companies	-430	-36	-507	-	<b>-973</b>
Loans and advances to other customers	-301	-1,293	-15,553	-	<b>-17,147</b>
<b>Loss allowance total</b>	<b>-758</b>	<b>-1,329</b>	<b>-16,060</b>	-	<b>-18,147</b>

In the subsequent sections, the credit risk exposures of the Bank are disclosed for the end of 2019 and 2018, laying emphasis on Loans and advances to banks and insurance companies, and Loans and advances to other customers.

The following tables disclose information about the credit quality of Loans and advances to banks and insurance companies in Stage 1, 2, 3 breakdown:

<b>Loans and advances to banks and insurance companies</b>					<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI*</b>	<b>Total</b>	<b>Total</b>
Grades 1-3: Low - fair risk	491,243	-	-	-	491,243	478,809
Grades 4: Higher risk	32,063	-	-	-	32,063	104,682
Grades 5: Substandard	1,173	1,041	-	-	2,214	7,739
Grades 6: Doubtful	985	93	-	-	1,078	133
Grades 7: Loss	-	-	524	-	524	514
<b>Total</b>	<b>525,464</b>	<b>1,134</b>	<b>524</b>	-	<b>527,122</b>	<b>591,877</b>
Loss allowance	-292	-3	-524	-	-819	-973
<b>Carrying amount</b>	<b>525,173</b>	<b>1,131</b>	-	-	<b>526,303</b>	<b>590,904</b>

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<b>Loans and advances to banks and insurance companies</b>	<b>31.12.2018</b>					<b>01.01.2018</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI*</b>	<b>Total</b>	<b>Total</b>
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
<b>Total</b>	<b>577,330</b>	<b>14,033</b>	<b>514</b>	<b>-</b>	<b>591,877</b>	<b>588,906</b>
Loss allowance	-430	-36	-507	-	-973	-946
<b>Carrying amount</b>	<b>576,900</b>	<b>13,997</b>	<b>7</b>	<b>-</b>	<b>590,904</b>	<b>587,960</b>

The credit quality of loan commitments to banks and insurance companies on the two reporting dates was the following:

<b>Loan commitments to banks and insurance companies</b>	<b>31.12.2019</b>					<b>31.12.2018</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI*</b>	<b>Total</b>	<b>Total</b>
Grades 1-3: Low - fair risk	162,177	-	-	-	162,177	221,150
Grades 4: Higher risk	46,461	-	-	-	46,461	82,711
Grades 5: Substandard	3,337	-	-	-	3,337	-
Grades 6: Doubtful	3,210	-	-	-	3,210	5,241
Grades 7: Loss	-	-	-	-	-	-
<b>Total</b>	<b>215,185</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>215,185</b>	<b>309,102</b>
Provision	-80	-	-	-	-80	-175

<b>Loan commitments to banks and insurance companies</b>	<b>31.12.2018</b>					<b>01.01.2018</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI*</b>	<b>Total</b>	<b>Total</b>
Grades 1-3: Low - fair risk	221,150	-	-	-	221,150	253,503
Grades 4: Higher risk	82,711	-	-	-	82,711	31,414
Grades 5: Substandard	-	-	-	-	-	2,117
Grades 6: Doubtful	4,554	687	-	-	5,241	4,310
Grades 7: Loss	-	-	-	-	-	-
<b>Total</b>	<b>308,415</b>	<b>687</b>	<b>-</b>	<b>-</b>	<b>309,102</b>	<b>291,344</b>
Provision	-174	-1	-	-	-175	-381

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The Bank did not have financial guarantee contracts with banks and insurance companies on the two reporting dates.

The following tables disclose information about the credit quality of Loans and advances to other customers in Stage 1, 2, 3 breakdown:

<b>Loans and advances to other customers</b>					<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI*</b>	<b>Total</b>	<b>Total</b>
Grades 1-3: Low - fair risk	26,327	4,775	-	-	31,102	42,985
Grades 4: Higher risk	83,792	4,700	1,145	-	89,637	82,300
Grades 5: Substandard	20,682	16,576	1,870	-	39,128	65,533
Grades 6: Doubtful	24,967	36,916	33,713	-	95,596	81,773
Grades 7: Loss	-	1,523	7,956	-	9,479	17,367
<b>Total</b>	<b>155,768</b>	<b>64,490</b>	<b>44,684</b>	<b>-</b>	<b>264,942</b>	<b>289,958</b>
Loss allowance	-181	-1,317	-15,199	-	-16,697	-17,147
<b>Carrying amount</b>	<b>155,573</b>	<b>63,173</b>	<b>29,485</b>	<b>-</b>	<b>248,245</b>	<b>272,811</b>

<b>Loans and advances to other customers</b>					<b>31.12.2018</b>	<b>01.01.2018</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI*</b>	<b>Total</b>	<b>Total</b>
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
<b>Total</b>	<b>169,164</b>	<b>63,236</b>	<b>57,558</b>	<b>-</b>	<b>289,958</b>	<b>261,118</b>
Loss allowance	-301	-1,293	-15,553	-	-17,147	-15,091
<b>Carrying amount</b>	<b>168,863</b>	<b>61,943</b>	<b>42,005</b>	<b>-</b>	<b>272,811</b>	<b>246,027</b>

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The credit quality of loan commitments to other customers on the two reporting dates was the following:

<b>Loan commitments to other customers</b>					<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI*</b>	<b>Total</b>	<b>Total</b>
Grades 1-3: Low - fair risk	10,493	-	-	-	10,493	5,481
Grades 4: Higher risk	26,729	142	-	-	26,871	7,554
Grades 5: Substandard	21,407	301	-	-	21,708	1,462
Grades 6: Doubtful	56,989	5,946	-	-	62,935	58,139
Grades 7: Loss	-	-	-	-	-	679
<b>Total</b>	<b>115,617</b>	<b>6,390</b>	<b>-</b>	<b>-</b>	<b>122,007</b>	<b>73,315</b>
Provision	-10	-103	-	-	-113	-865

<b>Loan commitments to other customers</b>					<b>31.12.2018</b>	<b>01.01.2018</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI*</b>	<b>Total</b>	<b>Total</b>
Grades 1-3: Low - fair risk	4,069	1,364	48	-	5,481	7,678
Grades 4: Higher risk	4,049	3,505	-	-	7,554	19,253
Grades 5: Substandard	1,386	76	-	-	1,462	19,473
Grades 6: Doubtful	35,122	19,879	3,138	-	58,139	11,280
Grades 7: Loss	-	679	-	-	679	-
<b>Total</b>	<b>44,626</b>	<b>25,503</b>	<b>3,186</b>	<b>-</b>	<b>73,315</b>	<b>57,684</b>
Provision	-47	-600	-218	-	-865	-499

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The credit quality of financial guarantees to other customers in the two reporting periods was the following:

<b>Financial guarantees to other customers</b>					<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI*</b>	<b>Total</b>	<b>Total</b>
Grades 1-3: Low - fair risk	6,378	22	-	-	6,400	5,902
Grades 4: Higher risk	1,253	3,525	-	-	4,779	2,794
Grades 5: Substandard	247	2,006	-	-	2,252	4,474
Grades 6: Doubtful	-	786	1,107	-	1,893	-
Grades 7: Loss	-	319	-	-	319	304
<b>Total</b>	<b>7,878</b>	<b>6,658</b>	<b>1,107</b>	<b>-</b>	<b>15,643</b>	<b>13,474</b>
Provision	-8	-60	-	-	-68	-37

<b>Financial guarantees to other customers</b>					<b>31.12.2018</b>	<b>01.01.2018</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI*</b>	<b>Total</b>	<b>Total</b>
Grades 1-3: Low - fair risk	5,879	23	-	-	5,902	10,111
Grades 4: Higher risk	2,794	-	-	-	2,794	2,831
Grades 5: Substandard	804	2,559	1,111	-	4,474	2,330
Grades 6: Doubtful	-	-	-	-	-	-
Grades 7: Loss	-	304	-	-	304	5,721
<b>Total</b>	<b>9,477</b>	<b>2,886</b>	<b>1,111</b>	<b>-</b>	<b>13,474</b>	<b>20,993</b>
Provision	-15	-22	-	-	-37	-710

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The following tables disclose information about the delinquency status of Loans and advances to banks and insurance companies and to other customers at gross carrying amount in Stage 1, 2, 3 breakdown:

<b>Loans and advances to banks and insurance companies</b>					<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI*</b>	<b>Total</b>	<b>Total</b>
Current	525,464	1,134	-	-	526,598	591,363
Overdue < 30 days	-	-	-	-	-	-
Overdue > 30 days	-	-	524	-	524	514
<b>Total</b>	<b>525,464</b>	<b>1,134</b>	<b>524</b>	<b>-</b>	<b>527,122</b>	<b>591,877</b>

