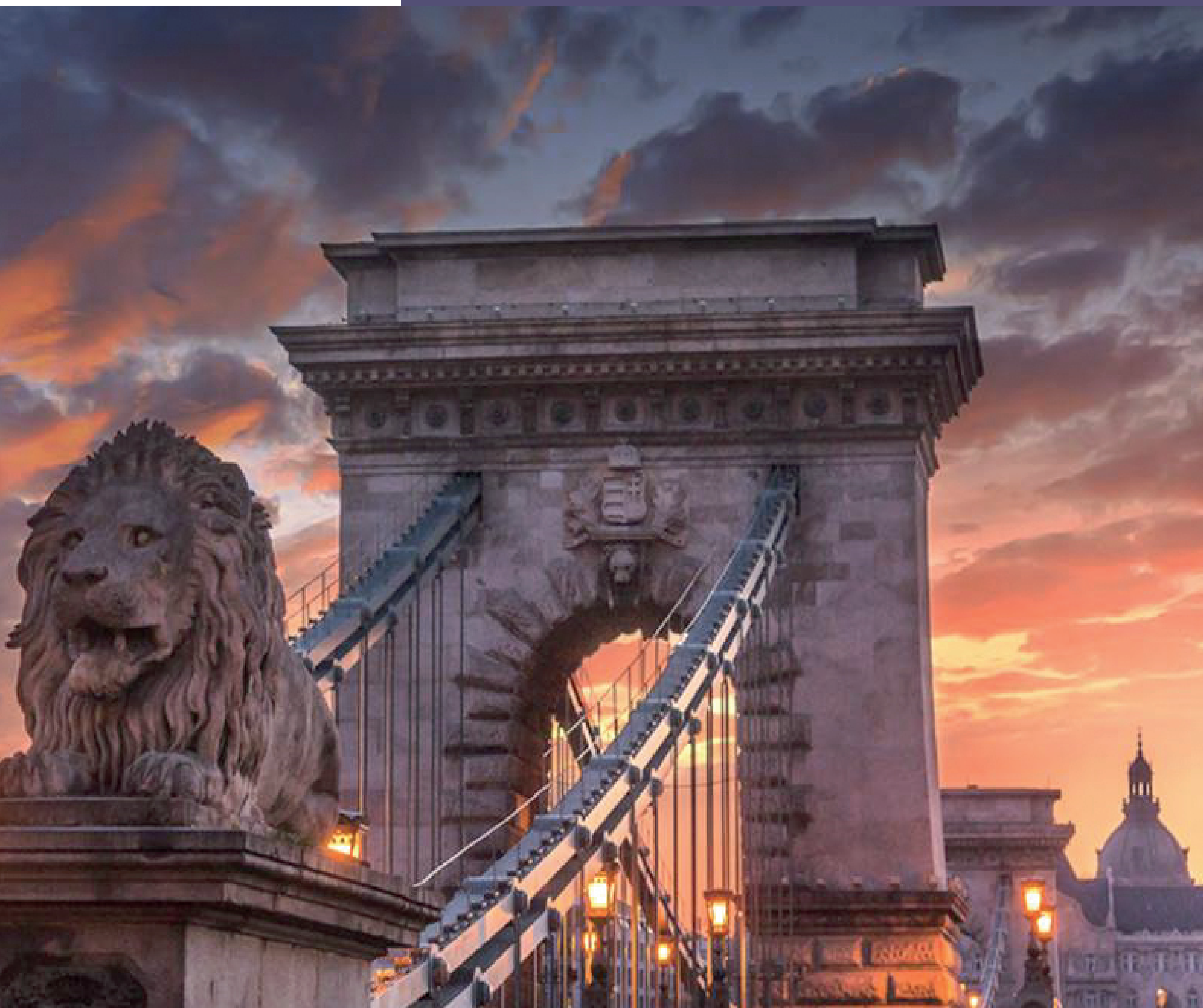
GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

ÁKK

GOVERNMENT DEBT MANAGEMENT REPORT

2016



Foreword

The objective of this Government Debt Management Report 2016 of the Government Debt Management Agency Pte. Ltd. (ÁKK) is to inform investors and other stakeholders in the government securities market about the financing of the central government, to analyse the characteristics of public debt and to describe the developments in the Hungarian government securities market in 2016.

One of the most important objectives of the Hungarian government is to reduce the public debt, increase the domestic part of the debt and improve debt metrics. 2016 was a very successful year in these respects: according to EUROSTAT the public debt ratio continued to decrease from 74.7 per cent to 74.1 per cent. Not only did indebtedness decline, but the share of foreign currency debt also declined from 31 per cent to 25 per cent. At the same time Hungary issued the first Chinese bond in CEE with the issuance of a CNY 1 billion Dim Sum bond in April 2016. The domestic ownership of public debt increased further due to the successful retail debt program – now more than half of the public debt is in the hand of domestic investors. All of these results were achieved with even lower funding costs.

All in all, it is clear that the most important objectives for the last year were achieved, which provides a solid grounding for the coming years of public debt management. These achievements were also acknowledged by credit rating agencies, since all three major CRAs gave investment grade credit rating to Hungary in 2016.

György Barcza
Chief Executive Officer

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General information

Both deficit and debt data are preliminary until the Act on Final Accounts for the relevant year is approved by Parliament, which occurs usually during the second half of the following year. Fiscal data used in this report were still preliminary when this report was compiled.

Some of the data in this report are cash-flow based and some are accrual-based. When using the cash-flow approach, expenditures and revenues are accounted for the very period in which they are actually paid or received, regardless of the periods to which their economic content relates. Under the accrual approach on the other hand, the amount of an expenditure or revenue item related to several periods is divided up on a pro rata basis and allocated to the relevant periods.

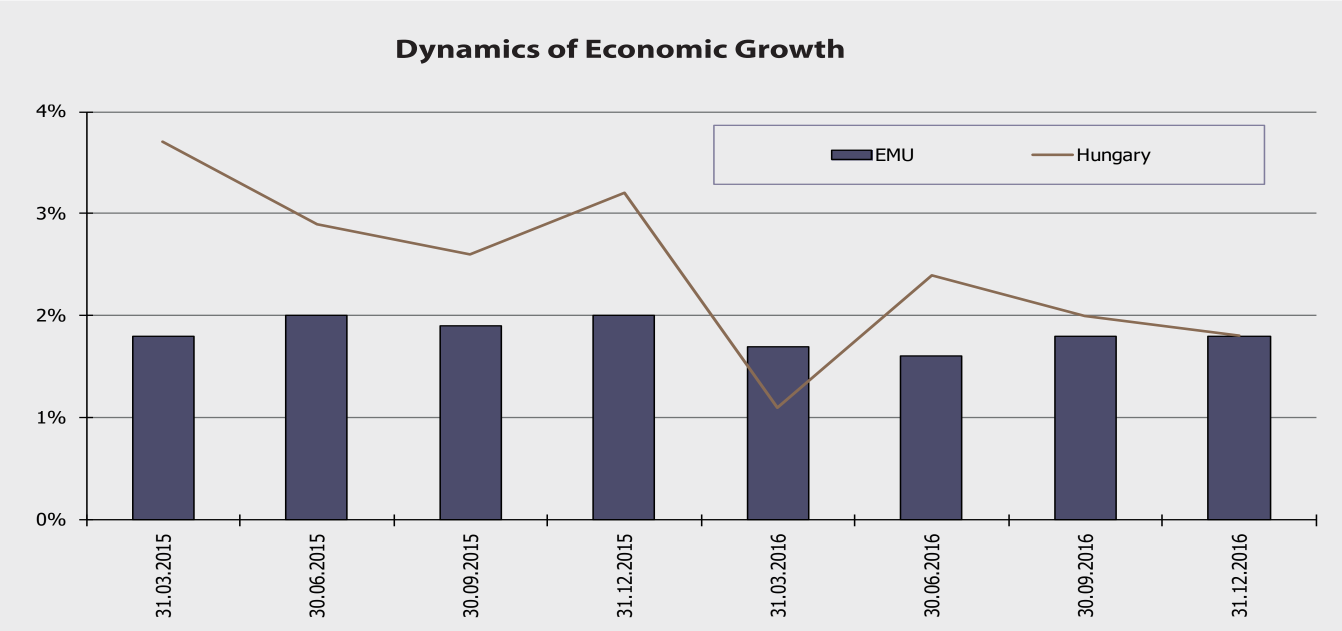
ÁKK publishes data about government debt in accordance with Hungarian accounting standards, the principles of which are summarised as follows:

- Government bonds and retail government securities are recorded at nominal value.
- Discount treasury bills are recorded at the average sale price (at discount value), which is recalculated after every transaction involving the security concerned.
- Repo and reverse repo transactions actually increase or reduce outstanding government debt.
- Foreign currency debt is taken into account after swaps and is converted into HUF at the official exchange rate published by the National Bank of Hungary (NBH) at the end of the month or year in question.
- The debt published by ÁKK is the central government gross debt managed by ÁKK according to the Act No. CXCIV of 2011 on the Economic Stability of Hungary (i.e. it does not include either local government debt or the debt of state-owned enterprises and does not include debt under section 3 paragraph (1) c, d, and f, of the Stability Act and it is not a consolidated indicator (i.e. debt between various public sector subsystems is not netted)).

The debt data published by ÁKK in accordance with Hungarian and international accounting standards differs from the debt data used by EUROSTAT (the European Union's institute of statistics), which is calculated according to different principles and is essentially the result of statistical calculations. Public debt data is calculated and published in accordance with ESA '2010 principles by the National Bank of Hungary.

I. Macroeconomic developments in 2016

Economic Growth

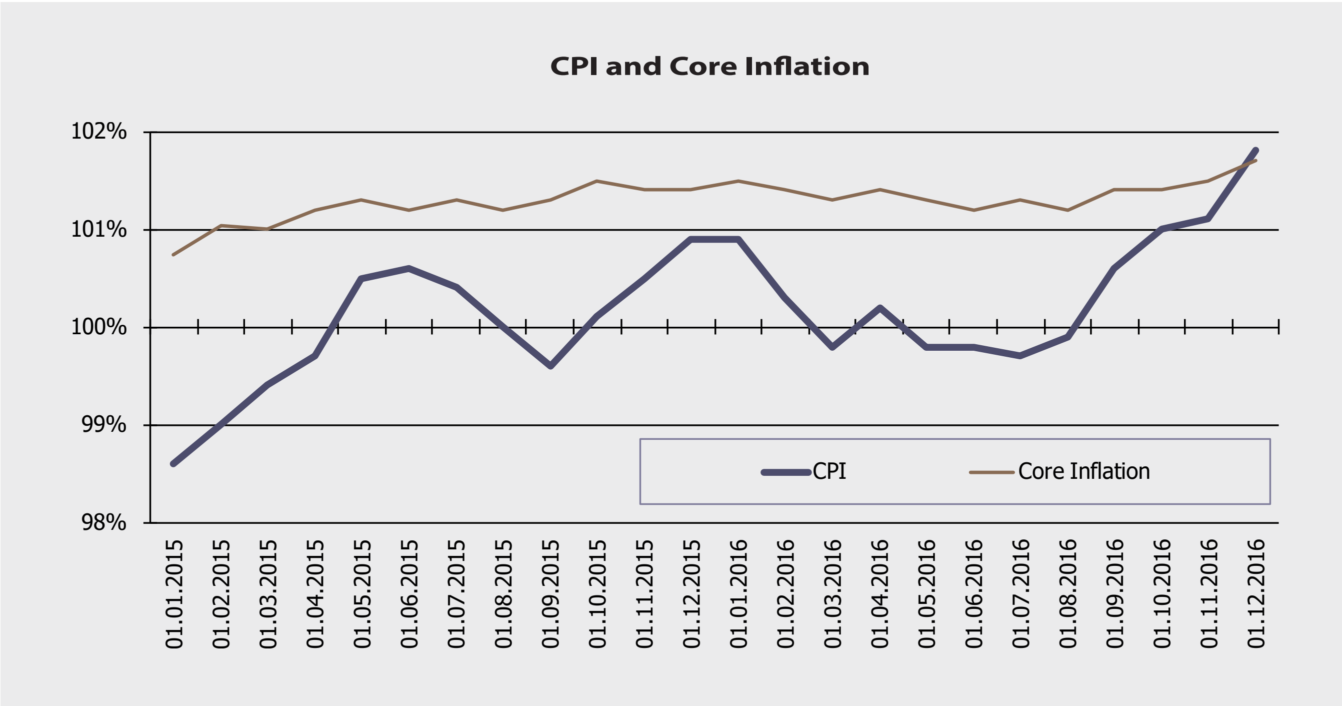


Source: CSO, Eurostat

The GDP growth rate decelerated from 3.9% in 2014 to 3.1% in 2015 and to 1.9% in 2016, which is close to the average growth rate of the EU and the Eurozone. It was the services sector which contributed the most to the economic growth in 2016. Due to the favourable weather the value added of the agricultural sector increased significantly (by 16.8%), whereas the dynamics of the industry decelerated substantially (from 8.2% in 2015 to 0.8%) partly because of base effect. Regarding the expenditure approach investments did not contribute to the economic growth – in contrast to previous years; economic growth was driven by consumption and to a lesser extent by foreign trade. The dynamics of consumption increased (from 2.7% to 3.6%), whilst investments declined (by 5.0%) mainly due to the very high base. The dynamics of exports (from 7.7% to 5.8%) and imports (from 6.1% to 5.7%) both declined, as a result of which net exports contributed 0.6 percentage points to GDP dynamics in 2016.

I. Macroeconomic developments in 2016

Inflation



Source: CSO

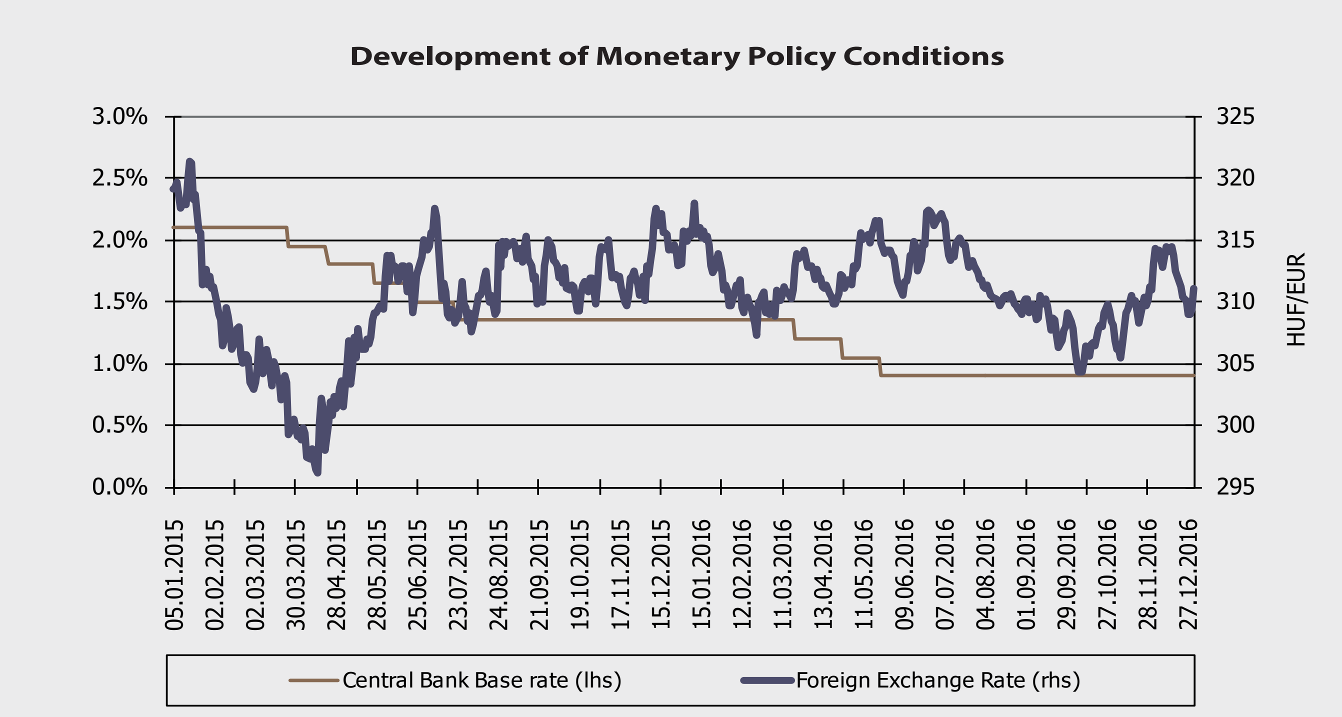
Inflation accelerated from 0.9% in December 2015 to 1.8% in December 2016, but still below the 3.0% inflation target of the central bank. The price level of most goods increased; price dynamics reached 0.5% in case of clothing, 1.3% in case of food, 1.9% in case of services and 2.5% in case of alcoholic beverages and tobacco; the last item was mainly the consequence of excise duty increases. The price level of other goods (including fuel) grew by 3.5% mainly because of increasing global energy prices. Durable goods were the only group where the price level dropped (by 0.5%). The acceleration of inflation was mainly the result of increasing energy prices; inflationary pressure was mild in case of most commodity groups. Yearly average inflation rate was still low at 0.4%.

Monetary Conditions

The Monetary Council of the National Bank of Hungary decreased the central bank base rate between March and May from 1.35% (as of the beginning of the year) to 0.90% by 15 basis points steps. In May the National Bank of Hungary concluded its easing cycle and monetary policy shifted towards non-conventional tools. From May the three-months instrument became the main sterilization tool; from October the available total amount of the instrument was capped. The importance of the lower boundary of the highly asymmetric interest rate corridor – that entered negative territory standing at -0.05% since March 2016 – gained importance as a reference yield. In order to fine tune the interbank market the central bank introduced two new instruments: a one-week deposit yielding the central bank base rate and an FX swap providing forint liquidity; they are used on a discretionary basis. The central bank increased forint liquidity twice in December using the new fine-tuning instruments.

