HUNGARIAN EXPORT-IMPORT BANK
PRIVATE LIMITED COMPANY

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 2016

CONTENTS

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Independent Auditors' Report

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

Opinion

We have audited the financial statements of Hungarian Export-Import Bank Private Limited Company ("the Bank"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, 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 2016, 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.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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 customers (HUF 243,190 million**)**

Refer to Note (6) to the financial statement.

The key audit matter	*How the matter was addressed in our audit*
The impairment on loans are considered to be a key audit matter owing to the significance of loans and advances to customers, and the high degree of complexity and judgment applied by management in determining impairment. Net loans and advances to customers, amounting to HUF 243,190 million represents 26.2% of the total assets of the Bank. The gross impairment amounts to HUF 16,175 million. Without having appropriate impairment assessment the carrying value of the loans might be overstated. Net loans and advances contain individually significant loans, including several project finance loans being in the early phase. The individual impairments on these loans are based on management's judgment in estimating the performance of the project and the present value of expected future cash flows which are inherently uncertain. This is challenging from an audit perspective especially in relation to the project finance loans being in early phases as the valuation of the loans contains significant estimation uncertainty.	Our audit procedures included: • Testing the key controls over impairment calculations, customer ratings, annual management reviews, and management approvals on monthly impairment changes. • Reviewing and assessing the historical accuracy of estimation of impairment losses made by management by comparing prior period estimates to actual credit losses. • Performing specific loan review for a sample of individually significant customer loans. Our loan review included inspection of the latest correspondence with the borrower, provision estimates prepared by credit risk officers and consideration of the resolution period estimated for the impaired loans. We challenged assumptions based on our professional judgment and industry knowledge. We assessed collateral values with reference to valuations performed by approved appraisers engaged by the Bank. We also reperformed calculation of impairment loss relating to the specific loan reviewed.

Determining the level of influence of the Bank over certain venture capital funds (HUF 15,479 million)

Refer to Note (9) to the financial statement.

The key audit matter	*How the matter was addressed in our audit*
The determination of the level of influence of the Bank over certain venture capital funds is considered to be a key audit matter owing to the significance of the effect of the method used to account for different investments to the financial statements (i.e. consolidation vs. equity method), and the high degree of complexity and judgment applied by management in determining the level of influence. Investments in venture capital funds accounted for using the equity method amounts to HUF 15,479 million out of which the amount of Investments in venture capital funds accounted for using the equity method where the determination of the level of influence of the Bank over the funds was regarded to be a key audit matter is HUF 13,648 million. The method applied for accounting of these venture capital funds is based on management's judgment of the level of influence of the Bank over the funds considering all facts and circumstances. This is challenging from audit point of view as: • the Bank's share in the total net assets of these funds is 100%, however, these funds are managed by a fund manager unrelated to the Bank; and • the structure of these venture capital funds is complex with both the Bank and the fund manager having rights to participate in decisions over the relevant activities of the funds and the funds are in the early phases with no long histories of how the different parties to the fund actually participate in decisions over the relevant activities of the funds in practice.	Our audit procedures included: • Evaluating the key controls over the consolidation process, including controls over the determination made by management of whether the Bank controls, jointly controls or has significant influence in another entity. • Reviewing management's analysis of the key terms and conditions of the arrangements of the venture capital funds and its assessment of the level of influence of the Bank over the funds. • Reviewing the arrangements of the venture capital funds and making inquiries of management on its interpretation of certain provisions of the arrangements to understand the design and purpose of the funds, and determine of the relevant activities of the funds and how decisions over the relevant activities of the funds are taken.

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

• Identify and assess the risks of material misstatement of the 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.

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

Budapest, 30 June 2017

KPMG Hungária Kft.

Digitally signed by Henye István
DN: c=HU, l=Budapest, o=KPMG Hungária Kft., 2.5.4.97=VATHU-10263332-2-44, cn=Henye István, givenName=István, sn=Henye, email=istvan.henye@kpmg.hu, serialNumber=1.3.6.1.4.1.21528.2.2.1.25471, title=ügyvezető igazgató
Date: 2017.06.30 11:08:00 +02'00'

István Henye
Partner

HUNGARIAN EXPORT-IMPORT BANK PLC.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016
(All amounts in HUF million unless otherwise stated)

	Note	31.12.2016	31.12.2015
Cash, due from banks and balances with the National Bank of Hungary	4	707	25,320
Available-for-sale financial assets, net of impairment losses	5	53,470	33,758
Loans and advances to customers, net of impairment losses	6	243,190	193,683
Loans and advances to other banks and insurance companies, net of impairment losses	7	573,974	537,810
Financial assets at fair value through profit or loss	8	36,416	32,557
Investments accounted for using the equity method	9	15,479	1,419
Intangibles, property and equipment, net	10	1,796	1,122
Current tax assets	11	835	234
Other assets, net	11	2,779	1,536
Total Assets		**928,646**	**827,439**
Loans and deposits from other banks and insurance companies	13	312,252	304,149
Deposits from customers	14	28,619	15,510
Financial liabilities at fair value through profit or loss	8	-	144
Debt securities issued	15	437,886	404,350
Provision for guarantees and contingencies	12	728	258
Deferred tax liabilities	19	160	104
Other liabilities	16	4,414	3,443
Total Liabilities		**784,059**	**727,958**
Share capital	17	133,700	89,000
Reserves	17	10,887	10,481
Total Shareholder's Equity		**144,587**	**99,481**
Total Liabilities and Equity		**928,646**	**827,439**

30 June 2017

Authorised for issue by

Zoltán Urbán
Chief Executive Officer

The accompanying notes to the financial statements on pages 9-93 form an integral part of these financial statements.

HUNGARIAN EXPORT-IMPORT BANK PLC.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts in HUF million unless otherwise stated)

	Note	31.12.2016	31.12.2015
Interest income	20	36,231	31,660
Interest expense	20	(22,994)	(23,153)
Net interest income		**13,237**	**8,507**
Fee and commission income	21	7,210	342
Fee and commission expense	21	(6,842)	(191)
Net income from fees and commissions		**368**	**151**
Provisions and impairment (losses)/reversal	12	(6,451)	(4,271)
Gains and (losses) from trading and investment activities, net	22	1,262	6,268
Operating expenses, net	23	(8,254)	(6,864)
Share of profit/(loss) of a joint venture	9	(560)	(398)
Profit/(loss) before income tax		**(398)**	**3,393**
Income taxes	19	(709)	(1,061)
Profit/(loss) for the period		**(1,107)**	**2,332**
Other comprehensive income			
Net gain/(loss) on available-for-sale securities, net of tax	24	1,311	721
Share of other comprehensive income of a joint venture, net of tax	24	202	55
Other comprehensive income for the period, net of income tax		**1,513**	**776**
Total comprehensive income/ (loss) for the period		**406**	**3,108**

30 June 2017

Authorised for issue by

Zoltán Urbán
Chief Executive Officer

The accompanying notes to the financial statements on pages 9-93 form an integral part of these financial statements.

HUNGARIAN EXPORT-IMPORT BANK PLC.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in HUF million unless otherwise stated)

	Share Capital	Share Premium	Retained Earnings	Statutory reserves	Fair value reserve	Reserves	Total
Balance as at 1 January 2016	**89,000**	**400**	**2,587**	**6,718**	**776**	**10,481**	**99,481**
Total comprehensive income for the period							
Profit or loss for the period			(1,107)			(1,107)	(1,107)
Other comprehensive income							
Net change in fair value of available-for-sale financial assets, net of tax					1,311	1,311	1,311
Net change in fair value of investment in a joint venture, net of tax					202	202	202
Total comprehensive income for the period			***(1,107)***		***1,513***	***406***	***406***
Other transactions, recorded directly in equity							
Increase of share capital	44,700						44,700
Reclassification of retained earnings to general reserve (Note 3.11)			(2,896)	2,896			
Total other transactions	***44,700***		***(2,896)***	***2,896***			***44,700***
Balance as at 31 December 2016	**133,700**	**400**	**(1,416)**	**9,614**	**2,289**	**10,887**	**144,587**

30 June 2017
Authorised for issue by

Zoltán Urbán
Chief Executive Officer

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STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts in HUF million unless otherwise stated)

	Share Capital	Share Premium	Retained Earnings	Statutory reserves	Fair value reserve	Reserves	Total
Balance as at 1 January 2015	**58,100**	**400**	**568**	**6,405**	**-**	**7,373**	**65,473**
Total comprehensive income for the period							
Profit or loss for the period			2,332			2,332	2,332
Other comprehensive income							
Net change in fair value of available-for-sale financial assets, net of tax					721	721	721
Net change in fair value of investment in a joint venture, net of tax					55	55	55
Total comprehensive income for the period			***2,332***		***776***	***3,108***	***3,108***
Other transactions, recorded directly in equity							
Increase of share capital	30,900						30,900
Reclassification of retained earnings to general reserve (Note 3.11)			(313)	313			-
Total other transactions	***30,900***		***(313)***	***313***			***30,900***
Balance as at 31 December 2015	**89,000**	**400**	**2,587**	**6,718**	**776**	**10,481**	**99,481**

30 June 2017
Authorised for issue by

Zoltán Urbán
Chief Executive Officer

The accompanying notes to the financial statements on pages 9-93 form an integral part of these financial statements.

HUNGARIAN EXPORT-IMPORT BANK PLC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in HUF million unless otherwise stated)

		31.12.2016	31.12.2015
OPERATING ACTIVITIES			
Profit/(loss) for the period		1,107	2,332
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortisation	24	425	283
Impairment losses on assets	12	5,981	4,878
(Profit)/loss from revaluation to fair value	8	(5,377)	(24,063)
Share of the profit and loss of the joint venture accounted for using the equity method	9	560	398
Foreign exchange (gains) and losses relating to non-operating cash-flows	15	6,384	27,242
Other non-cash items		4,748	4,163
Net interest income	20	(13,237)	(8,507)
Tax expense	19	709	1,061
Changes in operating assets and liabilities:			
Net (increase)/decrease in loans and advances to other banks and insurance companies, before impairment losses		(35,841)	(151,123)
Net (increase)/decrease in loans and advances to customers, before impairment losses		(55,492)	5,907
Net (increase)/decrease in other assets		(1,280)	633
Net increase/(decrease) in loans and deposits from other banks and insurance companies		7,981	139,489
Net increase/(decrease) in deposits from customers		13,107	15,500
Net increase/(decrease) other liabilities and provision		1,440	(911)
Interest received		36,316	29,214
Interest paid		(22,481)	(22,169)
Income taxes paid		(1,219)	(786)
Net cash provided by/(used in) operating activities		**(58,383)**	**23,541**
INVESTING ACTIVITIES			
Net (purchase of)/proceeds from available-for-sale financial assets	5	(18,737)	(31,313)
Net (purchase of)/proceeds from investing in joint venture	9	(14,401)	(470)
Acquisition of intangible assets and property and equipment	10	(1,186)	(649)
Disposal of intangible assets and property and equipment	10	85	2
Net cash used in investing activities		**(34,239)**	**(32,430)**

The accompanying notes to the financial statements on pages 9-93 form an integral part of these financial statements.

HUNGARIAN EXPORT-IMPORT BANK PLC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in HUF million unless otherwise stated)

		31.12.2016	31.12.2015
FINANCING ACTIVITIES:			
Proceeds from issue of share capital	17	44,700	30,900
Proceeds from issuance of debt securities	15	23,311	-
Net cash provided by financing activities		**68,011**	**30,900**
Net increase/(decrease) in cash and cash equivalents		**(24,611)**	**22,011**
Net foreign exchange difference		(2)	(4)
Cash and cash equivalents at the beginning of the year	4	25,320	3,313
Cash and cash equivalents at the end of the year	4	**707**	**25,320**

30 June 2017

Authorised for issue by

Zoltán Urbán
Chief Executive Officer

NOTE 1. GENERAL INFORMATION

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

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

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

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

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

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

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

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

NOTE 1. GENERAL INFORMATION (CONTINUED)

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

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

NOTE 2. BASIS OF PREPARATION

2.1 Statement of compliance

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

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

These financial statements for the year ended 31 December 2016 include the accounts of Eximbank. The Bank has a joint venture, which is accounted for using the equity method in accordance with *IAS 28 Investments in Associates and Joint Ventures*.
No consolidated accounts are presented by Eximbank, given that Eximbank has no subsidiaries. Therefore, IFRS 10 criteria are not met.

These financial statements were authorised for issue by the Chief Executive Officer on 30 June 2017 and are not intended to be used for statutory filing purposes.

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 25.

NOTE 2. BASIS OF PREPARATION (CONTINUED)

2.2 Basis of measurement

The 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,
- Available-for-sale financial assets are measured at fair value,
- Other financial instruments are measured at amortised cost,
- Investment in joint venture accounted for using the equity method.

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 31.

2.3 Functional and presentation currency

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

2.4 Going concern

The management of the Bank has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. The management is not aware of any material uncertainties that may cast doubt on the Bank's ability to continue as going concern. The financial statements continue to be prepared on going concern basis.

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 financial statements.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments

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

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

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

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

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

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

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

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Determination of fair values

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its 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).

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. Determination of fair values is more detailed in Note 33.

3.3 Cash, due from banks and balances with the National Bank of Hungary

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

For the purpose of reporting cash flows, cash and cash equivalents include cash, due from banks and short term balances with National Bank of Hungary with original maturities of three months or less.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial assets and liabilities at fair value through profit or loss

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

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

The Bank uses foreign currency exchange contracts for economic hedging purposes, however, hedge accounting according to IAS 39 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'.