<b>Loans and advances to banks and insurance companies</b>					<b>31.12.2018</b>	<b>01.01.2018</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI*</b>	<b>Total</b>	<b>Total</b>
Current	577,330	14,033	-	-	591,363	588,426
Overdue < 30 days	-	-	-	-	-	-
Overdue > 30 days	-	-	514	-	514	480
<b>Total</b>	<b>577,330</b>	<b>14,033</b>	<b>514</b>	<b>-</b>	<b>591,877</b>	<b>588,906</b>

<b>Loans and advances to other customers</b>					<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI*</b>	<b>Total</b>	<b>Total</b>
Current	153,335	60,977	36,722	-	251,034	277,541
Overdue < 30 days	2,433	2,533	-	-	4,966	1,039
Overdue > 30 days	-	980	7,962	-	8,942	11,378
<b>Total</b>	<b>155,768</b>	<b>64,490</b>	<b>44,684</b>	<b>-</b>	<b>264,942</b>	<b>289,958</b>

<b>Loans and advances to other customers</b>					<b>31.12.2018</b>	<b>01.01.2018</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI*</b>	<b>Total</b>	<b>Total</b>
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
<b>Total</b>	<b>169,164</b>	<b>63,237</b>	<b>57,557</b>	<b>-</b>	<b>289,958</b>	<b>261,118</b>

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In case of Loans and advances to other customers, a great part of Stage 3, non-delinquent exposure comprises of restructured loans. The gross carrying amount and Stage breakdown of restructured loans are presented in the following tables:

<b>Loans and advances to other customers</b>						<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI*</b>	<b>Total</b>	<b>Total</b>	
Restructured loans	-	1,743	28,356	-	30,099	40,302	

<b>Loans and advances to other customers</b>						<b>31.12.2018</b>	<b>01.01.2018</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI*</b>	<b>Total</b>	<b>Total</b>	
Restructured loans	-	-	40,302	-	40,302	9,803	

\* Purchased or Originated Credit Impaired

Within the framework of monitoring activities, the Bank attempts to identify potential problems with the receivables as early as possible. Since the Bank intends to ensure the credit repayment capacity of the clients, when perceiving problems, where appropriate, the Bank engages restructuring tools before the appearance of delinquency. Restructuring might involve the prolongation of tenor, modification of payment schedule or the revision of loan conditions. Total exposure of restructured loans was 30,099 m HUF on 31 December 2019, mostly consisting of non-delinquent, non performing project loans. Throughout 2019 the exposure of restructured loans decreased by 10,203 m HUF.

The highest share within the Bank's portfolio is represented by exposures to financial institutions. Alike to the other portfolio segments the Bank uses a 7 scale internal rating system for banks. The tables below discloses credit exposures to banks per internal rating categories showing gross carrying amounts on 31 December 2019 and 31st December 2018.

<b>Bank's internal rating</b>	<b>PD range</b>	<b>Rating definition</b>	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>01.01.2018</b>
<b>1</b>	0,00% - 0,04%	Banks with extremely good financial conditions, and/or high possibility of efficient external support.	200,916	165,031	145,648
<b>2</b>	0,04% - 0,22%	Banks with good financial conditions, and/or possibility of substantial access to external support.	206,739	307,765	284,602
<b>3</b>	0,22% - 1,09%	Banks with above average financial performance, and/or appropriate access to external support.	83,588	6,013	62,800

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<b>4</b>	1,09% - 2,43%	Banks with medium grade financial performance, and/or limited access to external support.	32.063	104.682	82.287
<b>5</b>	2,43% - 5,39%	Banks with bellow average financial performance, and/or limited access to external support.	2,214	7,739	12,647
<b>6</b>	5,39% - 12,00%	Banks with weak financial performance without any possible external support.	1,078	133	442
<b>7</b>	12,00% - 100,00%	Banks with very weak financial performance and/or that are effectively in default.	524	514	480
<b>Total</b>			<b>527,122</b>	<b>591,877</b>	<b>588,906</b>

Beyond client risk, collaterals are also taken into consideration when assessing credit risk. The two tables below disclose the gross carrying amounts on 31 December 2019 for financial institutions and other customers according to their collateral coverage intervals. Within the 7 scale rating system 1 represents the lowest client risk and 7 represents the highest client risk.

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

**31.12.2019**

Internal rating category	PD range	Level of collaterals behind claims			Total
		less than 50%	50%-70%	more than 70%	
1	0,00% - 0,04%	180,101	-	20,815	200,916
2	0,04% - 0,22%	124,901	2,932	78,906	206,739
3	0,22% - 1,09%	55,213	-	28,375	83,588
4	1,09% - 2,43%	20,480	-	11,583	32,063
5	2,43% - 5,39%	204	-	2,010	2,214
6	5,39% - 12,00%	985	-	93	1,078
7	12,00% - 100,00%	524	-	-	524
<b>Összesen</b>	-	<b>382,408</b>	<b>2,932</b>	<b>141,782</b>	<b>527,122</b>

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In case of Loans and advances to other customers:

**31.12.2019**

Internal rating category	PD range	Level of collaterals behind claims			
		less than 50%	50%-70%	more than 70%	Total
1	0,00% - 0,22%	274	33	20	327
2	0,22% - 0,49%	428	440	103	971
3	0,49% - 1,09%	17,837	3,260	8,707	29,804
4	1,09% - 2,43%	11,784	4,240	73,613	89,637
5	2,43% - 5,39%	6,261	2,340	30,527	39,128
6	5,39% - 12,00%	55,497	2,342	37,757	95,596
7	12,00% - 100,00%	6,399	116	2,964	9,479
<b>Összesen</b>	-	<b>98,480</b>	<b>12,771</b>	<b>153,691</b>	<b>264,942</b>

#### *Expected credit loss calculation*

The detailed criteria of Stage classification and disclosure of the applied credit risk models can be found in Chapter 3.4.

At each evaluation date, the Bank classifies its financial instruments into Stages to determine loss allowance. For Stage 1 financial assets loss allowance (impairment) is calculated in the amount of 12-month-expected credit loss, whereas for Stage 1 financial guarantees and loan commitments provision is calculated according to the below formulae:

$$\text{Stage 1 impairment} = PD \times LGD \times EXP$$

$$\text{Stage 1 provision} = PD \times LGD \times EXP \times CCF$$

where:

EXP: gross carrying amount of the financial instrument, and the value of loan commitment in case of off-balance sheet items.

PD: one year forward looking marginal PD in the function of elapsed time from initial recognition according to the segmented lifetime PD models.

LGD: loss given default percentage for the given segment.

CCF: credit conversion factor for off-balance sheet items. The Bank applies CCFs in line with the supervisory parameters defined in the CRR.

For Stage 2 instruments the expected credit loss is calculated using the lifetime expected credit loss models based on the below formulae:

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

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

where:

n: elapsed time since initial recognition (year)

p: term (year)

EXP<sub>t</sub>: estimated gross carrying amount for future dates from contractual cash flows and the value of loan commitment in case of off-balance sheet items.

PD<sub>t</sub>: one year forward looking marginal PD for the given future years in the function of elapsed time since initial recognition according to the segmented lifetime PD models.

LGD: loss given default percentage for the given segment. LGD is constant in both Stage 1 and Stage 2.

CCF: credit conversion factor for off-balance sheet items. The Bank applies CCFs in line with the supervisory parameters defined in the CRR. CCF is constant in both Stage 1 and Stage 2.

EIR: effective interest rate. In the discount factor the exponent t=1 stands for the actual evaluation date (not the date of initial recognition).

The Bank evaluates Stage 3 deals exclusively by individual assessment. Individual assessment is accomplished by considering the probable client payments, recoveries from collateral enforcement and expected cash flows derived from other debt management solutions. When estimating cash flows the Bank also considers the expected costs of enforcing receivables and collaterals together with the expected costs of other debt management actions. Regarding estimated future cash flows, the Bank considers at least two cash flow scenarios, and orders weights to them according to their probability of occurrence. The aggregation of probability weights results in 100%. The Bank evaluates the probability-weighted cash flow scenarios with the DCF method by discounting with EIR. Loss reserve is the difference between the amortized cost and the recoverable amount.

In case of the corporate expected credit loss model the Bank carries out sensitivity analysis by using the forward-looking macroeconomic model to correct PDs. Its disclosure is presented in the following table. The reason for the different macroeconomic model variables in the two years is the fact that the applied macroeconomic model was replaced in 2019.