I. Macroeconomic developments in 2016

The foreign exchange rate of the forint strengthened (by 0.7%) from 313.12 HUF/EUR as of the end of 2015 to 311.02 HUF/EUR by the end of 2016.



Source: NBH

At the beginning of the year the exchange rate increased to 318 HUF/EUR mainly as a result of the Fed interest rate hike by the end of the previous year and the consequently unfavourable global investor sentiment. During the first quarter of the year the domestic macroeconomic indicators were favourable, economic growth was strong and inflation was contained enabling the central bank to relaunch its monetary easing cycle. The forint weakened from the end of March. Although the Hungarian macro balance indicators (government deficit and balance of payments) were still favourable, growth indicators (industry, construction, external trade and GDP data) were weaker than expected. At the same time, several market analysts expected that the NBH would conduct a monetary policy that is stricter than that of the ECB and the U.S. Fed's by terminating the rate cutting cycle and phasing out several instruments (e.g. the IRS programme). In addition, the external environment was unfavourable, Chinese, U.S. and especially the European economic growth seemed to be anaemic. At the same time the decision of Fitch Ratings to upgrade Hungary to investment grade strengthened the local currency.

During the second half of 2016, the external environment changed significantly: investor sentiment improved and stock markets hit new historic records. In Great Britain, the majority voted against the EU membership supporting Brexit; Republican candidate Donald Trump won the election in the USA. On both occasions those scenarios materialised which the markets presumed to be less favourable, but the expected negative market reaction did not happen. The Bank of England cut the interest rate – for the first time in seven years' time – and the expected Fed rate hike was postponed. But when it happened, the Fed's December decision to increase the repo rate did not cause sweeping changes. The macro balance indicators of Hungary remained favourable supporting the forint. During the last weeks of the year, favourable U.S. and European economic sentiment indicators also strengthened the forint.

Fiscal Policy

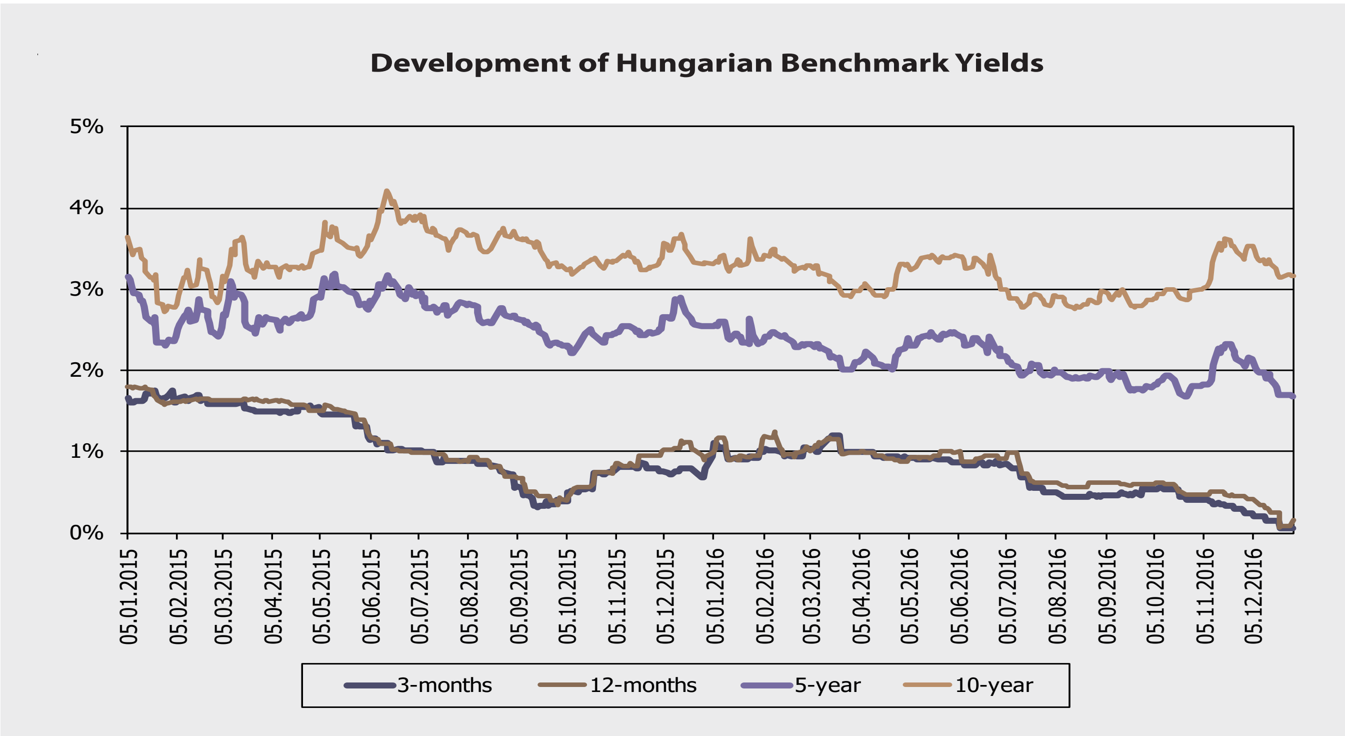
The deficit of the public sector was 1.8% of GDP based on the financial accounts methodology. The cash-flow based (GFS) general government deficit amounted to HUF 848.3 billion (equaling 2.4% of GDP for the year 2016). In 2016, the accrual based (ESA) general government deficit (including local governments) amounted to HUF 609.7 billion (equaling 1.7% of GDP for the year 2016) according to preliminary data. The financing need of the state for the year 2016 decreased compared to the previous year.[1]

Financing Position of the Economy

The households' savings to GDP ratio amounted to 4.6%. The net financing need of the corporate sector reached 1.1%. The economy of Hungary as a whole was a net lender towards the rest of the world in the amount of 2.9% of GDP resulting in a further declining external indebtedness of Hungary. The current account posted a surplus of EUR 5.5 billion or 4.9% of GDP.

Developments of Government Securities Markets and Yields

During the course of the year short-term forint yields dropped significantly, whilst long-term forint yields declined with temporary increases in line with the development of the global investor sentiment.



Source: ÁKK

[1] The components of the net financing need are described in detail in Chapter III.

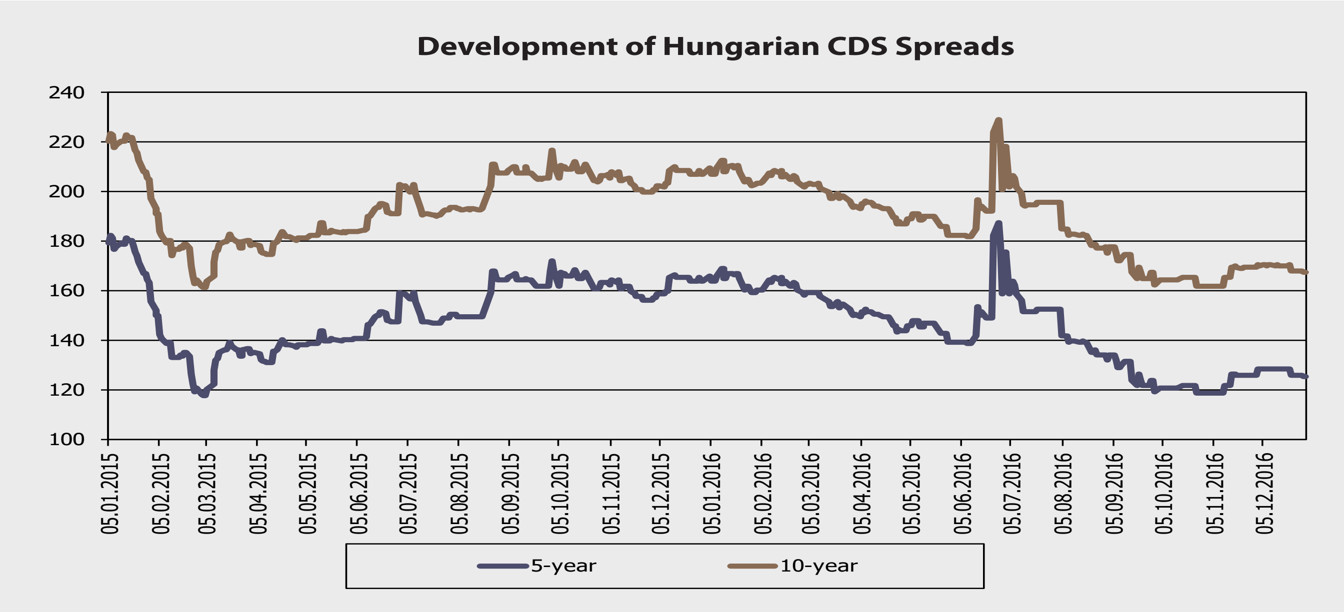
I. Macroeconomic developments in 2016

The yields of short-term government securities fluctuated in the first quarter of 2016 in line with the changes in market sentiment, and stagnated during the second quarter of 2016 around the central bank base rate of 0.9%. In the second half of the year short-term government securities yields fell well below the central bank base rate, approaching zero. The radical change in monetary policy instruments played the most important role in this. In July the Monetary Council announced that the available amount of the three-month deposit facility will be capped from October. As a result, commercial banks' assets were crowded out of the central bank deposit, and the increasing liquidity pushed down the yields of short-term governments securities. In December, the central bank increased the market liquidity using the fine-tuning instruments.

In the first trimester of 2016 bond yields declined mainly as a result of favourable Hungarian macroeconomic data and the relaunch of the central bank's rate cutting cycle. In spring the Government amended the budget for the year 2016; market participants interpreted this as fiscal loosening, and the central bank stopped the interest rate cutting cycle. Growth data in Hungary, Western Europe and the U.S. were disappointing. Although Hungarian macro balance indicators were still favourable, they were unable to counterbalance the unfavourable effects; as a result, long-term forint yields fluctuated at a relatively high level. During the second half of the year long-term forint yields declined again partly as a result of external factors. On the one hand the effects of Brexit were only temporary in the region, on the other hand the Fed rate hike was delayed. The declining bond yields during the end of the year were partly the result of favourable Hungarian macroeconomic developments, the 'Trump rally' on the developed countries' stock markets and good global growth prospects. At the same time the non-conventional monetary policy easing announced by the NBH strengthened the demand for governments securities, whilst supply was constrained by the close to zero financing need and the strong demand of the households. During the course of the year all three main credit rating agencies upgraded Hungary (Fitch in May, Standard&Poor's in September and Moody's in November) to the investment grade category, strengthening the demand for Hungarian assets and consequently pushing bond yields downwards.

By the end of 2016 the 3-month and 12-month reference yields dropped to 0.06% and 0.15%, respectively; the 5-year and 10-year reference yields were 1.67% and 3.16%, respectively.

CDS Spreads

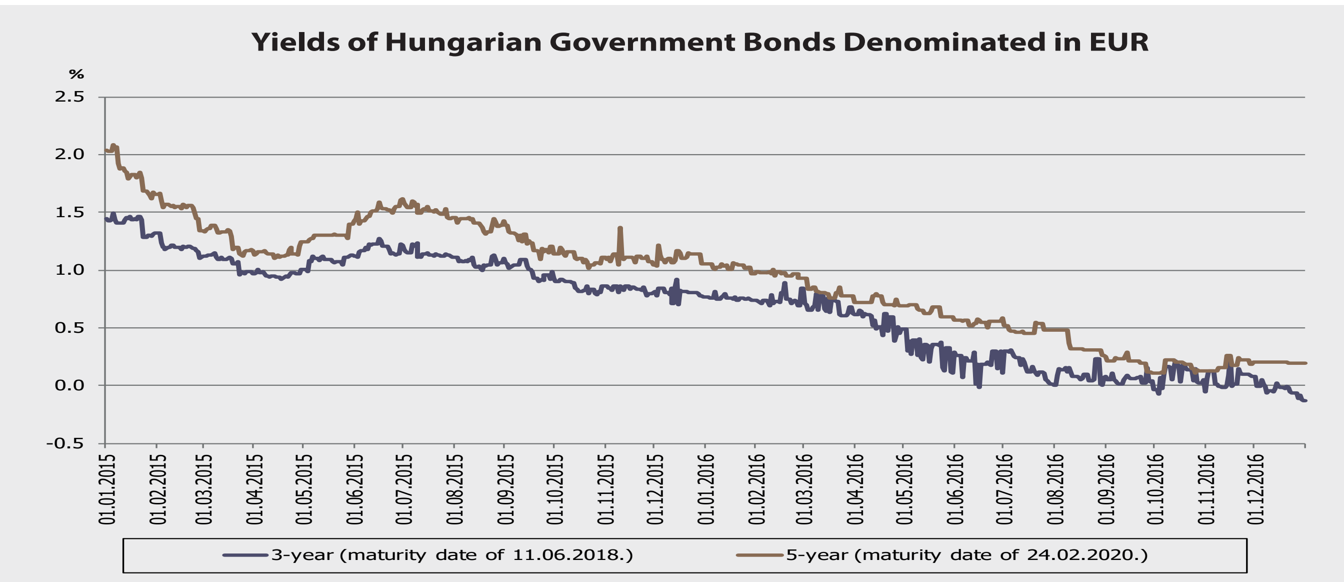


Source: Reuters

During the course of the year the 5-year CDS spread dropped by 160 basis points to 125 basis points. The global investor environment and the macroeconomic indicators of Hungary (favourable macro balance indicators amidst decelerating growth) were all fundamentally good. During the first half of the year the spread decreased to 140 basis points, but after the British referendum supporting EU exit it increased to close to 180 basis points. Following this a quick correction took place and the downward trend of the first half of the year prevailed in the second half of the year. Hungary's upgrade to investment grade also decreased CDS spreads.

Yields of Foreign Currency Denominated Bonds

In 2016, the yields of government bonds denominated in euro issued by Hungary declined significantly.

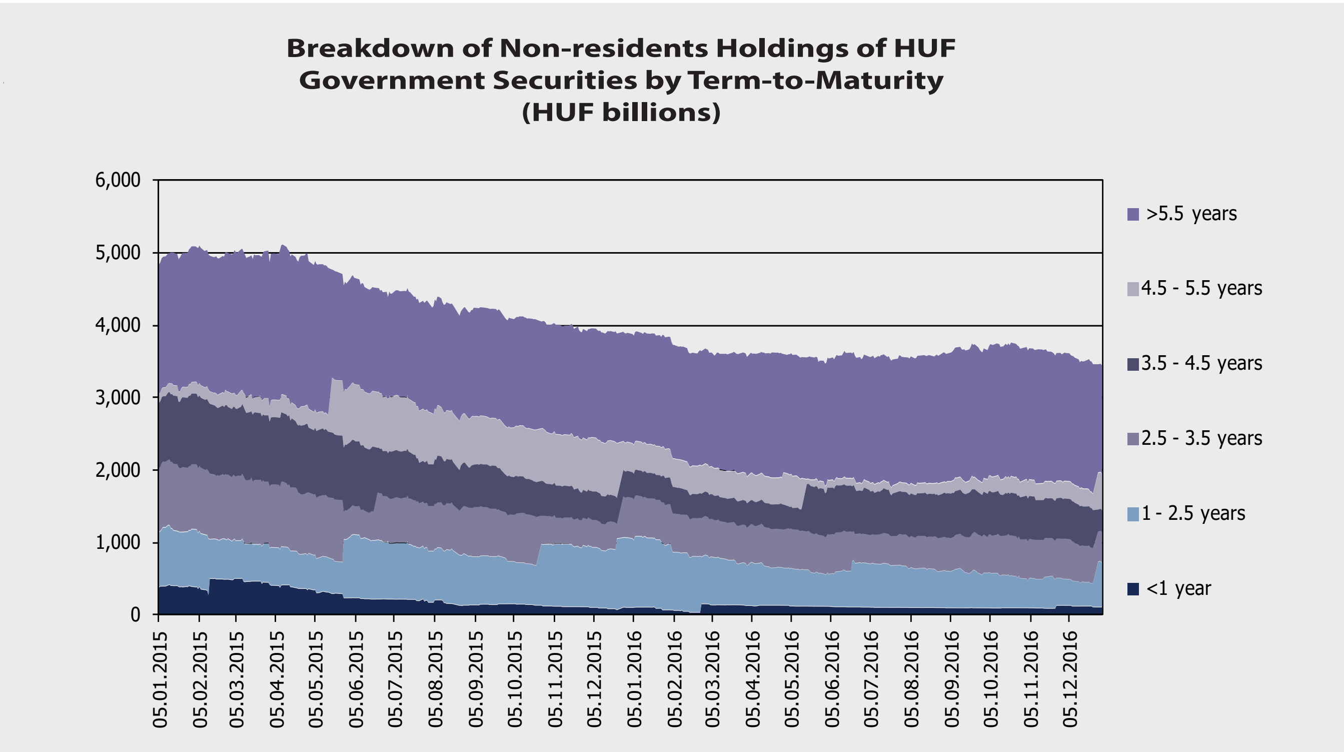


Source: Bloomberg

The yield of the Hungarian euro-denominated government bond maturing in February 2020 declined from 1.05% to 0.19% during the course of the year 2016. The significant reduction of yields was driven not only by the decline of spreads but also by the drop of the yields of risk-free long-term securities in the Eurozone as a result of the monetary policy of the European Central Bank.

Government Securities Holdings of Foreign Investors

The stock of forint-denominated government securities held by non-residents continued to decline during the year 2016. Non-resident holdings declined by HUF 454 billion reaching HUF 3,442 billion by the end of the year 2016. At the same time the average term to maturity of foreign investors' portfolio increased from 5.1 to 5.5 years.



