HUNGARY'S RETAIL GOVERNMENT SECURITIES STRATEGY

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HUNGARIAN RETAIL DEBT MARKET IN FIGURES

Retail securities owned by households relative to CGD	Government securities owned by households relative to CGD	Retail securities owned by households relative to GDP
20.4%	**23.7%**	**12.8%**

Retail securities owned by households gross financial assets	Number of retail investors relative to number of tax-payers	Number of retail investors relative to number of households
11.2%	**16.8%**	**19.4%**

Source: AKK, NBH, HCSO 2023 data until 31/08, Note: CGD - Central Government Debt (excluding local governments)

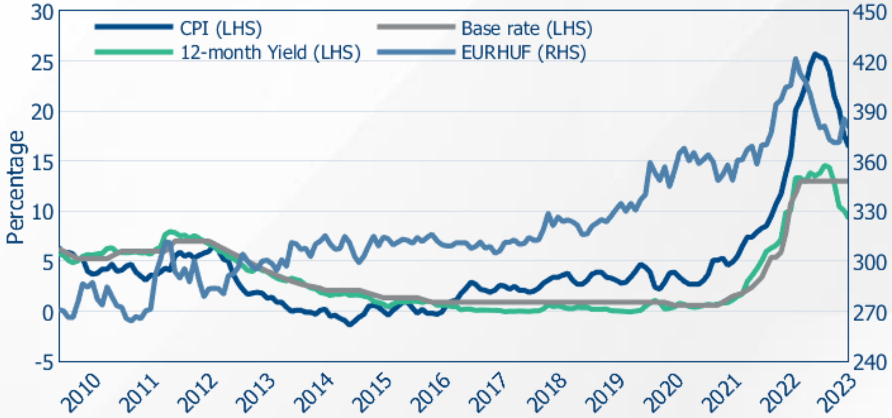
KEY MACROECONOMIC DATA

Key highlights

- Due to the population's diligent saving practices, **household financial assets expanded significantly**
- In the first half of 2023, net buying of government securities constituted 43% of gross financial savings of households
- Due to accelerating inflation the NBH increased the central bank base rate in 2021 driving short-term yields higher. The elevated yield environment strengthened the demand for retail securities versus liquid assets with minimal to zero yield (e.g. cash and bank deposits).