3.5 Available-for-sale debt and equity instruments

Investments (not at fair value through profit or loss) in debt securities are classified either as available-for-sale or held-to-maturity. Investments in securities are classified as available-for-sale when, in management's judgement, they may be sold in response to or in anticipation of changes in market conditions, unless they are considered to be part of trading-related activities. These securities are initially measured at their fair values plus direct and incremental transaction costs. Subsequently, their fair values are remeasured and changes therein are recognised in other comprehensive income and presented within equity in 'Fair value reserve' until the securities are sold or impaired. When these securities are sold, cumulative gains and losses previously recognised in other comprehensive income are taken to profit or loss as 'Gains and losses from trading and investment activities'.
Interest income on debt securities, including amortisation of premiums and accretion of discounts, are reported as interest income. Interest income is recognised using the effective interest rate method.

Smaller part of equity investments (not at fair value through profit or loss) represents shares held in certain companies in order to benefit in terms of banking relationships. The majority of the equity investments represent interest in investment funds. These equity investments are classified as available-for-sale. Equity investments for which no fair values are available are stated at cost. Dividend income on securities is taken to 'Gains and losses from trading and investment activities' when declared. Realised gains and losses generated from sales of securities are reported in 'Gains and losses from trading and investment activities' on a net basis.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Held-to-maturity debt instruments

Debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity and carried at amortised cost on the statement of financial position. Premiums are amortised and discounts are accumulated against net profit using the effective interest rate method. On the basis of the management decision the held-to-maturity category is currently not applied.

3.7 Loans and advances to banks, insurance companies and customers

Loans and advances to banks, insurance companies and customers are classified as Loans and receivables. Loans are reported at the principal amount outstanding, net of impairment and unearned income. Interest income is recognised using the effective interest rate method for all loans other than impaired loans.

3.8 Loans and deposits form other banks and insurance companies, deposits from customers, issued debt securities

Loans and deposits from other banks and insurance companies, deposits from customers and issued debt securities are the Bank's source of debt funding.
Loans and deposits from other banks and insurance companies, deposits from customers and issued debt securities are initially measured at fair value less incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method.
An analysis of the Bank issued debt is disclosed in Note 15.
Under the Act on Eximbank, the Hungarian State is liable, as absolute guarantor, for the fulfilment of Eximbank's obligations to pay principal and interest arising from its borrowings, including debt instruments issued by Eximbank, loans from Hungarian and foreign credit institutions and Eximbank's payment obligations arising from the replacement costs of foreign exchange and interest rate swap transactions (together called: "Funding Guarantee").
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 2016 Budget Act, the upper limit of the Funding Guarantee is currently HUF 1,200 billion. As at 31 December 2016, Eximbank had total amounts drawn, or available to be drawn but undrawn, under the Funding Guarantee (calculated as Eximbank's balance sheet liabilities plus the amount yet undrawn under the Medium Term Note Programme) of HUF 922.6 billion, representing approximately 76.9% of the HUF 1,200 billion upper limit (as at 31 December 2015: 73.1%).

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

The Funding for Growth scheme NBH loans are secured – as required by NBH – over government bonds and trade receivables with a carrying amount of HUF 2,416 million.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Financial guarantees

In the ordinary course of business, the Bank gives guarantees, consisting of letters of credit and credit related guarantees. Financial guarantees are initially recognised in the financial statements in 'Other liabilities' at fair value, which is the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.
Any increase in the liability relating to financial guarantees is taken to the income statement. The premium received is recognised in the profit or loss in 'Net income from fees and commissions' on a straight-line basis over the life of the guarantee.

3.10 Impairment of financial assets

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

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

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

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

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10.1 Impairment of loans and advances to banks, insurance companies and customers (continued)

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

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

Assets acquired in exchange for loans
During years 2010 and 2012 several securities were acquired in exchange for loan and relating interest receivable of a foreign bank within a restructuring plan due to financial difficulties of the client. The securities were issued by the client. More details of the loan and securities are presented in Note 7.

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

3.10.2 Impairment of available-for-sale financial assets

Investments in available-for-sale securities are considered to be impaired if their carrying amount is greater than the estimated recoverable amount assessed at each balance sheet date on the basis of objective evidence such as significant financial difficulty of the issuer, actual breaches of contracts, high probability of bankruptcy or other financial reorganization of the issuer. Impairment losses on available-for-sale securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.
If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity instrument is recognised in other comprehensive income.

(All amounts in HUF million unless otherwise stated)

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 General reserve (continued)

The provisions of the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises ("Hungarian Banking Act") prescribes that the Bank has to set a general reserve in the amount of 10 % of the current year profit after tax figure, which will be eliminated to cover the future losses. In 2016 the Bank set HUF 75 million (in 2015 HUF 313 million). The general reserve cannot be distributed as dividends.
According to the opportunity included in the Hungarian Banking Act the Bank reclassifies HUF 2,821 from retained earnings to general reserve in 2016.

3.12 Foreign currency translation

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

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

3.13 Intangibles, property and equipment

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

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

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

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

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

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Income taxes

Income tax for the period comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

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.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.
The amount of deferred tax provided is based on the expected manner of realisation or settlement of carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.15 Interest income and expense

Interest income and expense for all financial instruments except for those classified as held for trading are recognised in 'Interest income' and 'Interest expense' in profit or loss using the effective interest method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established at initial recognition or at repricing of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but not future credit losses. The calculation includes all amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income is recognised on available-for-sale debt securities using the effective interest rate method, calculated over the asset's expected life.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Interest income and expense (continued)

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. However, the level of interest equalisation and support provided by the Hungarian State is also intended to hold Eximbank's profit at or near zero for loans covered by these programmes, reflecting Eximbank's role as an instrument of economic policy for the Hungarian State rather than as a traditional profit-oriented bank.

3.16 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.
Other fees and commission income are recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and service fees that are expensed when the services are received.

3.17 Provisions

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

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

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Provisions (continued)

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

3.18 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 the Financial Statements. However in accordance with the requirements of IFRS 8 Operating Segments the Bank continues to show its assets, liabilities and revenues by geographical areas.

3.19 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. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.
The Bank's investment in its associate and joint venture is accounted for using the equity method.

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

The statement of comprehensive income reflects the Bank's share of the results of operations of the associate or joint venture. Any change in other comprehensive income of those investees is presented as part of the Bank's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Bank recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Bank and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Bank's share of profit or loss of an associate and a joint venture is shown on the face of the statement of comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Investment in associates and joint ventures (continued)

The financial statements of the associate or joint venture are prepared for the same reporting period as the Bank. When necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

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

3.20 Change in accounting policy

Except for the changes below, the Bank has consistently applied the accounting policies as set out in Note 3 above to all periods presented in these financial statements.

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2016.

Annual Improvements 2012-2014 Cycle
These improvements are effective from 1 January 2016.

They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:

- If an entity changes the method of disposal of an asset (or disposal group) – i.e. reclassifies an asset (or disposal group) from held-for-distribution to owners to held-for-sale (or vice versa) without any time lag – then the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset (or disposal group) and recognises any write-down (impairment loss) or subsequent increase in the fair value less costs to sell/distribute of the asset (or disposal group); and
- If an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held-for distribution, then it ceases held-for distribution accounting in the same way as it would cease held-for-sale accounting.

Any change in method of disposal or distribution does not, in itself, extend the period in which a sale has to be completed. This amendment is not relevant to the Bank.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Change in accounting policy (continued)

IFRS 7 Financial Instruments: Disclosures:

IFRS 7 is amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred financial assets in cases when they are derecognised in their entirety. A services is deemed to have continuing involvement if it has an interest in the future performance of the transferred asset – e.g. if the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset; however, the collection and remittance of cash flows from the transferred financial asset to the transferee is not, in itself, sufficient to be considered "continuing involvement".
IFRS 7 is also amended to clarify that the additional disclosures required by *Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)* are not specifically required to inclusion in condensed interim financial statements for all interim periods; however, they are required if the general requirements of *IAS 34 Interim Financial Reporting* require their inclusion. These amendments did not impact the Bank's financial statements or accounting policies.

IAS 19 Employee Benefits

The IASB has amended IAS 19 to clarify that high-quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid. Consequently, the depth of the market for high-quality corporate bonds should be assessed at the currency level and not at the country level. This amendment is not relevant to the Bank.

IAS 34 Interim Financial Reporting

IAS 34 is amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements, may be disclosed "elsewhere in the interim financial report" – i.e. incorporated by cross-reference from the interim financial statements to another part of the interim financial report (e.g. management commentary or risk report). The interim financial report is incomplete if the interim financial statements and any disclosure incorporated by cross-reference are not made available to users of the interim financial statements on the same terms and at the same time. These amendments did not impact the Bank's financial statements or accounting policies.

These improvements are effective for annual periods beginning on or after 1 January 2016.
Several other new standards and amendments apply for the first time in 2016. However they do not impact the annual financial statements of the Bank.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016; and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards early.

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 *Financial Instruments*.
IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Bank currently plans to apply IFRS 9 initially on 1 January 2018. The actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Bank to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete. However, the Bank has performed a preliminary assessment of the potential impact of adoption of IFRS 9 based on its positions at 31 December 2016.

i. Classification – Financial asset

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.
Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. Based on its preliminary assessment, the Bank does not believe that the new classification requirements, if applied at 31 December 2016, would have had a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis. At 31 December 2016, the Bank had equity investments classified as available-for-sale that are held for long-term strategic purposes. If these investments continue to be held for the same purpose at initial application of IFRS 9, the Bank may elect then to classify them as FVOCI or FVTPL. The Bank has not yet made a decision in this regard. In the former case, all fair value gains and losses would be reported in other comprehensive income, no impairment losses would be recognised in profit or loss and no gains or losses would be reclassified to profit or loss on disposal. In the latter case, all fair value gains and losses would be recognised in profit or loss as they arise, increasing volatility in the Bank's profits.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 New standards and interpretations not yet adopted (continued)

ii. Impairment – Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets. Under IFRS 9, loss allowances will be measured on either of the following bases:
– 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
– lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument. Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.
The Bank believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. The Bank has not yet finalised the impairment methodologies that it will apply under IFRS 9.

iii. Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:
– the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
– the remaining amount of change in the fair value is presented in profit or loss. The Bank has not designated any financial liabilities at FVTPL and the Bank has no current intention to do so. The Bank has currently working on the assessment regarding the classification of financial liabilities and there is no final conclusion yet.

iv. Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses. The Bank's preliminary assessment included an analysis to identify data gaps against current processes and the Bank plans to implement the system and controls changes that it believes will be necessary to capture the required data.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 New standards and interpretations not yet adopted (continued)

IFRS 16 *Leases*
IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

i. Determining whether an arrangement contains a lease
On transition to IFRS 16, the Bank can choose whether to:
– Apply the IFRS 16 definition of a lease to all its contracts; or
– Apply a practical expedient and not reassess whether a contract is, or contains, a lease.
The Bank is assessing whether to apply the practical expedient and the potential impact on its financial statements, and whether this will affect the number of contracts identified as leases on transition.

ii. Transition
As a lessee, the Bank can either apply the standard using a:
– Retrospective approach; or
– Modified retrospective approach with optional practical expedients.
The lessee applies the election consistently to all of its leases. The Bank currently plans to apply IFRS 16 initially on 1 January 2019. The Bank has not yet determined which transition approach to apply.
The Bank has not yet quantified the impact on its reported assets and liabilities of adoption of IFRS 16. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the Bank uses the practical expedients and recognition exemptions, and any additional leases that the Bank enters into. The Bank expects to disclose its transition approach and quantitative information before adoption.

The following new or amended standards are not expected to have a significant impact on the Bank's financial statements
– *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).*
– *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*

(All amounts in HUF million unless otherwise stated)

NOTE 4. CASH, DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY

	31.12.2016	31.12.2015
Balances with the National Bank of Hungary (NBH) in HUF	74	12,489
Money market placements	-	11,250
Due from banks in foreign currency	622	1,569
Due from banks in HUF	11	12
Total	**707**	**25,320**

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 74 million as at 31 December 2016 and HUF 12,489 million as at 31 December 2015, respectively (compulsory reserves required to meet certain level on a monthly average basis).

According to its accounting policy, the Bank classifies highly liquid financial assets with original maturity of less than three months as cash, due from banks and balances with the National Bank of Hungary.

Cash, due from banks and balances with the National Bank of Hungary contains cash and cash equivalent items both as at 31 December 2016 and as at 31 December 2015.

NOTE 5. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31.12.2016	31.12.2015
Hungarian Government Bonds in HUF	41,467	28,850
Fair value adjustment	10	104
Sub-total	**41,477**	**28,954**
Senior Notes	92	87
Impairment loss (Note 12)	(45)	(43)
Sub-total	**47**	**44**
HUF shares	12	12
FCY shares	10,561	4,448
Impairment (Note 12)	(902)	(507)
Fair value adjustment	2,275	807
Sub-total	**11,946**	**4,760**
Total	**53,470**	**33,758**

The total impairment related to available-for-sale financial assets was HUF 947 million.

(All amounts in HUF million unless otherwise stated)

NOTE 5. AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

HUF shares as at 31 December 2015 and as at 31 December 2016 are detailed below.

	Equity owned	Face Value	Cost	Unrealised gain/(loss)	Book Value
Garantiqa Hitelgarancia Ltd.	0.15%	12	12	-	12
Total		**12**	**12**		**12**

FCY shares represent the following investments:

Name of the investment	Proportion of the Bank's participation		Subscribed and paid in capital	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
China-CEE Management S.á.r.l.	10.00%	10.00%	EUR 1,250 (HUF 0.4 million)	EUR 1,250 (HUF 0.4 million)
China-Central and Eastern Europe Investment Co-Operation Fund SCS SICAV_SIF ("China-CEE Fund")	6.90%	6.90%	USD 20,813,482 (HUF 5,483 million)	USD 16,262,091 (HUF 4,169 million)
IFC Financial Institutions Growth Fund, LP ("IFC FIG Fund")	11.72%	13.41%	USD 17,566,427 (HUF 4,930 million)	USD 880,964 (HUF 243 million)
Kazakhstan Hungarian Investment Private Equity Fund C.V.	49.50%	49.50%	USD 526,174 (HUF 148 million)	USD 126,174 (HUF 36 million)

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

China-CEE Fund has been set up in November 2013 as a limited partnership under the laws of Luxemburg. It is a closed-end specialized investment fund managed by the General Partner as unlimited shareholder of the Fund. 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 and the subscription agreement Eximbank was committed to pay USD 30,000,000 during the commitment period. By the end of December 2016 Eximbank already fulfilled payment of USD 20,813,482 (HUF 5,483 million). The remaining USD 9,186,518 (HUF 2,698 million) is classified as contingent liability as at 31 December 2016.

