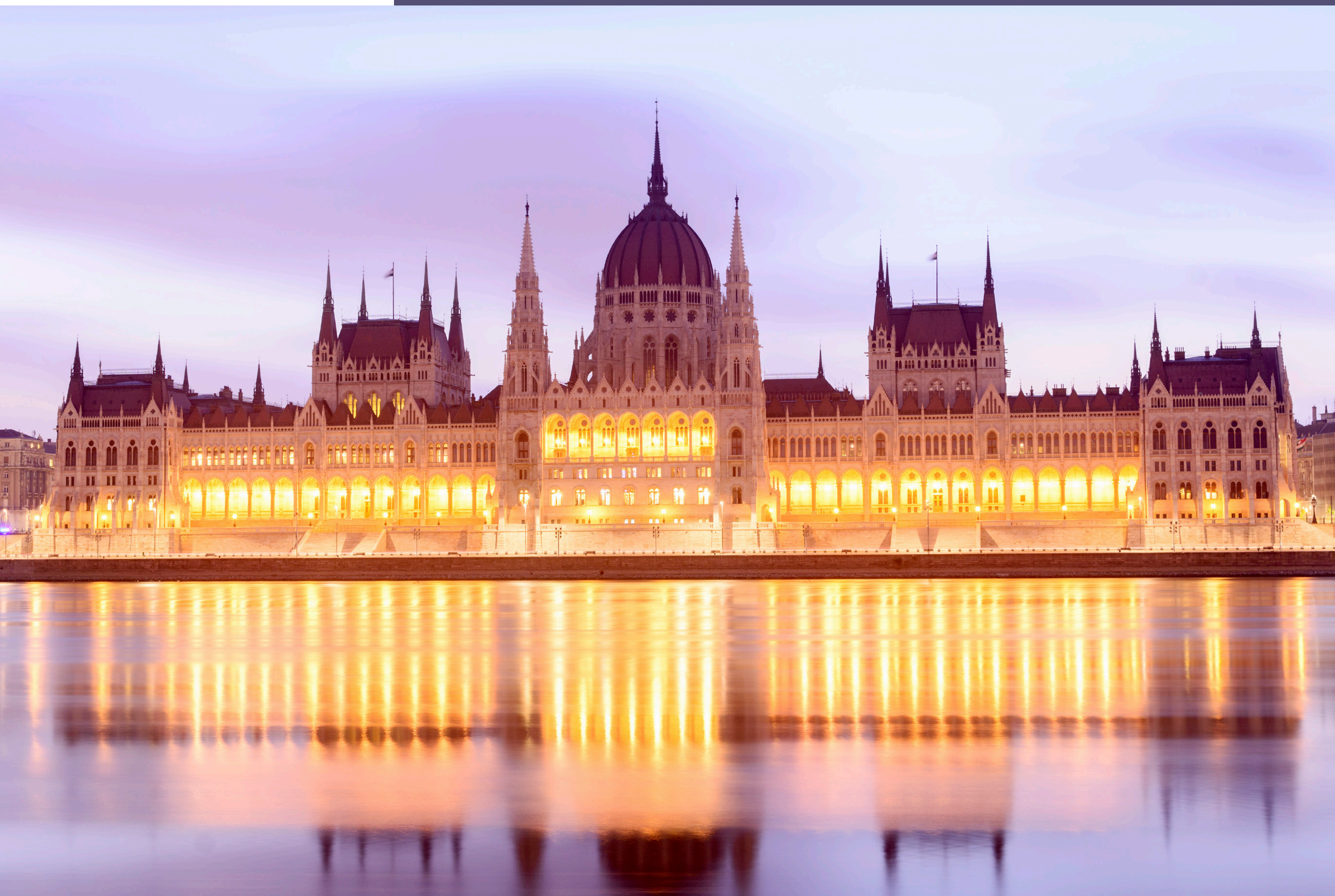
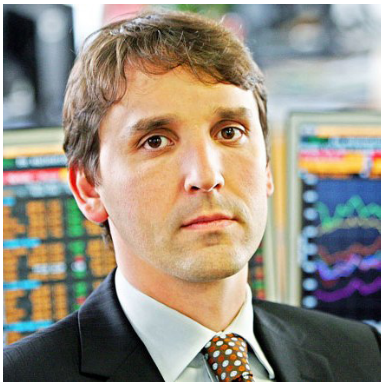
GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

ÁKK

GOVERNMENT DEBT MANAGEMENT REPORT 2014



Foreword



The objective of this annual Government Debt Management Report 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 the government debt and to describe the developments in the Hungarian government securities market in 2014.

One of the most important objectives of the Hungarian government is to reduce the public debt, increase the domestic financing of the debt with a bias to retail debt and improve debt metrics. 2014 was a successful years in these respects: According to EUROSTAT the public debt ratio continued to decrease from 76.8 per cent to 76.2 per cent – a rare example nowadays in the European Union. Not only did indebtness decline, but the share of foreign currency debt also declined from 40 per cent to 38 per cent. All of these results were achieved with lower funding costs and increased duration as well.

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.

György Barcza
Chief Executive Officer

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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:

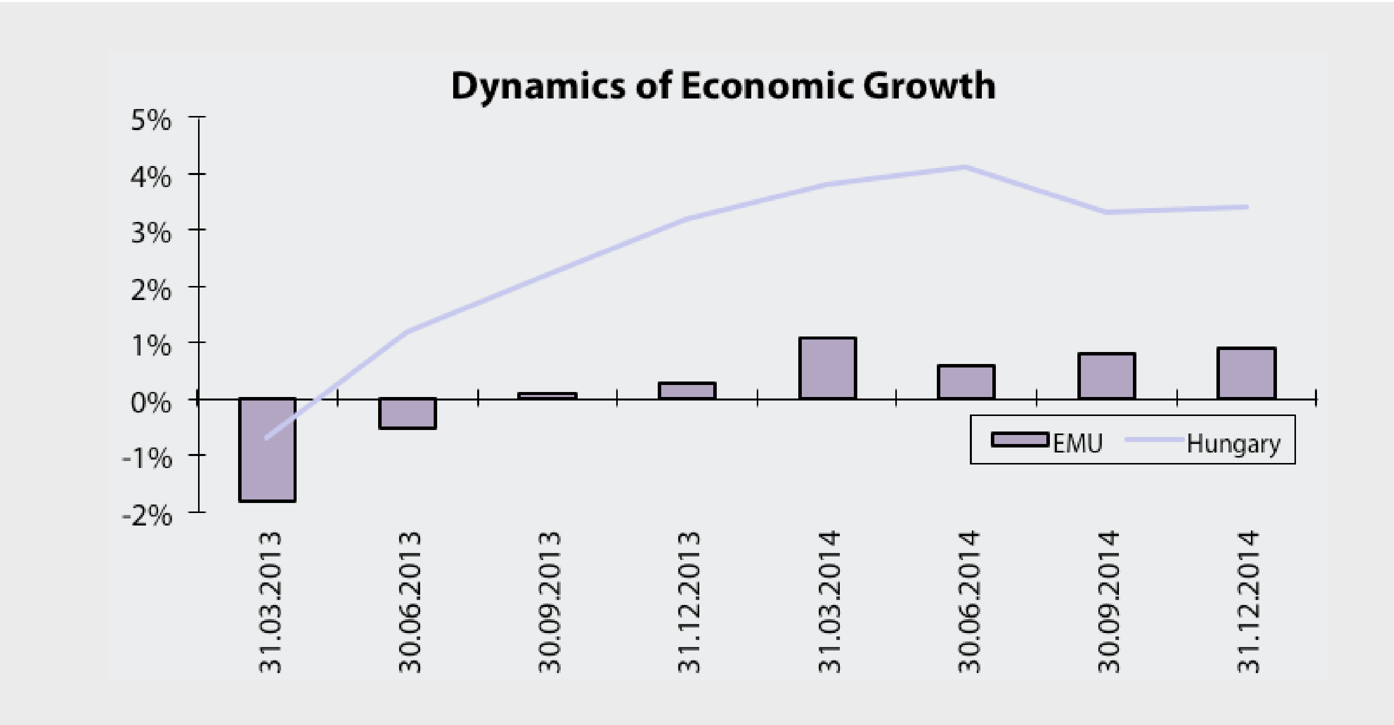
- Government bonds and retail government securities are recorded at nominal value.
- Discount treasury bills are recorded at the average sale price (at discount value), which is recalculated after every transaction involving the security concerned.
- Repo and reverse repo transactions actually increase 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 2014

The global economic growth was still uncertain in 2014. Western Europe and the USA left behind the recession but Japan's economy fell back into recession. Following the tapering of quantitative easing preparation for the interest rate hikes was on the agenda in the USA during 2014. At the same time additional quantitative easing was underway in the Eurozone after the interest rates were cut to zero. Monetary conditions were loosened further in Japan as well. Political conflicts influenced the global market sentiment significantly. The Russian-Ukrainian conflict affected the Central-Eastern-European region significantly since the conflict took place in the vicinity of the region.