Source: KELER Zrt.

The share of foreign holdings of forint-denominated debt decreased from 28% to 23% within the total debt. Adding to this the foreign exchange denominated debt held by non-residents the foreign holdings amounted to 42% of the total public debt portfolio.

II. DEBT MANAGEMENT STRATEGY IN 2016

ÁKK plans and performs its financing transactions in accordance with the Debt Management Strategy approved each year by the Minister responsible for Public Finances, the Minister for National Economy.

ÁKK's main objective is to finance the central government at the lowest costs in the long run, taking account of risks. Taking the economic policy as a framework, the strategy must focus on the best possible achievement of this objective.

In accordance with the economic policy of the government ÁKK set three secondary objectives:

1. According to the fundamental law of Hungary if the debt to GDP ratio is higher than 50 percent, only such budget can be approved, which leads to the reduction of the debt ratio year by year. The primary objective of debt management is to support the debt reduction accordingly.
2. One of the main factors that led to the vulnerability of Hungary in recent years was that the higher part of the government debt had been financed by non-resident investors. Increasing domestic savings and the domestic financing of the debt reduce the risks of public debt and support macroeconomic stability in the long term. Thus the second objective of ÁKK is to develop further the domestic investor base, and especially to increase the retail debt program.
3. Decreasing debt ratio and increasing domestic financing enable to significantly reduce the share of foreign currency debt within the total debt, which is the third objective of ÁKK.

In the trade-off between costs and risks, the aim is to develop a debt structure with the most favourable long-term cost-risk characteristics. The emphasis is on the long term: no transaction should be done to achieve lower costs in the short term at the expense of higher costs or greater risks in the future.

The most important risk factors are as follows:

- Refinancing risk consists of the risk of renewing maturing debt and the risk associated with meeting net financing requirements. In extreme cases, refinancing risk may become liquidity risk, but in general it is interest rate risk.
- Interest rate risk relates to fluctuations in the yields and interest rates of government debt.
- Liquidity risk is the result of fluctuations in the cash-flows of the central government and the capital market operations of debt management.
- Foreign exchange rate risk arises out of fluctuations of the exchange rates of the forint versus the euro, as well as other foreign currencies.
- Credit risk (counterparty risk) is an important risk factor in the case of hedging transactions concluded directly with partners in the international capital markets and in the case of repo operations in the domestic money market.

ÁKK has developed various benchmarks reflecting its strategic objectives which consider risks and costs simultaneously. In order to filter out short-term effects, these benchmarks are monitored as 90-day moving averages. The benchmarks approved by the Minister for National Economy are also used to quantify strategic objectives and to set intermediate targets. During the course of 2016 the composition of the central government debt was in line with the benchmarks.

Public debt management benchmarks

Benchmarks	Tolerance band	End 2015	End 2016
1. Foreign currency debt ratio	<40% FX	33.5%	25.3%
2. Foreign currency debt composition	95-105% EUR	100.0%	99.9%
3. Fixed coupon part of foreign currency debt	62.7-67.7%	66.9%	66.1%
4. Fixed coupon part of domestic debt	61-83%	62.6%	61.8%
5. Duration of domestic debt	2.5-3.5 years	3.1	3.0

Benchmark No. 6. is to maintain a secure level of funds on the Single Treasury Account (STA). For a detailed description of liquidity management see Chapter VI.

Strategic Principles

ÁKK executes its financing policy governed by the three main principles of simplicity, transparency and liquidity. In ensuring simplicity and transparency, ÁKK only issues a limited number of plain vanilla instruments in a transparent manner, i.e. it sells fixed coupon and floating rate forint bonds and zero-coupon discount treasury bills according to a fixed annual issuance calendar published in advance.

As regards liquidity, ÁKK aims to ensure that wholesale government securities have a sufficiently liquid secondary market. A liquid secondary market can be supported by the debt manager by two ways. The first measure is the continuous two-way price quotation by Primary dealers that reflects real market prices; the second is to consolidate domestic bonds into sufficiently large government securities series (benchmarks). In order to achieve this latter goal, ÁKK reopens individual series – i.e. it issues additional bonds that are fully fungible with previously issued series. The targeted volume of bond series was around HUF 650-1000 billion (approximately EUR 2-3 billion) in 2016. Smaller size of HUF 2-300 billion is targeted in the 15-year tenor reflecting lower investors' demand. Secondary market operations were also enhanced by regular bond buy-back and bond exchange programs.

After the international financial crisis, based on the experiences, ÁKK raised the flexibility of its operations. This way it can react to changes in market demand to a greater extent as regards the announcement of auctions, and the accepted amounts at auctions. The non-competitive top-up phase of bond auctions had been introduced for a similar reason, to be able to react to a stronger than expected demand.

III. The financing requirements in 2016

The components of the financing requirements

The most important part of the net financing requirements is the deficit of the central government. ÁKK is responsible for financing the central government and maintaining its liquidity, while local authorities (the other subsystem of the public sector) manage their own budgets, financing and debt.

The total annual net financing requirement financed by ÁKK is the sum of the central government deficit and other, extra-budgetary transfers (net transfers from the EU, special transfers to the NBH etc.). The gross financing requirement, in addition, also includes debt redemptions, the majority of which is contributed by short-term debt, which may be renewed several times a year. During recent years, cash-flow based financing requirements were as follows:

Borrowing requirements between 2012 and 2016:

HUF Billion

	2012	2013	2014	2015	2016
Central government balance	-629.3	-983.1	-837.1	-1,195.9	-771.6
Balance of the Social Security funds	-117.4	-4.7	5.7	-24.9	-75.2
Balance of the extra-budgetary funds	130.5	50.5	5.8	2.2	-1.5
Net financing need of the central government	-616.3	-937.3	-825.7	-1,218.6	-848.3
Capital transfers to NBH / divident of NBH	0.0	0.0	0.0	0.0	50.0
Privatisation revenues	0.0	0.0	0.0	0.0	0.0
Net EU transfers	-238.8	-296.6	-40.7	185.3	272.1
Total net financing requirements	-855.1	-1,233.9	-866.4	-1,033.3	-526.2
Short term debt redemptions	-1,808.4	-2,594.8	-3,208.2	-3,043.3	-3,114.3
Long term debt redemptions	-2,782.2	-4,096.6	-4,711.3	-3,800.2	-3,817.8
Gross financing requirements	-5,445.7	-7,925.3	-8,785.9	-7,876.8	-7,458.3

Source: Hungarian State Treasury, Ministry for National Economy, ÁKK

The net financing requirement

In 2016 the total cash-flow based deficit of the central government was HUF 848.3 billion (or 2.4 per cent of GDP according to preliminary data), while the total net financing requirement amounted to HUF 526.2 billion (or 1.5 per cent of GDP) including the dividend payment of the National Bank of Hungary, net EU transfers and other funding sources.

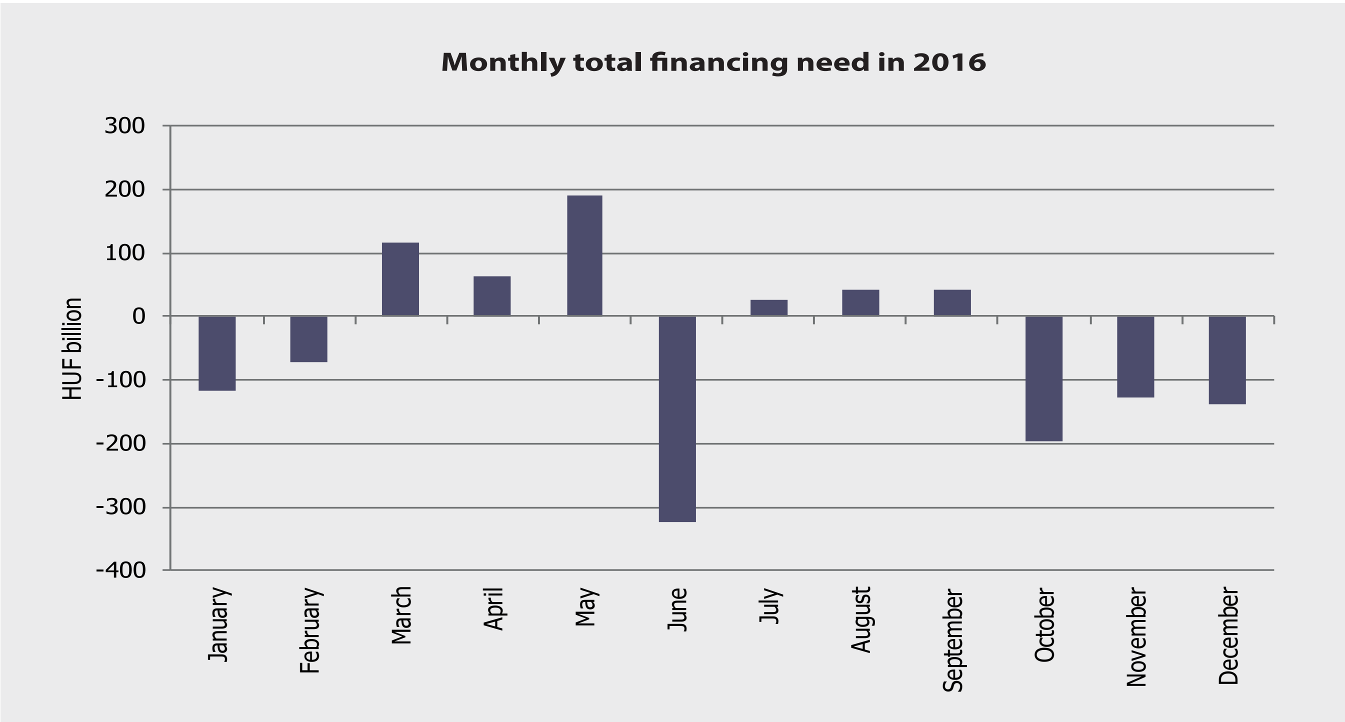
III. The financing requirements in 2016

Borrowing requirements in 2016:

	Plan December 2015 (HUF billion)	Outturn 2016 (HUF billion)	Outturn/Plan 2016
Central government balance	-755.6	-771.6	102%
Balance of the Social Security funds	0.0	-75.2	-
Balance of the extra-budgetary funds	-6.0	-1.5	25%
Net financing need of the central government	-761.1	-848.3	111%
Capital transfers to NBH / divident of NBH	0.0	50.0	-
Net EU transfers	0.0	272.1	-
Total net financing requirements	-761.1	-526.2	69%
Short term debt redemptions	-3040.1	-3114.3	102%
Long term debt redemptions	-2040.3	-3817.8	163%
Gross financing requirements	-6142.0	-7458.3	121%

Source: Hungarian State Treasury, Ministry for National Economy, ÁKK

The monthly financing needs showed a significant fluctuation in 2016 but showing different pattern as previous years; large part of the financing requirement materialized in the last quarter of the year, while the first part of the year was characterized with a surplus.



Source: Hungarian State Treasury, ÁKK

III. The financing requirements in 2016

Redemptions

Redemptions in any given year are largely the function of debt financing operations in previous periods and of the sales of short-term instruments renewed within the year. Prepayments of loans, buy-backs of bonds and the early repurchasing/ redemption of retail securities and other securities in the Treasury network may also influence the final sum.

The total debt redemption was HUF 6,932 billion, 29 per cent higher than planned in 2016. In the case of domestic debt redemptions the excess was the result of bond buy-backs and switch auctions, which significantly reduce the refinancing risk. In the case of foreign currency denominated debt the redemption was also higher than planned due to early prepayment of some FX loans and a foreign currency bond buyback program.

Government debt redemptions: [2]

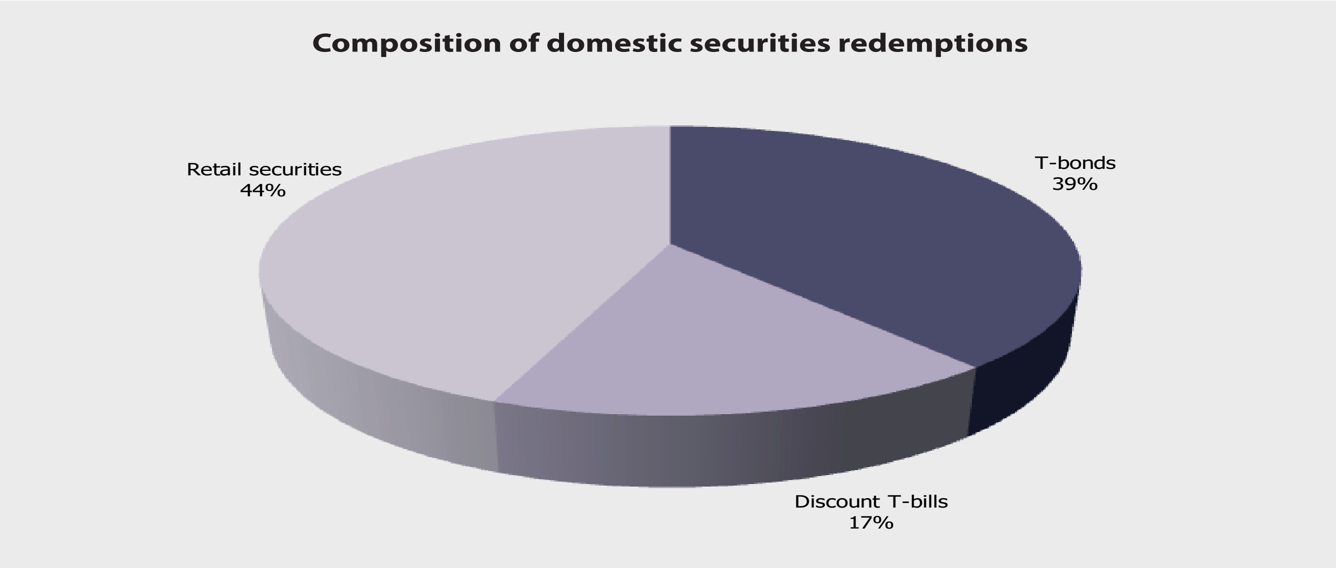
HUF billion

	2015	2016 plan	2016 outcome
Domestic debt	**5,398.2**	**3,863.6**	**5,268.3**
T-bonds	1,885.0	723.0	2,042.0
Discount T-bills	1,588.6	888.5	901.6
Retail securities	1,643.1	2,252.0	2,324.7
Loans	281.6	0.0	0.0
Foreign currency debt	**1,393.1**	**1,516.8**	**1,663.8**
Bonds	928.8	1,013.8	1,076.9
Loans	464.3	503.0	586.9
Total	**6,791.3**	**5,380.4**	**6,932.1**

Source: ÁKK

Total domestic debt redemptions exceeded the plan by HUF 1,405 billion, due to higher bond redemptions as a result of the bond buy back and exchange auctions. Within the HUF debt portfolio, discount treasury bills contributed to 17 per cent of the total forint redemptions of HUF 5,268 billion, while redemption of domestic retail debt was 44 per cent. There was no redemption of HUF loans.

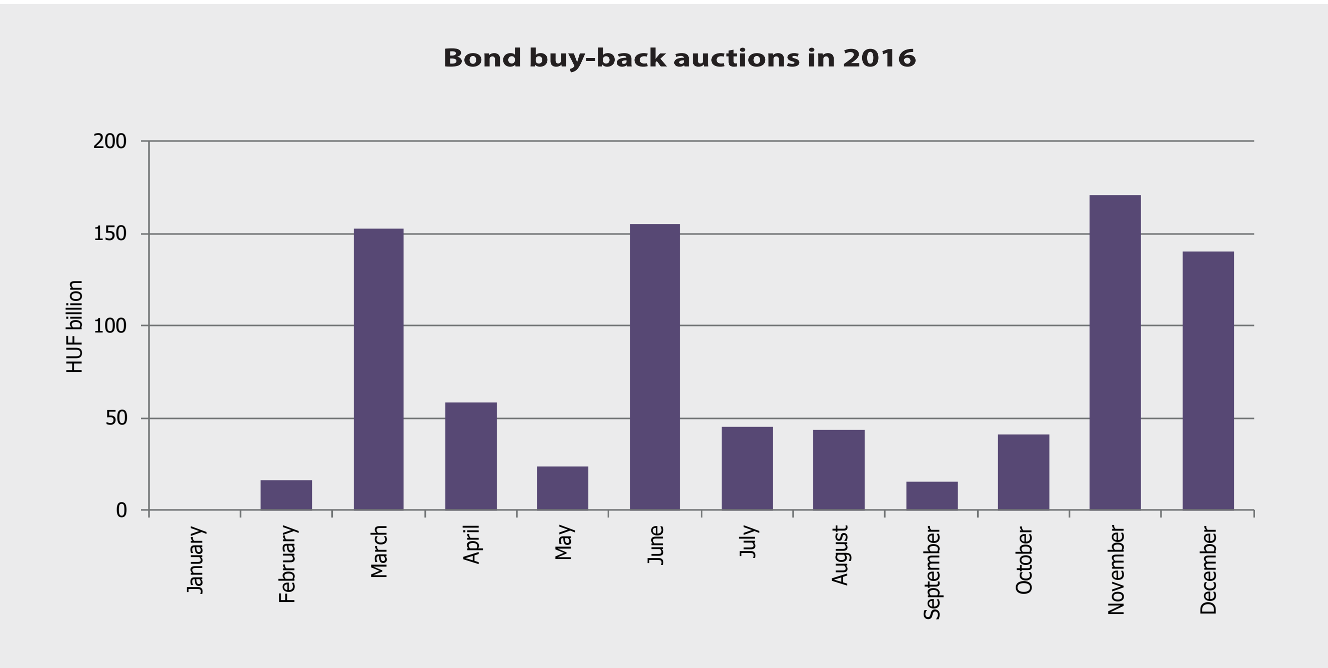
2 In this publication the redemption and gross issuance of short-term debt is reported according to the OECD methodology. The amount of redemption of T-bills equals the outstanding volume of the short-term debt at the beginning of the year and gross issuance equals the sum of the redemption figure and the net issuance in the given year.