NOTE 5. AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

IFC FIG Fund: IFC Asset Management Company, LLC, a wholly owned subsidiary of the International Finance Corporation ("IFC"), established IFC Financial Institutions Growth Fund, LP with target commitments of US$1.0 billion. The term of the Fund is 10 years from the final closing. IFC will commit 20% of the total commitments of the Fund. The Fund will seek to make equity investments in financial institutions in IFC member countries that IFC classifies as emerging markets. Upon being admitted to the Fund, each limited partner will contribute 0.001% of its commitment to the Fund. The remainder of each limited partner's commitment will be contributed as non-interest bearing advances on an as needed basis as requested by the manager. The amount contributed by subsequent closing partners generally will be refunded to the prior closing partners in proportion to their respective funded commitments and, other than the interest component, will be added back to such partners' unfunded commitments and may be drawn down again by the Fund.
In March 2015 Eximbank joined IFC FIG Fund as a limited partner. Eximbank was committed to pay USD 50 million. By the end of December 2016, the Bank already fulfilled payment of USD 17,566,427. The remaining commitment of USD 32,433,573 (HUF 9,526 million) is classified as contingent liability as at 31 December 2015.

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 will commit 1% of the total commitments of the Fund. The primary investment objective of the partnership is to focus on equity, quasi equity and convertible debt investments into agriculture and food chain companies (including production, processing, storage and logistics) that are operating in the growth categories of meat, dairy, grains, oilseeds, vegetables, fruits and fish.
Eximbank made a capital contribution amounted to USD 526,174 in 2016. The remaining, committed amount of USD 19,473,826 (HUF 5,719 million) is classified as contingent liability as at 31 December 2016, as future payments are depending on certain criterias.

For the funds the Bank recognised HUF 902 million impairment loss in Profit and Loss and HUF 2,275 million FV adjustment in OCI as at 31 December 2016.

(All amounts in HUF million unless otherwise stated)

NOTE 5. AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Remaining maturity of Hungarian Government bonds as at 31 December 2016 and 31 December 2015 are detailed below:

Remaining Maturity	31.12.2016	31.12.2015
Up to 1 month	-	-
1 to 3 months	-	-
3 months to 1 year	1,640	-
1 to 5 years	39,837	8,904
Over 5 years	-	20,050
Total	**41,477**	**28,954**

Net purchase of/proceeds from available-for-sale financial assets amounted to HUF (18,737) million, foreign exchange loss was HUF 1 million, and profit from revaluation to fair value was HUF 1,374 million (Note 8).

(All amounts in HUF million unless otherwise stated)

NOTE 6. LOANS AND ADVANCES TO CUSTOMERS, NET OF IMPAIRMENT LOSSES

	31.12.2016	31.12.2015
Short-term:		
- in foreign currency	42,419	62,537
- in HUF	3,586	1,990
Sub-total	**46,005**	**64,527**
Long-term:		
- in foreign currency	186,554	130,970
- in HUF	26,806	8,794
Sub-total	**213,360**	**139,764**
Total	**259,365**	**204,291**
Less: impairment losses (see Note 12)	(16,175)	(10,608)
Total	**243,190**	**193,683**

As at 31 December 2016, 83% of loans and advances to customers qualified for interest compensation from the Hungarian State (as at 31 December 2015: 77%). In addition to receiving payments from the Hungarian State under the interest equalisation programme (for details please refer to Note 3.15), 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.). Such tied-aid loans represented 9% of total loans and advances to customers as at 31 December 2016 (as at 31 December 2015: 9%). 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.

(All amounts in HUF million unless otherwise stated)

NOTE 6. LOANS AND ADVANCES TO CUSTOMERS, NET OF IMPAIRMENT LOSSES (CONTINUED)

The table below shows an analysis of loans and advances to customers by remaining maturity as at 31 December 2016 and 31 December 2015.

Remaining Maturity	31.12.2016 Gross value	31.12.2015 Gross value
In foreign currency:		
Up to 1 month	9,019	10,042
1 to 3 months	3,432	4,313
3 months to 1 year	29,968	48,182
1 to 5 years	98,320	82,316
Over 5 years	88,234	48,654
Sub-total	**228,973**	**193,507**
In HUF		
Up to 1 month	1,609	1,313
1 to 3 months	41	-
3 months to 1 year	1,936	677
1 to 5 years	16,491	4,195
Over 5 years	10,315	4,599
Sub-total	**30,392**	**10,784**
Total	**259,365**	**204,291**

(All amounts in HUF million unless otherwise stated)

NOTE 7. LOANS AND ADVANCES TO OTHER BANKS AND INSURANCE COMPANIES, NET OF IMPAIRMENT LOSSES

	31.12.2016	31.12.2015
Short-term (up to 1 year)		
- in foreign currency	157,244	163,949
- in HUF	22,670	6,115
Sub-total	**179,914**	**170,064**
Long-term (over 1 year), in foreign currency		
- in foreign currency	351,347	342,092
- in HUF	43,542	26,472
Sub-total	**394,889**	**368,564**
Total	**574,803**	**538,628**
Less: impairment losses (see Note 12)	(829)	(818)
Total	**573,974**	**537,810**

As at 31 December 2016, 99% of loans and advances to other banks and insurance companies qualified for interest compensation from the Hungarian State. (as at 31 December 2015: 99%) For details about interest equalisation programme please refer to Note 3.15

(All amounts in HUF million unless otherwise stated)

NOTE 7. LOANS AND ADVANCES TO OTHER BANKS AND INSURANCE COMPANIES, NET OF IMPAIRMENT LOSSES (CONTINUED)

The table below shows an analysis of Loans and advances to other banks and insurance companies by remaining maturity as at 31 December 2016 and 31 December 2015.

	31.12.2016	**31.12.2015**
Remaining Maturity	Gross value	Gross value
Placements in foreign currency:		
Up to 1 month	13,978	11,190
1 to 3 months	21,685	19,656
3 months to 1 year	121,581	133,103
1 to 5 years	332,248	325,996
Over 5 years	19,099	16,096
Sub-total	**508,591**	**506,041**
Placements in HUF		
Up to 1 month	1,526	387
1 to 3 months	1,284	462
3 months to 1 year	19,860	5,266
1 to 5 years	35,221	22,768
Over 5 years	8,321	3,704
Sub-total	**66,212**	**32,587**
Total	**574,803**	**538,628**

Loans and advances to other banks and insurance companies include refinancing loans disbursed. While 97.8% of total loans and advances to other banks and insurance companies were refinancing loans as at 31 December 2015 this ratio was 98.5% as at 31 December 2016 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 3.15

(All amounts in HUF million unless otherwise stated)

NOTE 8. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

Financial assets at fair value through profit or loss as at 31 December 2016 and 31 December 2015 are as follows:

	31.12.2016	31.12.2015
Derivative assets (trading):		
Foreign exchange swaps	275	504
Cross currency interest rate swap	36,141	32,053
Total	**36,416**	**32,557**

Financial liabilities at fair value through profit or loss as at 31 December 2016 and 31 December 2015 are as follows:

	31.12.2016	31.12.2015
Derivative liabilities (trading):		
Foreign exchange swaps	--	144
Cross currency interest rate swap	-	-
Total	**---**	**144**

Profit from the revaluation to fair value was HUF 4,003 million at 31 December 2016.

(Profit)/loss from revaluation to fair value:

		31.12.2016	31.12.2015
Derivatives		(4,003)	(23,152)
AFS	Note 5	(1,374)	(911)
Total		**(5,377)**	**(24,063)**

NOTE 8. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Foreign exchange swaps are short term derivatives. The details of FX swaps as at 31 December 2016 are shown below:

Remaining maturity	Receive notional		Notional in HUF million	Pay notional		Notional in HUF million
Less than 1 month	21,418,760,000	HUF	21,419	72,000,000	USD	21,146
1-5 years	650,000,000	USD	190,899	506,220,240	EUR	157,445
Total			**212,318**			**178,591**

The details of FX swaps as at 31 December 2015 are shown below:

Remaining maturity	Receive notional		Notional in HUF million	Pay notional		Notional in HUF million
Less than 1 month	7,825,012,500	HUF	7,825	25,000,000	EUR	7,828
Less than 1 month	84,923,095	USD	24,342	76,600,000	EUR	23,985
Less than 1 month	7,300,000	EUR	2,286	7,979,630	USD	2,287
1-3 months	47,932,562	USD	13,739	43,800,000	EUR	13,715
1-5 years	650,000,000	USD	186,310	506,220,240	EUR	158,507
Total			**234,502**			**206,322**

NOTE 9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

PortfoLion Regionális Magántőke-alap ("the PortfoLion Fund") was launched in June 2012 with a share capital of HUF 5 billion. 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 billion to HUF 10 billion.

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

According to the principal of its legal document of the Portfolion Fund Eximbank committed itself to pay a total of HUF 5 billion by the end of 2018, which will represent 50% share of issued capital of the PortfoLion Fund. Payment schedule depends on investments, therefore amounts not yet paid are recognized as contingent liabilities.

According to the already paid total amount of HUF 2,426 million the proportion of Eximbank's contribution to the share capital was 50% as at 31 December 2016. The Bank classifies the unpaid HUF 2,574 million as contingent liability as at 31 December 2016. The Bank expects profit on this investment.

In 2015 the Bank – as international export credit agencies and development institutions - established an economic and export development fund (EXIM Növekedési Magántőkealap), which is intended to provide financing to micro, small and medium enterprises operating in Hungary with strong growth potential and ability to export. The Bank made a commitment amounted to HUF 6,000 million. The total amount was contingent liability as at 31 December 2015. In 2016 the Bank paid HUF 4,000 million. As at 31 December 2016 the amount of contingent liability was HUF 2,000 million.
The Bank's contribution to the share capital is 100% as at 31 December 2016.

In 2016 the Bank – as Hungary's international export credit agency and development institution - established an export development fund (EXIM Exportösztönző Magántőkealap). The new fund intends to provide financing to small and medium enterprises operating in Hungary with existing or prospective export capacity in products and services. The Bank made a commitment amounted to HUF 10,000 million. In 2016 the Bank paid the whole amount.
The Bank's contribution to the share capital is 100% as at 31 December 2016.
The Bank's contribution to the share capital of EXIM Növekedési Magántőkelap and EXIM Exportösztönző Magántőkealap is 100%, however, these funds are managed by a third party fund manager. Based on the decision making structure, the Bank has not control, but significant influence over those funds. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Eximbank's interest in the Funds is accounted for using the equity method in accordance with *IAS 28 Investments in Associates and Joint Ventures*.

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

(All amounts in HUF million unless otherwise stated)

NOTE 9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Adjustment to recognise changes in the Bank's share of net assets of the Funds since the acquisition date amounted to HUF (947) million (decrease) as at 31 December 2016 and HUF (606) million (decrease) as at 31 December 2015.

	31.12.2016	31.12.2015
Initial recognition at cost	16,426	2,025
Adjustment	(947)	(606)
Carrying value	**15,479**	**1,419**

	31.12.2016	31.12.2015
Bank's share of the annual loss of the Funds	(1,236)	(676)
Bank's share of other comprehensive income of the Funds	289	70
Total	**(947)**	**(606)**

(All amounts in HUF million unless otherwise stated)

NOTE 10. INTANGIBLES, PROPERTY AND EQUIPMENT

Movement table of intangible and tangible assets as at 31 December 2016 is as follows:

	Leasehold improve-ments	Furniture, fixtures & office equipment	Assets under construc-tion	Intangible assets	Intangible assets under construction	Total
Cost						
31 December 2015	286	553	563	1,766	69	3,237
Additions	342	772	647	247	609	2,617
Disposals	(202)	(112)	(1,182)	(11)	(248)	(1,755)
31 December 2016	426	1,213	28	2,002	430	4,099
Accumulated depreciation and amortisation						
31 December 2015	186	437	-	1,492	-	2,115
Charge for year	51	187		189	-	427
Impairment (Note 12)	-	-	-	-	-	-
Disposals	(144)	(86)	-	(9)	-	(238)
31 December 2016	93	538	-	1,672	-	2,303
Net book value						
31 December 2015	**100**	**116**	**563**	**274**	**69**	**1,122**
31 December 2016	**333**	**675**	**28**	**330**	**430**	**1,796**

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

	31.12.2016	31.12.2015
Acquisition of intangibles, property and equipment	(1,186)	(649)
Proceeds from the sale of intangible assets and property and equipment	85	2

(All amounts in HUF million unless otherwise stated)

NOTE 10. INTANGIBLES, PROPERTY AND EQUIPMENT (CONTINUED)

Movement table of intangible and tangible assets as at 31 December 2015 is as follows:

	Leasehold improve-ments	Furniture, fixtures & office equipment	Assets under construc-tion	Intangible assets	Intangible assets under construction	Total
Cost						
31 December 2014	259	491	249	1,609	84	2,692
Additions	28	82	434	171	226	941
Disposals	(1)	(20)	(120)	(14)	(241)	(396)
31 December 2015	286	553	563	1,766	69	3,237
Accumulated depreciation and amortisation/impairment						
31 December 2014	158	369	167	1,328	-	2,022
Charge for year	28	85		170	-	283
Impairment (Note 12)	-	1	1	8	69	79
Disposals	-	(18)	(168)	(14)	(69)	(269)
31 December 2015	186	437	-	1,492	-	2,115
Net book value						
31 December 2014	**101**	**122**	**82**	**281**	**84**	**670**
31 December 2015	**100**	**116**	**563**	**274**	**69**	**1,122**

NOTE 11. CURRENT TAX ASSETS AND OTHER ASSETS

	31.12.2016	**31.12.2015**
Accrued income	2,435	1,020
Prepaid expenses	46	85
Other	317	447
Sub-total	2,798	1,552
Less: impairment loss (see Note 12)	(19)	(16)
Total other assets	**2,779**	**1,536**
Current tax assets	835	234
Total current tax assets and other assets	**3,614**	**1,770**

(All amounts in HUF million unless otherwise stated)

NOTE 12. PROVISIONS AND IMPAIRMENT LOSSES

The table below shows impairment made and released during the year ended 31 December 2016 and during the year ended 31 December 2015.