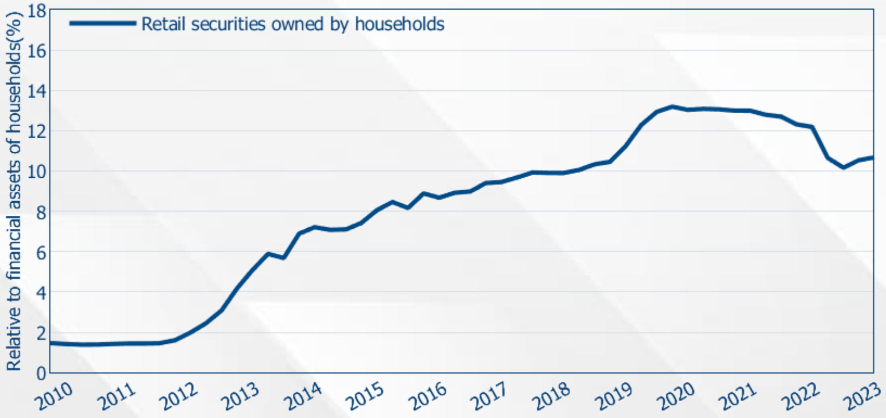
Source: AKK

Inflation, 12-month Yield, Base rate and EURHUF



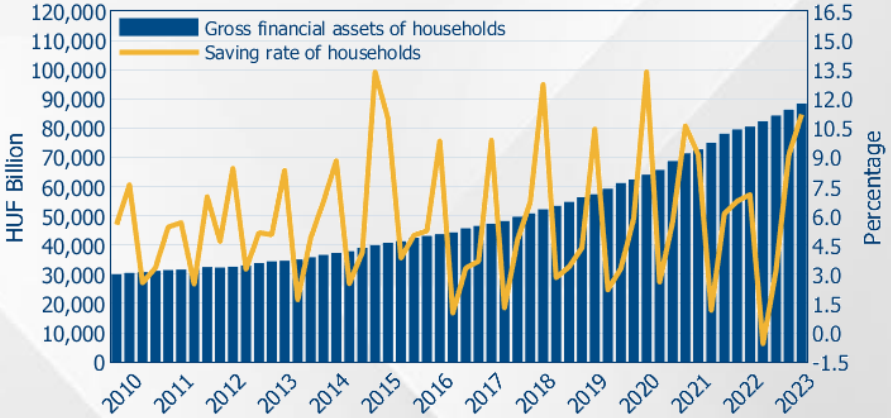
Source: NBH 2023 data until 31/08

Retail securities owned by households



Source: AKK, NBH 2023 data until 30/06

Financial assets and savings rate of households

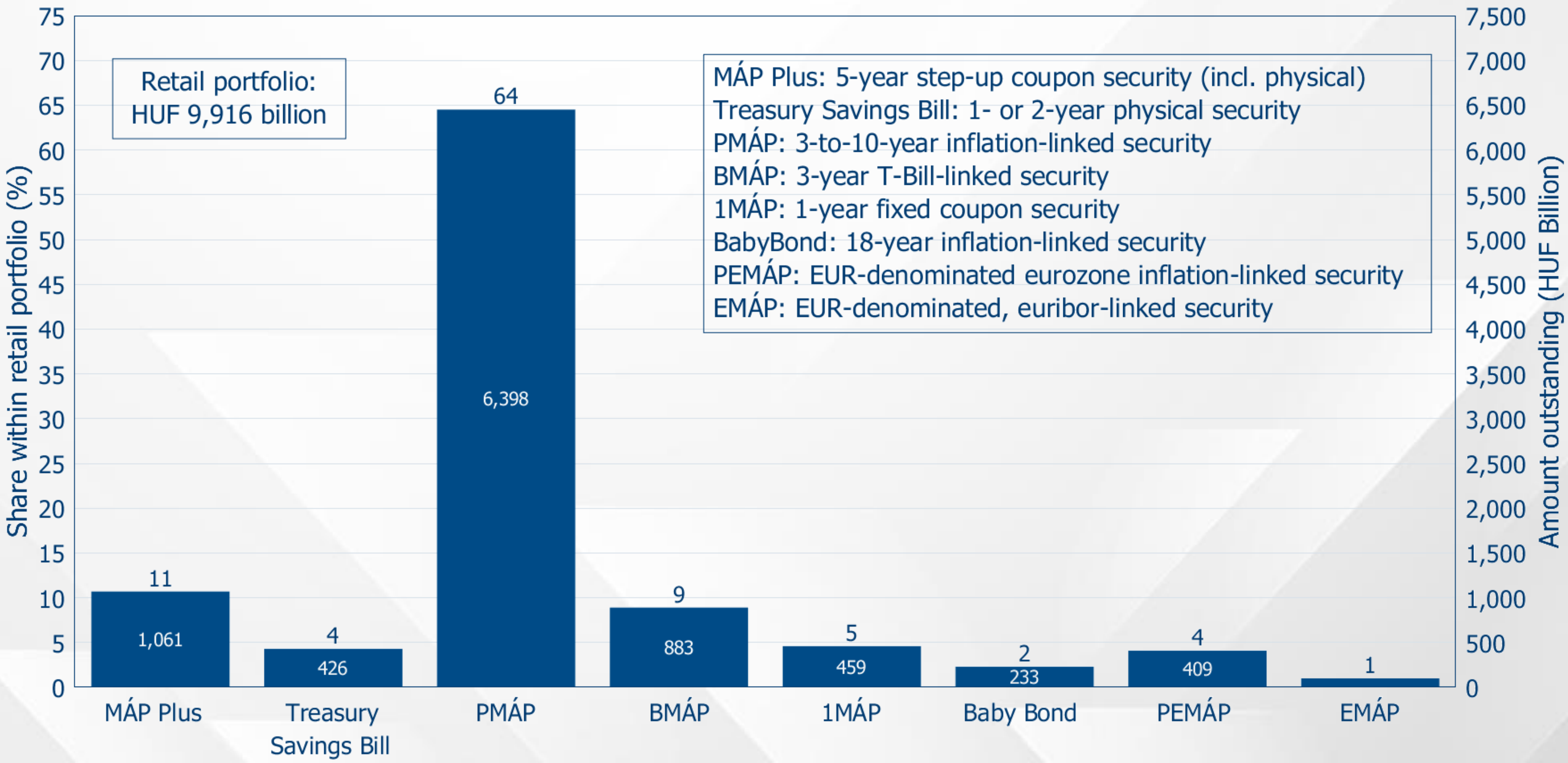


Source: AKK, NBH 2023 data until 30/06

CORNERSTONES OF RETAIL DEBT STRATEGY

Simplification of products	▪ Bolstering **portfolio approach** ▪ Product range for every life scenario and investor approach
Wealth concentration	▪ Reduction in exposure to large investors ▪ Implementation and introduction of sales caps ▪ Broadening of the investor base
Digital Sales Channels	▪ **Digitalization Project at the State Treasury**, including FinTech-like WebTreasury and MobileTreasury UI updates ▪ A simplified option to open an account at the State Treasury