Source: ÁKK

Bond buy-backs and exchange auctions

A large bond series maturing at a given time creates refinancing risk. This risk can be reduced by repurchasing a proportion of the bonds before maturity. ÁKK's normal financing plan includes a regular bi-weekly bond buy-back program, and the actual repurchase amount depends on the quantity and quality of bids. In 2016 ÁKK bought back a total of HUF 864 billion (by HUF 594 billion more than planned) bonds before their maturity on 23 occasions. 100 per cent of the repurchased bonds had a maturity after 2016, i.e. these buy-backs also helped to smooth maturities from one year to another.



Source: ÁKK

III. The financing requirements in 2016

In order to decrease refinancing risk ÁKK has been holding bond exchange (or switch) auctions since 2009 on a regular basis. In these switch auctions the investors can exchange their bonds with short remaining term-to-maturity for longer term bonds. This improves the investment possibilities of investors and at the same time lengthens the average term-to-maturity (ATM) of the government debt. In 2016 24 exchange auctions were held at which ÁKK exchanged a total of HUF 678 billion short-term bonds for long-term ones.

Foreign currency debt redemptions

In 2016 one Eurobond (originally EUR 1 billion), one GBP bond (GBP 500 million) and one CHF bond (CHF 200 million) matured. Due to FX bond buy-back programs in previous years the actually matured amount was smaller than the originally issued for all three maturing FX bond in 2016. The second and third series of Premium Euro Hungarian Government Bond matured in 2016 in a total amount of EUR 1.5 billion. Moreover, in order to reduce the share of foreign currency debt within the total debt ÁKK bought back a total of EUR 165 million FX bonds from the market. Smaller repayments took place in the case of IFI project financing and other loans in 2016. Beside these items early prepayment of assumed and short remaining term foreign currency loans totalling EUR 270 million further decreased the share of foreign currency debt within the total debt.

IV. Financing

In 2016 the HUF denominated issuance amounted to HUF 7,517 billion (97%), while foreign currency issuance was HUF 223 billion (3%).

Gross debt issuance:

HUF Billion

	2015	2016 plan	2016 outcome
Domestic debt	**6,866.4**	**5,843.0**	**7,517.0**
T-bonds	2,984.9	1,875.0	2,574.5
Discount T-bills	901.6	1,060.9	896.4
Retail securities	2,749.3	2,751.9	3,875.2
Loans	230.6	155.3	170.9
Foreign currency debt	**206.6**	**545.7**	**222.9**
Bonds	206.6	545.7	222.9
Loans	0.0	0.0	0.0
Total	**7,073.0**	**6,388.7**	**7,739.9**

Source: ÁKK

Net HUF denominated financing totalled HUF 2,249 billion, while net foreign currency financing amounted to HUF -1,441 billion, so the total net issuance was HUF 808 billion in 2016.

Net issuance:

HUF Billion

	2015	2016 plan	2016 outcome
Domestic debt	**1,468.2**	**1,979.5**	**2,248.7**
T-bonds	1,099.9	1,152.0	532.4
Discount T-bills	-687.1	172.4	-5.2
Retail securities	1,106.3	499.8	1,550.5
Loans	-51.0	155.3	170.9
Foreign currency debt	**-1,186.5**	**-971.2**	**-1,440.9**
Bonds	-722.2	-468.1	-854.0
Loans	-464.3	-503.0	-586.9
Total	**281.7**	**1,008.3**	**807.8**

Source: ÁKK

Within the net HUF issuance, the role of retail securities increased in line with the higher than forecast investor demand. Total net T-bond issuance was HUF 532 billion (by HUF 620 billion lower than planned due to the buy-backs), while the net sales of retail securities set a new historical record of HUF 1,551 billion. Due to the ample demand for retail securities ÁKK was able to significantly reduce the outstanding volume of discount Treasury bills.

In 2016 the net foreign currency redemption was higher than planned. Due to the favourable domestic financing and (FX) liquidity ÁKK was able to issue less international FX bond than planned and prepay some FX loans and buy-back some FX bonds.

Domestic financing

Gross domestic issuance was eventually 29% higher than planned originally. The issuance of all kinds of instruments increased except that of discount T-bills; bond issuance was higher than planned by 37% and that of retail instruments by 41%. Project financing loans of HUF 171 billion were drawn in HUF, exceeding the plan by 10 per cent.

Government bonds

Treasury bond auctions were held every two weeks, but to increase issuance flexibility the tenors were not set in advance, but announced in the previous week, after consultations with Primary dealers. Three bond series were sold at each bond auction. Usually the 3, 5 and 10-year tenors were offered, but on 5 occasions the 10-year bond was replaced by the 15-year fixed rate bond. The floating rate bonds were offered 11 times during the year. ÁKK actively used its right to modify the accepted amount as a reaction to bids (¬+/- 34 per cent or +/- 50 per cent if the announced amount was not more than HUF 20 billion). Another way to react to changes in market demand was the use of the non-competitive top-up phase in the afternoon of the auctions when successful bidders at the auction could buy additionally up to 40 per cent of their winning bids at the average price of the auction.

The bid-to-cover ratio at the bond auctions on average was 3. ÁKK sold a total of HUF 1,870 billion of bonds via auctions (including HUF 303 billion in the additional non-competitive phase). Total bond issuance – together with bond exchange auctions, the retail sales of the Hungarian State Treasury and secondary market operations – was HUF 2,744 billion, versus total bond maturities of HUF 2,042 billion, which resulted in a net issuance of HUF 532 billion.

On-the-run bond series in 2016:

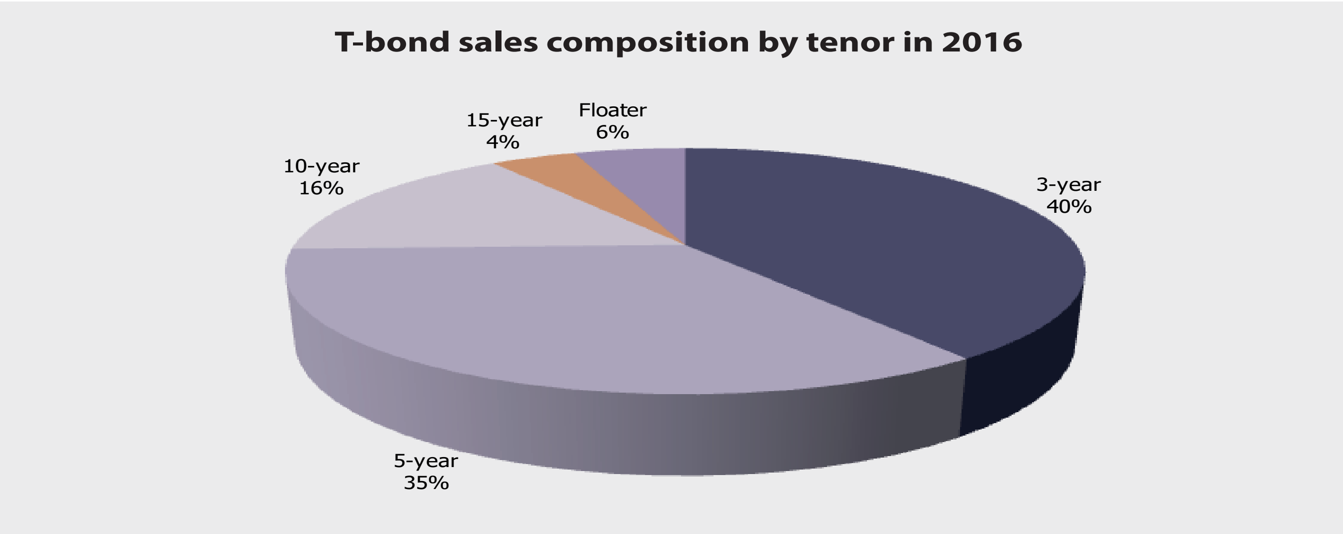
HUF Billion

	Tenor	Number of auctions	Competitive sales in 2016	Non-competitive sales in 2016	Outstanding (end of 2016)
2019/C	3-years	25	624	121	748
2019/D*	3-years	8	68	19	144
2021/A*	5-years	3	17	0	192
2021/B	5-years	25	532	116	651
2027/A	10-years	20	262	32	295
2031/A	15-years	5	64	15	123

Source: ÁKK

*Floating rate bonds

ÁKK adjusted the accepted amounts at the auctions according to demand, and the results show that investors' demand was highest for the 3 and 5-year fixed bonds, while in the case of floating rate bonds the demand decreased significantly:



Source: ÁKK

Discount treasury bills

The 3 and 12-month discount treasury bills are short-term instruments mainly used for liquidity management, i.e. for smoothening the fluctuations in liquidity caused by the varying financing requirements over the year. For this purpose ÁKK may also use the so-called liquidity discount treasury bills of even shorter tenor (usually 6 weeks) in an ad hoc manner, this was used on two occasions in 2016.

In 2016 ÁKK sold discount treasury bills in a total of HUF 896 billion, almost the same as in 2015. The outstanding T-bill stock actually declined by HUF 5 billion over the year as due to the increased net bond and retail issuance ÁKK did not have to increase T-bill stock as planned as a reaction to excess liquidity.

Retail securities

One of the strategic objectives of ÁKK is to develop further its retail debt programme, which constitutes a more and more important source of domestic financing. With growing domestic savings it is natural for the Government to tap this secure source of funds directly.

The issuance of retail government securities showed a steep increase in 2016. ÁKK contributed to this success by using a broad selling network and competitive pricing for these instruments and also the supportive role of retail banks. The stock of the one-year interest bearing T-bill grew by HUF 821 billion, the stock of the half-year interest bearing T-bill grew by HUF 348 billion, while the outstanding amount of Treasury Savings Bills (securities available in the post office network) grew by HUF 50 billion.

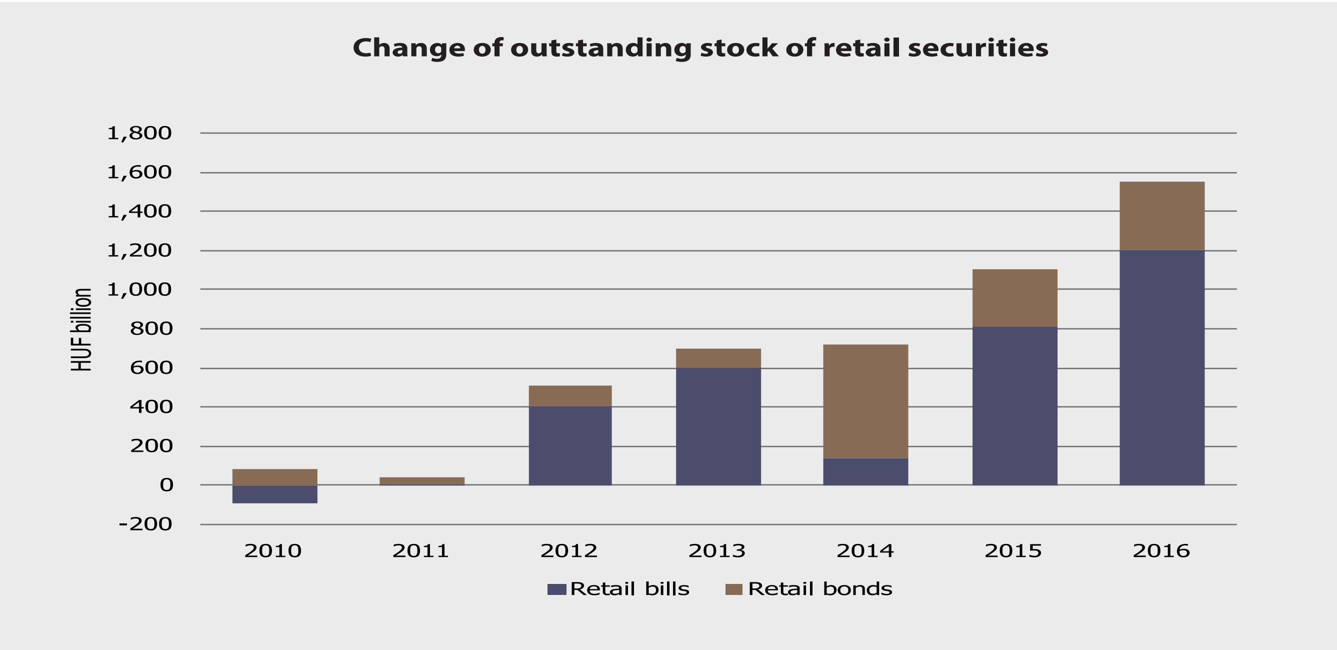
In line with the objectives of public debt management, medium to long term bonds continued to play an important role in the retail scheme in 2016. The inflation-linked Premium Government Bond and the floating rate Bonus Government Bond had a total net sale of HUF 323 billion. The very long term Baby-bond (with a maturity of 19 years) added an additional HUF 9 billion to funding. The total retail debt stock grew by HUF 1,551 billion over the year, which is more than three times higher than the HUF 500 billion planned, and contributed to a large extent to the year's successful financing from the domestic market.

Gross retail issuance:

HUF Billion

	2010	2011	2012	2013	2014	2015	2016
Retail bills	**247**	**257**	**666**	**1,267**	**1,402**	**2,213**	**3,416**
1-year Interest-Bearing Treasury Bills	83	80	436	988	1,089	1,816	2,637
Half-year Interest-Bearing Treasury Bills	0	0	10	21	29	81	429
Treasury Savings Bills (1-year)	165	176	220	253	252	236	230
Treasury Savings Bills Plus	0	0	0	4	32	80	120
Retail bonds	**135**	**74**	**233**	**181**	**647**	**537**	**459**
Premium Hungarian Government Bonds	104	45	183	148	226	396	367
Bonus Hungarian Government Bondsű	0	0	0	0	372	83	26
Babybonds	0	0	0	1	9	8	9
Treasury Savings Bills (2-year)	32	29	50	31	40	49	57
Retail securities total	**383**	**331**	**899**	**1,447**	**2,049**	**2,749**	**3,875**

Source: ÁKK



Source: ÁKK

Foreign currency financing

ÁKK planned to issue a total of EUR 1.75 billion of foreign currency denominated bonds in 2016, out of which EUR 1 billion was planned to be issued in the international market. Due to the ample demand for domestic securities, ÁKK issued less international FX bonds than planned, only one Dim Sum bond of CNY 1 billion (EUR 137 million), by which transaction Hungary had opened a new market for its public debt.

Foreign currency international bond issued by Hungary in 2016:

Currency	Amount	Date of issuance	Maturity	Tenor (years)	Coupon
CNY	1,000,000,000	25.04.2016	25.04.2019	3	6.25%

New series of the domestic Premium Euro Government Bond and the Residency Bond were issued in 2016. The net domestic foreign currency bond issuance was lower than planned and amounted to HUF 302 billion (EUR 1 billion).

Series	Currency	Date of issuance	Maturity	Tenor (years)	Coupon
2019/X	EUR	04.04.2016	20.09.2019	3	Floater (Premium)
2021/T, T1-T4	EUR	2016	2021	5	2% (Zero coupon)

Source: ÁKK

According to the plan ÁKK did not draw any project financing loans in foreign currency. Due to the early prepayment of assumed and short remaining term loans, the net FX loan redemption was HUF 587 billion, higher than planned by HUF 84 billion.

Due to the FX bond buy-backs and early prepayment of foreign currency loans the net FX issuance was much lower than planned and amounted to HUF -1,441 billion (compared to the plan of HUF -971 billion) in 2016.

V. The government debt in 2016

During 2016 the central government debt increased by HUF 730 billion (or by 3.0 per cent) to HUF 25,430 billion. The size of the debt was influenced by several factors.

Funding the net financing requirement of the budget totalling HUF 526 billion increased the debt, while the return of marked-to-market deposits placed at ÁKK (so-called 'other obligations') decreased the debt by HUF 13 billion. The appreciation of the Hungarian Forint against other currencies also decreased the HUF value of the debt by HUF 38 billion. As a consequence of the net issuance exceeding the net financing need the safety reserves of the central government increased significantly in 2016.