	Loans and advances to other banks and insurance companies	**Loans and advances to customers**	**Available-for-sale securities**	**Property and equipment**	**Other asset**	**Total**
As at 31 December 2014	**483**	**5,945**	**454**	**168**	**148**	**7,198**
Write-offs	-	(4)	-	-	-	(4)
Charge for the year	302	6,180	271	79	1	6,833
Reversed during the year	-	(1,511)	(179)	(167)	(132)	(1,989)
Effect of foreign currency movements	33	(2)	4	-	(1)	34
As at 31 December 2015	**818**	**10,608**	**550**	**80**	**16**	**12,072**
Write-offs	-		-	(82)		(82)
Charge for the year	3	6,249	396	3	3	6,654
Reversed during the year	-	(636)	-	-	-	(636)
Effect of foreign currency movements	8	(46)	1	-		37
As at 31 December 2016	**829**	**16,175**	**947**	**1**	**19**	**17,971**

(All amounts in HUF million unless otherwise stated)

NOTE 12. PROVISIONS AND IMPAIRMENT LOSSES (CONTINUED)

The table below shows provisions made and reversed during the year ended 31 December 2016 and during the year ended 31 December 2015.

	Provisions
As at 31 December 2014	**865**
Provision made during the period (net)	99
Provision reversed during the period	(345)
Provision used during the period	(361)
Effect of foreign currency movements	-
As at 31 December 2015	**258**
Provision made during the period (net)	684
Provision reversed during the period	(214)
Provision used during the period	(6)
Effect of foreign currency movements	6
As at 31 December 2016	**728**

Provisions increased by HUF 470 million from 31 December 2015 to 31 December 2016. As at 31 December 2016, out of the total HUF 728 million provisions HUF 116 million was made for management bonuses, HUF 328 million was made for litigation.
The remaining part of provisions – HUF 284 million – was made for commitments and contingent liabilities.
As at the end of 2015, HUF 128 million provisions was made for management bonuses and HUF 130 million was made for commitments and contingent liabilities.

Provisions and impairment losses for the year ended 31 December 2016

	Provisions and impairment losses
Impairments charged	6,654
Impairments reversed during the period	(636)
Provision made during the period (net)	684
Provision reversed during the period	(214)
Provision used during the period	(6)
Effect of foreign currency movements	(31)
Total	**6,451**

(All amounts in HUF million unless otherwise stated)

NOTE 13. LOANS AND DEPOSITS FROM OTHER BANKS AND INSURANCE COMPANIES

		31.12.2016	31.12.2015
Short-term			
- in foreign currency		119,899	92,189
- in HUF		10,940	9,295
	Sub-total	**130,839**	**101,484**
Long-term			
- in foreign currency		179,154	202,497
- in HUF		2,259	168
	Sub-total	**181,413**	**202,665**
Total		**312,252**	**304,149**

The table below shows an analysis of loans and deposits from other banks by remaining maturity as at 31 December 2016 and 31 December 2015.

		31.12.2016	31.12.2015
Remaining maturity			
In foreign currency:			
Up to 1 month		39,941	53,497
1 to 3 months		18,240	22,086
3 months to 1 year		61,718	16,606
1 to 5 years		179,154	171,185
Over 5 years		-	31,312
	Sub-total	**299,053**	**294,686**
In HUF			
Up to 1 month		4,410	2,010
1 to 3 months		6,373	7,190
3 months to 1 year		157	95
1 to 5 years		1,535	160
Over 5 years		724	8
	Sub-total	**13,199**	**9,463**
Total		**312,252**	**304,149**

(All amounts in HUF million unless otherwise stated)

NOTE 14. DEPOSITS FROM CUSTOMERS

	31.12.2016	31.12.2015
Short-term		
- in foreign currency	8,580	15,510
- in HUF	20,039	-
Total	**28,619**	**15,510**

The table below shows an analysis of deposits from customers by remaining maturity as at 31 December 2016 and 31 December 2015.

	31.12.2016	31.12.2015
Remaining maturity		
In foreign currency:		
Up to 1 month	5,461	3,134
1 to 3 months	3,119	7,833
3 months to 1 year	-	4,543
Sub-total	**8,580**	**15,510**
In HUF:		
Up to 1 month	8,013	-
1 to 3 months	12,026	-
Sub-total	**20,039**	**-**
Total	**28,619**	**15,510**

(All amounts in HUF million unless otherwise stated)

NOTE 15. DEBT SECURITIES ISSUED

On 12 December 2012, under the 2 billion EUR Medium Term Note Program (MTN Program), the Bank issued USD 500 million 5.5% at a nominal value of USD 1,000 per bond. The issue price was 98.879% of the aggregated nominal amount.
The bonds mature 5 years 2 months from the issue date at nominal value. The bonds will be redeemed on maturity date. Interest payment dates are 12 February and 12 August in each year up to and including the maturity date. There was a long first coupon from and including 12 December 2012 up to but excluding 12 August 2013.
Bonds are listed on London Stock Exchange's regulated market with effect from the issue date.

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

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

On 14 November 2016 Eximbank's first bond issuance governed by Hungarian law took place. The bond series are having EUR 74,999million notional, fixed 0,01% coupon and 364 days maturity. The average issuance price was 100,092% resulting in negative issuance yield for first time in the history of the Hungarian capital markets. The domestic bond issuance is further diversifying Eximbank's financing base and its fundraising opportunities.
Bank has not repurchased any of its own debt since the issue date.

The effective interest on the bonds recorded in interest expense was HUF 19,942 million (in 2015: HUF 19,696 million) using effective rates between 4% and 6%.

Main data of bonds listed on London Stock Exchange:

ISIN code	XS0864511588; US55977W2A95	XS0953951711	XS1115429372; US55977W2B78
Issue date	12.12.2012	01.10.2013	02.10.2014
Maturity date	12.02.2018	13.02.2019	30.01.2020
Currency	USD	EUR	USD
Nominal value	500,000,000	400,000,000	500,000,000
Rate of interest	5.50%	2.125%	4.00%
Last day of first interest period	12 August 2013	15 February 2014	30 January 2015
Frequency of interest payment after the first interest period	semi-annually	semi-annually	semi-annually
Timing of interest payment	in arrears	in advance	in arrears

(All amounts in HUF million unless otherwise stated)

NOTE 15. DEBT SECURITIES ISSUED (CONTINUED)

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

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

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

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

(All amounts in HUF million unless otherwise stated)

NOTE 15. DEBT SECURITIES ISSUED (CONTINUED)

Foreign exchange (gains) and losses relating to non-operating cash-flows

		31.12.2016	31.12.2015
FX of debt securities issued		6,381	27,068
Net foreign exchange difference		2	4
FX on AFS	Note 5	1	170
Total		**6,384**	**27,242**

NOTE 16. OTHER LIABILITIES

	31.12.2016	31.12.2015
MEHIB insurance fee	1,912	1,437
Accrued expenses	1,229	1,002
Accrued revenue	268	299
Current tax liabilities	169	101
Other	836	604
Total	**4,414**	**3,443**

NOTE 17. SHAREHOLDER'S EQUITY

	31.12.2016	31.12.2015
Share capital	**133,700**	**89,000**
Share premium	400	400
Retained earnings	(1,416)	2,587
Fair value reserve, net of tax	2,289	776
Statutory reserves	9,614	6,718
Thereof:		
General reserve	*9,614*	*6,718*
Reserves	**10,887**	**10,481**
Total	**144,587**	**99,481**

The Hungarian State increased share capital by HUF 10,900 million in December 2015. Furthermore the Hungarian State decided to increase share capital and transferred HUF 20,000 million as well in December 2015, the registration was made by the court only in 2016.
The Hungarian State increased share capital by HUF 44,700 million in December 2016.

NOTE 17. SHAREHOLDER'S EQUITY (CONTINUED)

As at 31 December 2015 and as at 31 December 2016, the Bank's shareholder was the Hungarian State represented by the Minister of Foreign Affairs and Trade.
As at 31 December 2015, the Bank's share capital was comprised of 11,620 fully paid shares, each with a par value of HUF 5 million. The shares origination of HUF 30,900 million transferred in December 2015 was made formally in March 2016. As at 10 March 2016 the Bank's share capital was comprised of 17,800 fully paid shares, each with a par value of HUF 5 million.
As at 31 December 2016, the Bank's share capital was comprised of 17,800 fully paid shares, each with a par value of HUF 5 million. The shares origination of HUF 44,700 million transferred in December 2016 was made formally in February 2017. As at 28 February 2017, the Bank's share capital was comprised of 26,740 fully paid shares, each with a par value of HUF 5 million.

NOTE 18. COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, the Bank enters into off-balance sheet financial instruments such as guarantees and letters of credit.

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 2015 Budget Act, the upper limit remained the same as in 2014, combined HUF 350 billion in respect of Eximbank's export-credit and other export-related guarantees. By government decree, the back-to-back statutory guarantee is also subject to certain conditions, including that any credit agreement over which Eximbank extends a state-backed export-credit guarantee must conform to OECD guidelines.

As at 31 December 2016, HUF 22,120 million of Eximbank's overall guarantee portfolio of HUF 24,175 million was backed by State guarantees.

The remaining 9% of Eximbank's guarantee portfolio (which are guarantees issued at its own risk) related to export-credit guarantees where the underlying loans, due mainly to the nature of the export or tenor, are outside OECD guidelines, and accordingly, outside the statutory guarantee.

(All amounts in HUF million unless otherwise stated)

NOTE 18. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Commitments and contingent liabilities as at 31 December 2016 and 31 December 2015 are summarised as follows:

	31.12.2016	31.12.2015
Unutilised part of discount and credit lines	521,455	436,281
Guarantees counter-guaranteed by Hungary	22,120	20,636
Guarantees not counter-guaranteed by Hungary	2,055	2,279
Letter of credit	6,472	7,581
Total	**552,102**	**466,777**

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.

Besides what is mentioned in Note 13, there aren't any other assets of the Bank that are pledged as collateral.

The above figures do not contain the remaining unpaid part of the commitments and contributions in respect of Portfolion Regionális Magántőkealap, China-CEE Fund, IFC Trust Fund, IFC FIG Fund, EXIM Növekedési Magántőkealap, CCL Kazakhstan "Silk Road" Agriculture Growth Fund and EXIM Növekedési Magántőkealap there are presented as follows. The payments of the remaining amounts depends on the future investments and drown-down request of the fund managers, therefore, they are recognized as contingent liabilities.
In case of EXIM Exportösztönző Magántőkealap the Bank made a commitment amounted to HUF 10,000 million, but he Bank paid the whole amount in 2016.

Name	Contingent liability		
	31.12.2016	31.12.2015	
Portfolion Regionális Magántőkealap	HUF 2,574 million	HUF 2,975 million	Please refer to Note 9.
China-CEE Fund	USD 9,186,518 (HUF 2,698 million)	USD 13,737,909 (HUF 3,938 million)	Please refer to Note 5.
IFC Trust Fund	-	USD 7,000,000 (HUF 2,006 million)	Please refer to Note 23.
IFC FIG Fund	USD 32,433,573 (HUF 9,526 million)	USD 49,119,036 (HUF 14,079 million)	Please refer to Note 5.
EXIM Növekedési Magántőkealap	HUF 2,000 million	HUF 6,000 million	Please refer to Note 9.
Magyar-Kazah Mezőgazdasági Befektetési Alap	USD 19,473,826 (HUF 5,719 million)	USD 19,873,826 (HUF 5,697 million)	Please refer to Note 5.

(All amounts in HUF million unless otherwise stated)

NOTE 18. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

In December 2015 Eximbank entered into a repo to buy Hungarian government bonds with a face value of HUF 50 million. The start date and the maturity date of the repurchase agreement are only in January 2016, therefore the Bank recognized the purchase price amounted to HUF 50,000 million as a contingent liability as at 31 December 2015.

NOTE 19. TAXATION

The components of income tax expense for the year ended 31 December 2016 and 31 December 2015 are as follows:

	31.12.2016	31.12.2015
Corporate income tax expense	71	552
Local tax expense	577	423
Innovation contribution expense	86	64
Current income tax	**734**	**1,039**
Deferred tax (income)/expense	(25)	22
Total income tax	**709**	**1,061**
Net profit before income tax	(398)	3,393
Effective tax rate after adjustments	**(178)%**	**31%**

The corporate income tax was 10 % of the positive tax base up to HUF 500 million, thereafter 19% both in 2015 and in 2016. 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.

The National Tax and Customs Administration of Hungary announced the decrease of the corporate income tax rate to 9% in 2016.

Considering their net non-turnover character, local business tax and innovation contribution expenses are presented as an income tax expense for IFRS purposes.
In 2016 and 2015, local business tax and innovation contributions are payable 2% and 0.3% respectively on statutory net interest and fee income modified by certain cost elements.