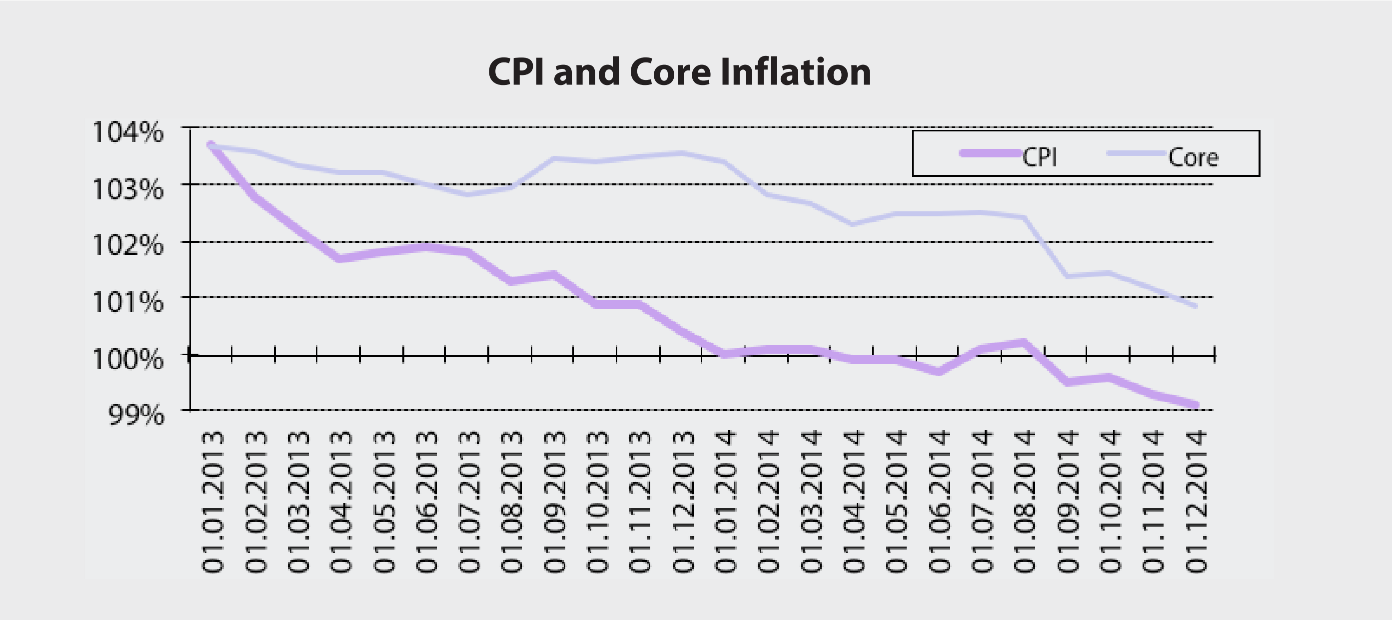
Economic Growth



Source: CSO, Eurostat

The growth of the Hungarian economy that started in 2013 accelerated during 2014; growth rate reached 3.6% in 2014. The structure of economic growth became healthier, broad-based – contrary to the previous export-driven growth. Consumption increased by 1.8%, investments grew by 13.6%; as a result domestic use increased by 4.3%.

Inflation



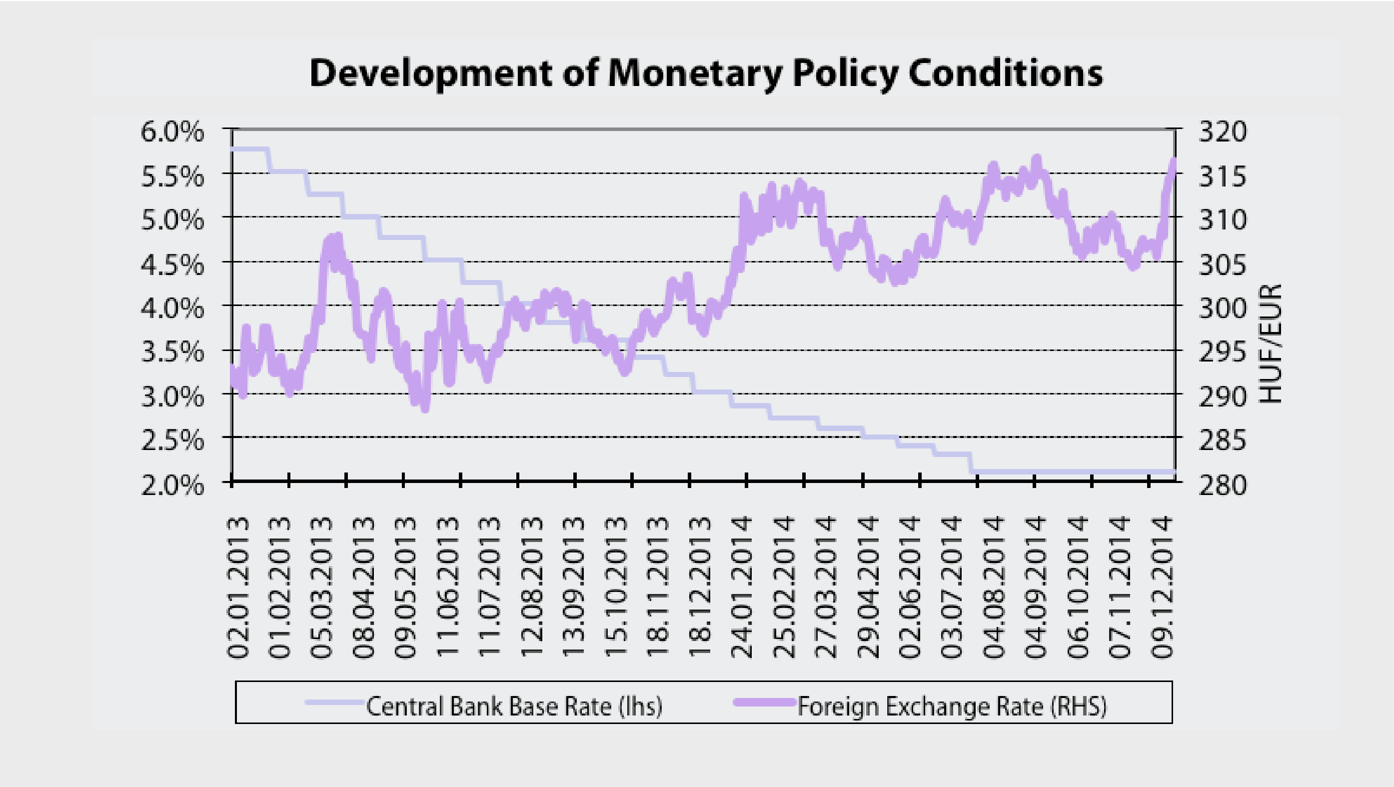
Source: CSO

Inflation fell from 3.7% in January 2013 to zero in January 2014. The price level in December 2014 was 0.9% lower than twelve months earlier. The price level was dragged down by publicly administered prices that resulted in a drop in the headline inflation exceeding that of core inflation. Food prices decreased by 0.6% as a result of a relatively good harvest in 2014 and favourable global food prices. The price level of clothing and durable goods declined slightly by 0.2% and 0.1%, respectively, partly as a result of weak domestic demand. Inflation was mild in case of services (1.5%) and alcoholic beverages and tobacco products (1.2%); the latter was mainly driven by excise duty hikes. The price level of fuel and power and other goods, including motor fuels dropped significantly by 5.4% and 4.1%, respectively. The former was mainly the result of declining publicly administered prices; the latter was primarily the consequence of falling global oil prices. The price level decreased by 0.2% for the year 2014.

I. Macroeconomic developments in 2014

Monetary Conditions

During 2014 the forint weakened by 6.1% from 296.9 HUF/EUR to 314.9 HUF/EUR.



Source: NBH

The Fed started the tapering of quantitative easing and the currencies of many developing countries – mainly Turkey – were under pressure. In spring the forint was strengthening again, half of the previous weakening was reversed. Besides supporting global investor sentiment favourable Hungarian macroeconomic indicators also played a significant role.

Favourable global liquidity conditions, below-target inflation and improving risk assessment enabled the central bank to take economic growth into consideration. The Monetary Council decreased the central bank base rate gradually from 7.0% in mid-2012 to 2.1% in July 2014. The Monetary Council left the central bank base rate unchanged afterwards. Parallel to the gradual decrease of the central bank base rate market expectations of interest rates declined during the first half of the year.

Fiscal Policy

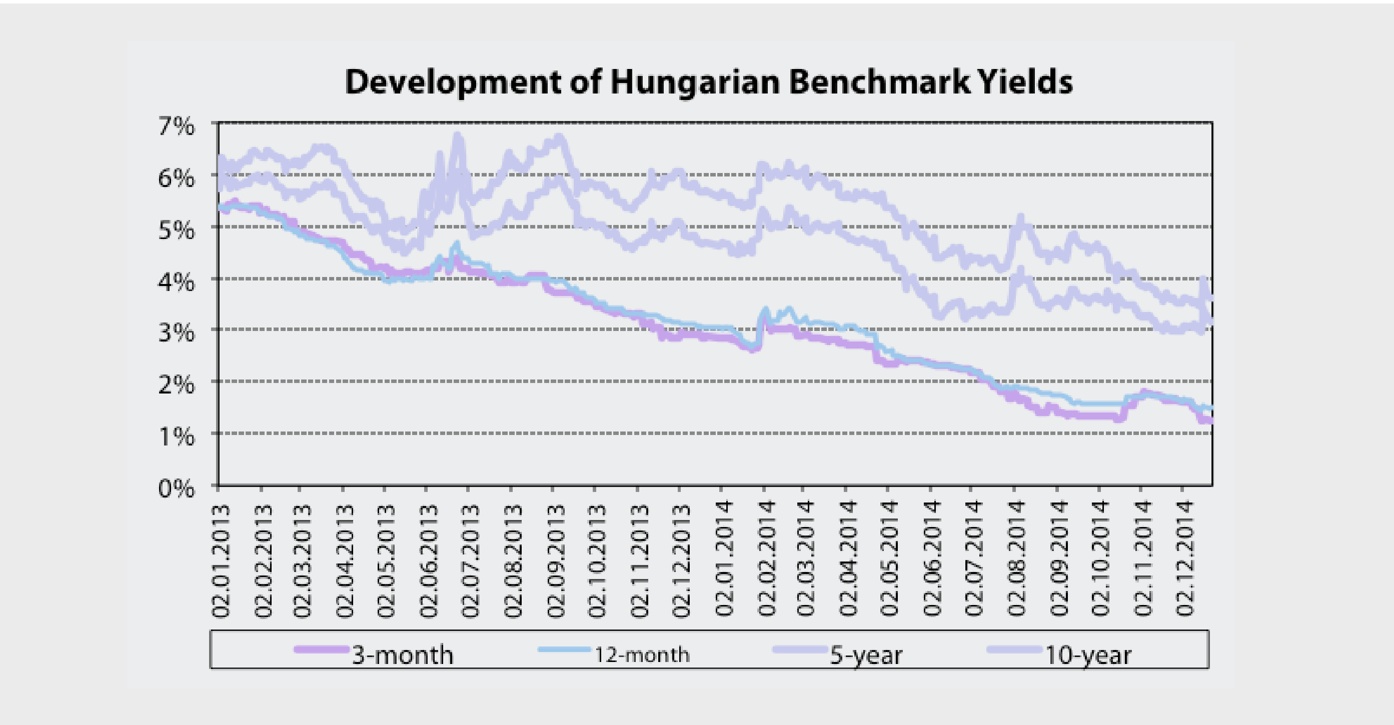
In 2014 the deficit of the public sector was 2.2 per cent of GDP based on the financial accounts methodology. The cash-flow based (GFS) general government deficit (excluding local governments) amounted to HUF 826 billion (equaling 2.6% of GDP for the year 2014). In 2014 the accrual based (ESA) general government deficit (including local governments) amounted to HUF 829 billion (equaling 2.6% of GDP for the year 2014) according to preliminary data. The financing need of the state for the year 2014 decreased compared to the previous year.[1]

Financing Position of the Economy

The households' savings to GDP ratio amounted to 5.9% in 2014. The net financing capacity of the corporate sector reached 3.5% in 2014. The economy of Hungary as a whole was a net lender towards the rest of the world in the amount of 7.2% of GDP. The current account posted a surplus of EUR 4.3 billion or 4.2% of GDP in 2014.