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	<b>2019</b>	<b>2018</b>
Method of macroeconomic model	ARMA	ARMA
Target variable	Corporate default rate time series (NBH, Opten) autoregressive variable, moving average variable, inflation rate lagged by 4 quarters, difference of unemployment rate lagged by 4 quarters	Corporate default rate time series (NBH, Opten) autoregressive variable, moving average variable, GDP volume index lagged by 4 quarters, difference of unemployment rate lagged by 2 quarters
Explanatory variables		
Value of macroeconomic indicators in the baseline scenario	3,06% inflation rate, 3,34% unemployment rate	3,45% GDP volume index, 3,90% unemployment rate
Value of macroeconomic indicators in the optimistic scenario	3,00% inflation rate, 2,50% unemployment rate	6,00% GDP volume index, 2,00% unemployment rate
Value of macroeconomic indicators in the pessimistic scenario	8,61% inflation rate, 11,35% unemployment rate	-4,10% GDP volume index, 9,00% unemployment rate

The tables below disclose the movements and modifications of loss allowances between 1 January 2019 and 31 December 2019:

	<b>2019</b>			<b>2019</b>	<b>2018</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>	<b>Total</b>

**Cash and cash equivalents**

<b>Balance on 1st January</b>	<b>1</b>	<b>0</b>	<b>-</b>	<b>1</b>	<b>1</b>
Net remeasurement of loss allowance	-1	0	-	<b>-1</b>	<b>0</b>
Net changes in cash	16	-	-	<b>16</b>	<b>0</b>
Foreign exchange and other movements	0	0	-	<b>0</b>	<b>0</b>
<b>Balance on 31st December</b>	<b>17</b>	<b>0</b>	<b>-</b>	<b>16</b>	<b>1</b>

**Debt securities measured at amortised cost**

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<b>Balance on 1st January</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>24</b>	<b>22</b>
Net remeasurement of loss allowance	51	-	-	51	0
New financial assets originated or purchased	9	-	-	9	2
Financial assets that have been derecognized	-8	-	-	-8	0
Foreign exchange and other movements	0	-	-	0	0
<b>Balance on 31st December</b>	<b>77</b>	<b>-</b>	<b>-</b>	<b>77</b>	<b>24</b>

**Loans and advances to banks and insurance companies**

<b>Balance on 1st January</b>	<b>431</b>	<b>36</b>	<b>507</b>	<b>974</b>	<b>946</b>
Transfer to Stage 1	35	(35)		0	0
Transfer to Stage 2	(3)	3		0	0
Transfer to Stage 3				0	0
Net remeasurement of loss allowance	-169	-1	-5	-175	-113
New financial assets originated or purchased	49	1	-	50	148
Financial assets that have been derecognized	-61	0	0	-61	-51
Write-offs	-	-	-	0	0
Unwind of discounts	-	-	0	0	0
Foreign exchange and other movements	10	0	22	31	45
<b>Balance on 31st December</b>	<b>292</b>	<b>3</b>	<b>524</b>	<b>819</b>	<b>974</b>

**Loans and advances to other customers**

<b>Balance on 1st January</b>	<b>301</b>	<b>1.293</b>	<b>15.553</b>	<b>17.147</b>	<b>15.091</b>
Transfer to Stage 1	1	(1)		0	0
Transfer to Stage 2	(37)	41	(4)	0	0
Transfer to Stage 3	(21)	(6)	27	0	0
Net remeasurement of loss allowance	-2	164	4,460	4,622	2,713
New financial assets originated or purchased	21	188	97	306	4,125
Financial assets that have been derecognized	-86	-380	-5,376	-5,841	-4,196
Write-offs			-280	-280	-1,325
Unwind of discounts			490	490	369

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Foreign exchange and other movements	3	19	231	<b>253</b>	<b>371</b>
<b>Balance on 31st December</b>	<b>181</b>	<b>1,317</b>	<b>15,199</b>	<b>16,697</b>	<b>17,147</b>

**Other assets**

<b>Balance on 1st January</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Net remeasurement of loss allowance	-	-	-	<b>0</b>	<b>0</b>
New financial assets originated or purchased	0	0	1	<b>1</b>	<b>0</b>
Financial assets that have been derecognized	-	-	-	<b>0</b>	<b>0</b>
Write-offs	-	-	-	<b>0</b>	<b>0</b>
Foreign exchange and other movements	0	0	0	<b>0</b>	<b>0</b>
<b>Balance on 31st December</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>0</b>

**Financial guarantees and loan commitments**

<b>Balance on 1st January</b>	<b>237</b>	<b>622</b>	<b>218</b>	<b>1,077</b>	<b>1,242</b>
Transfer to Stage 1	1	(1)		<b>0</b>	<b>0</b>
Transfer to Stage 2	(9)	9		<b>0</b>	<b>0</b>
Transfer to Stage 3				<b>0</b>	<b>0</b>
Net remeasurement of loss allowance	-8	-188	0	<b>-196</b>	<b>81</b>
New loan commitments and financial guarantees issued	84	9	-	<b>93</b>	<b>994</b>
Loan commitments and financial guarantees that have been derecognized	-208	-296	-218	<b>-723</b>	<b>-1,256</b>
Foreign exchange and other movements	1	9	0	<b>10</b>	<b>15</b>
<b>Balance on 31st December</b>	<b>97</b>	<b>164</b>	<b>0</b>	<b>261</b>	<b>1,077</b>

Amounts of loss allowance made and reversed in both periods, recognised in the statement of comprehensive income, are in-depth disclosed in NOTE 15.

The Bank did not have partially written-off exposures still under collection, on the reporting date.

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#### *Collaterals*

Risk undertaking decisions of the Bank are primarily based on the clients' capability to meet their financial obligations from their major cash flow. In addition, however, the Bank determines the necessary level of risk mitigation and collaterals by considering the riskiness of the client and the deal. Therefore the Bank attempts to include collaterals behind risk undertakings, which are liquid enough that if the receivable might not be recovered from the major client cash flow, the receivable would be recovered within a short time from these secondary sources.

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

The Bank secures a significant part of its foreign loans by MEHIB insurance having state background.

If a loan becomes defaulted which is covered by MEHIB insurance, then MEHIB will take over the principal and interest payment, including delinquent payments, according to the loan conditions up to the amount of insurance coverage.

The Bank requires collaterals or other securities to cover certain credit risks. The following table presents the main collateral types covering different financial assets. Figures in the table represent the collateral values allocated to receivables. Explanation of terms Stage 1, Stage 2 and Stage 3 can be found in Chapter 3.4.

	Loans and advances to banks and insurance companies			Loans and advances to other customers		
	31.12.2019	31.12.2018	01.01.2018	31.12.2019	31.12.2018	01.01.2018
<b><u>Stage 1</u></b>						
Insured by MEHIB	5,901	-	-	108,662	98,865	71,327
Cash Collateral	37,377	-	-	425	377	422
Bank guarantees	18,329	15,145	6,724	-	-	-
Property	-	-	-	12,005	21,292	22,756
Other	80,651	156,218	142,694	6,709	10,074	9,526
Collaterals total	142,258	171,363	149,418	127,801	130,608	104,031
Gross carrying amount of loans and advances	525,172	576,900	569,713	155,587	168,863	192,316
Collateral coverage %	27%	30%	26%	82%	77%	54%
<b><u>Stage 2</u></b>						
Insured by MEHIB	76	6,217	614	16,681	16,529	16,382
Cash Collateral	-	-	-	43	41	40
Bank guarantees	884	-	1,704	-	-	-
Property	-	-	-	7,223	3,166	2,143
Other	-	-	-	5,870	24,139	16,252

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Collaterals total	960	6,217	2,318	29,817	43,875	34,817
Gross carrying amount of loans and advances	1,131	13,997	18,237	63,173	61,943	44,615
Collateral coverage %	85%	44%	13%	47%	71%	78%
<b>Stage 3</b>						
Insured by MEHIB	-	-	-	1,681	1,694	73
Cash Collateral	-	-	-	2	60	69
Bank guarantees	-	-	-	-	-	-
Property	-	-	-	13,237	8,410	3,253
Other	-	-	-	9,049	10,894	1,137
Collaterals total	-	-	-	23,969	21,058	4,532
Gross carrying amount of loans and advances	-	7	10	29,485	42,005	9,096
Collateral coverage %	-	0%	0%	81%	50%	50%
<b>POCI</b>						
Insured by MEHIB	-	-	-	-	-	-
Cash Collateral	-	-	-	-	-	-
Bank guarantees	-	-	-	-	-	-
Property	-	-	-	-	-	-
Other	-	-	-	-	-	-
Collaterals total	-	-	-	-	-	-
Gross carrying amount of loans and advances	-	-	-	-	-	-
Collateral coverage %	-	-	-	-	-	-
<b>Collaterals total</b>	<b>143,219</b>	<b>177,580</b>	<b>151,736</b>	<b>181,587</b>	<b>195,541</b>	<b>143,380</b>
<b>Gross carrying amount of loans and advances</b>	<b>526,303</b>	<b>590,904</b>	<b>587,960</b>	<b>248,245</b>	<b>272,811</b>	<b>246,027</b>
<b>Collateral coverage %</b>	<b>27%</b>	<b>30%</b>	<b>26%</b>	<b>73%</b>	<b>72%</b>	<b>58%</b>

Other collaterals behind refinancing loans granted to banks comprise of pledge on receivables that the counterparty banks provided to exporters. Other collaterals behind loans to other customers include chattel mortgage in 53% (60% of which are machines, vehicles, other equipments and 40% of which are inventory), and corporate guarantees in 29%. The collateral evaluation system considers different haircuts for collateral types that the Bank defined in its internal regulations.