New strategic objectives	▪ New tolerance bands for the share of retail securities owned by households in the total debt in 2023 ▪ The planned introduction of a retail benchmark index from 2024 with indicators comparable to traditional debt management benchmarks (e.g.: cost, ATM, portfolio stability, market share, quality of sales)
Marketing communication	▪ Educational marketing approach and modernized online marketing strategy to keep up with the changes of media consumption habits
Key Limitations	▪ No leverage ▪ Prudential rules to limit investors taking on FX risk ▪ Sales cap

RETAIL PORTFOLIO PRODUCT STRUCTURE



Source: AKK 2023 data until 31/08

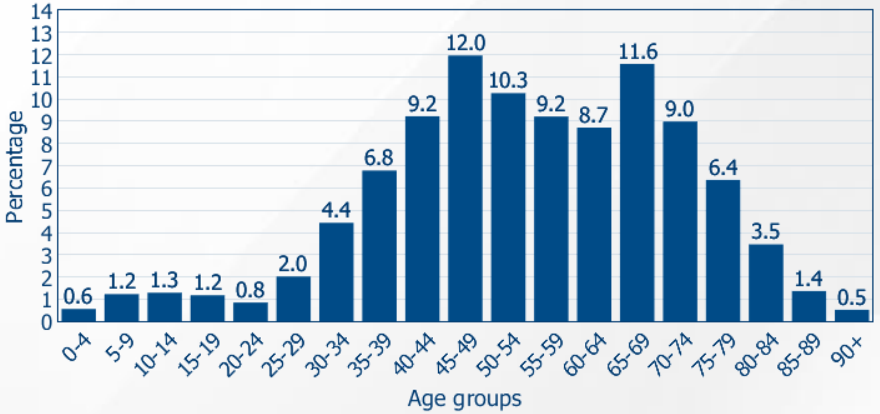
RETAIL DEBT INVESTOR PROFILE

Key highlights

- **HUF 9,900 billion retail stock – (€25 billion)**
- More than **1,12 million retail accounts**
- Geographically, significant part of the customers are focused around the capital city:
    - Budapest – 35.9%
    - Pest county – 14.5%
- Average investor age is around 55 yrs.
- Average amount held by one investor is HUF 11.3 million

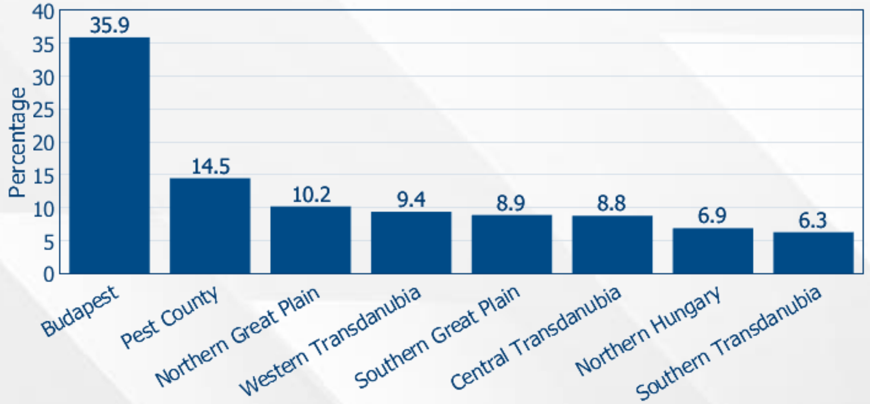
Source: AKK

Distribution of customers by age group (State Treasury)