Forint yields

During the course of the year 2014 short-term interest rates declined significantly caused by central bank base rate cuts and the restructuring of monetary policy instruments; long-term forint interest rates declined interrupted by temporary increases driven by the fluctuation of global investment sentiment.



Source: ÁKK

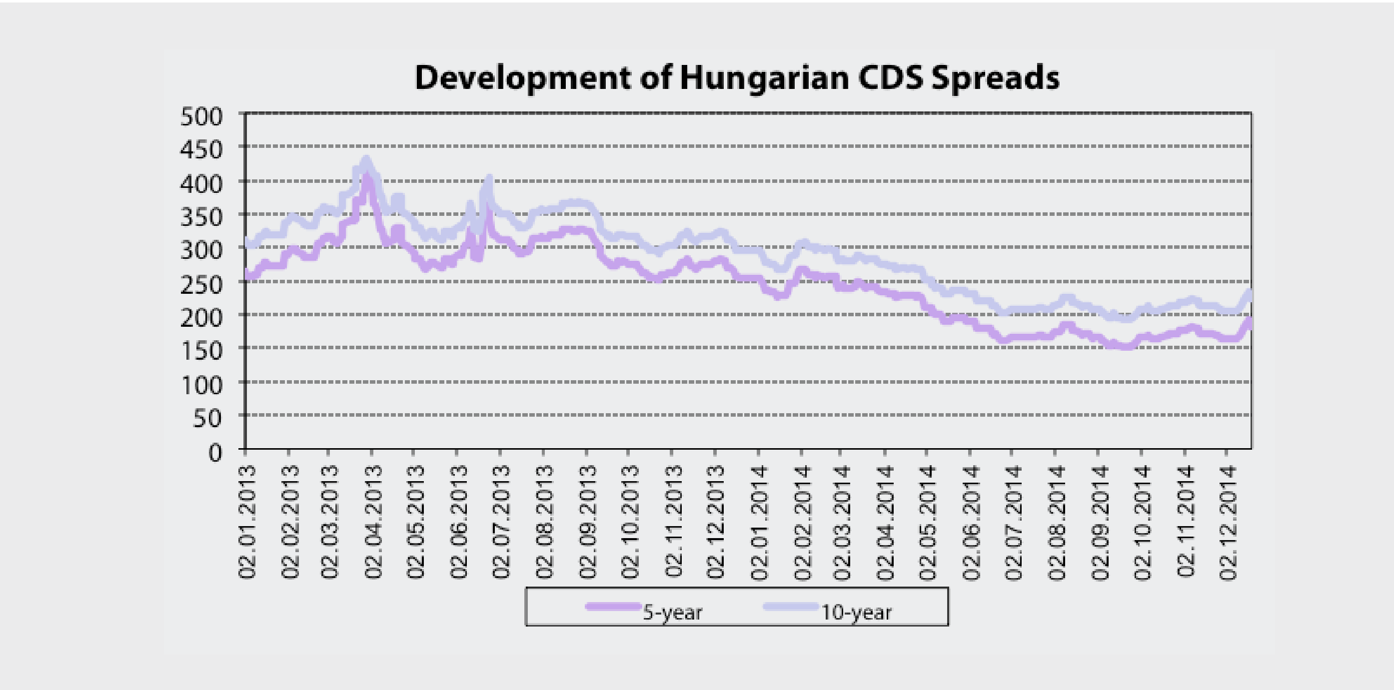
[1] The components of the net financing need are described in detail in Chapter III.

I. Macroeconomic developments in 2014

From end of January 2014 both short-term and long-term yields declined gradually until the middle of the year. Besides supporting global investor sentiment favorable Hungarian macroeconomic indicators played a significant role. Economic growth exceeded even the most optimistic expectations and the other macroeconomic indicators (government deficit, current account balance, unemployment, inflation) were also very favorable. The investor assessment of the country improved enabling the Monetary Council to proceed with the rate cutting cycle that started in 2013; in July 2014 the central bank base rate was cut to 2.1%. Following the rate-setting meeting the governor of the central bank announced the NBH is prepared to keep the central bank base rate on hold until the end of the year 2015. During the second half of the year the previous dynamic decrease of long-term yields came to a halt, long-term interest rates increased temporarily several times.
Short-term interest rates dropped below the central bank base rate driven by occasionally intensifying expectations of central bank base rate cut caused by exceptionally low inflation data. At the same time the restructuring of the monetary policy instruments fostered this, too. The central bank converted the two-week bond into a two-week deposit accessible only to banks. As a consequence many money market participants – mainly local insurance companies and mutual funds – increased dynamically the share of short-term government securities in its portfolio. During the second half of the year a moderate short-term issuance took place driven by declining financing need. This contributed to the decrease of short-term forint yields; yields only increased during the final days of the year.
By the end of the year 2014 the 3-months and the 12-months benchmark yields fell to 1.43% and 1.80%, respectively; the 5-year and the 10-year benchmark yields stood at 3.15% and 3.60%, respectively

CDS Spreads

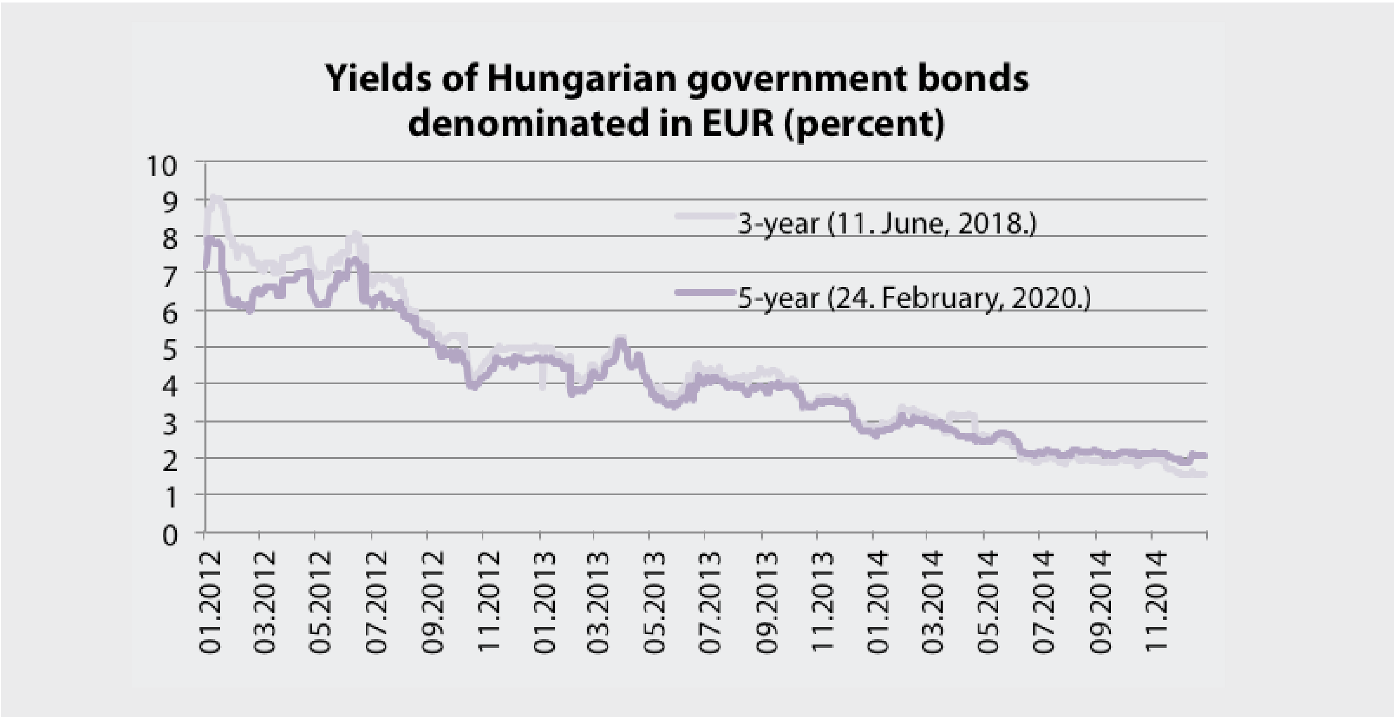
The 5-year CDS spread fell from 250 basis points to 160 basis points during the first half of the year, and fluctuated around 170 basis points during the remainder of the year. Besides the supporting global investor sentiment improving macroeconomic indicators of Hungary (strengthening growth accompanied by favourable macroeconomic balance indicators) played a significant role in this. In the middle of December CDS spreads increased significantly mainly as a result of unfavourable global investor sentiment; by the end of the year 2014 the 5-year CDS spread stood at 180 basis points.



Source: Reuters

Yields of Foreign Currency Denominated Bonds

Besides CDS spreads the evolution of long-term yields in the European capital market played a significant role in the yield movements of euro-denominated Hungarian government bonds.

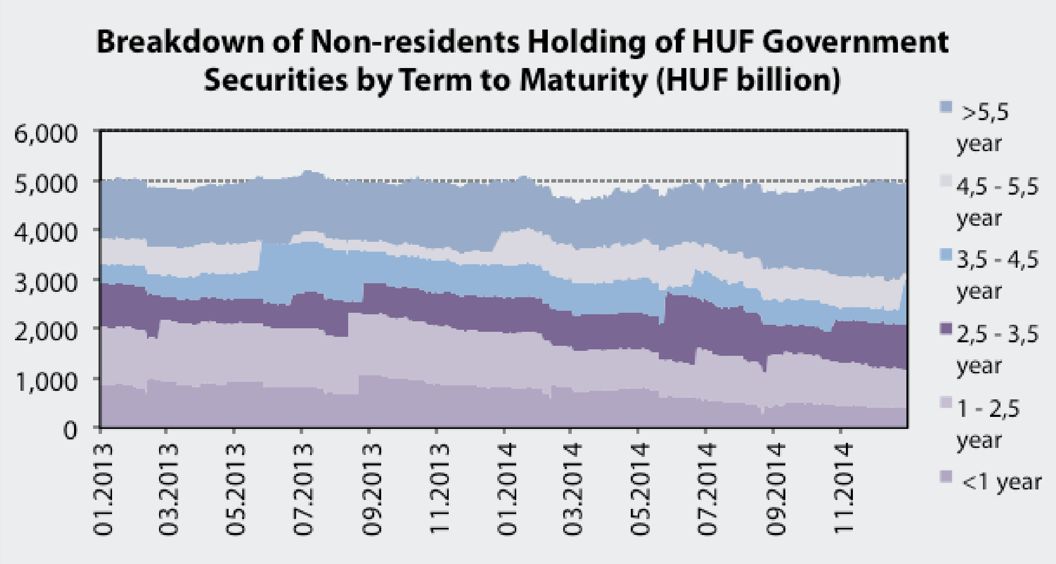


Source: Bloomberg

The yield of the Hungarian euro-denominated government bond maturing in June 2018 declined from 3.5% to 1.5% during 2014. The significant reduction of yields was driven not only by the decline of spreads but also by the reduction of the yields of risk-free long-term securities to zero as a result of the monetary policy of the European Central Bank.