Since the business activities of the Bank primarily promote the export and potential export of Hungarian companies having various creditworthiness, many treasury functions are not relevant for the Bank in contrast to the commercial banking sector. Accordingly, the Treasury Department does not conclude speculative derivative transactions, but it concludes foreign currency swap transactions to cover the open currency positions between assets and liabilities. To mitigate credit risk in foreign currency swap transactions, trading limits are set that are exclusively allocated to prime banks.

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The Bank's policies for managing liquidity risk, interest rate risk, foreign currency exchange risk, and capital management are regularly reviewed by the Asset and Liability Committee (ALCO) and the Board of Directors. The policies are summarised as follows.

#### **30.2. Liquidity risk**

Liquidity risk is the risk that the Bank might be unable to meet its payment obligations when they fall due under normal and stress circumstances. The liquidity management process is carried out and monitored by the Treasury Department, and it is also responsible for calculating the liquidity reserve. The Treasury monitors the balance sheet liquidity ratios in line with internal and regulatory requirements and reports unmatched items in the maturity structure to the Asset and Liability Committee (ALCO). The ALCO sets limits on the maximum amount of liquidity gap in the percentage of the balance-sheet total, 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 based on their earliest possible maturity. Trading derivatives are presented at fair value in a separate column.

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. Throughout 2019 and 2018 there were not any significant maturity gaps.

Loans borrowed from domestic and foreign banks and the issued global medium-term bonds 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, the Bank regards the probability of the premature termination of funds as extremely low. It is possible to terminate the unutilized loan commitments based on the 'Material Adverse Changes Clause' defined in all loan agreements, which can mitigate the liquidity risk if necessary, since no disbursement happens in case of terminating cancellable, unutilized loan commitments, which mitigates liquidity risk.

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

The Hungarian State's obligations to Eximbank in respect of the Funding Guarantee are subject to an upper limit set by the annual budget. Under the 2019 Budget Act, the upper limit of the Funding Guarantee is currently HUF 1,200 billion HUF.

The Hungarian State does not charge any fee in respect of the Funding Guarantee. In accordance with Hungarian legislation, if the Bank fails to perform any of its payment obligations, which are guaranteed by the Hungarian State, creditors may seek to recover

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directly from the Hungarian State by filing a petition with the minister responsible for public finances without first seeking to recover from the Bank.

In order to mitigate the risk of open positions the Bank holds assets exclusively with low credit risk and does not deal with futures or options. The security portfolio consists primarily of Hungarian Government bonds held for realizing contractual cash flows and maintaining a liquidity reserve. The Bank neither speculates on the stock exchange nor buys derivatives for speculative reasons.

#### 30.3. Market risk

The Bank does not undertake speculative positions. In 2019 and in 2018 no capital requirement was generated according to Article 351 of EU Regulations 575/2013.

The Bank does not manage trading book, accordingly no capital requirement arise from the trading book.

	<u>31.12.2019</u>	<u>31.12.2018</u>	<u>31.12.2017</u>
Capital requirement of the trading book	-	-	-
Solvency capital	212,078	184,282	178,564
Capital requirement of the trading book as a percentage of solvency capital	-	-	-

#### 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 applies gap analysis to present 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 the Bank is the interest compensation system that fundamentally reduces interest rate risk occurring in the Bank's operation. This interest rate compensation system covers the risk arising from fixed interest-bearing assets compared to floating and fixed rate funds with a certain amount approved by the Parliament for a one-year period in the budgetary law. The Treasury Department quarterly calculates the actual cost of funds considering the fixed and variable interest-bearing liabilities, which determines the Bank's funding premium beyond IBOR applied in the interest compensation system.

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

Under the interest compensation system, 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 the Bank's funding costs, operating expenses and the applicable risk premium. Funding costs recognized in the interest compensation system are determined as follows:  
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the funding premium beyond the all-time market 6-month-IBOR rates, therefore the interest compensation system settles fixed interest bearing loans to variable interest bearing ones. The Bank receives the interest compensation payment after applying to the Hungarian State within 15 days from the end of each quarter, and the Bank receives the payment for that quarter within 30 days after the application.

In addition to receiving payments from the Hungarian State under the interest compensation program, the Bank 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 compensation program.

Interest-compensation and support are intended to promote stability and sustainability for the Bank. However, the level of interest-compensation and support provided by the Hungarian State is also intended to keep the Bank's profit at or near zero for loans covered by these programmes, reflecting the Bank's role as an instrument of economic policy for the Hungarian State rather than as a traditional profit-oriented bank.

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

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

	31.12.2019	31.12.2018	01.01.2018
<b>Fixed rate financial instruments</b>			
Financial assets	72,812	50,791	59,020
Financial liabilities	689,471	718,570	573,922
<b>Total</b>	<b>762,283</b>	<b>769,361</b>	<b>632,942</b>
<b>Variable rate financial instruments</b>			
Financial assets	46,630	8,037	12,949
Financial liabilities	111,725	87,269	200,145
<b>Total</b>	<b>158,355</b>	<b>95,306</b>	<b>213,094</b>
<b>Financial assets under interest-compensation system</b>	698,469	807,342	784,440
<b>Tied-aid credits</b>	62,915	49,188	28,436

Financial assets under interest-compensation system and tied-aid credits are fixed rate or zero interest-bearing financial instruments. In case of tied-aid credits the Bank receives interest

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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.

Before December 2019, the Bank assessed net interest rate risk in its statement of financial position using a static gap model by considering parallel shift of interest rates calculated by a 99% confidence interval VAR-estimation of changes in interest rates per different currencies (EUR, USD, and HUF) in a three-month term. The static gap model determined the maximum extent that the net interest income for the next twelve months might decrease as a result of interest rate changes. The result of the static gap model was 73 m HUF on 31st December 2019. In the first 11 months of 2019 the lowest change in net interest income was 11 m HUF, the highest was 429 m HUF, the average was 177 m HUF. The calculation assumed that other conditions (including foreign exchange rates) remained unchanged during the period. Capital requirement of interest rate risk were calculated with duration gap methodology based on a basis point value model regarding VAR of changes in interest rates. On 31st December 2018 the capital requirement was 378 m HUF. In the first 11 months of 2019 it varied between 131 m HUF and 832 m HUF, its average was 549 m HUF.

Since December 2019, the Bank measures the impact of interest rate risk on the net interest income and economic capital with static and duration gap methodology, which are parameterized using the stress scenarios determined by the European Banking Authority (EBA). Impact on economic capital serves for measuring the long-term effects of interest rate risk, which is determined based on the present value differences of cash flows of interest bearing assets and liabilities.

The Bank applies the scenarios, assuming positive and negative parallel shift of yield curves, inclining and steepness shocks and shocking increase and decrease of short-term interest rates, for EUR, USD and HUF currencies, and considers the result of the worst case scenario for all currencies. Results are aggregated using the average and standard deviation of the last 12 months, and Pillar II capital requirement is calculated by combining the two methods. Interest rate risk limit has been set as the 10% of the solvency capital, and the limit is charged by the economic capital impact of interest rate risks. On 31 December 2019 the limit was charged by 10,4%, accordingly no measurement was necessary in the assets and liabilities structure to reduce interest rate risk.

A fundamental global reform of main reference interest rates are currently in progress, aiming at replacing or reforming IBOR (interbank offer rates) with alternative, near risk-free returns. The Bank's financial instruments do not have significant exposures to IBORs that might be replaced or reformed due to this market-level initiative. The Bank expects that IBOR reform would not result in a significant operational, risk management and accounting impact on its business activity.

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**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 per currency and in aggregate both for overnight and for 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. The Bank does not speculate on the FX market and opens FX positions only within the framework of highly restricted rules.

On 31 December 2019 foreign currency exposures were the followings (in m HUF):

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

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On 31st December 2018 foreign currency exposures were the followings (in m HUF):

	<b>EUR</b>	<b>USD</b>	<b>GBP</b>	<b>RUB</b>	<b>RSD</b>	<b>TRY</b>
Loans and advances to banks and insurance companies, net	385,584	73,249	-	-	-	-
Loans and advances to other customers, net	161,013	85,675	-	-	-	-
Other, net	3,115	17,954	3	3	4	1
<b>Total foreign currency assets</b>	<b>549,712</b>	<b>176,878</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>1</b>
Loans and deposits from banks and insurance companies	325,493	128,837	-	-	-	-
Deposits from customers	-	2,108	-	-	-	-
Debt securities issued	154,324	142,516	-	-	-	-
Other liabilities	3,169	45	-	-	-	-
<b>Total foreign currency liabilities</b>	<b>482,986</b>	<b>273,506</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Foreign currency assets and liabilities, net</b>	<b>66,726</b>	<b>-96,628</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>1</b>
<i>Effect of derivatives</i>	<i>-71,990</i>	<i>96,072</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<b>Net exposure</b>	<b>-5,264</b>	<b>-556</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>1</b>

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#### **30.4. Capital Management**

Capital adequacy of the Bank is regulated by 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’ (CRR). Measures on solvency capital are laid down in Part Two, capital requirements in Part Three of CRR. In 2019, alike to the previous years, all requirements were met by the Bank.