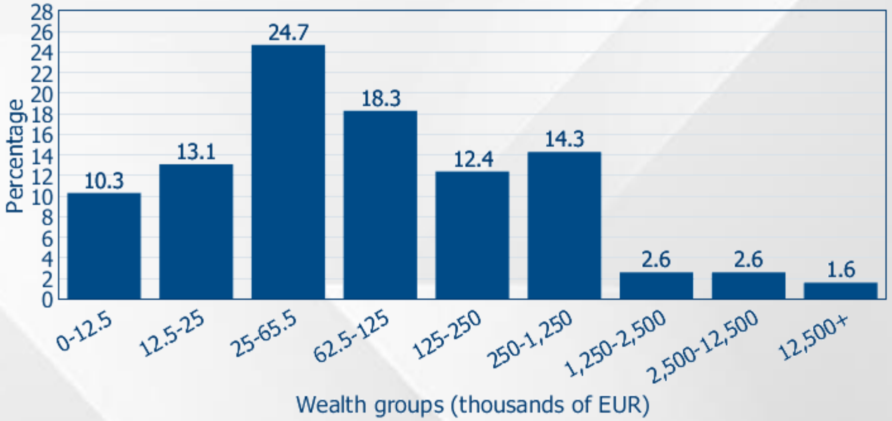
Source: AKK 2023 data until 30/06

Distribution of customers by region (State Treasury)



Source: AKK 2023 data until 31/08

Distribution of customers by wealth category (State Treasury & Banks)



Source: AKK 2023 data until 31/08

RETAIL DEBT DISTRIBUTION CHANNELS

State Treasury and Banks

State Treasury:

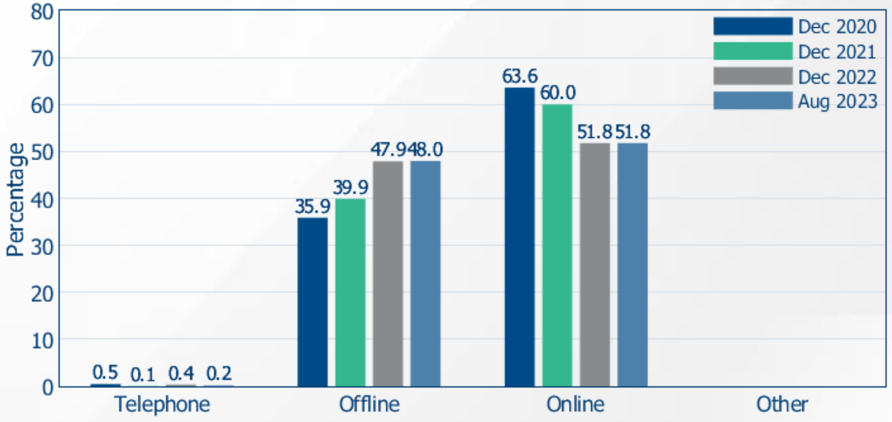
- Online sales make up nearly 75% of ST's total sales
- Free of charge account management
- The Treasury Digitalisation Project intends to increase online sales with:
  - One-click online account opening and
  - UI and UX interface developments

Banks:

- Branch-based sales are leading
- Wide availability, more physical branches
- ÁKK's distribution fees are concentrated on growing the number of customers and stocks
- Retail government securities as competition to the banks own products