Government Securities Holdings of Foreign Investors

The value of forint-denominated government securities held by non-residents did not change significantly during the year 2014. Non-resident holdings reached their historical high of HUF 5,202 billion on 8 July 2013. By the end of the year 2013 non-resident holdings amounted to HUF 4,994 billion, and declined to HUF 4,873 billion by the end of the year 2014, meaning a slight decline during the year as a whole.



Source: KELER Zrt.

The share of foreign holdings of forint-denominated debt decreased from 42% to 37% within the total debt. Adding to this the foreign exchange denominated debt held by non-residents the foreign holdings amounted to 56 per cent of the total public debt portfolio.

II. Debt management strategy in 2014

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 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 2014 the composition of the central government debt conformed to the benchmarks.

Public debt management benchmarks

Benchmarks	Tolerance band	End 2013	End 2014
1. Foreign currency debt ratio	25-45% FX	40.3%	38.1%
2. Foreign currency debt composition	95-105% EUR	101.0%	99.2%
3. Fixed coupon part of foreign currency debt	62.7-67.7%	63.6%	63.8%
4. Fixed coupon part of domestic debt	61-83%	65.2%	61.8%
5. Duration of domestic debt	2-3 years	2.47	2.88

Benchmark No. 6. is to maintain a secure level of funds on the Single Treasury Account (STA). For a detailed description of liquidity management in 2014 see Chapter VI.

II. Debt management strategy in 2014

Strategic principles

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

As regards liquidity, ÁKK aims to ensure that 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 building-up sufficiently large volumes of 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 600-800 billion (approximately EUR 2-3 billion) in 2014, with greater volumes targeted for securities with a longer tenor (5 or 10 years). Secondary market operations were also enhanced by bond buy-back and bond exchange transactions by ÁKK.

Due to the international financial crisis, the volatility of yields and spreads has increased and the government markets are more prone to becoming unstable. This has also increased the uncertainties in connection with debt financing. Owing to this, ÁKK has raised the flexibility of its operations. This way it can react to changes in market demand to a greater extent as regards the offered 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 2014

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 continuous 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 2010 and 2014

	2010	2011	2012	2013	2014
Central government balance*	-837.8	-1,719.1	-629.3	-983.1	-837.1
Balance of the Social Security funds	-95.6	-88.7	-117.4	-4.7	5.7
Balance of the extra-budgetary funds	61.6	67.2	130.5	50.5	5.8
Net financing need of the central* government*	**-871.9**	**-1,740.6**	**-616.3**	**-937.3**	**-825.7**
Capital transfers to NBH	0.0	-29.1	0.0	0.0	0.0
Privatisation revenues	30.1	36.7	0.0	0.0	0.0
Net EU transfers	-125.1	406.6	-238.8	-296.6	-40.7
Total net financing requirements*	**-966.9**	**-1,326.4**	**-855.1**	**-1,233.9**	**-866.4**
Short term debt redemptions	-2,048.6	-1,922.3	-1,808.4	-2,594.8	-3,208.2
Long term debt redemptions	-1,752.7	-2,500.6	-2,782.2	-4,096.6	-4,711.3
Gross financing requirements*	**-4,768.2**	**-5,749.3**	**-5,445.7**	**-7,925.3**	**-8,785.9**

* Including the assumption of local authorities' and MÁV's (state railway) debt and the purchase of shares of the company MOL in 2011. These transactions – with a total value of HUF 744.7 billion - did not require market financing.
Source: Hungarian State Treasury, Ministry for National Economy, ÁKK

The net financing requirement

In 2014 the total cash-flow based deficit of the central government was HUF 825.7 billion (or 2.6 per cent of GDP according to preliminary data), while the total net financing requirement amounted to HUF 866.4 billion (or 2.7 per cent of GDP) including negative net EU transfers.

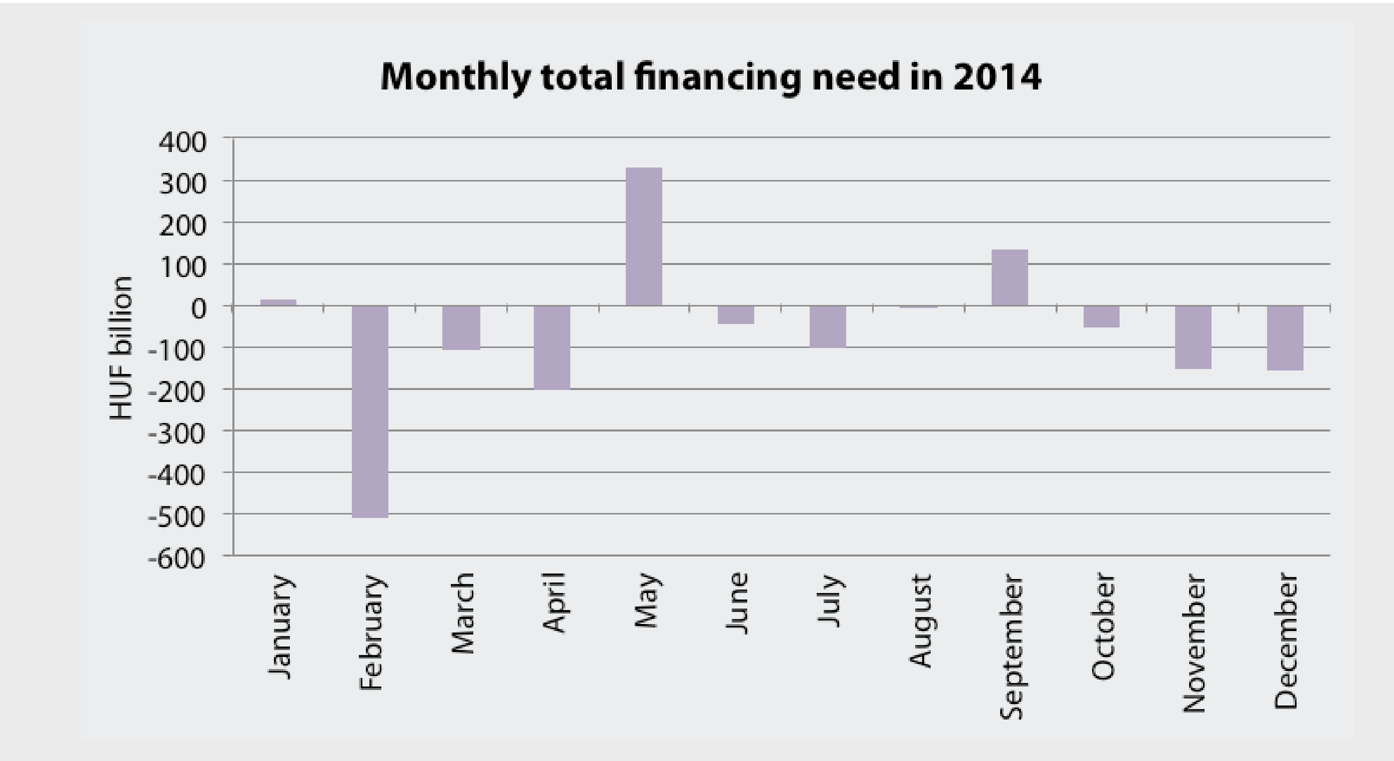
III. The financing requirements in 2014

Borrowing requirements in 2014:

	Plan January 2014 (HUF billion)	Outturn (HUF billion)	Outturn/Plan (per cent)
Central government balance	-962.0	-837.1	87%
Balance of the Social Security funds	0.0	5.7	-
Balance of the extra-budgetary funds	-23.0	5.8	-25%
Net financing need of the central government	**-985.0**	**-825.7**	**84%**
Capital transfers to NBH	0.0	0.0	-
Privatisation revenues	0.0	0.0	-
Net EU transfers	0.0	-40.7	-
Total net financing requirements	**-985.0**	**-866.4**	**88%**
Short term debt redemptions	-3,206.8	-3,208.2	100%
Long term debt redemptions	-2,753.3	-4,711.3	171%
Gross financing requirements	**-6,945.1**	**-8,785.9**	**127%**

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

The monthly financing needs showed a significant fluctuation in 2014 as well; large part of the financing requirement materialized in Q1 of the year.



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 redemption was HUF 7,919.5 billion, 33 per cent higher than planned in 2014. In the case of domestic debt redemption the excess was the result of bond buy backs and switch auctions and the early prepayment of assumed HUF loans. In the case of foreign currency denominated debt the redemption was also higher than planned due to early prepayment of some FX loans and FX bond buyback program.