A subordinated loan accounted within ‘Liabilities to credit institutions and insurance companies’ in the amount of 100 m EUR granted by Hungarian Development Bank (MFB) can be taken into account in the solvency capital as a supplementary capital instrument in the first two years of the tenor. After this (between 12 September 2019 and 12 September 2024) the supplementary capital instrument can be taken into account in the solvency capital in the amount of its amortized value, as laid down in Article 92 of CRR.

In line with the referred provisions, the amount of the supplementary capital is to be considered as a positive component of the solvency capital of the Bank.

The Bank fulfilled the legal and prudential requirements in 2019 and in 2018. The capital adequacy ratio has always significantly exceeded the 8 percent required by the law as stated above.

	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>01.01.2018</b>
Core capital	181,016	152,131	147,550
Supplementary capital	31,062	32,151	31,014
Solvency capital	212,078	184,282	178,564
Total risk-weighted exposure to credit risk	908,482	892,957	907,133
Total risk exposure amount for operational risk	40,571	33,888	30,278
Total risk exposure amount	949,053	926,845	937,411
Capital adequacy ratio	22,35%	19,88%	19,05%

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#### **30.5. Large exposure risk undertakings**

The Bank applies the large exposure ordinances of CRR (Article 392 for large exposure undertakings against clients or client-groups, and Article 395 for exceeding the large exposure risk undertaking limit) together with the adjustments regulated in the Act on Exim.

Large exposure risk undertaking:

According to the 21. § (1) of Act on Exim large exposure is an exposure against clients or client-groups, if it exceeds the 25% of the solvency capital.

Exceeding the large exposure risk undertaking limit:

- For credit institution clients or client groups the non-export oriented and other export-oriented exposures reduced by the exemptions and the impacts of credit risk mitigation tools altogether cannot exceed the larger amount from 150 m EUR or 25% of the solvency capital, but at most the 50% of the solvency capital.
- For other customers the large exposure risk undertaking limit is 35% of the solvency capital.

21. § (3) of Act on Exim regulates the exemptions and credit risk mitigation tools applicable to exempt exposures formulating the basis of large exposure risk undertaking:

a) Export-oriented loans granted by the Bank to domestic or foreign credit institutions.

According to the 1. § of 85/1998. (V. 6.) Governmental Decree on the Bank's interest compensation system, export-oriented loans are the followings:

- Export credits, refinancing export credits, other export-oriented credits (supplier credits, investment loans abroad), other export oriented refinancing export credits defined by the 1. § a)-d) points of 85/1998. Governmental Decree;
- Competitiveness increasing credits and refinancing credits granted within the framework of the Export Stimulating Loan Program defined by the 1. § e)-f) points of 85/1998. Governmental Decree;
- Refinancing credits to buy export receivables (loans granted by domestic or foreign financial institutions to buy export receivables in line with point 60 6. § (1) of the Act on Credit Institutions and Financial Service Companies) defined by the 1. § g) point of 85/1998. Governmental Decree;
- Export pre-financing credits (export pre-financing loans and export-oriented investment loans) and export pre-financing refinancing credits defined by the 1. § h)-i) points of 85/1998. Governmental Decree.

b) Foreign buyer loans granted by the Bank, when the OECD rating of the target country is 3 or better and the central budget of the target country guarantees the repayment of the loans.

c) Up to the amount secured by the following guarantees:

- Loan secured by guarantee issued by credit institution located in OECD member countries, or
- Loans secured by credit institutions, for which at least 50% risk weight can be considered according to the standardized method of credit risk for tenor longer than 3 months.

d) Risk undertakings secured by guarantee having central budgetary background, including the export credit insurance granted by MEHIB up to the insured amount decreased by the downpayment.

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In addition, the exemptions and credit risk mitigation tools regulated in Article 400-403 of the CRR are applicable to exempt exposures formulating the basis of large exposure risk undertaking.

The Act on Exim regulates the idiosyncratic rules for the Bank regarding the large exposure ordinances of CRR (Article 392 and 395). Considering the exemptions and credit risk mitigation tools, the total amount of large exposures of the Bank was 141,242 m HUF on 31st December 2018. Within this amount 47,204 m HUF was exposed to other customers and 94.038 m HUF against credit institution client groups,

On 31 December 2019, considering the exemptions and credit risk mitigation tools, the total amount of large exposures of the Bank against credit institutions was 125,971 m HUF. Exempted credit limits were 15,480 m HUF, the amount of collateralized Hungarian governmental bonds (through bail contracts) was 36,672 m HUF. The Bank was not exposed to any credit institution by large exposure.

Regarding other customers, the Bank had altogether 109,744 m HUF exposures exceeding the 25% of solvency capital. Exposures are secured by MEHIB export credit insurance, which meets the 21. § (3) d) point of Act on Exim, accordingly has eligible credit risk mitigation tool behind. Accordingly, the Bank was not exposed to any other customer by large exposure.

For credit institutions the large exposure risk undertaking limit was 53,020 m HUF on 31 December 2019.

For other customers the large exposure risk undertaking limit was 74,227 m HUF on 31 December 2019, as the 35% of solvency capital.

At the end of 2019, none of the Bank's exposures against clients or client-groups exceeded the large exposure risk undertaking limit, taking into consideration the credit risk mitigating tools and exemptions.

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**NOTE 31. GEOGRAPHICAL INFORMATION**

The tables below show the concentration of elements of the Statement of financial position and incomes of the Bank by geographical areas. The presented geographical areas are Hungary, members of the European Union, European countries which are not EU members and countries outside of Europe.

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

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Cash and cash equivalents	31,180	11	6	32,387	63,584
Securities measured at amortised cost	43,123	-	-	-	43,123
Loans and advances to banks and insurance companies	519,020	-	5,827	1,456	526,303
Loans and advances to other customers*	115,862	8,191	7,221	116,971	248,245
Financial assets measured at fair value through profit or loss (Derivatives)	9,273	5,546	-	-	14,819
Investments measured at fair value through profit or loss	12	20,743	5,529	-	26,284
Investment accounted with equity method	60,998	-	-	-	60,998
Intangibles	1,996	-	-	-	1,996
Property, plant and equipments	2,858	-	-	-	2,858
Current income tax assets	361	-	-	-	361
Other tax assets	84	-	-	-	84
Deferred tax assets	17	-	-	-	17
Other assets	3,778	-	-	-	3,778
<b>Total Assets</b>	<b>788,562</b>	<b>34,491</b>	<b>18,583</b>	<b>150,814</b>	<b>992,450</b>

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Loans and deposits from banks and insurance companies	276,821	295,511	-	-	572,332
Deposits from other customers	6,657	-	-	-	6,657
Financial liabilities measured at fair value through profit or loss (Derivatives)	196	3	-	-	199
Debt securities issued**	69,900	305	-	149,820	220,025
Provisions	489	-	2	14	505
Tax liabilities	206	-	-	-	206
Deferred tax liabilities	44	-	-	-	44
Other liabilities	9,470	-	-	-	9,470
<b>Total Liabilities</b>	<b>363,783</b>	<b>295,819</b>	<b>2</b>	<b>149,834</b>	<b>809,438</b>
Share capital	158,930	-	-	-	158,930
Retained earnings	3,595	-	-	-	3,595
Other reserves	20,487	-	-	-	20,487
<b>Total Shareholders' Equity</b>	<b>183,012</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>183,012</b>
<b>Total Liabilities and Equity</b>	<b>546,795</b>	<b>295,819</b>	<b>2</b>	<b>149,834</b>	<b>992,450</b>

**Off-balance sheet financial instruments**

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Unutilised part of credit lines	226,437	408	3,324	107,022	337,191
Guarantees insured by the state	14,746	-	303	-	15,049
Guarantees not counter-guaranteed by the state	577	-	16	-	593
Letter of Credit	-	-	-	290	290
Funds	14,091	34,009	13,641	-	61,741
<b>Total</b>	<b>255,851</b>	<b>34,417</b>	<b>17,284</b>	<b>107,312</b>	<b>414,864</b>

\*As of 31 December 2019 56% of the Loans and advances to other customers in other countries are Indonesian, 23% of loans are to clients of Laos, 10% of Sri Lanka.

\*\*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.

The accompanying notes to the separate financial statements on pages 14-160 form an integral part of these separate financial statements.