(All amounts in HUF million unless otherwise stated)

NOTE 19. TAXATION (CONTINUED)

Reconciliation of the total tax charge

Reconciliation between the tax expense and the accounting profit multiplied by the Bank's domestic tax rate for the years ended 31 December 2016 and 2015 is as follows:

		31.12.2016		**31.12.2015**
Profit (loss) before income tax		**(398)**		**3,393**
Corporate income tax up to MHUF 500	10%	50	10%	50
Corporate income tax from MHUF 500	19%	(171)	19%	550
Average tax rate	18%	(121)	10%	600
Adjustments:				
Local business tax and innovation contribution		663		487
Effect of local tax and innovation contribution on income tax		(201)		(86)
Tax base increasing items		368		60
Total adjustments		830		461
Income tax reported in the Statement of Comprehensive Income		709		1,061
Effective tax		**(178)%**		**31%**

(All amounts in HUF million unless otherwise stated)

NOTE 19. TAXATION (CONTINUED)

Deferred tax

The deferred tax included in the statement of financial position and changes recorded in the statement of comprehensive income are as follows:

	31 December 2016				
	Deferred tax assets	Deferred tax liabilities	Net	Recognised in profit or loss	Recognised in other comprehen-sive income
Impairment allowance for loans and advances to customers	-	220	220	(515)	-
Financial instruments held at amortised cost	-	(47)	(47)	80	-
Fair value adjustments of financial instruments at fair value through profit or loss	-	(151)	(151)	483	-
Available-for-sale financial assets	-	(138)	(138)	30	(254)
Investment in joint venture	-	(32)	(32)	-	(32)
Other temporary differences	-	(12)	(12)	(53)	-
	-	**(160)**	**(160)**	**25**	**(286)**

(All amounts in HUF million unless otherwise stated)

NOTE 19. TAXATION (CONTINUED)

Deferred tax (continued)

	31 December 2015				
	Deferred tax assets	Deferred tax liabilities	Net	Recognised in profit or loss	Recognised in other comprehen-sive income
Impairment allowance for loans and advances to customers	-	735	735	741	-
Financial instruments held at amortised cost	-	(127)	(127)	(71)	-
Fair value adjustments of financial instruments at fair value through profit or loss	-	(634)	(634)	(669)	-
Available-for-sale financial assets	-	(104)	(104)	36	(190)
Investment in joint venture	-	(15)	(15)	-	(15)
Other temporary differences	-	41	41	(59)	-
	-	**(104)**	**(104)**	**(22)**	**(205)**

(All amounts in HUF million unless otherwise stated)

NOTE 20. INTEREST INCOME AND INTEREST EXPENSE

	31.12.2016	31.12.2015
Interest income:		
Loans and advances to customers	6,455	5,513
Loans and advances to other banks and insurance companies	1,963	1,993
Interest compensation*	27,336	23,612
Securities	445	139
Other	32	403
Total	**36,231**	**31,660**
Interest expense:		
Loans and deposits from other banks	3,003	3,446
Deposits from companies	49	11
Debt securities issued	19,942	19,696
Total	**22,994**	**23,153**
Net interest income	**13,237**	**8,507**

* 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 3.15.

The principal factor for the increase in the interest income in the year ended 31 December 2016 compared to the year ended 31 December 2015 was the significantly higher volume of loans granted and the interest compensation effect.

(All amounts in HUF million unless otherwise stated)

NOTE 21. NET INCOME FROM FEES AND COMMISSIONS

	31.12.2016	31.12.2015
Fee and commission income:		
MEHIB insurance fees charged to clients	6,917	56
Guarantees counter-guaranteed by the state	241	234
Guarantees not counter-guaranteed by the state	38	41
Other	14	11
Total	**7,210**	**342**
Fee and commission expense:		
Insurance fees paid to MEHIB	6,757	122
Guarantees	-	-
Other	85	69
Total	**6,842**	**191**
Total	**368**	**151**

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.

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.

(All amounts in HUF million unless otherwise stated)

NOTE 22. GAINS AND LOSSES FROM TRADING AND INVESTMENT ACTIVITIES, NET

	31.12.2016	31.12.2015
Gain and losses on foreign currency swap deals, net	2,811	11,962
Other foreign currency gains and losses, net	(1,653)	(5,686)
Foreign currency gains and losses, net *	1,158	6,276
Available for sale financial assets gains and losses, net	111	-
Other trading gains and losses, net	(7)	(8)
Total	**1,262**	**6,268**

* Also includes the revaluation of financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss.

NOTE 23. OPERATING EXPENSES

	31.12.2016	31.12.2015
Personnel expenses*	3,361	2,927
Material expenses	2,194	1,718
Special tax of credit institution**	1,700	1,418
Bank tax***	247	454
Depreciation and amortisation	425	283
Other administration expenses	323	262
Other expenses/ (income), net****	4	(198)
Total	**8,254**	**6,864**

* The average number of employees in 2016 was 195 (2015: 192).

**Effective from 1 January 2007 – by Act LIX of 2006 on the particular tax of the credit institutions and financial enterprise - a new type of tax was introduced by the Hungarian Parliament. Credit institutions shall pay this type of tax at the rate of five per cent on their interest and similar income earned during the year from loans which are directly or indirectly affected by any interest subsidy or interest compensation system.

*** 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.
Tax rates are uniformly based on statutory reported financial data of the reporting entity for the period ended 31 December 2009.

(All amounts in HUF million unless otherwise stated)

NOTE 23. OPERATING EXPENSES (CONTINUED)

For credit institutions the tax base is adjusted total assets for the year ended 31 December 2009. The tax rate is 0.15% up to HUF 50,000 million and 0.53% above HUF 50,000 million. The bank tax is recorded as an expense in the financial period in which it is legally payable. As the bank tax is payable based on non-net income measures for the year ended 31 December 2009 it does not meet the definition of income tax under IFRS and is therefore presented as an operating expense in the statement of comprehensive income.
As the tax base and the tax rates remained unchanged since 2010 the Bank tax in 2015 amounts to HUF 454 million similarly to 2010-2014.

**** On 19 March 2014, Eximbank and International Finance Corporation ("IFC"), a member of the World Bank Group entered into an agreement to provide for the creation of a trust fund identified by the name Hungary-IFC Partnership trust fund to finance advisory services activities to catalyse sustainable economic growth by promoting and strengthening private sector development in emerging markets.
The total contribution of Eximbank was USD 20 million. In 2014 USD 6 million (HUF 1,324 million) in 2015 USD 7 million (HUF 2,012 million) and in 2016 USD 7 million (HUF 2,056 million) was paid by Eximbank.
The Bank received the already paid amount from the Hungarian State. Therefore the net balance of these transactions amounted to zero in the statement of comprehensive income in both years.

NOTE 24. COMPONENTS OF OTHER COMPREHENSIVE INCOME

	31.12.2016	31.12.2015
Available for sale financial assets		
Gains (losses) arising during the year	1,375	911
Investment in a joint venture		
Fair value adjustment	219	70
Other comprehensive income	**1,594**	**981**
Income tax relating to components	(81)	(205)
Other comprehensive income for the year	**1,513**	**776**

All the components of other comprehensive income for the year ended 31 December 2016 and 2015 stated above are items that may be reclassified subsequently to profit or loss.

(All amounts in HUF million unless otherwise stated)

NOTE 25. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

As at 31 December 2016	Within 12 months	After 12 months	Total
Assets			
Cash, due from banks and balances with the National Bank of Hungary	707	-	707
Available-for-sale financial assets, net of impairment loss	-	53,470	53,470
Loans and advances to customers, net of impairment losses	39,096	204,094	243,190
Loans and advances to other banks and insurance companies, net of impairment losses	179,304	394,670	573,974
Financial assets at fair value through profit or loss	3,396	33,020	36,416
Investment in joint venture	-	15,479	15,479
Intangibles, property and equipment, net	-	1,796	1,796
Current tax assets and other assets, net	3,614	-	3,614
Total Assets	**226,117**	**702,529**	**928,646**
Liabilities			
Loans and deposits from other banks and insurance companies	130,839	181,413	312,252
Deposits from customers	28,619	-	28,619
Financial liabilities at fair value through profit or loss	-	-	-
Debt securities issued	23,326	414,560	437,886
Provision for guarantees and contingencies	728	-	728
Deferred tax liabilities	160	-	160
Other liabilities	4,216	198	4,414
Total Liabilities	**187,888**	**596,171**	**784,059**
Net	**38,229**	**106,358**	**144,587**

(All amounts in HUF million unless otherwise stated)

NOTE 25. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

As at 31 December 2015	Within 12 months	After 12 months	Total
Assets			
Cash, due from banks and balances with the National Bank of Hungary	25,320	-	25,320
Available-for-sale financial assets, net of impairment loss	-	33,758	33,758
Loans and advances to customers, net of impairment losses	59,460	134,223	193,683
Loans and advances to other banks and insurance companies, net of impairment losses	169,457	368,353	537,810
Financial assets at fair value through profit or loss	3,393	29,164	32,557
Investment in joint venture	-	1,419	1,419
Intangibles, property and equipment, net	-	1,122	1,122
Current tax assets and other assets, net	1,770	-	1,770
Total Assets	**259,400**	**568,039**	**827,439**
Liabilities			
Loans and deposits from other banks and insurance companies	101,484	202,665	304,149
Deposits from customers	15,510	-	15,510
Financial liabilities at fair value through profit or loss	144	-	144
Debt securities issued	-	404,350	404,350
Provision for guarantees and contingencies	258	-	258
Deferred tax liabilities	104	-	104
Other liabilities	3,167	276	3,443
Total Liabilities	**120,667**	**607,291**	**727,958**
Net	**138,733**	**(39,252)**	**99,481**

NOTE 26. RELATED PARTY TRANSACTIONS

26.1 Management and employees

Loans to employees of the Bank amounted to HUF 183 million and HUF 148 million as at 31 December 2016 and 31 December 2015, respectively. As at 31 December 2015 and as at 31 December 2016 there was not any loan granted to the management.

The remuneration of the Board of Directors and the Supervisory Board amended to HUF 54 million in 2016 (2015: HUF 42 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 166 million and HUF 99 million in 2016 and 2015, respectively. The remuneration of the management includes the termination benefits paid to the management, which amounted to HUF 11 million in 2015 and HUF 22 million in 2016.

26.2 Companies

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

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

Eximbank has an investment in a joint venture, in Portfolion Regionális Magántőkealap, which is a private equity fund. The Bank's contribution to the share capital is 50% as at 31 December 2016. For further information please refer to Note 9.
Eximbank has two investments in associates, in EXIM Növekedési Magántőkealap and in EXIM Exportösztönző Magántőkealap. The Bank's contribution to the share capital is 100% as at 31 December 2016. For further information please refer to Note 9.

Balances with related party companies as at 31 December 2016, representing 8.64% of total assets – excluding investment in a joint venture - (as at 31 December 2015: 13.12%), 6.97% of total liabilities (as at 31 December 2015: 7.37%) and 5.28% of total commitments and contingent liabilities (as at 31 December 2015: 8.36%) are presented below:

(All amounts in HUF million unless otherwise stated)

NOTE 26. RELATED PARTY TRANSACTIONS (CONTINUED)

	31.12.2016	31.12.2015
Balances with other related parties	74	17,499
Cash, due from banks and balances with the National Bank of Hungary	**74**	**17,499**
Hungarian Government bonds	41,477	28,954
Total available for sale financial assets to related parties	**41,477**	**28,954**
Loans to other related parties incl. interest receivable	29,121	53,312
Receivable against the State from interest compensation systems	7,105	7,794
Total loans and advances to related parties, net of impairment losses	**36,226**	**61,106**
Foreign currency swap with other related parties	29	-
Total financial assets at fair value to related parties	**29**	**-**
Accrued income and receivable from the State in respect of tied-aid credits	1,912	538
Accrued income from other related parties	527	479
Total other assets	**2,439**	**1,017**
Total Assets	**80,245**	**108,576**
Loans and deposits from other related parties incl. accrued interest payables	47,842	51,765
Total loans and deposits from related parties	**47,842**	**51,765**
Foreign currency swap with other related parties	-	73
Total financial liabilities at fair value to related parties	**-**	**73**
Other liabilities to other related parties	1,912	1,437
Accrued expense against other related parties related to cost sharing	969	376
Total other liabilities to related parties	**2,881**	**1,813**
Total Liabilities	**50,723**	**53,651**
Guarantees provided on behalf of other state-owned company	-	-
Other commitments and contingent liabilities	29,148	39,044
Total commitments and contingent liabilities	**29,148**	**39,044**
Foreign exchange swaps	**29**	**(73)**

(All amounts in HUF million unless otherwise stated)

NOTE 26. RELATED PARTY TRANSACTIONS (CONTINUED)

	31.12.2016	31.12.2015
Interest income:		
State interest compensation	27,336	23,612
Accounts receivable against the State	-	1,900
Hungarian discounted treasury bills, discounted bonds issued by NBH and Hungarian Government bonds	450	134
Loans to other related parties	155	370
Short-term placements to other related parties	21	425
Total	**27,962**	**26,441**
Interest expense:		
Loans and deposits from other related parties	147	164
Total	**147**	**164**
Fee and commission expense:		
Insurance fees paid to MEHIB	6,757	122
Total	**6,757**	**122**
Net interest income and net income from fees and commissions	**21,058**	**26,155**
Operating income/(expenses):		
Hungarian State: refund of insurance fees of tied-aid credits	2,624	105
Hungarian State: refund of contribution to IFC Trust Fund	2,079	2,012
Net operating income from MEHIB and MFB's subsidiaries	329	215
Net income/(expense) related to sharing personal type expenditures	(313)	(231)
Total	**4,719**	**2,101**

(All amounts in HUF million unless otherwise stated)

NOTE 26. RELATED PARTY TRANSACTIONS (CONTINUED)

As a result of closer organizational cooperation between Eximbank and MEHIB (majority of the employees including CEO and deputy CEOs are employed by both Eximbank and MEHIB since 2012) on 4 November 2012 the two companies concluded an agreement according to which Eximbank and MEHIB agreed on sharing and accounting of costs incurred in connection with closer organizational cooperation. The agreement was modified several times.