Government debt redemptions[2]

HUF billion

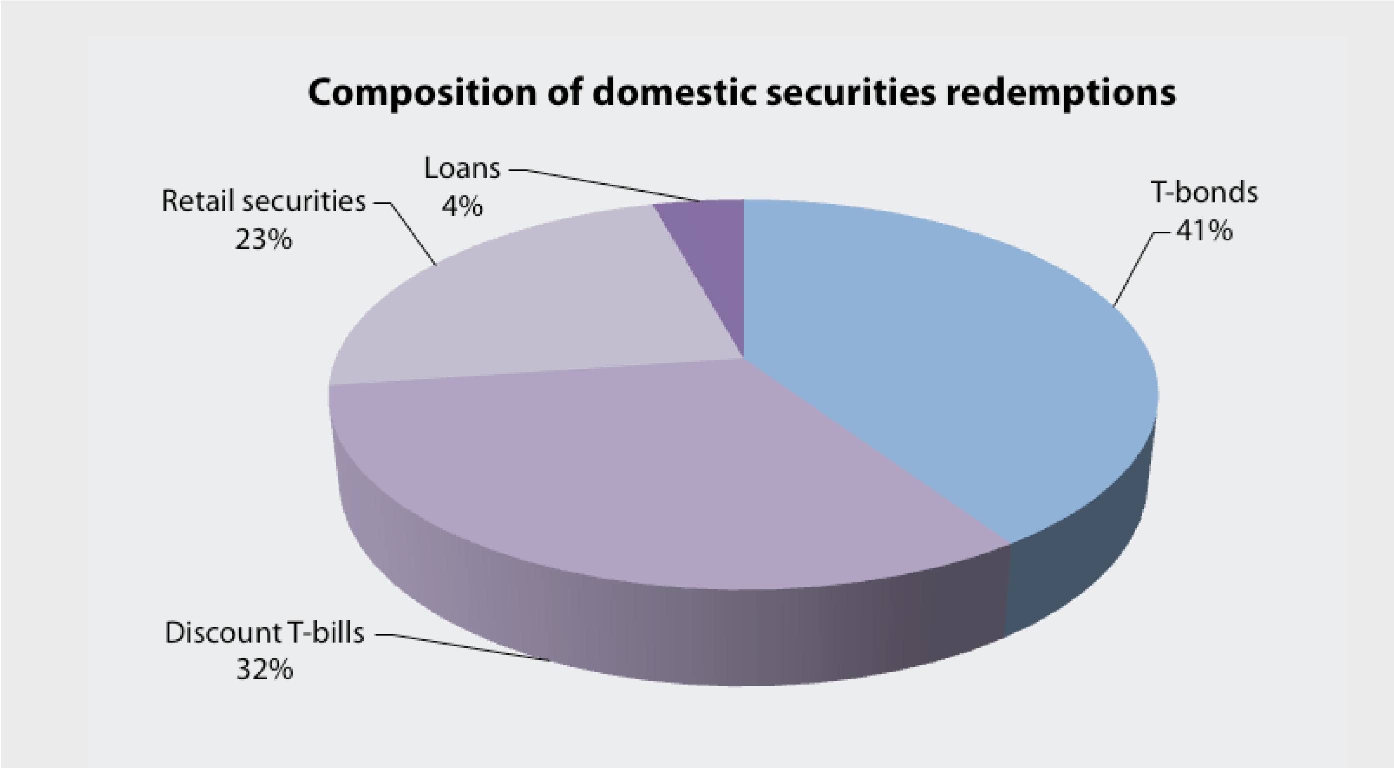
	2013	2014 plan	2014 outcome
Domestic debt	**4,544.1**	**4,365.1**	**5,930.0**
T-bonds	1,704.4	998.9	2,410.1
Discount T-bills	1,906.5	1,899.7	1,904.9
Retail securities	767.9	1,361.0	1,363.7
Loans	165.3	105.6	251.3
Foreign currency debt	**2,147.3**	**1,595.0**	**1,989.5**
Bonds	884.4	801.5	925.9
Loans	1,262.9	793.4	1,063.6
Total	**6,691.4**	**5,960.1**	**7,919.5**

Source: ÁKK

Total domestic debt redemptions exceeded the plan by HUF 1,565 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 32 per cent of the total forint redemptions of HUF 5,930 billion.

[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.

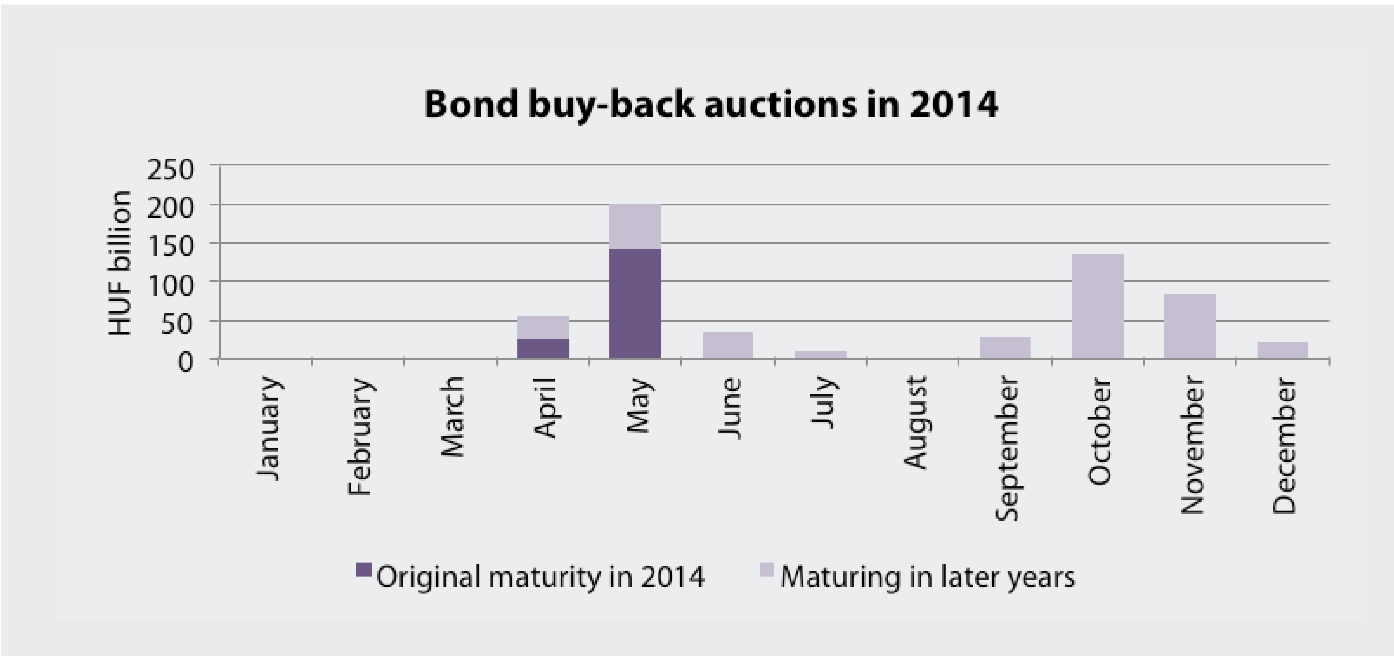
III. The financing requirements in 2014



Source: ÁKK

Bond buy-backs

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 2014 ÁKK bought back a total of HUF 569 billion bonds before their maturity on 19 occasions. 70 per cent of the repurchased bonds (HUF 401 billion) had a maturity after 2014, i.e. these buy-backs also helped to smooth maturities from one year to another.



In order to decrease refinancing risk ÁKK has been holding 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 2014 19 exchange auctions were held at which ÁKK exchanged a total of HUF 886 billion short-term bonds for long-term ones (vs. HUF 120 billion in 2013).

Foreign currency debt redemptions

In 2014 two euro bonds (EUR 1-1 billion) and a GBP bond (0.5 billion) matured. Moreover in order to reduce the share of foreign currency debt within the total debt ÁKK bought back EUR 217 Million FX bond from the market. In 2014 the second tranche of the EC loans was repaid. Beside these items other smaller repayments took place in the case of IFI project financing and other loans.

IV. Financing

The issuance of government securities and the drawdowns of loans were planned and implemented in accordance with the approved debt management strategy and benchmarks. The strategy states that foreign currency redemptions should be financed by foreign currency issuance, domestic redemptions and the net financing needs should be financed by local currency issuance. This ensures the gradual decrease of the share of foreign currency debt. Nevertheless, if market conditions allow, the increased issuance of local debt may substitute foreign currency borrowing and facilitate a faster decrease of the relatively high share of foreign currency debt.

In order to develop the domestic investor base the government programme aiming to boost the direct sales of retail government securities to retail investors was continued in 2014. This program has been an overwhelming success, and has resulted in a large increase in domestic financing by households.

In 2014 the HUF denominated issuance amounted to HUF 7,457 billion (86%), while foreign currency issuance was HUF 1,224 billion (14%).

Gross debt issuance:

HUF billion

	2013	2014 plan	2014 outcome
Domestic debt	**5,251.7**	**5,550.1**	**7,457.2**
T-bonds	1,846.5	1,705.0	3,653.9
Discount T-bills	1,904.9	2,064.1	1,588.6
Retail securities	1,471.0	1,780.9	2,086.2
Loans	29.3	0.0	128.4
Foreign currency debt	**2,130.6**	**1,352.1**	**1,223.7**
Bonds	1,921.0	1,099.8	1,177.6
Loans	209.6	252.4	46.2
Total	**7,382.3**	**6,902.2**	**8,680.9**

Source: ÁKK

Net HUF denominated financing totalled HUF 1,527 billion, while net foreign currency financing amounted to HUF -766 billion, so the total net issuance was HUF 761 billion in 2014.

Net issuance:

HUF billion

	2013	2014 plan	2014 outcome
Domestic debt	**707.6**	**1,185.0**	**1,527.2**
T-bonds	142.0	706.1	1,243.8
Discount T-bills	-1.5	164.4	-316.3
Retail securities	703.1	420.0	722.6
Loans	-136.0	-105.6	-122.9
Foreign currency debt	**-16.8**	**-242.8**	**-765.8**
Bonds	1,036.6	298.2	251.6
Loans	-1,053.3	-541.1	-1,017.4
Total	**690.8**	**942.1**	**761.4**

Source: ÁKK

Within the net HUF issuance, the role of retail securities increased in line with the better than forecast investor demand, while the role of long term wholesale bonds also increased. Total net T-bond issuance was HUF 1,244 billion (by HUF 538 billion higher than planned), while the sales of retail securities set a new historical record of HUF 723 billion. Due to the ample demand for government bonds and retail securities ÁKK was able to significantly reduce the outstanding volume of discount Treasury bills, whereas early repayments of HUF loans reduced net issuance by HUF 123 billion.

In 2014 the net foreign currency financing was negative, to a larger extent as planned (due to early prepayment of loans and FX bond buybacks and as a result of drawdown IFIs loans in domestic currency rather than foreign currency as planned before.

Domestic financing

Gross domestic issuance was eventually 34% higher than planned originally. The issuance of all kinds of instruments increased except the discount T-bills; bond issuance was higher than planned by 114% and that of retail instruments by 17%. Project financing loans of HUF 128 billion - originally planned in foreign currencies - were drawn in HUF in 2014.

Government bonds

Treasury bond auctions were held every two weeks, but to increase issuance flexibility the tenors were not set in advance, but announced a week before the auction, 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 3 occasions the 10-year bond was replaced by the 15-year fixed rate bond. The floating rate bonds were offered 23 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.