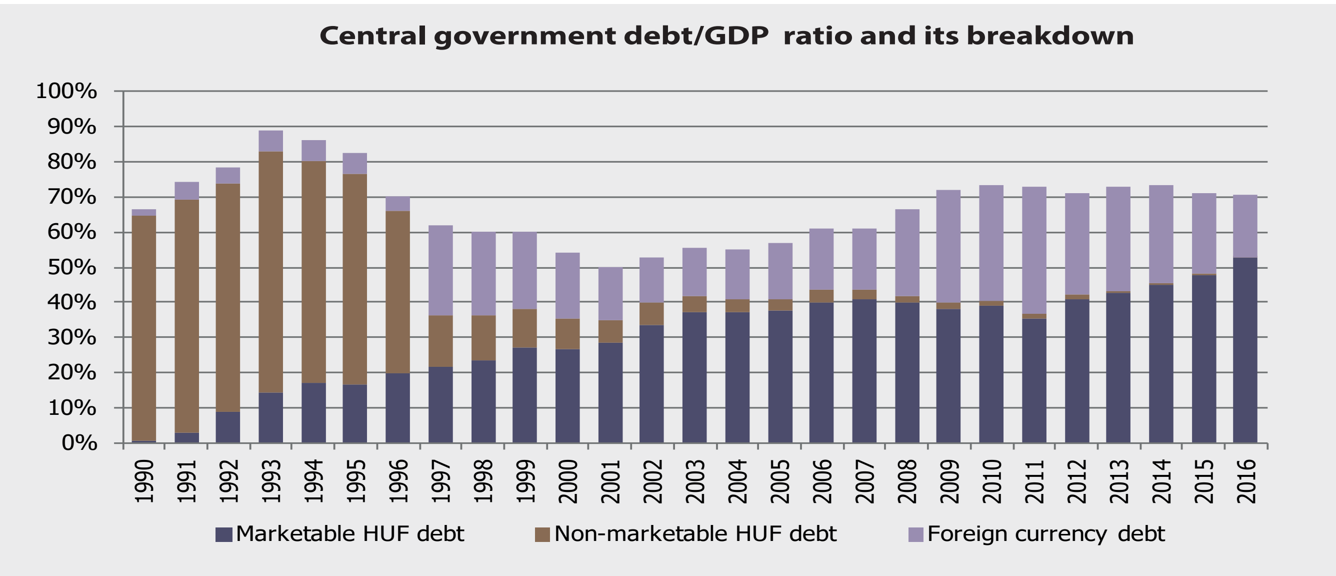
Central government debt

HUF Billion

	2015		2016		Change
Domestic debt	**16,208**	**66%**	**18,431**	**72%**	**2,223**
Loans	694	3%	865	3%	171
Government bonds	11,095	45%	11,602	46%	507
Discount T-bills	3,517	14%	5,068	20%	1,551
Retail securities	902	4%	896	4%	-5
Foreign currency denominated debt	**7,736**	**31%**	**6,257**	**25%**	**-1,479**
Loans	1,697	7%	1,102	4%	-595
Bonds	6,039	24%	5,155	20%	-884
Total debt	**23,944**	**97%**	**24,687**	**97%**	**744**
Other obligations	756	3%	743	3%	-13
Grand total debt	**24,700**	**100%**	**25,430**	**100%**	**730**

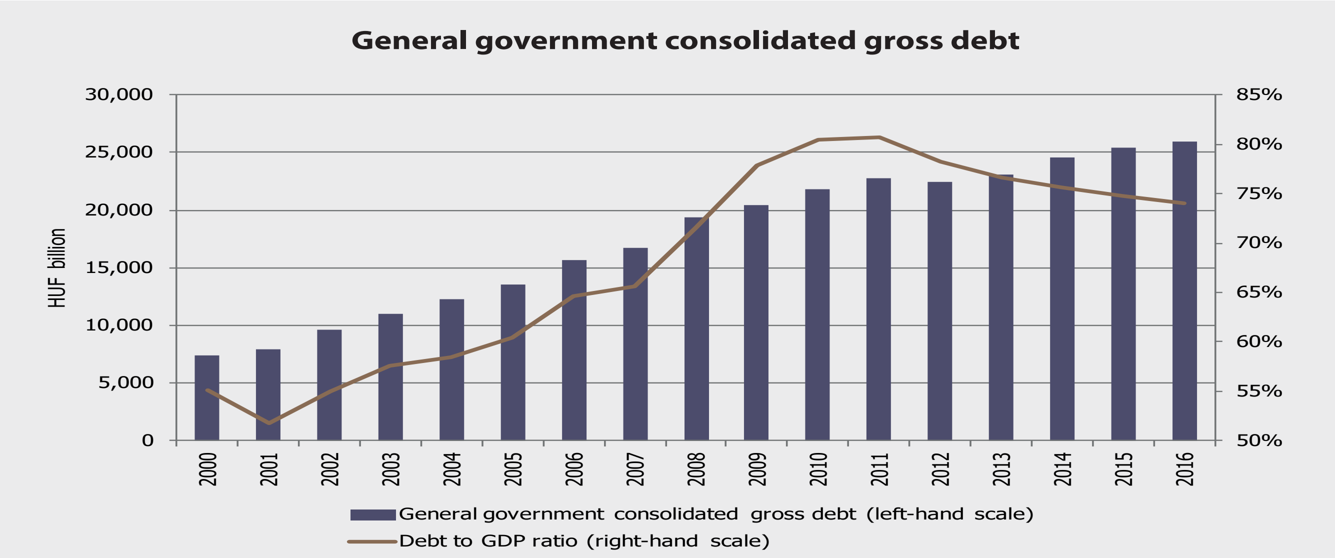
Source: ÁKK

According to preliminary data, the central government debt (without marked-to-market deposits) managed by ÁKK increased from 70.4 to 70.5 per cent of GDP, while the general government gross debt to GDP ratio decreased by 0.6 per cent to 74.1 per cent in 2016.



Source: ÁKK

V. The government debt in 2016



Source: EUROSTAT

Characteristics of the HUF debt portfolio

During 2016 the HUF denominated debt – which accounts for 72 per cent of the total debt – increased by HUF 2,223 billion (13.7 per cent) to HUF 18,431 billion.

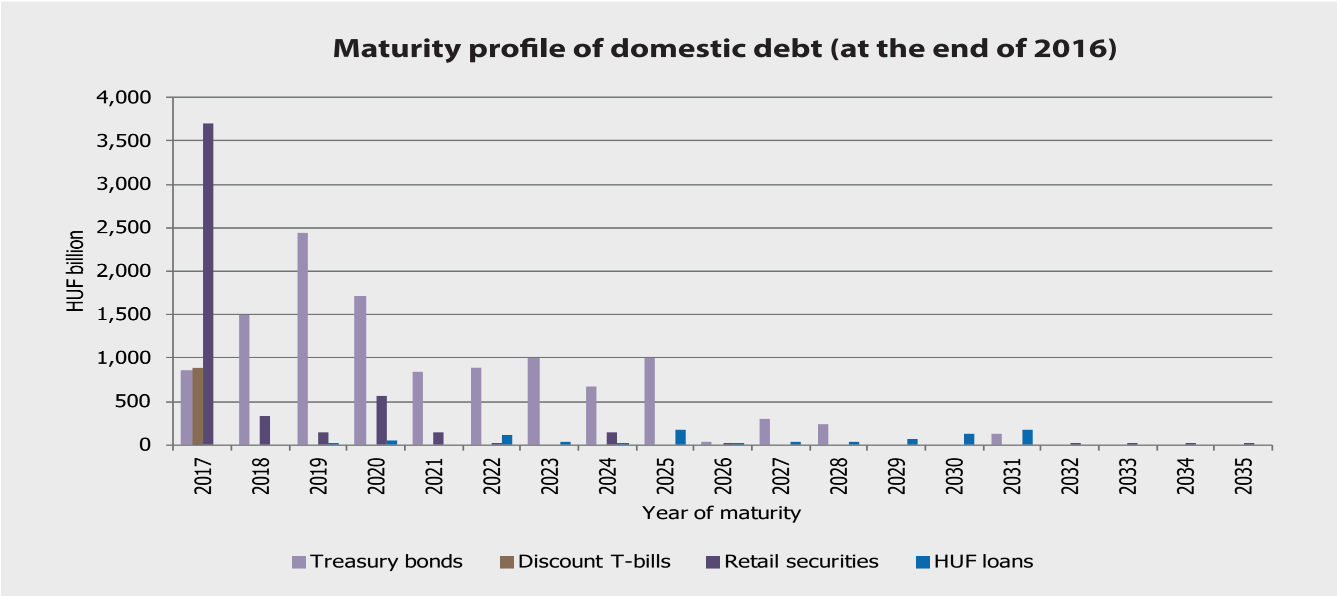
46 per cent of the total public debt was in the form of long-term HUF government bonds (excluding retail bonds). The total domestic wholesale bond portfolio of HUF 11,602 billion consisted of 23 bond series, the average size of a series was HUF 504 billion (ca. EUR 1.6 billion). 9 series had a volume in excess of HUF 600 billion (ca. EUR 2 billion), and the largest bond series reached a volume of HUF 1,153 billion (or EUR 3.7 billion).

The HUF 896 billion discount T-bill stock consisted of 17 series with an average outstanding amount of HUF 53 billion.

In 2016 the portfolio of retail government securities jumped from HUF 3,517 billion to HUF 5,068 billion. Retail securities accounted for 27.5% of the total domestic debt in comparison to their 22 per cent share at the end of 2015. Within the retail securities the stock of the one-year interest bearing T-bill grew by HUF 821 billion and amounted to HUF 2,637 billion, while the stock of the half-year interest bearing T-bill grew by HUF 348 billion and amounted to HUF 429 billion. The outstanding amount of Treasury Savings Bills (securities available in the post office network) grew by HUF 50 billion and amounted to HUF 454 billion. The stock of inflation-linked Premium Government Bond and the floating rate Bonus Government Bond increased by HUF 323 billion and amounted to HUF 1,521 billion, while the outstanding amount of the Baby-bond (with a maturity of 19 years) totalled HUF 27 billion at the end of 2016.

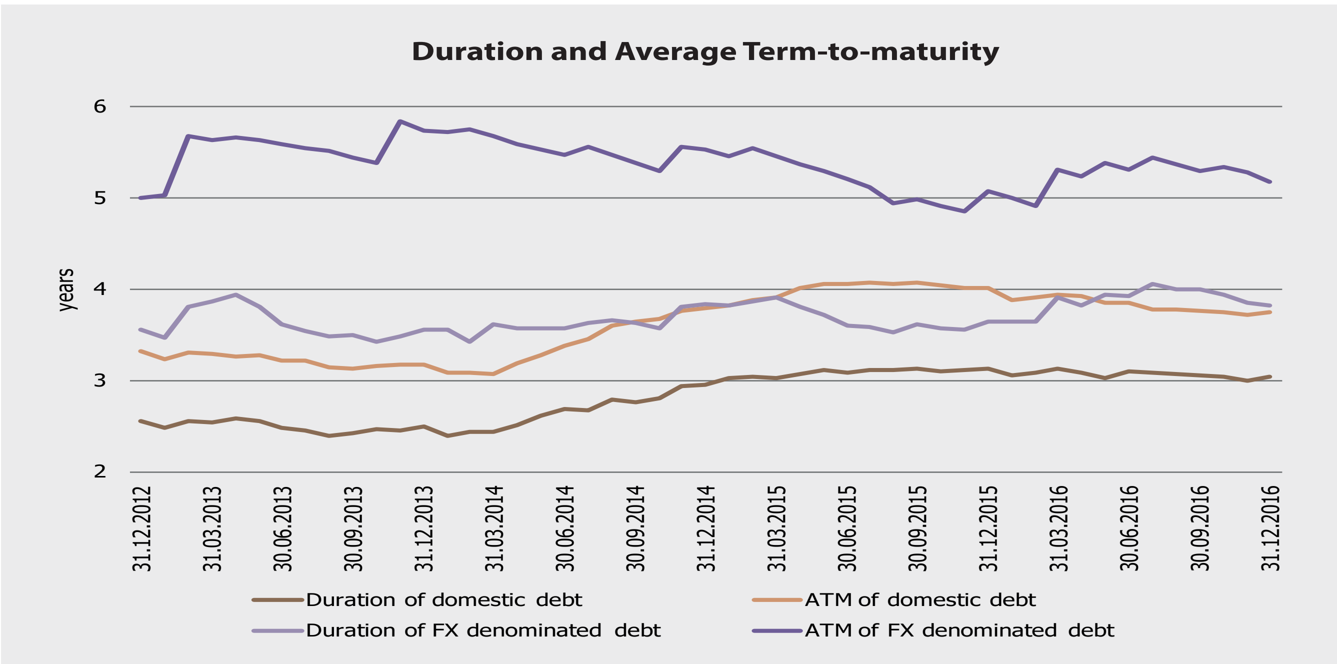
The non-marketable component of the HUF bond portfolio continued to decrease in amount and proportion in 2016 as well, as there are no new issuances of such government bonds and the existing portfolio matures gradually. The end-of-year volume of non-marketable government bonds was HUF 39 billion, less than 0.2 per cent of the total debt.

The volume of loans denominated in Hungarian forint increased in 2016 (as a result of new drawdowns) by HUF 171 billion to HUF 865 billion.



Source: ÁKK

As a result of the normal shortening and the increasing share of retail securities the duration and average term-to-maturity characteristics of the domestic debt decreased to a small extent. The duration of the HUF denominated debt portfolio decreased from 3.13 years to 3.04 and the average term-to-maturity also decreased from 4.0 years to 3.75 years in 2016.

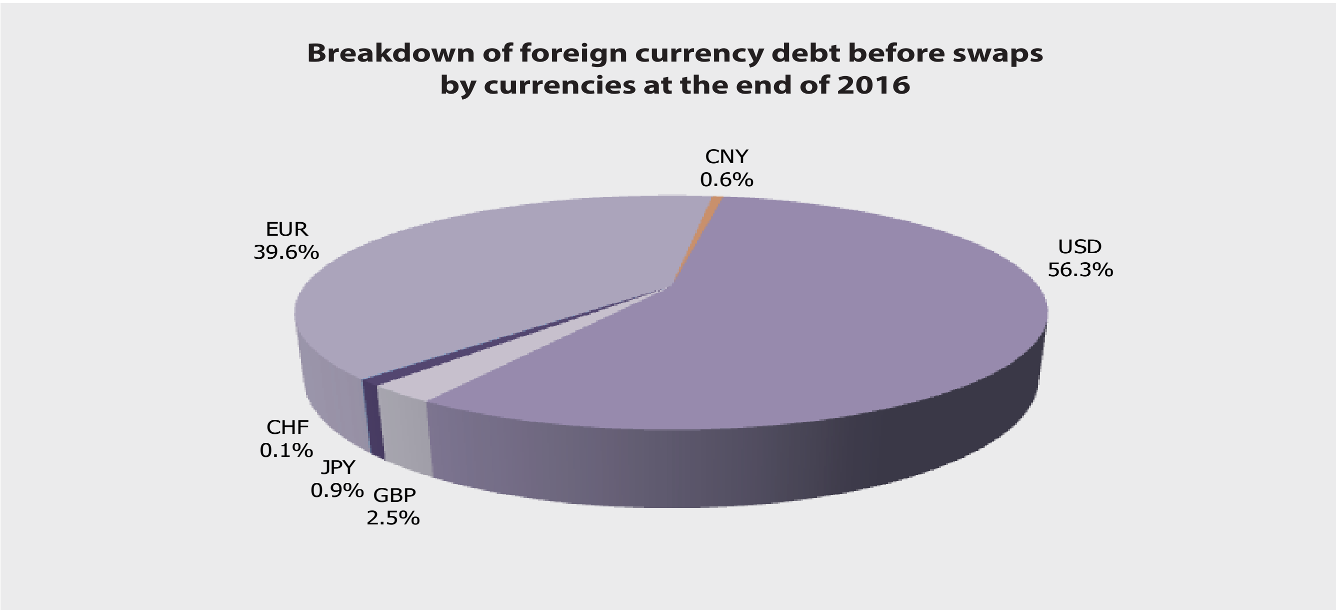


Source: ÁKK

Characteristics of the foreign currency debt portfolio

The gross foreign currency government debt decreased by HUF 1,479 billion in 2016, reaching HUF 6,257 billion (EUR 20 billion) by the end of the year. The share of foreign currency debt within the total gross government debt (excluding marked-to-market deposits) declined from 31.3 to 24.6 per cent during 2016.

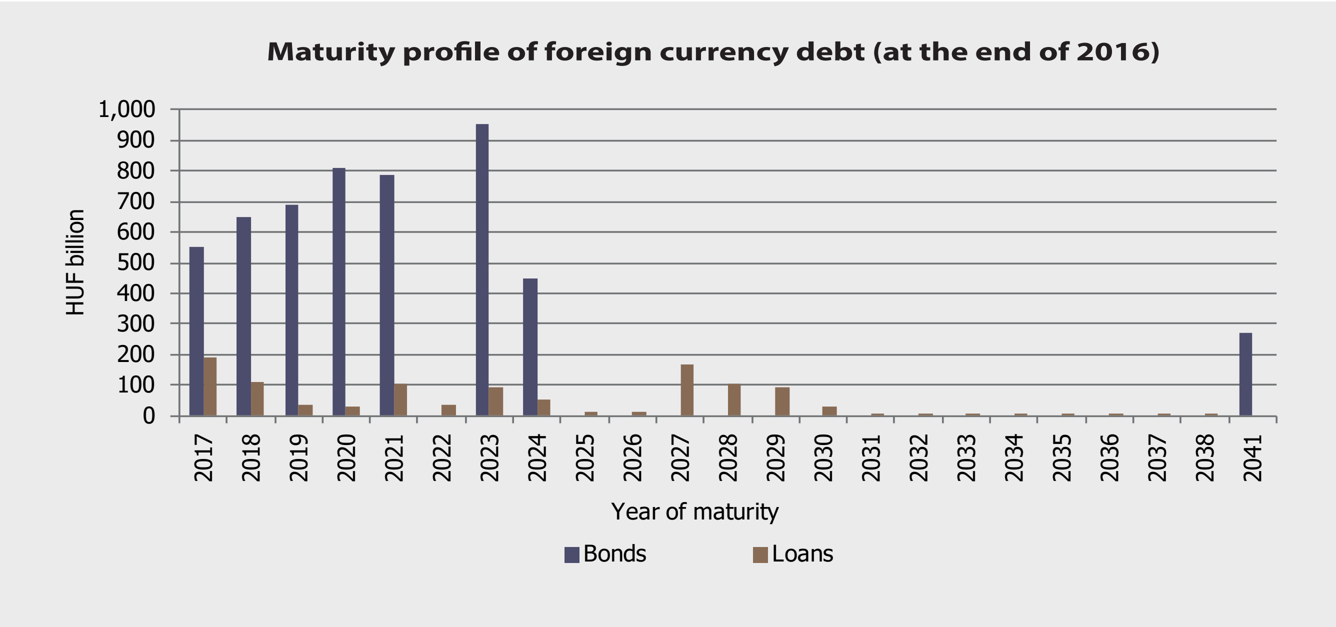
The volume of outstanding foreign currency bonds (after swaps) reached HUF 5,155 billion by the end of the year, decreasing significantly from the end of 2015 (HUF 6,039 billion), mainly as a result of less than planned international foreign currency denominated bond issuance, the maturities, buy-backs and also the appreciation of the forint. On 31 December 2016 there were 26 series of foreign currency bonds outstanding, 15 of which had been issued in euro (including the domestic euro bonds as well), 8 in US dollars, one in Pound sterling, one in Swiss francs, one in Japanese yen and one in Chinese Yuan Renminbi. In accordance with the strategy and benchmarks, all non-euro bonds had been converted into euro liabilities through swap transactions. Bonds accounted for 82% of the total foreign currency debt portfolio.