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

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

Effects of the cost sharing to the Bank's profit and loss in 2015 and in 2016 are the following:

1) Commonly used fixed assets:

Income and (expense) related to commonly used fixed assets		**31.12.2016**	**31.12.2015**
a) Asset usage/rental fee invoiced by the Bank to MEHIB	– Other income	107	172
b) Asset usage fee/ rental invoiced by MEHIB to the Bank	– Other expenses	(31)	(17)

2) Personnel type expenditures: jointly employed employees

Income and (expense) related to sharing personal type expenditures		**31.12.2016**	**31.12.2015**
a) Personnel type expenditures invoiced by the Bank to MEHIB	– Personal type expenditures (cost decreasing item)	671	672
b) Personnel type expenditures invoiced by MEHIB to the Bank	– Personal type expenditures	(984)	(903)

3) Other personal type expenditures

Income and (expense) related to sharing other personal type expenditures		**31.12.2016**	**31.12.2015**
a) Personal type expenditures invoiced by the Bank to MEHIB	– Other income	87	52
b) Personal type expenditures invoiced by MEHIB to the Bank	– Other administration expenses	(29)	(42)

(All amounts in HUF million unless otherwise stated)

NOTE 26. RELATED PARTY TRANSACTIONS (CONTINUED)

4) Intermediary services

Income and (expense) related to sharing intermediary services		**31.12.2016**	**31.12.2015**
a) Expenses invoiced by the Bank to MEHIB	– Other income	112	132
b) Expenses incurred by MEHIB and invoiced to the Bank	– Other expenses	(176)	(186)

5) Material type expenditures and other administration expenses

Income and (expense) related to sharing material type expenditures and other administration expenses		**31.12.2016**	**31.12.2015**
a) Expenses invoiced by the Bank to MEHIB	– Other income	272	141
b) Expenses incurred by MEHIB and invoiced to the Bank	– Other expenses	(50)	(72)

NOTE 27. CONTRACTUAL MATURITIES OF UNDISCOUNTED CASH FLOWS OF FINANCIAL ASSETS AND LIABILITIES

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2016 and 2015. In case of non-derivative financial assets and liabilities the undiscounted cash flows include estimated interest payments. Trading derivatives are shown at fair value in a separate column. For further information about maturity of them please refer to Note 8.

Repayments which are subject to notice are treated as if notice were to be given immediately.

For contingent liabilities and commitments the maximum amount of them are allocated to the earliest period in which they could be called. However unrecognised loan commitments are not all expected to be drawn down immediately.

As part of the management of liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents. In addition the Bank maintains agreed lines of credit with other banks amounted to HUF 58,487 million as at 31 December 2016 and HUF 34,145 million as at 31 December 2015.

(All amounts in HUF million unless otherwise stated)

NOTE 27. CONTRACTUAL MATURITIES OF UNDISCOUNTED CASH FLOWS OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

As at 31 December 2016	Carrying amount	Gross nominal inflow / outflow*	Trading derivatives**	Up to 1 months	1-3 months	3 months to 1 year	1- 5 years	Over 5 years
Cash, due from banks and balances with National Bank of Hungary	707	707	-	707	-	-	-	-
Available-for sale financial assets	53,470	54,867	-	-	-	1,637	40,290	12,940
Loans and advances to customers, net of impairment losses	243,190	289,667	-	10,442	4,131	36,320	130,617	108,157
Loans and advances to other banks, net of impairment losses	573,974	578,516	-	16,476	22,095	142,300	369,530	28,115
Financial assets at fair value through profit or loss	36,416	36,416	36,416	-	-	-	-	-
Foreign exchange contracts	*275*	*275*	*275*	-	-	-	-	-
Cross currency interest rate swaps	*36,141*	*36,141*	*36,141*	-	-	-	-	-
Investment in joint venture	15,479	15,479	-	-	-	-	-	15,479
Other financial assets	2,738	2,738	-	2,738	-	-	-	-
Financial assets	**925,974**	**978,390**	**36,416**	**30,363**	**26,226**	**180,257**	**540,437**	**164,691**
Loans and deposits from other banks	312,252	318,581	-	44,388	24,745	63,566	185,158	724
Deposits from customers	28,619	28,630	-	13,478	15,152	-	-	-
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-
Foreign exchange contracts	-	-	-	-	-	-	-	-
Debt securities issued	437,886	479,046	-	2,937	5,360	31,625	439,123	-
Other financial liabilities	4,098	4,098	-	4,098	-	-	-	-
Financial liabilities	**782,855**	**830,355**	**-**	**64,901**	**45,257**	**95,191**	**624,281**	**724**
Liquidity (deficiency)/excess	**143,119**	**148,035**	**36,416**	**(34,538)**	**(19,031)**	**85,066**	**(83,844)**	**163,967**
Unutilised loan commitments	-	521,455	-	521,455	-	-	-	-
Financial guarantee contracts	-	24,175	-	24,175	-	-	-	-
Letter of credit	-	6,472	-	6,472	-	-	-	-

*Gross amount without impairment,
**FV at the date of the statement of financial position, for CFs please refer to Note 8

(All amounts in HUF million unless otherwise stated)

NOTE 27. CONTRACTUAL MATURITIES OF UNDISCOUNTED CASH FLOWS OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

As at 31 December 2015	Carrying amount	Gross nominal inflow / outflow*	Trading derivatives**	Up to 1 months	1-3 months	3 months to 1 year	1- 5 years	Over 5 years
Cash, due from banks and balances with National Bank of Hungary	25,320	25,323	-	22,970	2,353	-	-	-
Available-for sale financial assets	33,758	34,941	-	-	-	-	9,057	25,884
Loans and advances to customers, net of impairment losses	193,683	228,697	-	11,279	5,203	53,055	98,603	60,557
Loans and advances to other banks, net of impairment losses	537,810	543,155	-	11,573	21,596	137,873	351,081	21,032
Financial assets at fair value through profit or loss	32,557	32,557	32,557	-	-	-	-	-
Foreign exchange contracts	*504*	*504*	*504*	-	-	-	-	-
Cross currency interest rate swaps	*32,053*	*32,053*	*32,053*	-	-	-	-	-
Investment in joint venture	1,419	1,419	-	-	-	-	-	1,419
Other financial assets	1,098	1,098	-	1,098	-	-	-	-
Financial assets	**825,645**	**867,190**	**32,557**	**46,920**	**29,152**	**190,928**	**458,741**	**108,892**
Loans and deposits from other banks	304,149	311,402	-	55,559	29,522	18,300	176,407	31,614
Deposits from customers	15,510	15,520	-	3,134	7,838	4,548	-	-
Financial liabilities at fair value through profit or loss	144	144	144	-	-	-	-	-
Foreign exchange contracts	*144*	*144*	*144*	-	-	-	-	-
Debt securities issued	404,350	465,021	-	2,866	5,272	8,138	302,564	146,181
Other financial liabilities	3,154	3,154	-	3,154	-	-	-	-
Financial liabilities	**727,307**	**795,241**	**144**	**64,713**	**42,632**	**30,986**	**478,971**	**177,795**
Liquidity (deficiency)/excess	**98,338**	**71,949**	**32,413**	**(17,793)**	**(13,480)**	**159,942**	**(20,230)**	**(68,903)**
Unutilised loan commitments	-	436,281	-	436,281	-	-	-	-
Financial guarantee contracts	-	22,915	-	22,915	-	-	-	-
Letter of credit	-	7,581	-	7,581	-	-	-	-

*Gross amount without impairment,
**FV at the date of the statement of financial position, for CFs please refer to Note 8

NOTE 28. FINANCIAL RISK MANAGEMENT

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

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

Risk management policies

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

Risk strategy and risk profile

The Bank's risk strategy includes the exploration, identification and separation of risks, furthermore the assessment of the risk level and weight of them. The risk identification process gives a detailed specification of risk categories concerning the Bank's regular course of business and economic environment. The first dimension of the risks is the type (according to the ICAAP guide book) and the second one is the bank-specific aspect of the services and products. The overall risk level of an individual risk category is determined by the risk assessment of the appropriate risk type weighted by its significance in line with Eximbank's operational characteristics. Most of the weighted rates point to the fact that the majority of the risks are low or represent moderate risk level. The risk profile report takes into consideration the extent of the exposure and the seriousness of the risk. This method gives us a general overview about the Bank's risk profile and an opportunity to perform continuous monitoring activity. The level of credit risk is moderate, since the credit portfolio consists of products with lower risk level: products carrying risk exposure to domestic banks, counter-guarantees of state. The aggregated country risk components seem to be at a very low risk level at first sight, which can be explained by the excess weight of domestic risk taking. Furthermore, the foreign positions are backed with insurance.

(All amounts in HUF million unless otherwise stated)

NOTE 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.1. Credit risk

Management of credit risk, credit rating systems

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for clients, counterparties and for country concentrations, and by monitoring exposures in relation to such limits. The exposure to any one borrower is further restricted by sub-limits for different maturity and transaction type. The credit risk management is based on a client rating system, which applies different essentials for financial institutions and for corporate clients. The rating system takes into account the business activity, financial position, probability of default of domestic corporates, market position, management, organisation and its role in the given business sector. Both the on- and off-balance sheet items (loans, guarantees) are subject to quarterly classification requirements. The key factors of the rating are:

1. Consumer/counterparty rating
2. Country risk
3. Collateral
4. Number of past due days

Due to Hungarian legal regulations it is not allowed to derive risk assessment directly from international ratings under BBB- Baa3 level. As Eximbank's business focus is on emerging market countries, it is usual to make risk assessment based on the Bank's own internal rating model. Eximbank also builds up business partnerships with some local emerging market banks that are not essentially rated by international rating agencies. Eximbank uses a 7 scale internal rating system for banks. The tables below contain credit exposures to banks grouped by the internal rating categories by nominal amount as at 31 December 2015 and 31 December 2016:

Bank's internal rating	Rating definition	31.12.2016	31.12.2015
1	Banks with extremely good financial conditions, and/or high possibility of efficient external support.	-	-
2	Banks with good financial conditions, and/or possibility of substantial access to external support.	177,491	3,445
3	Banks with above average financial performance, and/or appropriate access to external support.	253,121	479,521
4	Banks with medium grade financial performance, and/or limited access to external support.	84,126	57,770
5	Banks with bellow average financial performance, and/or limited access to external support.	53,334	-
6	Banks with weak financial performance without any possible external support.	242	222
7	Banks with very weak financial performance and/or that are effectively in default.	507	499
Total		**568,821**	**541,457**

(All amounts in HUF million unless otherwise stated)

NOTE 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.1. Credit risk (continued)

Global limits for banks are divided into sublimits:

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

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

Regarding customers, Eximbank uses a 7 grade scale classification system for corporates, where 1 represents the lowest risk and 7 represents the highest risk. Beyond client risk classification loan quality analysis takes collateral into consideration as well as it is shown below by nominal amount as at 31 December 2016.

Customer's internal rating	Levels of collateral supporting claims			
	less than 50%	50%-70%	more than 70%	Total
1	393	0	0	**393**
2	19,890	2,177	17,030	**39,097**
3	2,541	0	19,096	**21,637**
4	4,125	7,017	66,993	**78,135**
5	3,082	1,555	15,834	**20,471**
6	36,666	1,870	28,812	**67,348**
7	22,060	1,620	7,251	**30,931**
Total	**88,757**	**14,239**	**155,016**	**258,012**

NOTE 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.1. Credit risk (continued)

The table above does not contain the balances with the Hungarian State from interest compensation systems and the loan receivable that relates to purchases of Hungarian Government bonds. For further information please refer to Note 6.

According to the Bank internal policy, all classified outstanding and off-balance sheet items have to be categorised into 5 categories.

Eximbank does not apply credit risk assessment process on an aggregated basis, as a consequence all of the items affected by credit risk are evaluated individually. Impairment rate for each item is derived from the estimated value of loss offset by the estimated recoveries with reference to the value of the credit risk exposure (using a discounted cash-flow model). The risk categories of the relevant items are as follows:

Risk category	Definition
Low-fair risk	Probability of loss is extremely low
Watch list	Probability of loss is low but possible in the medium term
Substandard	Non-payment risk is above average but net estimated loss is under 30%
Doubtful	Past due obligations with more than 90 days default, with a collateral coverage between 30%-70%
Loss	Non performing items with extremely low recovery expectations (under 30% collateral rate)

The above method meets the requirements of Hungarian accounting standards and regulations, as well. There is also credit risk in off-balance sheet financial instruments, such as non-government backed guarantees. These risks are mitigated by the same control processes and policies as loans and the state-backed guarantees are also evaluated by the same method as the ones issued on the own risk of the Bank.