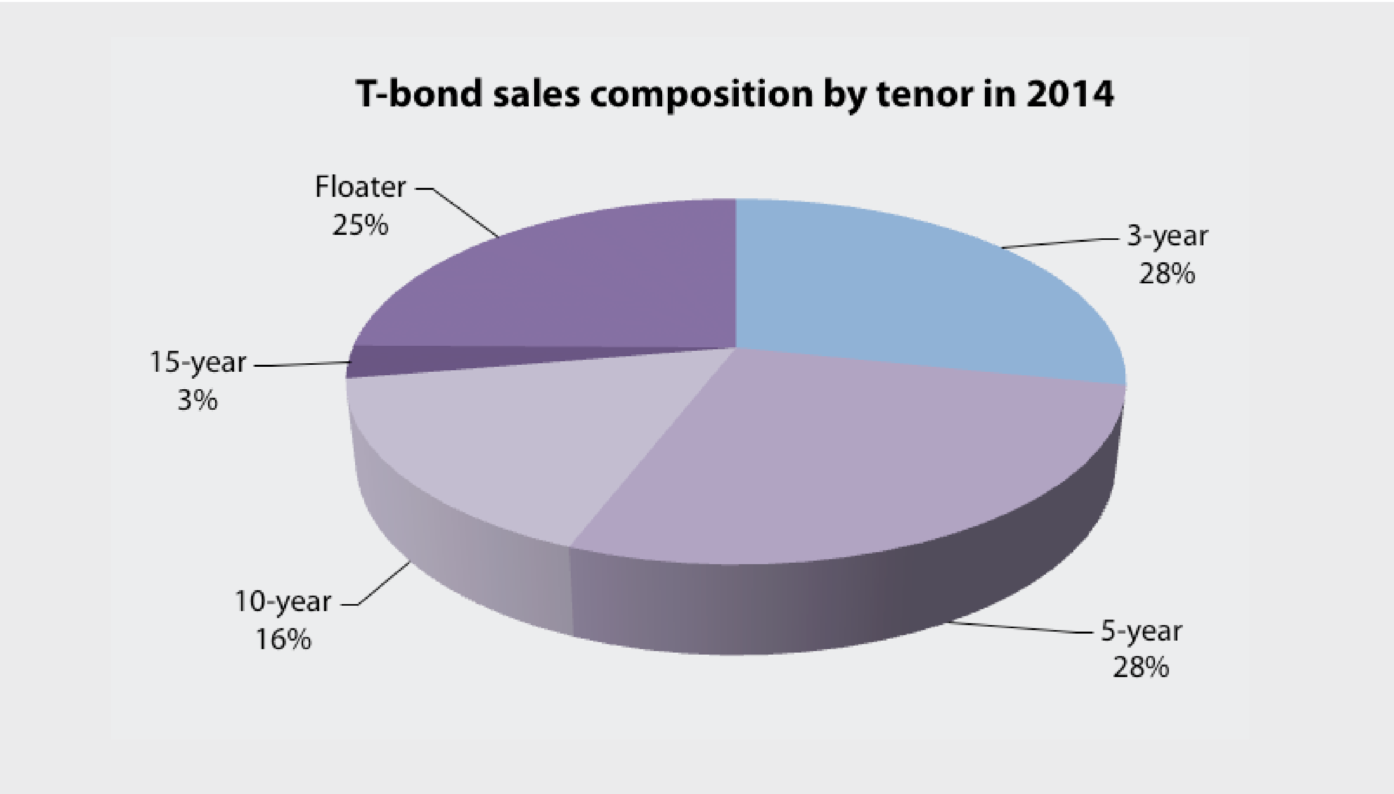
The bid-to-cover ratio at the bond auctions on average was 2.8. ÁKK sold a total of HUF 2,753 billion of bonds via auctions (including HUF 424 billion in the additional non-competitive phase). Total bond issuance – together with bond exchange auctions, the retail sales of the Hungarian State Treasury and secondary market operations – was HUF 3,654 billion, versus total bond maturities of HUF 2,410 billion, which resulted in a net issuance of HUF 1,244 billion.

On-the-run bond series in 2014 (HUF billion):

	Tenor	Number of auctions	Competitive sales in 2014	Non-competitive sales in 2014	Outstanding (end of 2014)
2017/C*	3-year	15	420	83	503
2018/B	3-year	25	659	119	778
2019/A	5-year	18	463	91	1 185
2019/B*	5-year	12	150	30	399
2020/B	5-year	7	176	29	205
2025/B	10-year	22	413	59	474
2028/A	15-year	3	46	13	180

Source: ÁKK

ÁKK adjusted the accepted amounts at the auctions according to demand, and the results show that the investors' demand was highest for the 3 and 5-year fixed bonds and floaters:



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 2014 ÁKK sold discount treasury bills in a total of HUF 1,589 billion, much less amount as in 2013. ÁKK originally planned a small net discount T-bill issuance; however, the outstanding T-bill stock actually declined by HUF 316 billion over the year as due to the increased net bond and retail issuance ÁKK reduced the issuance of discount treasury bills.

Retail securities

One of the strategic objectives of ÁKK is to develop a retail government securities issuance programme, which constitutes a more and more important source of domestic financing beside the domestic and the international capital markets. 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 2014. ÁKK contributed to this success by an active marketing campaign, new products, a broader selling network and competitive pricing for these instruments. The stock of the one-year interest bearing T-bill grew by HUF 101 billion, while outstanding amount of other products like the 6-month interest bearing T-bill and the Treasury Savings Bills (securities available in the post office network) grew by HUF 8 billion and by HUF 20 billion respectively.

In line with the objectives of public debt management, long term bonds started to play a more important role in the retail scheme in 2014. The inflation-linked Premium Government Bond and the floating rate Bonus Government Bond had a net sale of HUF 585 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 723 billion over the year, which is almost two times higher than the HUF 420 billion planned, and contributed to a large extent to the year's successful financing from the domestic market.

Foreign currency financing

In 2014 ÁKK issued 2 international bonds to finance maturing foreign currency bonds.

Foreign currency bond issued by Hungary in 2014:

Currency	Amount	Date of issuance	Maturity	Tenor (years)	Coupon
USD	2,000,000,000	25.03.2014	25.03.2024	10	5.375%
USD	1,000,000,000	25.03.2014	25.03.2019	5	4%

IV. Financing

New series of Premium Euro Government Bond and Residency bond were issued in 2014. The net domestic foreign currency bond issuance was much higher than planned and amounted to HUF 472 billion.

Series	Currency	Date of issuance	Maturity	Tenor (years)	Coupon
2017/X	EUR	04.03.2014	21.04.2017	3	Floater (Premium)
2019/T	EUR	15.01.2014	20.12.2019	5	Fixed (Zero coupon)

Source: ÁKK

In 2014 the government drew a total of HUF 5 billion (EUR 15 million) in the form of project financing foreign currency loans from international financial organisations. The loans drawn from the European Investment Bank (EIB) were used, among others, to finance projects in infrastructure development and state reform. Due to swap maturity ÁKK redenominated HUF 41 billion (EUR 132 million) domestic currency denominated IFIs loan to euro denominated loan. Net FX issuance in 2014 was HUF -766 billion.

V. The government debt in 2014

During 2014 the central government debt increased by HUF 1.882 billion (or by 8.6 per cent) to HUF 23,881 billion. The size of the debt was influenced by several factors. The net issuance in itself increased the public debt by HUF 727 billion, although the net issuance was lower than the actual net borrowing. Central government debt increased by HUF 437 billion due to debt assumptions from local governments (however, this transaction had no effect on size of the total public debt). The value of public debt also increased due to the depreciation of the forint against other currencies by HUF 525 billion, and the increasing stock of other obligations, namely marked-to-market deposits increased the central government debt by HUF 194 billion as well.

Central government debt

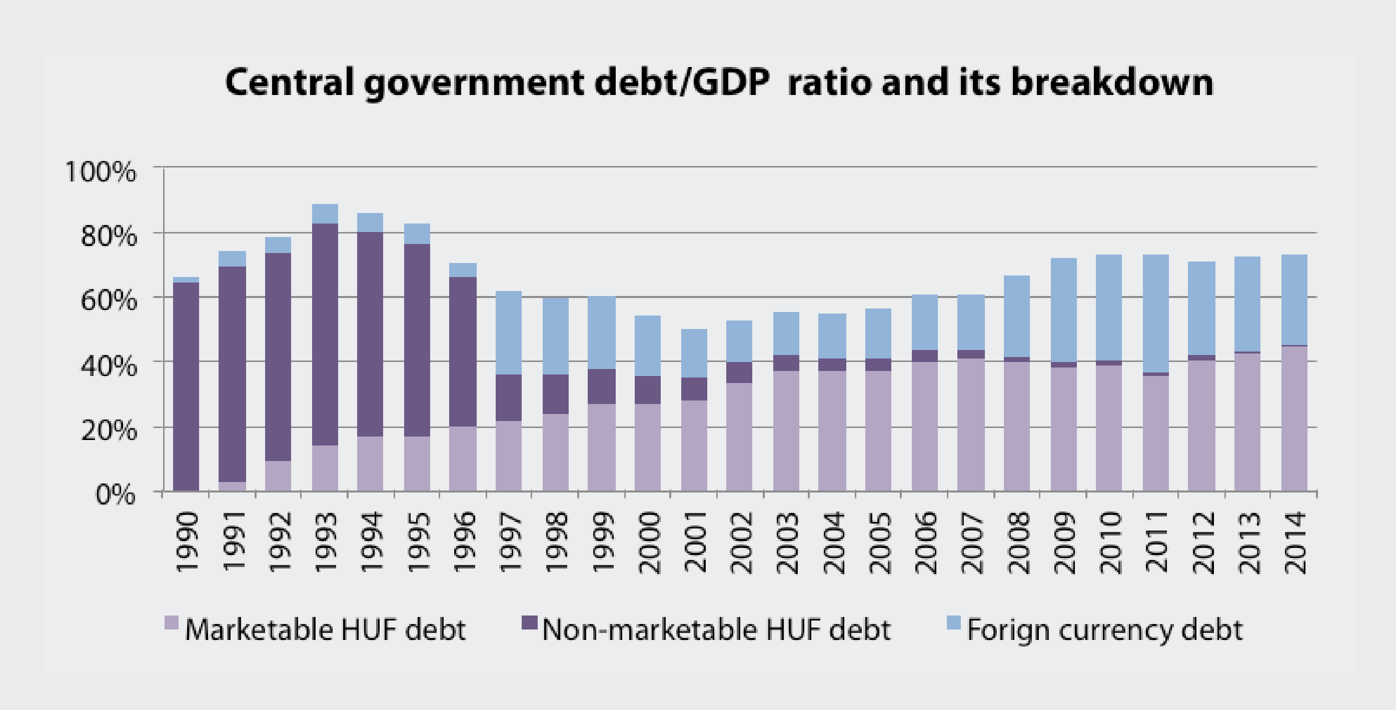
HUF billion

	2013		2014		Change
Domestic debt	**12,976.4**	**59.0%**	**14,612.0**	**61.2%**	**1,635.6**
Loans	603.6	2.7%	623.3	2.6%	19.7
Government bonds	8,779.4	39.9%	9,989.0	41.8%	1,209.7
Retail securities	1,688.5	7.7%	2,411.1	10.1%	722.6
Discount T-bills	1,904.9	8.7%	1,588.6	6.7%	-316.3
Foreign currency denominated debt	**8,904.9**	**40.5%**	**8,957.9**	**37.5%**	**53.0**
Loans	2,735.6	12.4%	2,164.3	9.1%	-571.3
Bonds	6,169.3	28.0%	6,793.6	28.4%	624.2
Total debt	**21,881.4**	**99.5%**	**23,569.9**	**98.7%**	**1,688.6**
Other obligations	**117.3**	**0.5%**	**311.2**	**1.3%**	**193.9**
Grand total debt	**21,998.6**	**100.0%**	**23,881.1**	**100.0%**	**1,882.5**