Source: ÁKK

At the end of 2016 100% of the foreign currency debt was denominated in euro (after swaps).

The foreign currency loan portfolio consisted of long-term project financing loans from international financing institutions (e.g. EIB and CEB). As a result of the prepayment of some assumed and short remaining term loans and the redemption of the last tranche of the loans from the European Commission the share of loans within the total foreign currency debt declined from 22 to 18 per cent in 2016.



Source: ÁKK

During 2016 the average term to maturity of the foreign currency portfolio increased from 5.1 years to 5.2 years and the duration also increased from 3.6 years to 3.8 years.

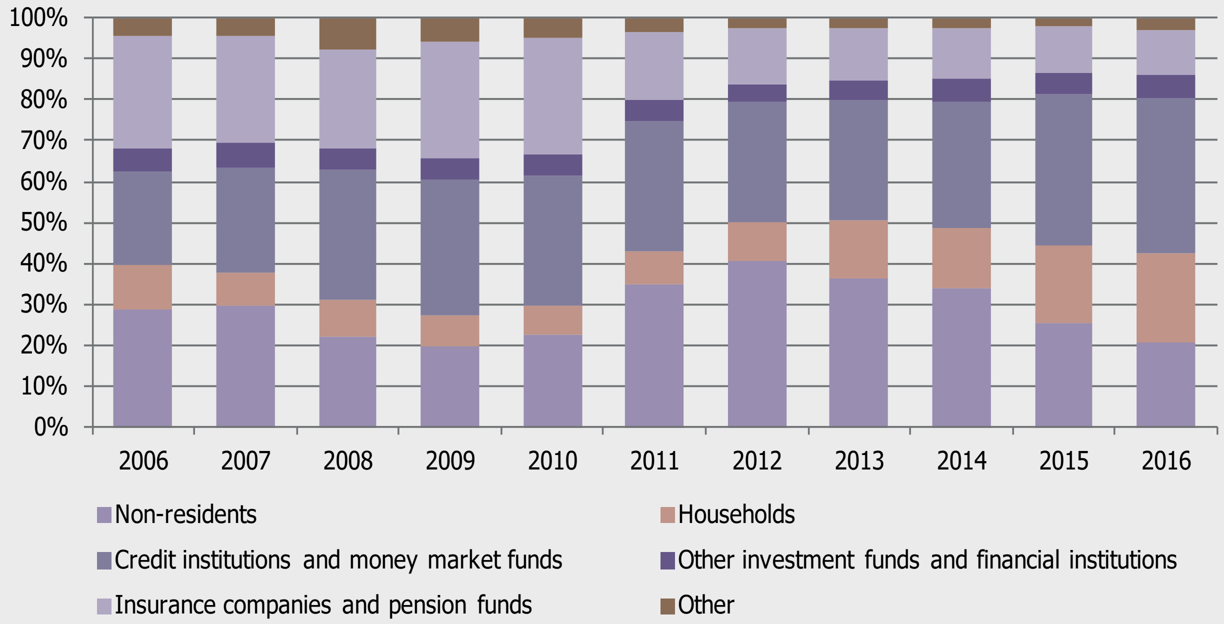
Other obligations

In order to reduce counterparty risk associated with the swap transactions concluded by ÁKK, so-called marked-to-market deposits are being placed as collateral covering the net value of their swap positions. Such deposits placed with ÁKK are non-financing funds and they are shown as part of the government debt among 'other obligations'. As of 31 December 2016 marked-to-market deposits placed with ÁKK totalled HUF 743 billion (EUR 2.4 billion).

The ownership structure of government debt

According to statistics published by the National Bank of Hungary, the following changes took place in the ownership structure of the domestic government securities in 2016. The share of the formerly largest investor group – namely non-resident investors – declined from 26 per cent to 21 per cent. The share of credit institutions and insurance companies/pension funds remained almost the same. Domestic retail investors, however, increased further their share significantly to 22 per cent.

Ownership structure of domestic public debt by investors



Source: NBH, KELER, ÁKK

In 2016 non-residents decreased their share both in nominal and relative terms. Non-resident holdings of HUF denominated government securities decreased by HUF 454 billion to HUF 3,442 billion. At the same time the duration of their holdings increased by 0.4 year to 4.8 years, while the ATM of their holdings increased by 0.4 year to 5.5 years in 2016. Foreign investors keep holding primarily longer dated bonds, and both the duration and the ATM of the non-resident holdings are longer than that of the total outstanding stock of government securities.

VI. Liquidity management

According to the Act on the Economic Stability of Hungary, liquidity management of the central government is also the task of ÁKK. The goal of ÁKK is to maintain the balance of the Treasury Single Account (TSA) which serves as a financing reserve at a targeted level with liquidity management operations. These operations may be active (placement of funds) or passive (fund-raising) transactions, however, ÁKK only invests temporary excess liquid funds from the TSA if repo partners show adequate demand, otherwise it keeps the extra cash on the TSA.

In 2016 ÁKK used the following instruments to manage the end-of-day balance of the TSA:

- repo and reverse repo transactions with government securities;
- the issuance of liquidity discount treasury bills, usually with a 6-week tenor;
- regular bond buy-backs;
- active adjustment of the volume of discount treasury bills at auctions;
- temporary use of FX deposits.

The adequate instruments are chosen mainly as a function of the duration of the required liquidity adjustment; repos are very short term instruments, while liquidity discount T-bills, regular T-bills and buy-backs have longer term liquidity effects.

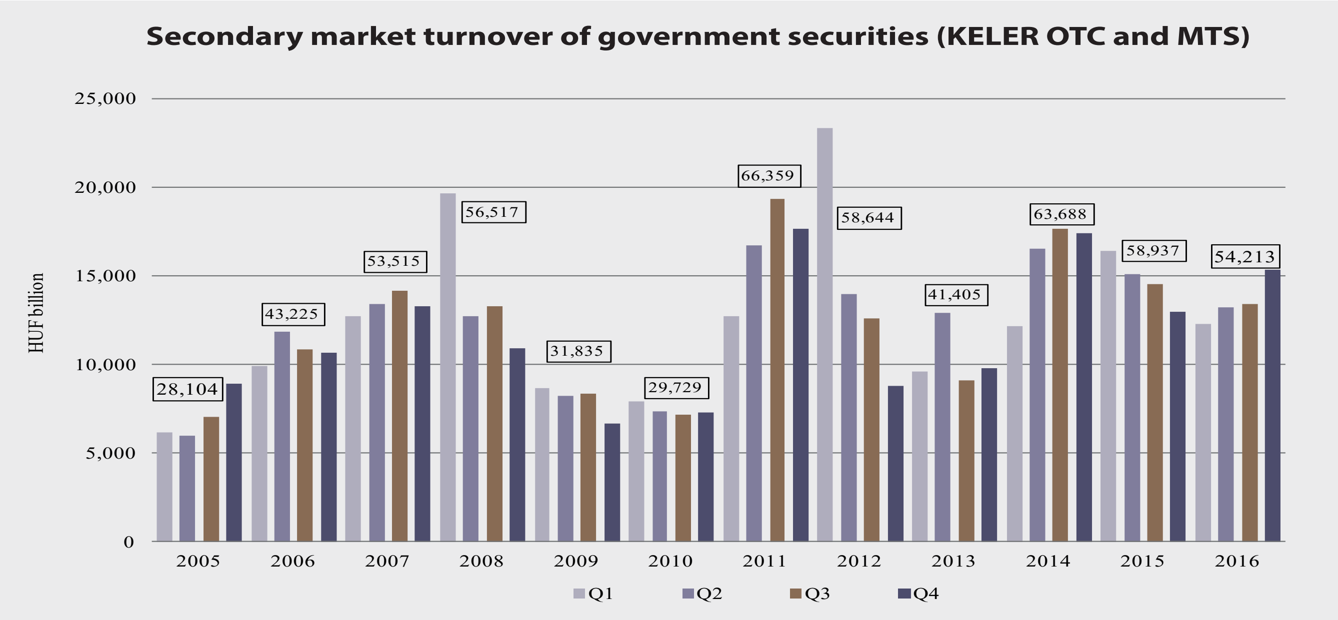
Sales of liquidity discount treasury bills took place twice in 2016 – only in January - with a total volume of HUF 104 billion, and the different evolution of budget deficit made it unnecessary to increase liquidity of the TSA with bills.

Liquidity repo transactions are ÁKK's main tool for fine-tuning the end-of-day balance of the Treasury Single Account. In 2016 the use of repo transactions increased by almost three times to a total of HUF 28,730 billion. Liquidity management was effective and the end-of-day TSA balance was always higher than the minimum target level in 2016.

ÁKK concludes repo transactions not only for liquidity management purposes. The objective of the so-called stand-by repo facility is to support the price quotation of Primary dealers and to promote trading in government securities. If a Primary dealer needs temporary access to a quoted government security, but it is unable to obtain it in the market, that dealer may turn to ÁKK to provide the required security in a one-week repo transaction.

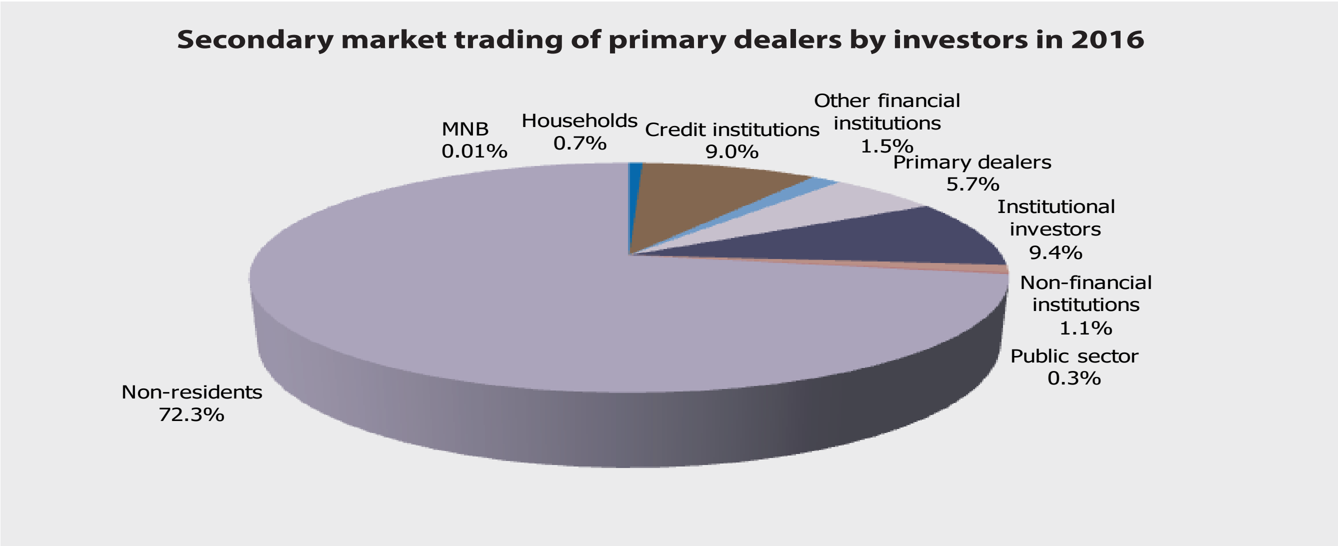
VII. The secondary market of Hungarian government securities

MTS Hungary is the main electronic platform of trading government securities and Primary dealers fulfil their price quotation obligations on this platform, however more than 99% of all secondary trade is executed in the over-the-counter (OTC) market. According to data from the KELER Central Depository Ltd., the total volume of OTC trading in government securities was HUF 54,075 billion in 2016 (more than 4 times the size of the total outstanding marketable debt), out of which 93 per cent was in government bonds and 7 per cent in discount treasury bills.



Source: KELER, BSE

The average size of deals with Primary dealers (excluding retail transactions) was HUF 1,038 million, which is lower by HUF 148 million than in the previous year. Over the year, the 2018/C government bond with a 2-year remaining term-to-maturity had the largest turnover (HUF 6,402 billion), followed by the 9-year 2025/B and the 2-year 2018/B bond.



Source: Primary dealers, ÁKK

The most active Primary dealer and the winner of the title 'Primary dealer of the Year' for 2016 was CITIBANK Europe Plc., while in the retail program the winner was OTP Bank.

VIII.The institutional framework for the issuance of government securities

ÁKK sells government securities through intermediaries. In the domestic market, 87 per cent of HUF-denominated government securities were sold through the Primary dealers in 2016, the rest through retail channels.

The primary dealer system

The Primary dealer system for government securities was set up in 1996 in order to establish a more secure institutional base for the financing of government debt, to reduce the costs of debt management and to improve the transparency and liquidity of the secondary market in government securities.

Since May 2004, any investment firm or bank registered in any European Union or an OECD Member State may become a Primary dealer in Hungarian government securities if it meets the contractual requirements and signs a Primary dealer contract with ÁKK. Along with a number of obligations in the primary and secondary market, the Primary dealer status also guarantees exclusive rights. In 2016 7 out of the 15 Primary dealers were non-resident institutions.

Primary dealers at the end of 2016:

BNP Paribas SA
CIB Bank Zrt.
Citibank Europe Plc.
Deutsche Bank AG
Erste Befektetési Zrt.
Goldman Sachs International
ING Bank N.V.
J. P. Morgan Securities Plc.
K&H Bank Zrt.
Magyar Takarékszövetkezeti Bank Zrt.
Merrill Lynch International
MKB Bank Zrt.
OTP Bank Nyrt.
Raiffeisen Bank Zrt.
UniCredit Bank Hungary Zrt.

Only Primary dealers may:

1. directly submit bids at government bond and discount treasury bill auctions and submit offers at bond buy-back and exchange auctions;[3]
2. directly submit non-competitive bids at auctions and submit bids at the non-competitive phase after bond auctions;
3. use the stand-by repo facility provided to Primary dealers by ÁKK to support their secondary market trading and price quotation;
4. participate at the consultations organised by ÁKK;
5. use the title 'Primary dealer'.

[3] Other investors may submit bids at an auction indirectly, through a Primary dealer.

VIII.The institutional framework for the issuance of government securities

In addition to their exclusive rights, Primary dealers are also ÁKK's main partners for international capital market transactions and liquidity management (repo) and other transactions. Primary dealers with broad distribution networks may also conclude a separate agreement with ÁKK for the trading of some of its retail government securities, the Interest Bearing Treasury Bills and the Half-year Interest Bearing Treasury Bills.

Retail debt programmes

The State Treasury's branch network provides direct access to government securities for retail investors. Supervised by ÁKK, the Treasury branch offices in Budapest and the county seats and other major cities quote two-way prices for retail investors for publicly issued bonds, Premium- and Bonus Government Bonds, discount treasury bills and Interest Bearing Treasury Bills. Government securities may also be purchased and sold through the Hungarian State Treasury's online banking service, mobile application or by phone.

The Hungarian Post Office participates in the sale of three retail government securities. The 1 and 2-year Treasury Savings Bills are the only printed government securities, designed specifically for retail investors. Post Office also sells Treasury Savings Bill Plus, a dematerialised 1-year treasury bill.

The dealers of foreign currency bond issues

Lead managers of international EUR and USD bond issuances are selected from among the primary dealers individually for each transaction. In 2016 Hungary did not issued government Eurobonds or US Bonds in the international capital markets. The lead manager of the Dim Sum bond issuance of CNY 1 billion was Bank of China Ltd.

On 20 November 2012, the sale of a new 3-year inflation linked domestic bond denominated in EUR ('Premium Euro Government Bond', P€MÁK) started, which became a success among investors. The bond is available in the Hungarian State Treasury network.

In 2013 the sale of a new euro denominated bond was started (so called Residency bonds). Further information can be found in the website of ÁKK (www.akk.hu)

IX.The institutional framework and the objectives of government debt management

The government debt management is regulated by Act no. CXCIV. of 2011 on the Economic Stability of Hungary (the Stability Act). Among other provisions, this law and the Act no. CXCV of 2011 on the Public Finances authorises the minister responsible for the public finances (the Minister for National Economy) to provide for the implementation of the central budget, financing of the deficit, continuous solvency of the budget, the repayment of debt and the management of temporarily free state funds. Annual budget acts make this authorisation more specific by stipulating the annual financing requirement. According to the provisions of the Stability Act, the minister responsible for public finances performs these tasks through the Government Debt Management Agency Pte. Ltd. (ÁKK). [4]

Pursuant to an amendment of the Public Finances Act, the Government Debt Management Agency Pte. Ltd. was established on 1 March 2001 as the legal successor of a government agency that had performed the same tasks. The organisation, which operates as an independent corporate entity, is a single-member corporation limited by shares registered at the Court of Registration. Its shares may not be traded, the Hungarian State is their sole and permanent owner, and these ownership rights are exercised by the minister responsible for the public finances (the Minister for National Economy). The rules governing the operations of ÁKK as a company are stipulated by general legislation on the operation of companies. Accordingly, the management's activities are controlled by the Board of Directors, while ÁKK's operation is under the supervision of a Supervisory Board and an auditor pursuant to the corporate status. In addition to these internal management and audit mechanisms, the debt management activity is regularly audited by the State Audit Office. The operation of ÁKK is closely linked to the Ministry for National Economy and the Hungarian State Treasury. The co-ordination of the professional activity of these organisations is carried out by the Minister for National Economy.