(All amounts in HUF million unless otherwise stated)

NOTE 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.1. Credit risk (continued)

Exposure to credit risk

The Bank's exposure to credit risk at the reporting date is shown below:

	Loans and advances to banks and insurance companies		Loans and advances to customers	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Loans with renegotiated terms:				
Gross amount	367	358	7,668	7,477
Allowance for impairment	367	(358)	(2,664)	(3,999)
Carrying amount	-	-	5,004	3,478
Individually impaired:				
Watch list		-	34,086	3,669
Substandard		-	-	1,940
Doubtful		-	7,271	-
Loss	147	148	5,254	2,755
Gross amount	147	148	46,611	8,364
Allowance for impairment	(147)	(148)	(10,797)	(3,040)
Carrying amount	-	-	35,814	5,324
Past due but not impaired:	200	1,426	3,224	27,043
Neither past due nor impaired:	574,089	536,696	201,863	161,407
Allowance for impairment				
Individual	514	506	13,461	7,039
Collective	315	312	2,714	3,569
Total allowance for impairment	829	818	16,175	10,608
Total carrying amount	**573,974**	**537,810**	**243,190**	**193,683**

At 31 December 2016, *Financial assets at fair value through profit or loss* with a carrying value of HUF 36,416 million (as at 31 December 2015: 32,557 million), *Cash, due from banks and balances with National Bank of Hungary*" with a carrying value of HUF 707 million (as at 31 December 2015: HUF 25,320 million) and *Available-for-sale financial assets* with a carrying value of HUF 41,489 million (as at 31 December 2015: HUF 28,966 million) are neither past due nor impaired. However the securities acquired in exchange for a loan with a carrying value of HUF 47 million (as at 31 December 2015: HUF 44 million) and investments among available-for-sale financial assets are individually impaired (Note 5).

NOTE 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.1. Credit risk (continued)

Loans with renegotiated terms

A loan is labelled as renegotiated when restructuring activities, including extended payment agreements, modification and deferral of payments are applied.

Write-off policy

Loans together with the associated allowances are written off, either partially or in full, when there is no realistic prospect of future recovery of the principal amount and all collateral have been realised or have been transferred to the Bank.

Collateral

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

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

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

Where a MEHIB-insured loan is non-performing, MEHIB continues to make interest and principal payments including delinquent payments according to the terms agreed by the original borrower up to its coverage amount. Under the 2016 Budget Act, MEHIB can underwrite export credit insurance up to a limit of HUF 600 billion with a direct state guarantee.

(All amounts in HUF million unless otherwise stated)

NOTE 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.1. Credit risk (continued)

An estimate of fair value of collateral and other security enhancements held against financial assets is shown below:

	Loans and advances to banks and insurance companies		Loans and advances to customers	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Against individually impaired:				
Insured by MEHIB	-	-	6,519	9,396
Cash Collateral	-	-	6	8
Bank guarantees	-	-	0	1,410
Property	-	-	4,139	280
Other	-	-	1,896	327
Against past due but not impaired:				
Insured by MEHIB	-	-	43	-
Cash Collateral	-	-	9	202
Bank guarantees	-	-	0	-
Property	-	-	421	11,847
Other	-	815	832	5,238
Against neither past due nor impaired:				
Insured by MEHIB	7,646	8,231	84,317	17,357
Cash Collateral	-	-	311	6,768
Bank guarantees	7,262	-	16,173	23,171
Property	-	-	30,078	17,453
Other	134,030	33,613	21,385	21,032
Against accounts with renegotiated terms:				
Insured by MEHIB	-	-	511	276
Cash Collateral	-	-	22	9
Bank guarantees	-	-	972	-
Property	-	-	619	848
Other	-	-	938	772
Total	**148,938**	**42,659**	**169,191**	**116,394**

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

NOTE 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.2. Liquidity risk

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

The maturity analysis table set out in Note 27 shows the undiscounted, gross nominal cash in- and outflows on the Bank's non-derivative financial liabilities, the related total expected undiscounted interest cash-flows up to the date of maturity when they are due and the issued financial guarantee contracts on the basis of their earliest possible maturity. Trading derivatives are shown at fair value in a separate column. The gross nominal inflow / (outflow) disclosed in the table is the remaining contractual, undiscounted cash flow on the non-derivative financial liability and the issued financial guarantees.

The maturity analysis table shows gross nominal in- and out-cash flows of both the financial assets and the financial liabilities.
The Bank considers maturity gap significant if the cash outflow becomes due 180 days earlier than it is defined in the given loan agreement irrespectively of the extent of the amount. During year 2016 and also 2015 there were not any significant maturity gaps.

Loans borrowed from domestic and foreign banks and the global medium-term notes issued in December 2012, in October 2013, in October 2014 and in November 2016 are secured by the general guarantee of the Government of Hungary as defined in the Act on the Budget of Hungary with respect to the maximum amount of guarantee. Some loan agreements define maturity extension option in favour of the Bank. Termination of short term money market deals is not possible due to its market characteristic. Based on the legal background of the Bank and its experiences, Eximbank reckons the probability of the premature termination of funds as extremely low. There is a limited liquidity risk regarding the state backed bank guarantees issued by the Bank, which are 90% of the total guarantee portfolio of the Bank, as state backed bank guarantees can be paid after the total amount received from the State Budget. 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.

(All amounts in HUF million unless otherwise stated)

NOTE 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.3. Market risk

Eximbank does not undertake speculative positions.

In 2015 and in 2016 according to Article 351 of EU Regulations 575/2013 capital requirement was not generated.

The following table shows the capital requirement covering risks from the trading book as at 31 December 2016 and 2015:

	31.12.2016	**31.12.2015**
Capital requirement of the trading book	-	-
Solvency margin	147,970	89,244
Capital requirement of the trading book as a percentage of solvency margin	-	-

NOTE 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.3.1. Interest rate risk

Interest rate risk is the current or prospective risk to both the Bank's earnings and capital from adverse movements in interest rates. The Bank measures the interest rate risk in the banking book under re-pricing of the loans, furthermore using gap analysis shows the assets and liabilities at different re-pricing dates. Besides the re-pricing risk and shifts in the yield curve the Bank also faces basis risk and inherent risk in banking products. One of the most important elements of government support for exporters through Eximbank is the interest equalisation system that largely reduces interest rate risk occurs in Eximbank's operation. That kind of interest rate compensation system, covers the risk arising from fixed interest-bearing assets compared to floating and fixed rate funds with a certain amount approved by the Parliament for a one year period in the budgetary law.

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

Under the 2016 Budget Act, interest equalisation payments are budgeted at HUF 30 billion; however, the actual amounts paid could be higher than the budgeted amount due to the fact that this budget item is considered to be an ''open-ended appropriation'' in the sense that additional amounts may be provided if interest equalisation requirements total more HUF 30 billion in a given year.

The Hungarian state will also provide interest equalisation payments to Eximbank for loans with a maturity below two years, based on EU rules for setting off the reference and discount rates.

Under the interest equalisation programme, the amount of interest compensation provided by the Hungarian state is determined by the difference between (i) the interest rate paid by the borrower and (ii) the sum of Eximbank's funding costs, operating expenses and the applicable risk premium, as agreed with the representative of the Ministry 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.

In addition to receiving payments from the Hungarian state under the interest equalisation programme, Eximbank receives a form of interest support with respect to tied-aid credits.

Interest support payments for tied-aid credits are made based on a slightly different cost base than under the interest equalisation programme.
All other loans provided by Eximbank (i.e., loans that are not covered by the interest equalisation and interest support programmes) are variable rate and are priced by reference to LIBOR/EURIBOR/Budapest Interbank Offering Rate (''BUBOR'') according to Eximbank's average costs. Interest equalisation and support are intended to promote stability and sustainability for Eximbank, and contribute to interest risk. However, the level of interest equalisation and support provided by the Hungarian state is also intended to hold Eximbank's profit at or near zero for loans covered by these programmes, reflecting Eximbank's role as an instrument of economic policy for the Hungarian state rather than as a traditional profit-oriented bank.

(All amounts in HUF million unless otherwise stated)

NOTE 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.3.1. Interest rate risk (continued)

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

	31.12.2016	31.12.2015
Fixed rate financial instruments		
Financial assets	82,040	76,952
Financial liabilities	517,610	456,433
Total fixed rate instruments	**599,650**	**533,385**
Variable rate financial instruments		
Financial assets	11,758	60,537
Financial liabilities	261,147	267,720
Total variable rate instruments	**272,905**	**328,257**
Financial assets under interest compensation system	**777,323**	**663,888**
Tied-aid credits	**24,690**	**16,988**

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

Net interest rate risk is assessed using a static gap model regarding parallel shift for the entire statement of financial position calculated by VAR based estimation of changes of interest rates of different currencies in a three month term. The VAR based estimation of decrease in the market interest rates using a confidence level of 99 % would affect negatively the net interest income for the next twelve months by HUF 171 million (it was HUF 94 million in previous year). The calculation assumes that other conditions (including foreign exchange rates) are unchanged during the period. The magnitude of changes in interest rates are: EUR: 0.46%; USD: 0.06%; HUF: 0.16%). Needs of capital requirement in respect of interest rate risk are calculated with duration gap methodology based on a basis point value model regarding VAR of changes in interest rates. Stress test is used for monitoring interest rate risks monthly.

(All amounts in HUF million unless otherwise stated)

NOTE 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.3.2. Foreign currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The ALCO also sets limits to the level of exposure by currency and in aggregate both for overnight and intra-day positions, which are monitored and reported daily. Furthermore, calculating foreign currency exchange risk conforms to the norms of the standard method. The Bank's overall open foreign currency position cannot exceed HUF 1,100 million. The Bank manages its foreign currency risk and position based on its financial position kept calculated in accordance with Hungarian accounting regulation and rules. Eximbank does not speculate on the FX market and opens FX positions within the frameworks of highly restricted rules. Foreign currency positions are subject to stress test to ensure that the Bank would withstand an extreme market event.

Foreign currency exposure and foreign currency risk as at 31 December 2016 are as follows:

	EUR	USD	RSD	TRY
Foreign currency assets:				
Loans and advances to customers, net of impairment losses	149,813	65,208	-	-
Loans and advances to other banks and insurance companies, net of impairment losses	432,204	75,593	-	-
Other	402	12,234	3	1
Total foreign currency assets	582,419	153,035	3	1
Total foreign currency liabilities	398,601	324,240	-	-
Foreign currency assets and liabilities, net	**183,818**	**(171,205)**	**3**	**1**
Effect of derivatives	(157,445)	169,753	-	-
Net exposure	**26,373**	**(1,452)**	**3**	**1**

(All amounts in HUF million unless otherwise stated)

NOTE 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.3.2. Foreign currency risk (continued)

Foreign currency exposure and foreign currency risk as at 31 December 2015 are as follows:

	EUR	USD
Foreign currency assets:		
Loans and advances to customers, net of impairment losses	179,247	3,136
Loans and advances to other banks and insurance companies, net of impairment losses	442,942	57,304
Other	3,975	4,763
Total foreign currency assets	626,164	65,203
Total foreign currency liabilities	424,910	290,281
Foreign currency assets and liabilities, net	**201,254**	**(225,078)**
Effect of derivatives	(201,750)	222,103
Net exposure	**(496)**	**(2,975)**

(All amounts in HUF million unless otherwise stated)

NOTE 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.3.2. Foreign currency risk (continued)

The Bank's net currency exposure was subject to a stress test examining how it would react to extreme exchange rates. The following tables show the change in the Bank's net foreign currency exposure at the extreme currency situations explained above compared with the actual exposure as at 31 December 2016 and as at 31 December 2015 resulting in profit or loss. In equity there is no foreign currency position, therefore the effect of an extreme change in exchange rates on equity cannot be examined. The calculation assumes that other conditions are unchanged during the period.

Extreme foreign currency risk calculation as at 31 December 2016

	EUR	USD	Total
Foreign currency exchange rate as at 31 December 2016	311.02	293.69	
Exchange rates at strong HUF (minimum of historical rates in 2016)	304.28	268.52	
Effect on profit or (loss)	**(307)**	**(1,176)**	**(1,484)**
Exchange rates at weak HUF (maximum of historical rates in 2016)	317.97	299.71	
Effect on profit or (loss)	**316**	**235**	**551**
Effect on OCI	**1**	**46**	**47**

Extreme foreign currency risk calculation as at 31 December 2015

	EUR	USD	Total
Foreign currency exchange rate as at 31 December 2015	313.12	286.63	
Exchange rates at strong HUF (minimum of historical rates in 2015)	296.10	266.77	
Effect on profit or (loss)	**920**	**1,243**	**2,163**
Exchange rates at weak HUF (maximum of historical rates in 2015)	321.34	294.58	
Effect on profit or (loss)	**(444)**	**(520)**	**(964)**
Effect on OCI		**22**	**22**

(All amounts in HUF million unless otherwise stated)

NOTE 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.4. Capital management

In 2016, the requirement of the "Regulation (EU) no 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (ie. CIRR)" were met. Measures on own funds are laid down in Part Two of CIRR. Capital requirements are kept according to Part Three.
Own funds requirements (capital ratios) are satisfied as of Article 92. Subordinated loan is taken into consideration according to Article 64 by an amortised value.
In 2007 MFB has provided to the Bank a subordinated loan capital in the amount of EUR 100 million. The maturity of this particular loan is 12th of September 2017.
In line with the referred provisions, the amount of the subordinated loan capital is to be considered as a positive component of the guarantee capital of Eximbank. On 31st of December 2016 and as at 31 December 2015 the amount of the long-term liability arising from the loan agreement is HUF 31,102 million and HUF 31,312 million, respectively.

The Bank fulfilled the legal and prudential requirements in 2016 and in 2015, the capital adequacy ratio has always significantly exceeded the 8 percent required by the law as stated above.