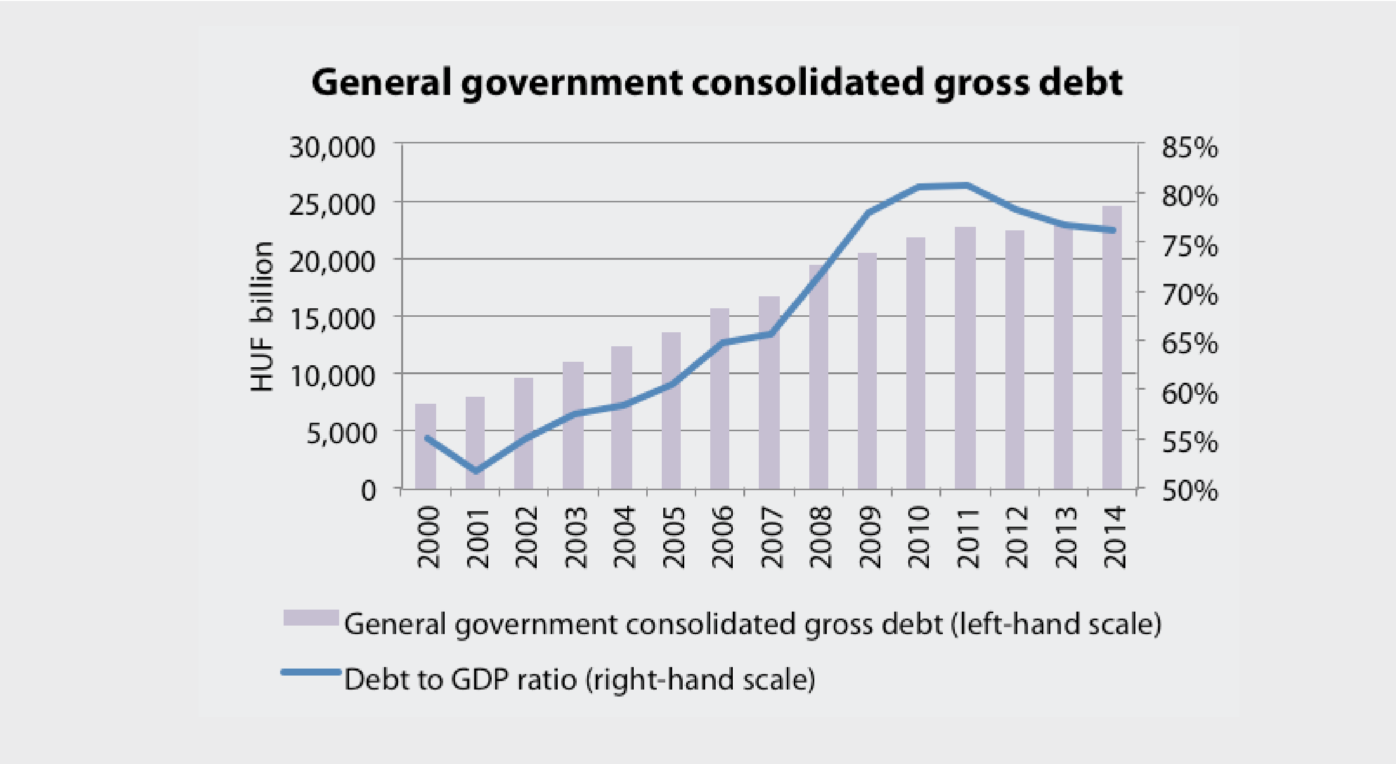
Source: ÁKK

The debt of the central government compared to the GDP (debt ratio) that measures the stock of debt against the actual economic performance increased in 2014 mostly as a result of debt assumptions. According to preliminary data, the central government debt increased from 73.2 to 74.2 per cent of GDP.

V. The government debt in 2014



Source: ÁKK



Source: EUROSTAT

Characteristics of the huf debt portfolio

During 2014 the HUF-denominated debt that accounts for 61 per cent of the total debt increased by HUF 1,636 billion (12.6 per cent) to HUF 14,612 billion.

42 per cent of total public debt was in the form of long-term HUF government bonds (excluding retail bonds). The total domestic bond portfolio of HUF 9,989 billion consisted of 23 bond series, the average size of a series was HUF 434 billion (ca. EUR 1.4 billion). 7 series had a volume in excess of HUF 600 billion (ca. EUR 2 billion), and the largest bond series reached HUF 1,185 billion (or EUR 3.8 billion).

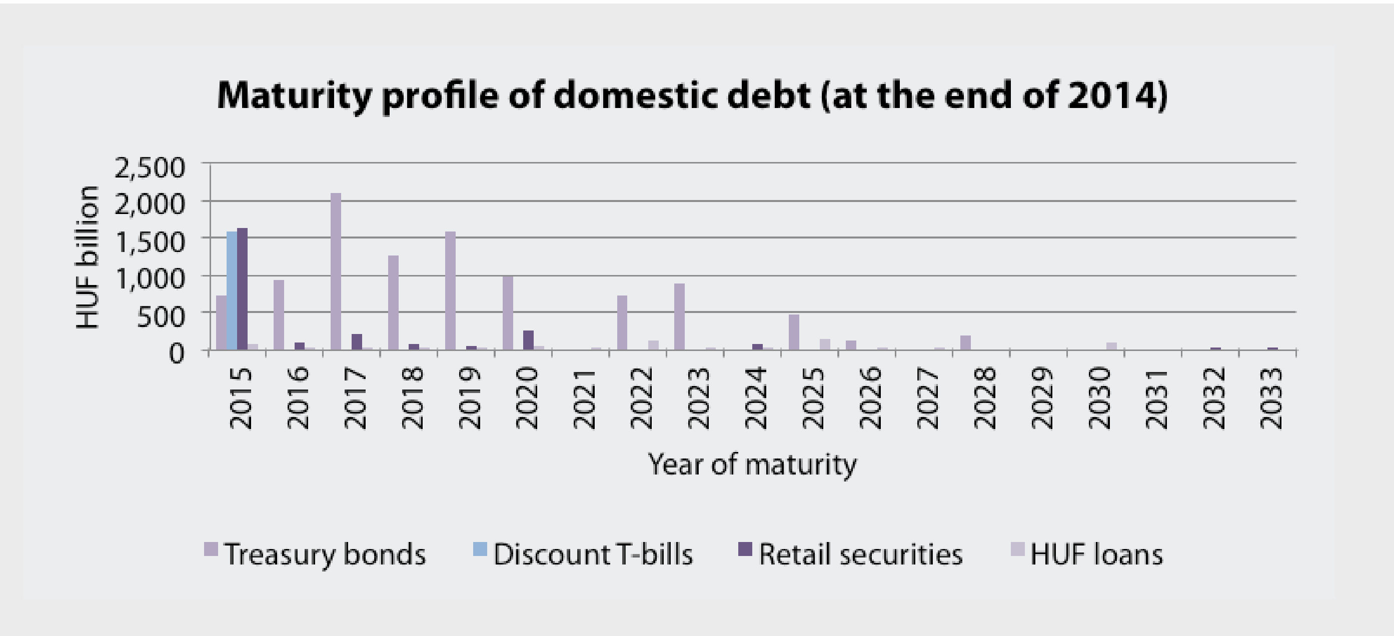
The HUF 1,589 billion discount T-bill stock consisted of eighteen series. There were five larger series with an average volume of HUF 228 billion (or EUR 800 million).

In 2014 the portfolio of retail government securities jumped from HUF 1,689 billion to HUF 2,411 billion. Retail securities accounted for 17% of the total domestic debt in comparison to their 13 per cent share at the end of 2013.

The non-marketable component of the HUF bond portfolio continued to decrease in amount and proportion in 2014 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 141 billion, 0.6 per cent of the total debt.

The volume of loans denominated in Hungarian forint increased in 2014 mainly as a result of debt assumptions by HUF 20 billion to HUF 623 billion.