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

	<b>Hungary</b>	<b>EU Members</b>	<b>Non-EU European Countries</b>	<b>Other Countries</b>	<b>Total</b>
Cash and cash equivalents	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
Financial assets measured at fair value through profit or loss (Derivatives)	7,398	4,515	-	-	11,913
Investments measured at fair value through profit or loss	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
<b>Total Assets</b>	<b>816,688</b>	<b>21,278</b>	<b>23,173</b>	<b>111,954</b>	<b>973,093</b>
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 (Derivatives)	753	403	-	-	1,156
Debt securities issued*	46,399	127,649	-	142,516	316,564
Provisions	1,625	-	5	14	1,644
Tax liabilities	158	-	-	-	158
Deferred tax liabilities	217	-	-	-	217
Other liabilities	7,597	1,611	-	-	9,208
<b>Total Liabilities</b>	<b>284,735</b>	<b>389,920</b>	<b>5</b>	<b>142,530</b>	<b>817,190</b>
Share capital	133,700	-	-	-	133,700
Retained earnings	6,396	-	-	-	6,396
Other reserves	15,807	-	-	-	15,807
<b>Total Shareholders' Equity</b>	<b>155,903</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>155,903</b>
<b>Total Liabilities and Equity</b>	<b>440,638</b>	<b>389,920</b>	<b>5</b>	<b>142,530</b>	<b>973,093</b>

**Off-balance sheet financial instruments**

The accompanying notes to the separate financial statements on pages 14-160 form an integral part of these separate financial statements.

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	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
<b>Total</b>	<b>354,198</b>	<b>40,015</b>	<b>13,962</b>	<b>44,909</b>	<b>453,084</b>

\*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.



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**Concentration of assets and liabilities by geographical areas as at 1 January 2018**

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Cash and cash equivalents	3,374	92	4	88	3,558
Securities measured at amortised cost	39,764	-	-	-	39,764
Loans and advances to banks and insurance companies	580,809	-	6,915	236	587,960
Loans and advances to other customers	154,119	523	8,779	82,606	246,027
Financial assets measured at fair value through profit or loss (Derivatives)	4,543	9,334	-	-	13,877
Investments measured at fair value through profit or loss	12	11,238	5,152	-	16,402
Investment accounted with equity method	17,398	-	-	-	17,398
Intangibles	1,459	-	-	-	1,459
Property, plant and equipments	1,293	-	-	-	1,293
Current income tax assets	666	-	-	-	666
Other tax assets	1,936	-	-	-	1,936
Deferred tax assets	85	-	-	-	85
Other assets	1,408	-	-	-	1,408
<b>Total Assets</b>	<b>806,866</b>	<b>21,187</b>	<b>20,850</b>	<b>82,930</b>	<b>931,833</b>
Loans and deposits from banks and insurance companies	125,373	208,514	-	-	333,887
Deposits from other customers	9,874	-	-	-	9,874
Financial liabilities measured at fair value through profit or loss (Derivatives)	619	1,607	-	-	2,226
Debt securities issued*	45,411	119,594	-	263,124	428,129
Provisions	2,032	279	125	8	2,444
Tax liabilities	175	-	-	-	175
Deferred tax liabilities	-	-	-	-	-
Other liabilities	6,735	-	-	-	6,735
<b>Total Liabilities</b>	<b>190,219</b>	<b>329,994</b>	<b>125</b>	<b>263,132</b>	<b>783,470</b>
Share capital	133,700	-	-	-	133,700
Retained earnings	3,516	-	-	-	3,516
Other reserves	11,147	-	-	-	11,147
<b>Total Shareholders' Equity</b>	<b>148,363</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>148,363</b>
<b>Total Liabilities and Equity</b>	<b>338,582</b>	<b>329,994</b>	<b>125</b>	<b>263,132</b>	<b>931,833</b>

The accompanying notes to the separate financial statements on pages 14-160 form an integral part of these separate financial statements.

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**Off-balance sheet financial instruments**

	<b>Hungary</b>	<b>EU Members</b>	<b>Non-EU European Countries</b>	<b>Other Countries</b>	<b>Total</b>
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
<b>Total</b>	<b>343,858</b>	<b>5,901</b>	<b>7,904</b>	<b>32,966</b>	<b>390,629</b>

\*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 1 January 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.

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

	<b>Hungary</b>	<b>EU Members</b>	<b>Non-EU European Countries</b>	<b>Other Countries</b>	<b>Total</b>
<b>Interest income:</b>					
Loans and advances to banks and insurance companies	896	148	154	7	1,205
Loans to other customers	4,297	68	126	1,657	6,148
Interest compensation system	20,008	-	-	-	20,008
Securities	303	-	-	-	303
Cross currency interest rate swaps	2,961	1,743	-	-	4,704
Other interest income	92	1	-	-	93
<b>Total interest income</b>	<b>28,557</b>	<b>1,960</b>	<b>280</b>	<b>1,664</b>	<b>32,461</b>
Income from fees and commissions	568	-	3	5	576
<b>Total income</b>	<b>29,125</b>	<b>1,960</b>	<b>283</b>	<b>1,669</b>	<b>33,037</b>

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

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
<b>Interest income:</b>					
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
<b>Total interest income</b>	<b>35,032</b>	<b>2,067</b>	<b>381</b>	<b>1,585</b>	<b>39,065</b>
Income from fees and commissions	407	1	157	5	570
<b>Total income</b>	<b>35,439</b>	<b>2,068</b>	<b>538</b>	<b>1,590</b>	<b>39,635</b>

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### ***NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (All amounts in HUF million unless otherwise stated)***

#### **NOTE 32. EVENTS AFTER THE REPORTING DATE**

##### **DISCLOSURES RELATING TO LITIGATION**

Eximbank Zrt. And MEHIB Zrt. (Hereinafter referred to as EXIM), as a tenant, signed a lease agreement with DÖB-68 Zrt. as a lessor for an office building (Lánchíd Irodaház) which is registered under the topographical number 14402 of Budapest, with regards to office space and parking spaces.

Over several years of litigation, the claim was amended several times by EXIM and the defendant submitted a counterclaim.

On 2 May 2019, the Budapest Court of Appeal delivered a final, interlocutory judgment in the case which changed the provision of the judgment of the Budapest Municipal Court dismissing the plaintiffs' action and stated that the Lease Agreement was void.

Against the final interlocutory judgment of the Budapest Court of Appeal, DÖB-68 Zrt. filed a review application to the Kúria (Supreme Court in Hungary) which was approved by the Kúria and therefore overruled the final interlocutory judgement of the Budapest Court of Appeal on 29 January 2020.

Since the final interlocutory judgement was overruled, the proceedings will continue at second instance with regards to EXIM's further claims.

Based on legal expert analysis, the Bank does not currently consider it probable that the case will result in payment obligations for the future. The amount of provisions in the financial statements has been determined based on the Bank's best estimate, considering all available information.

##### **NOTES RELATED TO COVID-19 PANDEMIC**

On behalf of the Action Group Responsible for the Security of Essential Hungarian Companies established by the 1101/2020. Governmental Decree, since 19 March 2020 three persons from the Hungarian Defense Forces and Law Enforcement Organizations arrived at the Bank (forming a Defense Coordinating Staff) to support the smooth operation of the Bank in the environment caused by the COVID-19 pandemic. The Bank had been nominated as an essential system element by the Minister of Economic Affairs in his 1/2016. decree as of 18th July 2016.

The Hungarian Government announced the state of emergency on 11 March 2020 in the 40/2020. Governmental Decree to avert the consequences of human pandemic causing mass disease, and jeopardizing security of life and property. Separate governmental decrees were issued to regulate extraordinary measures regarding the state of emergency.

The Bank has introduced rigorous protective measures to manage the risks of COVID-19 virus and pandemic state of emergency. The measures are reconciled continuously, and in case of necessity, the Bank makes extraordinary decisions overruling the accustomed procedures. They aim at ensuring business continuity even under circumstances if further severities are introduced.

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### *NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (All amounts in HUF million unless otherwise stated)*

The Management Board and the Supervisory Board of the Bank continuously monitor the evolved situation, and are informed about the expected impacts.

As a result of COVID-19 virus currently non-quantifiable economic recession, growing unemployment, declining investments and turnover can be anticipated both in Hungary and on the most important export markets. These might lead to the worsening liquidity situation of the clients and increasing number of corporate insolvencies, which might be moderated by the economic protection action plan announced by the Government of Hungary. In line with the 47/2020. Governmental Edict as of 18 March 2020, and the 62/2020. Governmental Edict as of 24 March 2020 to mitigate the national economic impact of COVID-19 pandemic, the debtors received a moratorium to pay principal, interest and fee obligations derived from loan or financial leasing contracts until 31 December 2020, and the tenor of expiring loans before the end of 2020 is delayed to the end of 2020. The payment moratorium is a precautional measure to ensure that temporary liquidity problems shall not result in deep, long lasting economic problems.

The Bank's direct domestic corporate loan portfolio and as a result of the final beneficiaries (domestic enterprises) the refinancing loans (comprising two third of the total on-balance portfolio) also fall under the effect of moratorium. Considering the features of tied source, it had been included in the refinancing loan contracts with financial institutions that the payment schedule of refinancing loans equals to the payment schedule of the derivative loan contracts. In line with the refinancing loan contracts the financial institutions are obliged to meet their payment obligations to the Bank even if their final beneficiaries do not pay to them under the obligations of the derivative loan contracts.

COVID-19 virus might have a currently unquantifiable impact on the Bank's portfolio in 2020. The most affected segment is the domestic direct corporate portfolio. The currently performing domestic direct corporate portfolio represents the 12% of the Bank's gross loan portfolio, and higher non-performing ratio is expected in this segment compared to the previous years.