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

	31.12.2016	31.12.2015
Core capital	143,627	78,595
Supplementary capital	4,343	10,649
Solvency capital	147,970	89,244
Total risk-weighted exposure to credit risk	864,308	779,172
Total risk exposure amount for operational risk	20,871	16,303
Total risk exposure amount	885,179	795,475
Solvency ratio	16.72%	11.22%

(All amounts in HUF million unless otherwise stated)

NOTE 29. GEOGRAPHICAL INFORMATION

Concentration of assets and liabilities by geographical areas as at 31 December 2016

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Cash, due from banks and balances with NBH	169	246	4	288	707
Available-for-sale financial assets	41,489	7,522	-	4,459	53,470
Loans and advances to customers, net of impairment losses	151,517	103	9,689	81,881	243,190
Loans and advances to other banks and insurance companies net of impairment losses	565,865	-	7,711	398	573,974
Financial assets at fair value through profit or loss	14,116	22,300	-	-	36,416
Investment in joint venture	15,479	-	-	-	15,479
Intangibles, property and equipment, net	1,796	-	-	-	1,796
Current tax- and other assets	3,588	22	1	3	3,614
Total Assets	**794,019**	**30,193**	**17,405**	**87,029**	**928,646**
Loans and deposits from other banks	168,887	112,070	31,295	-	312,252
Deposits from customers	28,619	-	-	-	28,619
Financial liabilities at fair value through profit or loss	-	-	-	-	-
Debt securities issued	23,327	297,883	-	116,676	437,886
Other liabilities incl. provision	4,923	-	219	-	5,142
Deferred tax liability	160	-	-	-	160
Total Liabilities	**225,916**	**409,953**	**31,514**	**116,676**	**784,059**
Share capital	133,700	-	-	-	133,700
Reserves	10,887	-	-	-	10,887
Total Shareholder's Equity	**144,587**	**-**	**-**	**-**	**144,587**
Total Liabilities and Equity	**370,503**	**409,953**	**31,514**	**116,676**	**928,646**
Off-balance sheet financial instruments					
Unutilised part of credit lines	484,550	3,602	3,919	29,384	521,455
Guarantees insured by the state	17,061	-	5,059	-	22,120
Guarantees not counter-guaranteed by the state	1,779	-	266	10	2,055
Letter of Credit	4,601	918	-	953	6,472
Funds	-	8,417	-	9,526	17,943
Total	**507,991**	**12,937**	**9,244**	**39,873**	**570,045**

* Bonds issued in December 2012 and in October 2014 are actively traded on London Stock Exchange and on OTC markets. The Bank has no detailed information about the breakdown of investors by geographical segments as at 31 December 2016. As a result the Bank classified debt securities issued into Other Countries segment. Bonds issued in October 2013 were wholly subscribed by MAEXIM Ltd incorporated in Ireland.

(All amounts in HUF million unless otherwise stated)

NOTE 29. GEOGRAPHICAL INFORMATION (CONTINUED)

Concentration of assets and liabilities by geographical areas as at 31 December 2015

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Cash, due from banks and balances with NBH	24,409	896	-	15	25,320
Available-for-sale financial assets	28,966	4,748	-	44	33,758
Loans and advances to customers, net of impairment losses	164,087	-	13,802	15,794	193,683
Loans and advances to other banks and insurance companies net of impairment losses	528,874	186	8,523	227	537,810
Financial assets at fair value through profit or loss	12,753	19,804	-	-	32,557
Investment in joint venture	1,419	-	-	-	1,419
Intangibles, property and equipment, net	1,122	-	-	-	1,122
Current tax- and other assets	1,186	38	8	538	1,770
Total Assets	**762,816**	**25,672**	**22,333**	**16,618**	**827,439**
Loans and deposits from other banks	155,157	117,521	-	31,471	304,149
Deposits from customers	15,510	-	-	-	15,510
Financial liabilities at fair value through profit or loss	73	71	-	-	144
Debt securities issued	-	114,325	-	290,025	404,350
Other liabilities incl. provision	3,426	23	252	-	3,701
Deferred tax liability	104	-	-	-	104
Total Liabilities	**174,270**	**231,940**	**252**	**321,496**	**727,958**
Share capital	89,000	-	-	-	89,000
Reserves	10,481	-	-	-	10,481
Total Shareholder's Equity	**99,481**	**-**	**-**	**-**	**99,481**
Total Liabilities and Equity	**273,751**	**231,940**	**252**	**321,496**	**827,439**
Off-balance sheet financial instruments					
Unutilised part of credit lines	414,665	3,131	8,391	10,094	436,281
Guarantees insured by the state	15,698	-	4,938	-	20,636
Guarantees not counter-guaranteed by the state	2,019	-	260	-	2,279
Letter of Credit	4,632	1,338	-	1,611	7,581
Funds	8,975	9,634	-	16,086	34,695
Repo	50,000	-	-	-	50,000
Total	**495,989**	**14,103**	**13,589**	**27,791**	**551,472**

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

(All amounts in HUF million unless otherwise stated)

NOTE 29. GEOGRAPHICAL INFORMATION (CONTINUED)

Segmented revenue by geographical areas for the year ended 31 December 2016

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Interest income:					
Loans to customers	6,210	4	43	198	6,455
Loans and advances to other banks and insurance companies	1,637	2	351	5	1,995
Interest compensation system	27,336	-	-	-	27,336
Securities	440	-	-	5	445
Total interest income	**35,623**	**6**	**394**	**208**	**36,231**
Income from fees and commissions:					
Guarantees counter-guaranteed by the state	191	-	50	-	241
Insurance fees devolved by MEHIB	11	15	17	6,874	6,917
Guarantees not counter-guaranteed by the state	35	-	3	-	38
Other	1	1	-	12	14
Total income from fees and commissions	**238**	**16**	**70**	**6,886**	**7,210**
Total income	**35,861**	**22**	**464**	**7,094**	**43,441**

(All amounts in HUF million unless otherwise stated)

NOTE 29. GEOGRAPHICAL INFORMATION (CONTINUED)

Segmented revenue by geographical areas for the year ended 31 December 2015

	Hungary	EU Members	Non-EU European Countries	Other Countries	Total
Interest income:					
Loans to customers	4,989	-	387	137	5,513
Loans and advances to other banks and insurance companies	2,001	-	394	1	2,396
Interest compensation system	23,612	-	-	-	23,612
Securities	134	-	-	5	139
Total interest income	**30,736**	**-**	**781**	**143**	**31,660**
Income from fees and commissions:					
Guarantees counter-guaranteed by the state	176	7	51	-	234
Insurance fees devolved by MEHIB	-	-	-	56	56
Guarantees not counter-guaranteed by the state	38	-	3	-	41
Other	1	1	-	9	11
Total income from fees and commissions	**215**	**8**	**54**	**65**	**342**
Total income	**30,951**	**8**	**835**	**208**	**32,002**

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2016 or 2015 excluding the Hungarian State. For details please refer to Note 26.

NOTE 30. EVENTS AFTER THE REPORTING DATE

There were no events after the reporting date that would have a significant effect on figures in the financial statements for year 2016. Non-adjusting events after the reporting date are not material.

NOTE 31. 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 28.).

Key sources of estimation uncertainty

Allowances for credit losses

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

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

Impairment of available-for-sale financial assets

Investments in available-for-sale securities are considered to be impaired if their carrying amount is greater than the estimated recoverable amount assessed at each balance sheet date on the basis of objective evidence such as significant financial difficulty of the issuer, actual breaches of contracts, high probability of bankruptcy or other financial reorganization of the issuer. Impairment losses on available-for-sale securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.
If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity instrument is recognised in other comprehensive income.

Provisions
In connection with recognition and measurement of provisions and contingencies the key assumptions are the likelihood and magnitude of an outflow of resources.

NOTE 31. USE OF ESTIMATES AND JUDGEMENTS

Determining fair values

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

Critical accounting judgements in applying the Bank's accounting policies

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

Investments accounted for using the equity method

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

Valuation of financial instruments, fair value hierarchy

A number of the Bank's accounting policies and disclosures require the determination of fair value for financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods.
All financial instruments are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received).
Subsequent to initial recognition, the fair value of financial instruments that are quoted in active markets are measured at fair value based on bid prices for assets held and ask prices for liabilities issued. When independent prices are not available, fair value is determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, and other valuation techniques commonly used by market participants.
For financial instruments, fair value may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data.

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

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

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

(All amounts in HUF million unless otherwise stated)

NOTE 32. FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE BY VALUATION METHOD

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

31 December 2016	**Level 1**	**Level 2**	**Total**
Financial assets at fair value through profit or loss			
Derivative instruments	-	36,416	36,416
Available-for-sale financial assets	53,470	-	53,470
Financial liabilities at fair value through profit or loss			
Derivative instruments	-	-	-

31 December 2015	**Level 1**	**Level 2**	**Total**
Financial assets at fair value through profit or loss			
Derivative instruments	-	32,557	32,557
Available-for-sale financial assets	33,758	-	33,758
Financial liabilities at fair value through profit or loss			
Derivative instruments	-	144	144

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

Valuation techniques

Level 1:

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

Level 2:

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

(All amounts in HUF million unless otherwise stated)

NOTE 33. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

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.
As at 31 December 2016, the fair values of the Eximbank's financial assets and liabilities were as follows:

	Trading	Loans and receivables	Available-for-sale	Other	Carrying amount	Fair value including CF from interest compensation
Cash due from banks and balances with National Bank of Hungary	-	707	-	-	707	707
Available-for-sale financial assets	-	-	53,470	-	53,470	53,470
Loans and advances to customers	-	243,190	-	-	243,190	253,392
Loans and advances to other banks and insurance companies	-	573,974	-	-	573,190	576,000
Financial assets at fair value through profit or loss	36,416	-	-	-	36,416	36,416
Other financial assets	-	-	-	2,738	2,738	2,738
Total	**36,416**	**817,871**	**53,470**	**2,738**	**910,495**	**922,723**
Loans and deposits from other banks	-	312,252	-	-	312,252	315,440
Deposits from customers	-	28,619	-	-	28,619	28,625
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Debt securities issued	-	-	-	437,886	437,886	461,194
Other financial liabilities	-	-	-	4,098	4,098	4,098
Total	**-**	**340,871**	**-**	**441,984**	**782,855**	**809,357**

(All amounts in HUF million unless otherwise stated)

NOTE 33. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (CONTINUED)

As at 31 December 2015, the fair values of the Eximbank's financial assets and liabilities were as follows:

	Trading	Loans and receivables	Available-for-sale	Other	Carrying amount	Fair value including CF from interest compensation
Cash due from banks and balances with National Bank of Hungary	-	25,320	-	-	25,320	25,302
Available-for-sale financial assets	-	-	33,758	-	33,758	33,758
Loans and advances to customers	-	193,683	-	-	193,683	197,990
Loans and advances to other banks and insurance companies	-	537,810	-	-	537,810	540,870
Financial assets at fair value through profit or loss	32,557	-	-	-	32,557	32,557
Other financial assets	-	-	-	1,098	1,098	1,098
Total	**32,557**	**756,813**	**33,758**	**1,098**	**824,226**	**831,575**
Loans and deposits from other banks	-	304,149	-	-	304,149	312,112
Deposits from customers	-	15,510	-	-	15,510	15,524
Financial liabilities at fair value through profit or loss	144	-	-	-	144	144
Debt securities issued	-	-	-	404,350	404,350	428,539
Other financial liabilities				3,154	3,154	3,154
Total	**144**	**319,659**	-	**407,504**	**727,307**	**759,473**

NOTE 33. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (CONTINUED)

Cash, due from banks and 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 historical cost carrying amount.

Available-for-sale financial assets
The carrying values of equity investments and other available-for-sale financial assets are provided in Note 5 to the financial statements. These are based on quoted market prices, when available. In that case when equity instruments do not have quoted market price in an active market and the variability in the range of the reasonable fair value estimates is so great and the probabilities of the various outcomes are so difficult to assess that the usefulness of a single estimate of fair value is negated, financial instruments are stated at cost.

Loans and advances to other banks and insurance companies and Loans and advances to 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.
To improve the accuracy of the valuation estimate homogeneous loans are grouped into portfolios with similar characteristics such as maturity, quality of collateral, product and borrower type.

The table above contains two fair value measures for “Loans and advances to other banks and insurance companies” and for “Loans and advances to customers”.

- In the first column the Bank calculated fair value as net present value of future cash-flows that contain future cash-flows from interest compensation system.

- In the second column the Bank calculated net present value of future cash-flows that do not contain future cash-flows from interest compensation system.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss (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.

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

NOTE 33. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (CONTINUED)

Financial liabilities valued at amortised cost

The fair value of Loans and deposits from other banks and insurance companies and Deposits from customer is calculated using discounted cash flow techniques, which take into consideration assumptions based on market data.

Debt securities issued

The bonds issued by the Bank in December 2012 and in October 2014 are traded on London Stock Exchange and on OTC markets. Fair value of these bonds is determined based on the observable market prices.

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

(All amounts in HUF million unless otherwise stated)

NOTE 33. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (CONTINUED)

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

As at 31 December 2016	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Cash due from banks and balances with National Bank of Hungary	-	707	-	707	707
Loans and advances to customers	-	-	253,392	253,392	243,190
Loans and advances to other banks and insurance companies	-	-	576,000	576,000	573,974
Other financial assets	-	2,738	-	2,738	2,738
Total	**-**	**3,445**	**829,392**	**832,837**	**820,609**
Loans and deposits from other banks	-	315,440	-	315,440	312,252
Deposits from customers	-	28,625	-	28,625	28,619
Debt securities issued	332,846	128,348	-	461,194	437,886
Other financial liabilities	-	4,098	-	4,098	4,098
Total	**332,846**	**476,511**	**-**	**809,357**	**782,855**

As at 31 December 2015	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Cash due from banks and balances with National Bank of Hungary	-	25,302	-	25,302	25,320
Loans and advances to customers	-	-	197,990	197,990	193,683
Loans and advances to other banks and insurance companies	-	-	540,870	540,870	537,810
Other financial assets	-	1,098	-	1,098	1,098
Total	**-**	**26,400**	**738,860**	**765,260**	**757,911**
Loans and deposits from other banks	-	312,112	-	312,112	304,149
Deposits from customers	-	15,524	-	15,524	15,510
Debt securities issued	301,914	126,625	-	428,539	404,350
Other financial liabilities	-	3,154		3,154	3,154
Total	**301,914**	**457,415**	**-**	**759,329**	**727,163**

30 June 2017
Authorised for issue by

Zoltán Urbán
Chief Executive Officer