According to the decision-making mechanism in place, the government debt management strategy, the annual financing plan and the benchmarks are approved by the Board of Directors, followed by approval from the Minister for National Economy. All responsibilities of ÁKK, which are not the responsibilities of the Board are carried out by the Management of ÁKK.

The foundation and the organisational structure of ÁKK

The Government Debt Management Agency was established in May 1995 as a budgetary institution under the supervision of the Ministry of Finance. In 1996 supervision of the agency was taken over by the Chairman of the Hungarian State Treasury. The amendment of the Public Finances Act that prescribed the foundation of ÁKK Ltd. allowed government debt management to be implemented through a more flexible organisation that would be able to react better to market developments. The purpose of creating a separate institution was to implement the strategy through a faster decision-making mechanism with clearly defined responsibilities and enhanced accountability. From 2003 onward ÁKK became responsible for liquidity management as well. Within this system the Minister for National Economy (before 2010 the Minister of Finance) approves the strategy (or, if needed, its revision), the performance indicators (benchmarks), and the annual financing plan. Within this framework and certain predetermined limits all other decisions are delegated to the Board of Directors and the management of ÁKK.

The organisational structure of ÁKK is similar to that of banks and investment companies. Market operations are conducted by the Front Office; deals are booked and settled by the Back Office; planning, risk management and the analysis of market and macroeconomic trends are tasks for the Middle Office, which is separated from the previous two. A significant reorganization took place in 2015, resulting in a more efficient operation with decreased number of senior managers.

[4] The most important provisions concerning the financing of the deficit and government debt management, effective as of December 2012, are provided in Section 4 of the Appendix.

IX.The institutional framework and the objectives of government debt management

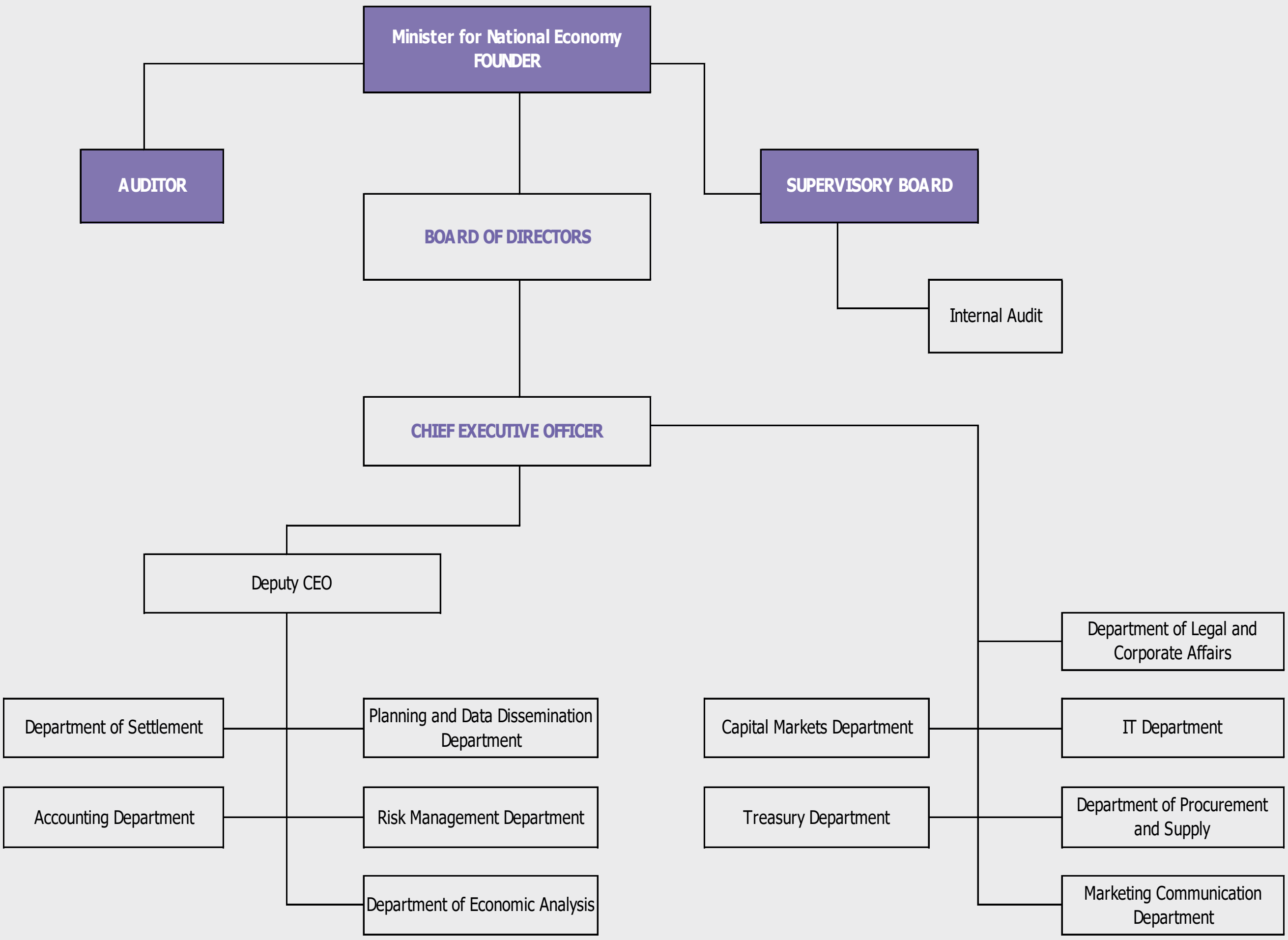
The responsibilities of ÁKK

According to the provisions of Article 13 of the Act on the Economic Stability of Hungary, the responsibilities of ÁKK include the following major tasks:

- developing a long-term financing strategy in line with economic policy, which determines the objectives of debt management and the means of their implementation;
- preparing the annual and medium-term financing plans and planning the annual interest expenditure based on the annual Budget Act and in line with the strategy;
- performing the required financing operations, i.e. organising and implementing both domestic and international government securities issuance and raising of loans;
- ensuring the payment obligations burdening the central government debt;
- managing the temporarily free cash funds of the state (liquidity management);
- effecting debt redemptions and interest payments;
- organising and continuously developing the government securities market (the primary dealer system, sales channels, secondary market etc.);
- expressing its opinion on the financial terms and conditions of borrowings with a state guarantee; on request, organising transactions with individual guarantees (with a lesser role for guarantees prescribed by legislation).
- may participate in the management of the free cash funds of the National Deposit Insurance Fund and the Reorganization Fund;
- may participate in management of cash funds of the Investor Protection Fund;
- may fulfil payment obligations related to the realisation of the capital increase provided on behalf of the state to MVM Paks II. Nuclear Power Plant Development Private Company Limited by Shares financing the investment as defined in the law, in accordance with the method, amount and timing defined by the instrumentality exercising the entirety of the ownership rights and obligations of the state.

IX.The institutional framework and the objectives of government debt management

Organisational structure of ÁKK as at 31 December 2016



X.The information services of ÁKK

ÁKK provides information to the general public about the central government debt and the developments in the government securities market. It fulfils these tasks using several media: its website, other electronic communications systems and its publications.

The website at www.akk.hu[5] provides a wide range of information about the government securities market and the government debt. Already the homepage shows the most important data, such as the latest news, the current volume of government debt, upcoming auctions, the latest auction results and daily market yields (benchmark fixings).

Other pages of the website provide information on ÁKK as a company, the goals, activities, legal framework and the organisational structure of ÁKK.

The "Statistics' menu provides access to main features of the government securities, the results of the auctions and subscriptions, yields, indices and statistics related to the secondary market, government debt and financing.

The 'Government securities issuance and trading' menu includes the description of types of government securities, rules of procedure and information about the sales system of government securities (Primary dealers, retail sale).

The 'Publications' menu provides access to the publications of ÁKK in electronic (pdf) format. The menu also contains the public analyses prepared by ÁKK.

The 'Releases' menu contains the press releases of the ÁKK.

A newsletter service is offered to registered users of the website free of charge. Subscribers receive newly uploaded data by e-mail or an e-mail notification about newly added contents.

For retail investors ÁKK set up another website, www.allampapir.hu, where they can find all relevant information about retail instruments (types, list of retail security dealers, descriptions etc.), but it is available only in Hungarian.

In addition to its website, ÁKK publishes auction and secondary market price quotation data on the information pages of Bloomberg and Thomson Reuters.

ÁKK holds regular press conferences on annual financing, the ranking of primary dealers and on other special topics. The press conference materials can also be found on ÁKK's website.

ÁKK also regularly informs interested readers in free publications. The following publications are available on the website:

- Annual reports (released in the third quarter of the year following the actual year);
- Debt Management Outlook publications (at the beginning of the actual year);
- Quarterly reports (the second month after the actual quarter);
- Monthly reports (at the end of the next month);
- Issuance calendar (in December of the year preceding the actual year).

For further information, please contact

Ms. Éva Ilona Pál or Mr. Ferenc Rusznák

H-1255 Budapest, Pf.: 248
Hungary
Phone: (+361) 488-9438 or (+361) 488-9437
E-mail: pal.eva@akk.hu, rusznak.ferenc@akk.hu

1. The central government gross debt as at 31.12.2016 (HUF million)

HUF denominated debt			
Hungarian Government Bonds	Maturity	Coupon	Outstanding amount
2017/A	24.11.2017	6.75%	290,631.60
2017/B	24.02.2017	6.75%	325,880.02
2017/C	20.12.2017	Floating rate	222,042.04
2017/I	05.03.2017	Floating rate (retail)	44,829.38
2017/J	10.05.2017	Floating rate (retail)	1,940.66
2017/K	10.05.2017	Floating rate (retail)	34,705.75
2017/L	10.05.2017	Floating rate (retail)	147,249.68
2018/A	20.12.2018	5.50%	433,546.81
2018/B	25.04.2018	4.00%	386,839.93
2018/C	22.06.2018	2.50%	453,210.52
2018/D	24.10.2018	Floating rate	225,925.39
2018/I	25.04.2018	Floating rate (retail)	42,527.46
2018/J	05.07.2018	Floating rate (retail)	91,320.13
2018/K	21.11.2018	Floating rate (retail)	116,197.25
2018/N	20.04.2018	Floating rate (retail)	5,982.94
2018/O	20.04.2018	Floating rate (retail)	16,196.57
2018/P	23.07.2018	Floating rate (retail)	15,278.01
2019/A	24.06.2019	6.50%	1,152,985.67
2019/B	20.05.2019	Floating rate	398,615.61
2019/C	30.10.2019	2.00%	748,465.23
2019/D	28.08.2019	Floating rate	143,823.70
2019/I	03.02.2019	Floating rate (retail)	5,139.86
2019/J	03.02.2019	Floating rate (retail)	13,669.10
2019/K	03.02.2019	Floating rate (retail)	32,775.53
2019/L	21.10.2019	Floating rate (retail)	92,807.01
2020/A	12.11.2020	7.50%	815,352.28
2020/B	24.06.2020	3.50%	902,448.04
2020/I	24.04.2020	Floating rate (retail)	110,051.08
2020/J	26.08.2020	Floating rate (retail)	162,506.72
2020/N	20.05.2020	Floating rate (retail)	34,235.97
2020/O	20.05.2020	Floating rate (retail)	112,992.09
2020/P	22.07.2020	Floating rate (retail)	85,619.81
2020/Q	22.09.2020	Floating rate (retail)	6,800.71
2020/R	23.07.2020	Floating rate (retail)	44,331.90
2021/A	23.06.2021	Floating rate	192,465.73
2021/B	27.10.2021	2.50%	650,958.33
2021/I	20.10.2021	Floating rate (retail)	147,265.15

2022/A	24.06.2022	7.00%	886,259.85
2022/N	20.09.2022	Floating rate (retail)	6,627.23
2023/A	24.11.2023	6.00%	997,006.42
2024/B	26.06.2024	3.00%	665,326.68
2024/N	26.08.2024	Floating rate (retail)	139,540.02
2025/B	24.06.2025	5.50%	1,003,950.36
2026/B	24.04.2026	Floating rate	39,177.72
2026/N	22.09.2026	Floating rate (retail)	10,579.25
2027/A	27.10.2027	3.00%	295,202.07
2028/A	22.10.2028	6.75%	235,688.82
2031/A	22.10.2031	3.25%	123,064.34
2032/S	02.12.2032	Floating rate, Babybond	22,644.67
2033/S	01.02.2033	Floating rate, Babybond	2,675.15
2034/S	01.02.2034	Floating rate, Babybond	1,483.97
2035/S	01.02.2035	Floating rate, Babybond	628.57
Matured, but unclaimed government bonds			83.37
Total			**13,137,552.16**
Repos with government bonds (repos actually increase or decrease the total amount)			12,605.00
Discount Treasury Bills			895,376.19
Repos with discount Treasury bills (repos actually increase or decrease the total amount)			1,000.00
Interest Bearing Treasury Bills			2,636,655.23
Out of which matured, but unclaimed			37.30
Semi-annual Interest Bearing Treasury Bills			428,936.32
Treasury Savings Bills (Plus)			120,147.10
Treasury Savings Bills (1-year)			230,391.67
Treasury Savings Bills (2-year)			103,127.33
HUF loans			865,024.61
Matured, but unclaimed other retail government securities			53.36
Total HUF debt			18,430,868.96

Foreign currency debt					Outstanding amount (HUF million)	Outstanding amount (EUR million)
Syndicated loan and loans drawn down from revolving credit facilities*					**0.00**	**0.00**
Loans granted by International Financial Institutions*					**916,312.56**	**2,946.15**
Loans assumed from the market*					**185,283.87**	**595.73**
Government bonds						
Maturity date	Currency	Amount in original currency	Maturity (years)	Coupon	Outstanding amount (HUF million)	Outstanding amount (EUR million)
24.02.2020	EUR	860,300,000	15	3.88%	267,570.51	860.30
09.05.2017	GBP	500,000,000	12	5.00%	180,810.00	581.35
04.07.2017	EUR	759,790,000	10	4.38%	236,309.89	759.79
26.10.2017	JPY	25,000,000,000	10	2.11%	62,835.00	202.03
11.06.2018	EUR	1,288,018,000	10	5.75%	400,599.36	1,288.02
29.01.2020	USD	1,975,000,000	10	6.25%	580,037.75	1,864.95
29.03.2021	USD	3,000,000,000	10	6.38%	881,070.00	2,832.84
29.03.2041	USD	1,250,000,000	30	7.63%	367,112.50	1,180.35
11.01.2019	EUR	940,000,000	7	6.00%	292,358.80	940.00
21.02.2023	USD	2,000,000,000	10	5.38%	587,380.00	1,888.56
19.02.2018	USD	713,130,000	5	4.13%	209,439.15	673.39
22.11.2023	USD	2,000,000,000	10	5.75%	587,380.00	1,888.56
25.03.2024	USD	2,000,000,000	10	5.38%	587,380.00	1,888.56
25.03.2019	USD	773,030,000	5	4.00%	227,031.18	729.96
25.04.2019	CNY	1,000,000,000	3	6.25%	42,140.00	135.49
Total					**5,509,454.13**	**17,714.15**
Cross-currency swaps					**-890,508.21**	
Premium Euro Hungarian Government Bond						
Code	Currency	Maturity date	Maturity (years)	Coupon	Outstanding amount (HUF million)	Outstanding amount (EUR million)
2017/X	EUR	21.04.2017	3	Floating rate, Premium	39,189.81	126.00
2018/X	EUR	21.09.2018	3	Floating rate, Premium	51,795.20	166.53
2019/X	EUR	20.09.2019	3	Floating rate, Premium	42,893.13	137.91
Total					**133,878.14**	**430.45**

Residence Bond						
Code	Currency	Maturity date	Maturity (years)	Yield Zero coupon	Outstanding amount (HUF million)	Outstanding amount (EUR million)
2018/T	EUR	20.12.2018	5	2.53%	33,434.65	107.50
2019/T	EUR	20.12.2019	5	2.24%	138,559.41	445.50
2020/T	EUR	20.12.2020	5	2.00%	104,689.33	336.60
2021/T	EUR	20.12.2021	5	2.00%	2,799.18	9.00
2021/T1	EUR	27.03.2021	5	2.00%	5,411.75	17.40
2021/T2	EUR	27.06.2021	5	2.00%	18,754.51	60.30
2021/T3	EUR	27.09.2021	5	2.00%	30,604.37	98.40
2021/T4	EUR	27.12.2021	5	2.00%	67,833.46	218.10
Total					**402,086.66**	**1,292.80**
Total foreign currency debt					**6,256,507.14**	
Total central government debt					**24,687,376.10**	
Other obligations of ÁKK (marked-to-market deposits placed at ÁKK)					**742,670.46**	
Grand total					**25,430,046.56**	

* Including swaps

2. The credit rating history of the long-term debt of Hungary

Foreign currency denominated debt			
Date of change	Moody's	Standard and Poor's	Fitch Ratings
20.04.1992	-	BB+	-
27.12.1993	Ba1	BB+	-
25.04.1996	Ba1	BB+	BBB-
28.10.1996	Ba1	BBB-	BBB-
19.12.1996	Baa3	BBB-	BBB-
24.06.1997	Baa3	BBB-	BBB
08.05.1998	Baa2	BBB-	BBB
11.12.1998	Baa2	BBB	BBB
25.06.1999	Baa1	BBB	BBB
29.10.1999	Baa1	BBB	BBB+
02.02.2000	Baa1	BBB+	BBB+
14.11.2000	A3	BBB+	BBB+
29.11.2000	A3	BBB+	A-
19.12.2000	A3	A-	A-
12.11.2002	A1	A-	A-
06.12.2005	A1	A-	BBB+
22.01.2006	A1	A-	BBB+
26.01.2006	A1	A-	BBB+
15.06.2006	A1	BBB+	BBB+
22.12.2006	A2	BBB+	BBB+
05.11.2007	A2	BBB+	BBB+
17.03.2008	A2	BBB+	BBB+
17.10.2008	A2	BBB+	BBB+
07.11.2008	A3	BBB+	BBB+
10.11.2008	A3	BBB+	BBB
17.11.2008	A3	BBB	BBB
02.03.2009	A3	BBB	BBB
30.03.2009	A3	BBB-	BBB
31.03.2009	Baa1	BBB-	BBB
02.10.2009	Baa1	BBB-	BBB
23.07.2010	Baa1	BBB-	BBB
06.12.2010	Baa3	BBB-	BBB
23.12.2010	Baa3	BBB-	BBB-
06.06.2011	Baa3	BBB-	BBB-
11.11.2011	Baa3	BBB-	BBB-

Foreign currency denominated debt			
Változás dátuma	**Moody's**	**Standard and Poor's**	**Fitch Ratings**
24.11.2011	Ba1	BBB-	BBB-
21.12.2011	Ba1	BB+	BBB-
06.01.2012	Ba1	BB+	BB+
23.11.2012	Ba1	BB	BB+
20.12.2012	Ba1	BB	BB+
20.03.2015	Ba1	BB+	BB+
20.05.2016	Ba1	BB+	BBB-
16.09.2016	Ba1	BBB-	BBB-
04.11.2016	Baa3	BBB-	BBB-

All three major credit rating agencies assigned a 'stable' rating outlook to the long-term foreign currency debt of Hungary at the end of 2016.