The Bank manages the Stage classification of deals falling under the moratorium in line with the effective accounting standards and legislation, considering the attitude of European Banking Authority (EBA), European Securities and Markets Authority (ESMA) and the National Bank of Hungary (NBH) announced on 26 March 2020. Accordingly, the Bank does not regard the introduction of payment moratorium as a circumstance that might underpin the reclassification of Stage 1 deals into Stage 2 or Stage 3.

Investment portfolio of the equity funds can be regarded as well diversified, however, considering their distribution among countries and industries, they might be affected by the negative impact of COVID-19 virus in a currently non-quantifiable manner.

The Bank regards its sovereign and financial institution expected credit loss models as applicable also in crisis periods, since they were developed using long-term, historical default rates and LGDs overarching more economic cycles. Since the Bank expects that the impact of COVID-19 virus might mostly affect the direct corporate segment (through increasing probability of default), the Bank plans to adjust its corporate expected credit loss model to the changing environment by a mid-year model revision in 2020, as soon as reliable macroeconomic forecasts will be available from authentic source (NBH Inflation Report) reflecting the crisis effect. The Bank expects that loss allowance on corporate loans might increase in 2020. In addition, the moratorium might generate a non-quantifiable interest loss.

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The financing position of the Bank is stable. Extension of short-term interbank sources has been trouble-free. Liquidity is secured by the promptly available revolving credit lines and by the existing governmental bonds. The Bank typically finances its assets from long-term sources. According to the Act on Exim, the Hungarian State undertakes guarantee for the fulfillment of the Bank's obligations, the limit of which are determined in the budgetary act. In 2019 the upper limit was 1,200,000 m HUF.

In the Bank's opinion the measures to manage the pandemic state of emergency are expected to seriously affect most of the industries in which the Bank's clients and buyers operate. Due to the deteriorating economic environment it is expected that commercial banks moderate their risk appetite, accordingly financing market failure would become general (in contrast to earlier perceived failure in limit segments, industries or regions), which justifies the increasing financing activity of financial institutions having state background, including the Bank.

Since market interest rates will be a result of several unpredictable and volatile factors, the fixed interest-bearing products of the Bank might gain significance in accomplishing claim management measures in the Hungarian economy.

The Bank informed its clients about the moratorium, and drew their attention that they should report to the Bank, if they do not intend to take part in the moratorium. Since the clients are eligible for the moratorium according to governmental edict, no business/risk decision and contract modification is needed to delay the payments that were originally scheduled until 31 December 2020.

The Bank continuously provides the opportunity for the employees to work from home-office. The Bank possesses the necessary remote access technology to accomplish it. Home-office working was successfully launched, and operations are maintained smoothly.

#### **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).

# HUNGARIAN EXPORT-IMPORT BANK PLC.

## **NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (All amounts in HUF million unless otherwise stated)**

### 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 Bank classifies the financial instruments (financial assets, guarantees and loan commitments) into stages and determines the expected credit loss to calculate impairment, for details about the calculation of expected credit loss please refer to Note 3.3 and Note 30.

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.

#### **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 "Note 34 – Fair value 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 Exportösztönző Magántőkealap is 100%, in case of Portfolion Regionális Magántőkealap is 50% and in case of Enter Tomorrow Europe Magántőkealap is 50%, and in case of Columbus Magántőkealap is 70% 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

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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 Other Fund as it 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.

#### ***Others***

For details about interest equalisation programme please refer to Note 3.9 and details about the insurance fee to be paid by Eximbank to MEHIB please refer to Note 19 and Note 23.

#### **NOTE 34. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

Subsequent to initial recognition, the fair value of financial instruments that are quoted in active markets are measured at fair value based on bid prices for assets 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.

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

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<b>31 December 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>Financial assets at fair value through profit or loss</i>				
Derivative instruments		14,819		14,819
Equity instruments			26,284	24,715
<i>Financial liabilities at fair value through profit or loss</i>				
Derivative instruments		-199		-199
<b>31 December 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>Financial assets at fair value through profit or loss</i>				
Derivative instruments		11,913		11,913
Equity instruments			23,204	23,204
<i>Financial liabilities at fair value through profit or loss</i>				
Derivative instruments		1,156		1,156
<b>1 January 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>Financial assets at fair value through profit or loss</i>				
Derivative instruments		13,877		13,877
Equity instruments			16,402	16,402
<i>Financial liabilities at fair value through profit or loss</i>				
Derivative instruments		2,226		2,226

Investment Funds use a number of unobservable inputs for evaluating investments (multiplier and DCF methods), as a result the Bank classifies these assets at level 3. The fair value of the

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funds is set out by Eximbank, based on the net asset value calculation provided by the funds, thus the Bank does not quantify these which is in line with the IFRS 13 93 d)

	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>Variance</b>
<b>Opening balance</b>	<b>23,204</b>	<b>16,402</b>	<b>6,802</b>
Total gains and losses	-113	6,041	-6,154
- In profit and loss (Gains and losses) from trading and investment activities, net)	-113	6,041	-6,154
- In OCI	0	0	0
Disbursement *	5,121	3,369	1,752
Repayment	-4,874	-2,727	-2,147
Subscription **	2,946	119	2,827
Redemptions	0	0	0
Transfer to level 3	0	0	0
Transfer from level 3	0	0	0
<b>Closing balance</b>	<b>26,284</b>	<b>23,204</b>	<b>3,080</b>

\* Disbursement, the Bank provides a financial contribution for the realization of investment after subscription and provides financial contribution to the other costs in accordance with the arrangements.

\*\* Subscription is a special disbursement in which the investor provides a financial contribution to the registration of the fund. If the total financial contribution is not used in full, the remaining amount will be used to completion an investment, pay a management and other fees.

Repayments were due to the following events:

- The fund has partially or completely exited the investment;
- The amount called through the investment was not used in completely for the investment; the unused amount has been repaid;
- Loan repayment;
- Dividend income;

The realized profit was not generated in the current year, because the actual settlement takes place at the end of the term.

The fair value of the funds is set out by Eximbank, based on the net asset value calculation provided by the funds. However, these assets are denominated in foreign currencies, exchange rate risk is significant for fair value measurement. With this in mind, the Eximbank performs sensitivity analysis on the received actual (or corrected) net asset value data in order to estimate to how the income from the distribution of the participation units of the fund are affected by future exchange rate changes. During the current year's estimate, taking into account a lower limit (HUF/EUR 340 and HUF/USD 320) and an upper limit (HUF/EUR 380 and HUF /USD 350, respectively), a positive and a negative result were determined.

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Equity instruments listed in EUR (31 December 2019):

	<b>Net asset value 31.12.2019 (in EUR)</b>	<b>Book value 31.12.2019 (million Ft)</b>	<b>Effect of negative outcome (million Ft)*</b>	<b>Effect of positive outcome (million Ft)</b>
East West VC Fund	550,598	182	5	27
SINO CEE Fund	8,658,355	2,862	82	428

\* Due to the weakening of the Hungary's national currency, a possible negative outcome could also have a positive effect.

Equity instruments listed in EUR (31 December 2018):

	<b>Net asset value 31.12.2018 (in EUR)</b>	<b>Book value 31.12.2018 (million Ft)</b>	<b>Effect of negative outcome (million Ft)</b>	<b>Effect of positive outcome (million Ft)</b>
East West VC Fund	197,808	64	-3	0

Equity instruments listed in USD (31 December 2019):

	<b>Net asset value 31.12.2019 (in USD)</b>	<b>Book value 31.12.2019 (million Ft)</b>	<b>Effect of negative outcome (million Ft)*</b>	<b>Effect of positive outcome (million Ft)</b>
China CEE Fund	36,406,932	10,730	920	2,012
China CEE Fund II.	14,839,487	4,374	375	820
IFC FIG Fund	18,759,462	5,529	474	1,037
Kazakh Hungarian Agriculture Fund	8,803,795	2,595	222	486

\* Due to the weakening of the Hungary's national currency, a possible negative outcome could also have a positive effect.

Equity instruments listed in USD (31 December 2018):

	<b>Net asset value 31.12.2018 (in USD)</b>	<b>Book value 31.12.2018 (million Ft)</b>	<b>Effect of negative outcome (million Ft)*</b>	<b>Effect of positive outcome (million Ft)</b>
China CEE Fund	36,473,152	10,247	-581	-290
China CEE Fund II.	3,432,869	965	-56	-28
IFC FIG Fund	32,403,771	9,103	-516	-256
Kazakh Hungarian Agriculture Fund	10,013,733	2,813	-160	-80

The fair value of the funds is set out by Eximbank, based on the net asset value calculation provided by the funds on a regular basis and taking into account the ownership interest of Eximbank in each fund. In case the net asset value calculation for the current quarter is not

The accompanying notes to the separate financial statements on pages 14-160 form an integral part of these separate financial statements.