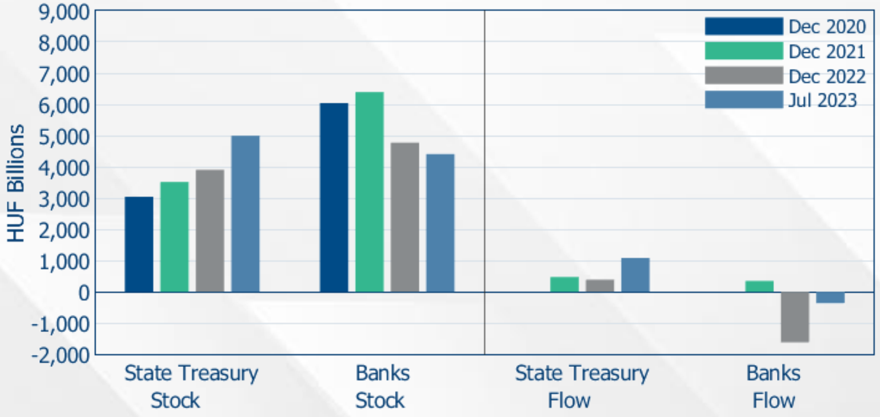
Source: AKK

Retail distribution channel breakdown – **State Treasury**



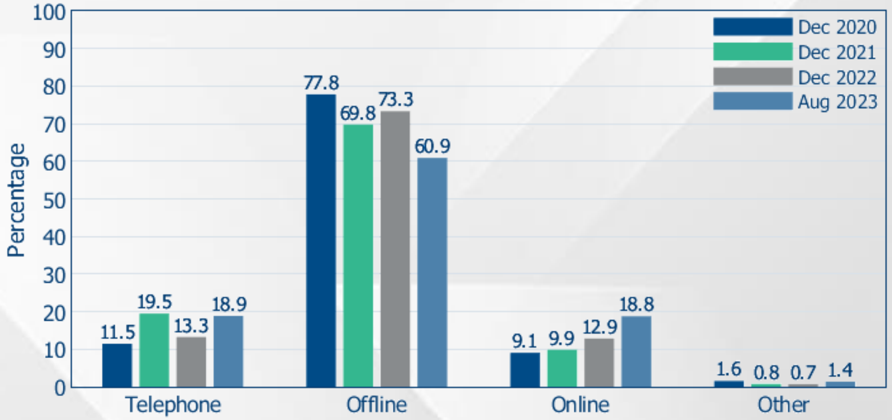
Source: AKK 2023 data until 31/08

Stock and Flow amounts



Source: AKK 2023 data until 31/08

Retail distribution channel breakdown - **Banks**



Source: AKK 2023 data until 31/08

ESG CONSIDERATIONS OF THE RETAIL DEBT PROGRAMME

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Equality and diversity	▪ **Clear** and **understandable** investment terms for households ▪ **Available** for everyone ▪ **Easily accessible online** („Webkincstár" and „Mobilkincstár" app) and **offline** (e.g. banks or ST branches) ▪ Investors are treated as an **equal partner**
Financial product quality and safety	▪ **Reliable**, **safe**, **low-risk** investment ▪ Offers **higher yield** than the similarly low-risk financial product ▪ **Opening and managing an account** at the Hungarian Treasury is **free of charge**, there are **no transaction fees** and the series issued since June 2019 are **completely tax-exempt** ▪ Detailed descriptions and documents on allampapir.hu and a demo version of **Webkincstár** provide **high transparency**
Financial education	▪ Communication campaigns strengthen the population's **financial awareness**, which leads to **higher savings rate** among residents ▪ Retail products also function as a **type of entry into investing**
Sustainability and environment	▪ The **Hungarian Green Bond Framework** and **Hungarian Green Bonds** raise **environmental awareness,** offers investment opportunities and contributes to the **shift towards sustainability** ▪ The Framework allows the introduction of potential **residential green products** later on ▪ The retail debt programme also contributes to **sustainability of the debt portfolio** through diversification

MODELLING RETAIL DEMAND

I.	**ÁKK accepts all direct retail demand for government securities**	▪ Conditions of retail instruments set by ÁKK, not by market ▪ ÁKK can influence demand by modifying prevailing conditions ▪ Demand-driven modelling
II.	**Retail securities**	▪ Inflation-linked, T-bill linked ▪ Step-up coupon; Short, fixed rate ▪ Euro denominated, EURIBOR-linked
III.	**In-house modelling for retail demand**	▪ Outstanding amount of retail securities driven by macro factors (household assets, retail premium) ▪ Striving to better understand investor behaviour and drivers of demand
IV.	**Vital part of the optimal debt portfolio model**	▪ Expected retail demand as exogenous boundary conditions ▪ Optimization scheme takes into account cost and risk characteristics
V.	**Aiming for market share**	▪ Modelling results define retail benchmark ▪ Conditions of retail instruments set according to medium-term debt management strategy

THANK YOU FOR YOUR ATTENTION

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