HUF denominated debt			
Date of change	**Moody's**	**Standard and Poor's**	**Fitch Ratings**
25.04.1996	-	-	BBB+
28.10.1996	-	A-	BBB+
24.06.1997	-	A-	A-
22.06.1998	A1	A-	A-
02.07.1998	A1	A-	A
11.12.1998	A1	A	A
29.11.2000	A1	A	A+
19.12.2000	A1	A+	A+
19.11.2002	A1	A	A+
12.01.2005	A1	A	A
27.05.2005	A1	A-	A
06.12.2005	A1	A-	A-
22.01.2006	A1	A-	A-
26.01.2006	A1	A-	A-
15.06.2006	A1	BBB+	A-
22.12.2006	A2	BBB+	A-
05.11.2007	A2	BBB+	A-
17.03.2008	A2	BBB+	A-
17.10.2008	A2	BBB+	A-
07.11.2008	A3	BBB+	A-

HUF denominated debt			
Date of change	**Moody's**	**Standard and Poor's**	**Fitch Ratings**
10.11.2008	A3	BBB+	BBB+
17.11.2008	A3	BBB	BBB+
02.03.2009	A3	BBB	BBB+
30.03.2009	A3	BBB-	BBB+
31.03.2009	Baa1	BBB-	BBB+
02.10.2009	Baa1	BBB-	BBB+
23.07.2010	Baa1	BBB-	BBB+
06.12.2010	Baa3	BBB-	BBB+
23.12.2010	Baa3	BBB-	BBB
06.06.2011	Baa3	BBB-	BBB
11.11.2011	Baa3	BBB-	BBB
24.11.2011	Ba1	BBB-	BBB
21.12.2011	Ba1	BB+	BBB
06.01.2012	Ba1	BB+	BBB-
23.11.2012	Ba1	BB	BBB-
20.12.2012	Ba1	BB	BBB-
20.03.2015	Ba1	BB+	BBB-
16.09.2016	Ba1	BBB-	BBB-
04.11.2016	Baa3	BBB-	BBB-

All three major credit rating agencies assigned a 'stable' rating outlook to the long-term domestic currency debt of Hungary at the end of 2016.

3. The addresses of primary dealers

Primary dealer	Address
BNP Paribas SA	3 Suwak, 02-676 Warsaw, Poland (Warsaw Branch)
CIB Bank Zrt.	Budapest, H-1027 Medve utca 4-14.
Citibank Europe Plc.	Budapest, H-1051 Szabadság tér 7. (Hungarian Branch)
Deutsche Bank AG	Winchester House, 1 Great Winchester Street, London, EC2N 2DB, United Kingdom (London Branch)
ERSTE Befektetési Zrt.	Budapest, H-1138 Népfürdő u. 24-26
Goldman Sachs International	133 Fleet Street, London EC4A 2BB, United Kingdom
ING Bank N.V.	Budapest, H-1068 Dózsa György út 84/B. (Hungarian Branch)
J.P. Morgan Securities Plc.	25 Bank Street, Canary Wharf, London E14 5JP, United Kingdom
K&H Bank Zrt.	Budapest, H-1095 Lechner Ödön fasor 9.
Magyar Takarékszövetkezeti Bank Zrt.	Budapest, H-1122 Pethényi köz 10.
Merrill Lynch International	2 King Edward Street, London, EC1A 1HQ, United Kingdom
MKB Bank Zrt.	Budapest, H-1056. Váci u. 38.
OTP Bank Nyrt.	Budapest, H-1051 Nádor u. 16.
Raiffeisen Bank Zrt.	Budapest, H-1054 Akadémia u. 6.
UniCredit Bank Hungary Zrt.	Budapest, H-1054 Szabadság tér 5-6.

4. Selected parts of legislation governing the legal status of ÁKK and government debt management*

Act no. CXCIV of 2011 on the economic stability of Hungary

CHAPTER II

Reduction of government debt

1. Definition and calculation of government debt

2.§ (1) The current government debt index that should be taken into consideration in the course of the execution of the provisions stipulated in paragraphs (4) and (5) of Article 36 and paragraphs (2) and (3) of Article 37 of the Fundamental Law (hereinafter: the government debt index) is a quotient rounded to one decimal digit where

a) the dividend includes the value of the consolidated debt (debts after setting off debts owed by the central subsystem of the public finances, the local government subsystem of the public finances, general government and other organisations classified in the governmental sector to each other) (hereinafter jointly: government debt);

b) the divisor includes the value of the gross domestic product - calculated in accordance with the Council Regulation on the European system of national and regional accounts in the Community - as specified in this Act.

(2) The debt of the central subsystem of the public finances shall be the consolidated value of all transactions resulting in debts undertaken by legal persons belonging to the central subsystem of the public finances, as at the date of recording.

(3) The debt of the local government subsystem of the public finances shall be the consolidated value of all transactions resulting in debts which were undertaken by local governments, self-governments of minorities, regional development councils as defined in the Act on regional development and regional planning, multi-purpose microregional associations and other associations with legal personality (hereinafter jointly: local government), as at the date of recording.

(4) The debt of other organisations classified in the governmental sector shall be the consolidated value of all transactions resulting in debts which were undertaken by them on their own behalf, as at the date of recording.

3.§ (1) Transaction resulting government debt and its value:

a) borrowing, assumption of credit and loan facility as from the date of disbursement or the date of assumption to date of repayment, and the actual principal amount,

b) issuance of debt securities according to Act on Accounting (hereinafter: Accounting Act) from the date of issuance to the date of redemption, in case of interest-bearing security its nominal value, in case of other security its purchase price,

c) issuance of bill of exchange as from the date of issuance to the date of redemption, and the value of such obligation - excluding the interest - exchanged by such bill of exchange,

d) pursuant to the Accounting Act, finance lease concluded as lessee during the term of the lease, and outstanding principal amount stipulated in the lease contract,

e) concluding sale and repurchase agreement (stipulating repurchase obligation) as seller – real reverse transactions and repo transactions combined with security deposit as defined in Act on Accounting are also included – until the date of repurchase and the stipulated repurchase price,

f) three hundred and sixty-five days of grace - at least - for deferred payment and/or payment by instalments granted in contract, and the unpaid consideration,

g) marked-to-market deposits and their sum, deposited as the difference of derivative transactions with Government Debt Management Agency Pte. Ltd. (hereinafter: 'GDMA Pte. Ltd.') by credit institutions.

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*This translation of the selected legal provisions serves only information purposes and is not an official translation.

(...)

Chapter III

The government debt management agency

4. Legal status of the Government Debt Management Agency

11.§ (1) Through GDMA Pte. Ltd. the minister responsible for public finances ensures the fulfilment of funding requirement of the central subsystem of public finances and ensures the financial operations executed in order to management of the debt falling under point a) b) e) and g) of paragraph (1) of Section 3.

(2) GDMA Pte. Ltd. is a single shareholder company (limited by shares), the company's shares are registered and non-negotiable securities.

(3) GDMA Pte. Ltd. is owned by the state, and the minister responsible for public finances exercises the rights related to the establishment and the ownership by and on behalf of the state, however, not entitled to absorb the rights of the Board of Directors.

(4) The operation of GDMA Pte. Ltd. – unless otherwise provided by the present Act – are governed by the provisions of the Civil Code related to the business associations.

(5) Executives of the state - as specified in the Act on central administrative agencies and the legal status of the Members of the Government and Secretaries of State - may hold positions on the Board of Directors and on the Supervisory Board of GDMA Pte. Ltd.

(6) The scope of authority of the Supervisory Board of GDMA Pte. Ltd. does not include the report on the debt management strategy of the central subsystem of public finances, the associated performance indicators and financing plans.

12.§ (1) GDMA Pte. Ltd. manages its assets autonomously within the framework of laws and regulations, the decisions of the shareholder and the decisions of the Board of Directors.

(2) The revenues of GDMA Pte. Ltd. are:

a) the appropriation assigned for this purpose in the Annual Central Budget Act, in relation to debt management of the central subsystem of public finances arising out of debt transactions falling under point a) b) e) and g) of paragraph (1) of Section 3, which is to be placed at the disposal of the company in equal monthly instalments,

b) other revenues.

(3) The interest, cost, fee and other expenses associated with revenues according to point a) of paragraph (2) shall be booked and paid by GDMA Pte. Ltd. to the charge of the chapter of the Act on the Annual Central Budget including budgetary revenues and expenditures of debt management of the central subsystem of public finances.

(4) GDMA Pte. Ltd. holds a bank account at the National Bank of Hungary [(hereinafter: 'NBH')] for its operations.

(5) GDMA Pte. Ltd. holds a securities custody account and a securities account at the Central Clearing House and Depository PTE Ltd. [(hereinafter: 'KELER')], may open a foreign currency account at the NBH or at credit institutions for its operations.

13.§ (1) In order to finance the deficit of the central budget, the minister responsible for public finances, through GDMA Pte. Ltd.

a) upon the authorization of the Central Budget Act, organizes the issuance of government securities, borrowing of loans and debt assumptions which shall be settled as debt of the central subsystem of public finances arising out of debt transactions falling under point a) and b) of paragraph (1) of Section 3,

b) elaborates the annual and medium-term financing plan of the central budget, develops the financing strategy of debt falling under point a),

c) ensures the payment obligations burdening the debt of central subsystem of public finances arising out of debt transactions falling under point a) and b) of paragraph (1) of Section 3,

d) ensures the solvency of the central government budget upon the authorization of the Annual Central Budget Act and by taking into account the forecast rendered in point b) of paragraph (1) of Section 76 by Act on the Public Finance, and the management of the temporarily free cash-funds of the state,

e) organises the secondary market of government securities,

f) executes dealing on own account on the secondary market of government securities, concludes security lending, repo and reverse repo transactions, concludes prompt, forward, hedge, swap and derivative transactions, and executes custodial and deposit management tasks,

g) analyses the tendencies of the government debt service falling under point a) and the government securities market,

h) participates in the calculation of the government debt, provides information on developments of government debt of the central subsystem of public finances arising out of debt transactions falling under point a) b) e) and g) of paragraph (1) of Section 3, and on the tendencies in the government securities market,

i) opines the terms and conditions of loans and bonds secured by individual government suretyship or guarantee,

j) executes credit and deposit operations,

k) participates in performing duties related to borrowing loans and credits and issuance of debt securities guaranteed by government suretyship or guarantee,

(2) For participation specified in point i) of paragraph (1), GDMA Pte. Ltd. receives remuneration – burdening the central government budget – equalling to - 0.025 per cent of the principal amount of the underlying transaction as a maximum. The Government shall determine the detailed regulation of such duties and remuneration of GDMA Pte. Ltd. in a decree.

(3) GDMA Pte. Ltd. may create debt securities on the separated sub-accounts of the securities account specified in paragraph (5) of Section 12 - without outright issuance and underlying financial claims - which may become objects of transactions specified in point f) of paragraph (1).

(4) In addition to its duties specified in paragraph (1), GDMA Pte. Ltd:

a) upon authorisation by a separate law may organize issuance of debt securities secured by government suretyship or government guarantee, or may fulfil advisory tasks related thereto,

b) may participate in performing duties – advice related to business strategy also implied – related to borrowing loans and credits, or issuance of debt securities by the state, municipality and business organizations owned thereby through majority ownership, for a remuneration to such extent as determined in paragraph (2),

c) may participate in the management of the free cash funds of the National Deposit Insurance Fund and the Reorganization Fund, and performing duties – advice related to business strategy also implied - related to borrowing loans and credits, or issuance of debt securities of such Funds,

d) upon authorization of law may fulfill payment obligations related to the realisation of the capital increase provided on behalf of the state to MVM Paks II. Nuclear Power Plant Development Private Company Limited by Shares financing the investment as defined in Paragraph 1 of the Section 1. of Act No. VII. of 2015 on the investment related to the maintenance of the capacity of the Paks Nuclear Power Plant and the amendment of related Acts (including the payments set forth in Section 2. of Article 1 of the Agreement promulgated by the Act No. XXIV. of 2014 on the promulgation of the Agreement between the Government of the Russian Federation and the Government of Hungary on the extension of a state credit to the Government of Hungary for financing of the construction of nuclear power plant in Hungary), in accordance with the method, amount and timing defined by the instrumentality exercising the entirety of the ownership rights and obligations of the state

e) may participate in the management of cash funds of the Investor Protection Fund.

14.§ (1) The minister responsible for public finances ensures the management of the temporarily free cash-funds of the state through GDMA Pte. Ltd.. Within such duty, GDMA Pte. Ltd. is entitled to execute operations falling under paragraph (1) of Section 13. Interests arising out of such operations shall be settled in favour of the central budget.

(2) In government debt management related civil law legal relationships, the state shall be represented by the minister responsible for public finances, who may exercise such incumbency right through GDMA Pte. Ltd., or may delegate such incumbency right in writing to GDMA Pte. Ltd..

(3) Transactions concluded by GDMA Pte. Ltd. within the framework of government debt management shall be deemed as concluded in favour of and charged to the state.

(…)

ACT No. CXCV. of 2011 on the public finances

Authorisation of the Minister responsible for the public finances

5.§ (2) In the central subsystem of public finances the minister responsible for the public finances ensures the consumption of the central budget surplus, financing the deficit of the central budget and the government debt management – without the establishment of financing revenues and expenses in the Central Budget Act.

5. The balance sheet and the profit and loss account of ÁKK

I. Balance sheet

data in HUF thousand

	Assets	2015	2016
	A) Fixed assets	75,699	97,669
I	Intangible assets	18,232	28,810
II	Tangible assets	47,161	54,686
III	Invested financial assets	10,306	14,173
	B) Current assets	378,979	465,254
I	Inventories	0	0
II	Receivables	12,314	20,548
III	Securities	0	0
IV	Cash and cash equivalents	366,665	444,706
	C) Accrued and deferred assets	73,681	10,499
	Assets in total	528,359	573,422

data in HUF thousand

	Liabilities	2015	2016
	D) Capital and reserves	397,782	483,553
I	Subscribed capital	300,000	300,000
IV	Profit reserve	54,914	54,914
VII	Balance-sheet profit or loss	0	0
	E) Provisions	45,674	0
	F) Liabilities	76,515	73,408
I	Subordinated liabilities	0	0
II	Long-term liabilities	0	0
III	Short-term liabilities	76,515	73,408
	G) Accrued and deferred liabilities	8,388	16,461
	Liabilities in total	528,359	573,422

Budapest, 7 March 2017

György Barcza
CEO

II. Profit and loss account

data in HUF thousand

	Liabilities	2015	2016
I	Net sales revenue	1,154,509	1,165,934
III	Other revenue	3,625	53,236
IV	Material expenses	248,946	252,514
V	Personnel expenses	778,735	781,920
VI	Depreciation and amortisation	33,146	39,249
VII	Other expenses	50,524	10,735
A	Operating profit or loss	46,783	134,752
B	Profit or loss from financial transactions	5,939	3,132
C	Profit or loss on ordinary activities	52,722	137,884
D	Extraordinary profit or loss	0	0
E	Profit or loss before taxation	52,722	137,884
XII	Tax payable	9,854	9,245
F	Profit or loss after taxation	42,868	128,639
23	Approved dividends	42,868	128,639
G	Balance-sheet profit or loss	0	0

Budapest, 7 March 2017

György Barcza
CEO

6. Senior officials of ÁKK in december of 2016

Members of the Board of Directors:

László Balogh, chairman

Péter Benő Banai, member

Viktor József Asztalos, member

Members of the Supervisory Board:

Judit Gondos, chairman

Dr. Ábel Berczik, member

Gergely Földiák, member

Dr. Ágnes Halász, member

The Company's auditor:

DIAMANT Könyvvizsgáló Kft.

1223 Budapest, Gyula vezér u. 72.

Responsible auditor:

Terézia Bárány Director