## HUNGARIAN EXPORT-IMPORT BANK PLC.

### *NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (All amounts in HUF million unless otherwise stated)*

available at the time of the compilation of the current report of the Bank, the Bank takes into account the net asset valuation of the previous quarter and adjusts it with the capital contributions for investment and / or disbursements from investments for the current quarter.

#### **China CEE Fund**

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

The net asset value of the fund is set out at least once a year with the assistance of an independent appraiser (TPA Horwath) and reviewed by the Alternative Investment Fund Manager (LIS) of the fund. At the net asset value calculation the fund always aims that the assets and liabilities reflect the fair value, taking into account similar, recent transactions between independent market participants, discounted cash flow analysis and other valuation techniques commonly used by market participants. The AIFM ensures that the valuation methods are in line with the IFRS rules and informs the investors of the current net asset value of the fund.

Since the participation units of the fund are denominated in USD, however, the participation units owned by Eximbank are kept in HUF in its books, Eximbank performs sensitivity analysis on the received actual (or corrected) net asset value data in order to estimate to how the income from the distribution of the participation units of the fund are affected by future exchange rate changes.

#### **China CEE Fund II**

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

The net asset value of the fund is set out at least once a year with the assistance of an independent appraiser (TPA Horwath) and reviewed by the Alternative Investment Fund Manager (LIS) of the fund. In the net asset value calculation the fund always aims that the assets and liabilities reflect the fair value, taking into account similar, recent transactions between independent market participants, discounted cash flow analysis and other valuation techniques commonly used by market participants. The AIFM ensures that the valuation methods are in line with the IFRS rules and informs the investors of the current net asset value of the fund.

Since the participation units of the fund are denominated in USD, however, the participation units owned by Eximbank are kept in HUF in its books, Eximbank performs sensitivity analysis on the received actual (or corrected) net asset value data in order to estimate how far the income from the distribution of the participation units of the fund are affected by future exchange rate changes.

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## HUNGARIAN EXPORT-IMPORT BANK PLC.

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#### **SINO-CEE Fund**

The net asset value of the fund is computed by the General Partner or its duly appointed agent on the last day of the financial year in accordance with the IFRS and the valuation rules of the fund. The General Partner shall disclose to the Limited Partners any material change to the fund's valuation policies prior to implementing any such change.

The alternative investment fund manager (Carne Global Fund Managers) performs the valuation of the fund's assets according to the AIFM agreement. The valuation process runs independently from the portfolio management functions according to the AIFM directive. The AIFM shall perform valuations on an annual basis and may appoint External independent appraiser(s) to assist in the valuation of specific types of assets, but as an internal appraiser the AIFM takes full responsibility for the valuation of the fund's assets. The valuation is done in accordance with internationally accepted valuation principles, and the fund's valuation policy recorded in the „Limited Partnership Agreement” in a consolidated structure as of 23 July 2018.

Since the participation units of the fund are denominated in EUR, however, the participation units owned by Eximbank are kept in HUF in its books, Eximbank performs sensitivity analysis on the received actual (or corrected) net asset value data in order to estimate how far the income from the distribution of the participation units of the fund are affected by future exchange rate changes.

#### **Hungarian - Kazakh**

The Limited Partnership Agreement dated 7 December 2015 provides the rules of fair value calculation. Accordingly, the fair value of the fund is calculated according to the International Private Equity and Venture Capital Valuation Guidelines or any other method unanimously accepted by the advisory board.

Since the participation units of the fund are denominated in USD, however, the participation units owned by Eximbank are kept in HUF in its books, Eximbank performs sensitivity analysis on the received actual (or corrected) net asset value data in order to estimate how far the income from the distribution of the participation units of the fund are affected by future exchange rate changes.

#### **IFC FIG Fund**

The fund manager calculates the net asset value of the fund according to the valuation methodology of the International Finance Corporation (IFC), outlined in the private placement memorandum dated November 2013 and provided to the investors before investing into the fund. The portfolio managers of the fund manager prepare the quarterly valuations which are verified by a central valuation team of the financial and accounting department of IFC. Valuations of equity, quasi-equity and equity-related instruments are based on the principle of fair value of investments and are reviewed and updated quarterly. In an active market, the current price quote is used to assess fair value. Unlisted equities are held at cost for 12 months after the investment is made or until subsequent events have a significant impact on fair value,

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## HUNGARIAN EXPORT-IMPORT BANK PLC.

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whichever occurs earlier. Thereafter fair value of direct Equity Investments is determined on the basis of a quarterly valuation analysis using methods such as (i) discounted cash flow or (ii) relative (multiple based) techniques such as listed industry comparables or private acquisitions in the market.

In the audited annual report the fund manager appraises the assets and liabilities of the fund. Moreover the fund manager provides the investors with non-audited valuations quarterly.

Since the participation units of the fund are denominated in USD, however, the participation units owned by Eximbank are kept in HUF in its books, Eximbank performs sensitivity analysis on the received actual (or corrected) net asset value data in order to estimate how far the income from the distribution of the participation units of the fund are affected by future exchange rate changes.

#### **East West**

The Management Company sets out every 90 days the net asset value and from that calculates the value of the Participation Units of the Fund. In the valuation of financial instruments that are not admitted to trading in any regulated market or multilateral trading facility or other form of shares that do not qualify as financial instruments, the Management Company adopts the following criteria to apply the fair value method:

- acquisition value within 12 months following the date of acquisition of the asset
- materially relevant transactions carried out in the 12 months preceding the valuation date by entities independent from the fund and the management company, taking into account any facts or circumstances occurred after the relevant acquisition date that may imply a change in the value considered as of the acquisition date
- multiples of similar companies considering their activity sector, size, leverage and profitability
- discounted cash flows
- latest valuation disclosed by the relevant management entity, when referring to participation units in collective investment undertakings,
- in exceptional circumstances, other criteria that are widely accepted in the international markets, provided that the Management Company justifies in writing the valid reasons to resort to such criteria.

The valuation of financial instruments admitted to trading on a regulated market or a multilateral trading facility - in principle - is set in accordance with the closing price or the reference price. The valuation of financial instruments that are not admitted to trading on a regulated market or a multilateral trading facility is set in principle with DCF method.

Since the participation units of the fund are denominated in EUR, however, the participation units owned by Eximbank are kept in HUF in its books, Eximbank performs sensitivity analysis on the received actual (or corrected) net asset value data in order to estimate how far the income from the distribution of the participation units of the fund are affected by future exchange rate changes.

## HUNGARIAN EXPORT-IMPORT BANK PLC.

### *NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (All amounts in HUF million unless otherwise stated)*

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

##### 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.

##### Level 3:

- The fair value of investments is determined based on the net asset value presented by the investment funds.

#### **Fair value hierarchy of financial instruments not measured at fair value in the statement of financial position**

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.

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### ***NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (All amounts in HUF million unless otherwise stated)***

#### **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 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.

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<b>As at 31 December 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair values</b>	<b>Total carrying amount</b>
Cash and cash balances with National Bank of Hungary		63,587		63,587	63,584
Securities measured at amortised cost		43,440		43,440	43,123
Loans and advances to banks and insurance companies			528,499	528,499	526,303
Loans and advances to other customers			250,271	250,271	248,245
Other financial assets			3,777	3,777	3,777
<b>Total</b>		<b>107,027</b>	<b>782,547</b>	<b>889,574</b>	<b>885,032</b>
Loans and deposits from banks and insurance companies			586,188	586,188	572,332
Deposits from other customers			6,657	6,657	6,657
Debt securities issued	220,827			220,827	220,025
Other financial liabilities			7,108	7,108	7,108
<b>Total</b>	<b>220,827</b>		<b>599,953</b>	<b>820,780</b>	<b>806,122</b>

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<b>As at 31 December 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair values</b>	<b>Total carrying amount</b>
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
<b>Total</b>		<b>43,744</b>	<b>867,120</b>	<b>910,864</b>	<b>913,402</b>
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
<b>Total</b>	<b>191,051</b>	<b>128,616</b>	<b>496,926</b>	<b>816,593</b>	<b>813,828</b>

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<b>As at 01 January 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair values</b>	<b>Total carrying amount</b>
Cash and cash balances with National Bank of Hungary		3,558		3,558	3,558
Securities measured at amortised cost		40,132		40,132	39,764
Loans and advances to banks and insurance companies			240,881	240,881	246,027
Loans and advances to other customers			600,034	600,034	587,960
Other financial assets			4,188	4,188	4,188
<b>Total</b>		<b>43,690</b>	<b>845,103</b>	<b>888,793</b>	<b>881,497</b>
Loans and deposits from banks and insurance companies			341,216	341,216	333,887
Deposits from other customers			9,846	9,846	9,874
Debt securities issued	313,057	126,228		439,285	428,129
Other financial liabilities			6,559	6,559	6,559
<b>Total</b>	<b>313,057</b>	<b>126,228</b>	<b>357,621</b>	<b>796,906</b>	<b>778,449</b>

8 April 2020  
Authorised for issue by

*Gergely Jákli*  
*Chairman and Chief Executive Officer*

*Dr. József Dancsó*  
*Deputy Chief Executive Officer*

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