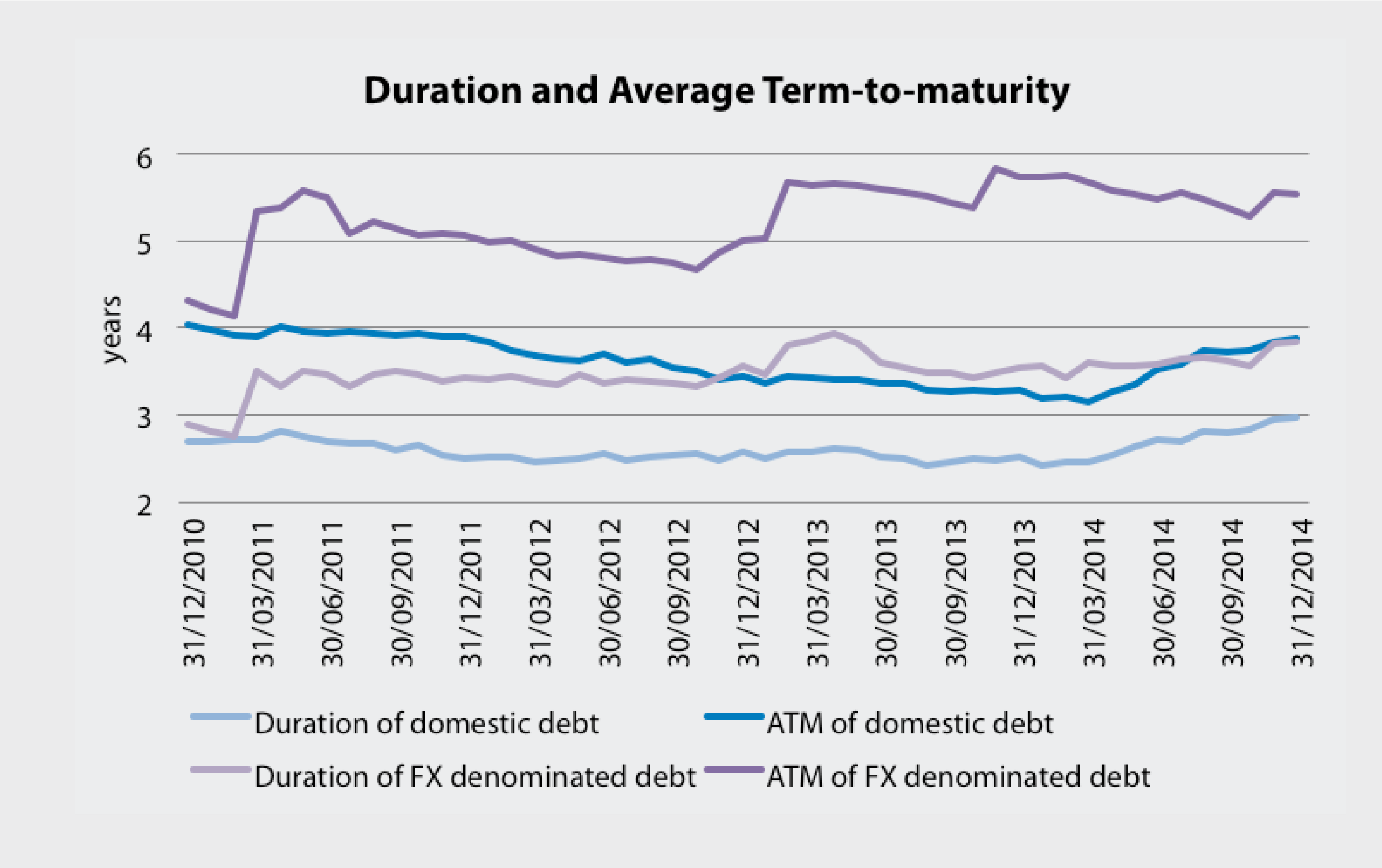
As a result of the bond buy-back and exchange auction programmes, the maturity profile of the bond portfolio remained balanced:



Source: ÁKK

As a result of the increased domestic bond issuance in 2014, the duration and average term-to-maturity characteristics of the domestic debt increased. The duration of the HUF denominated debt portfolio increased from 2.52 years to 2.97 and the average term-to-maturity also increased from 3.3 years to 3.9 years in 2014.

V. The government debt in 2014

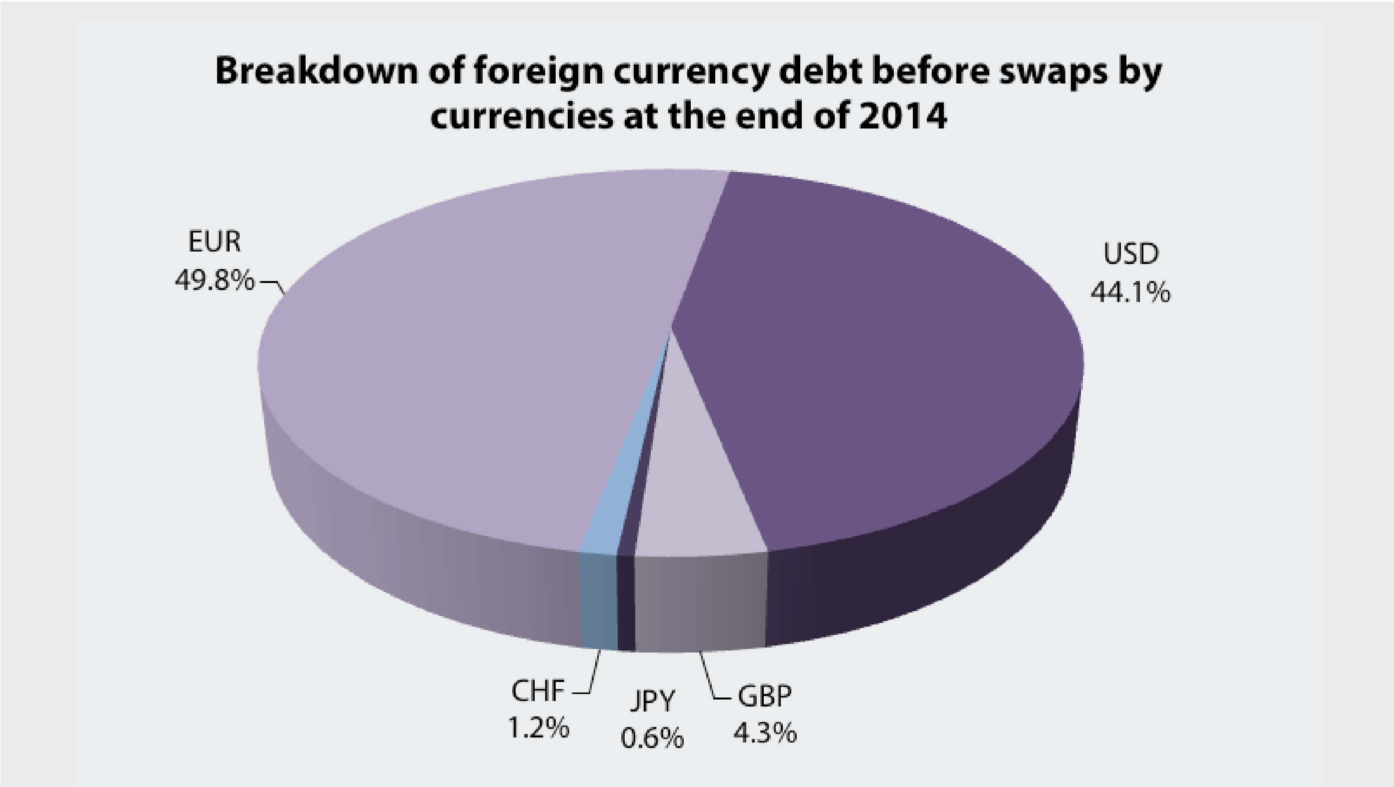


Source: ÁKK

Characteristics of the foreign currency debt portfolio

The gross foreign currency government debt increased by HUF 53 billion in 2013, reaching HUF 8,958 billion (EUR 28 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 40 to 38 per cent during 2014.

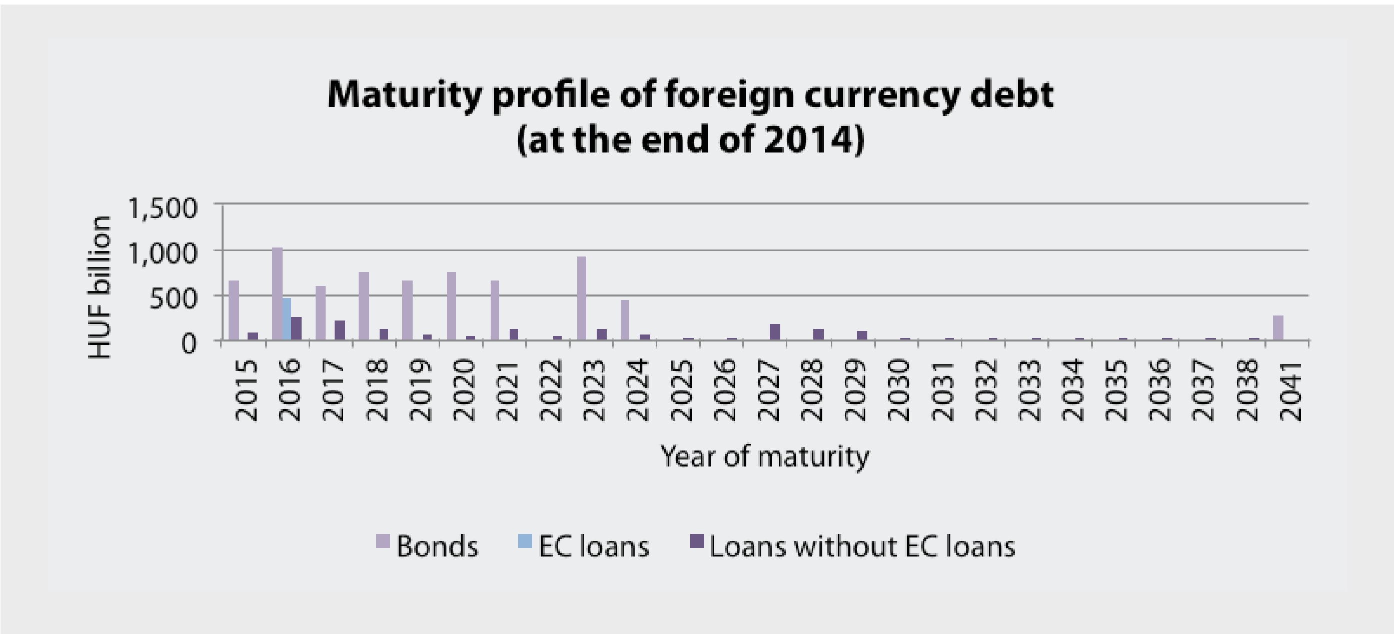
The volume of outstanding foreign currency bonds (after swaps) reached HUF 6,794 billion by the end of the year, significantly higher than at the end of 2013 (HUF 6,169 billion), mainly as a result of domestic foreign currency denominated bond issuance and also the depreciation of the forint. On 31 December 2014 there were 24 series of foreign currency bonds outstanding, 11 of which had been issued in euro (including the domestic euro bonds as well), 9 in US dollars, 2 in Pound sterling, one in Swiss francs, and one in Japanese yen. In accordance with the strategy and benchmarks, all non-euro bonds had been converted into euro liabilities through swap transactions. Bonds accounted for 76% of the total foreign currency debt portfolio.



Source ÁKK

At the end of 2014 99% 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 well as loans from the European Commission. As a result of the repayment of the second tranche of the EC loan the share of loans within the total foreign currency debt declined steeply from 31 to 24 per cent.



Source: ÁKK

V. The government debt in 2014

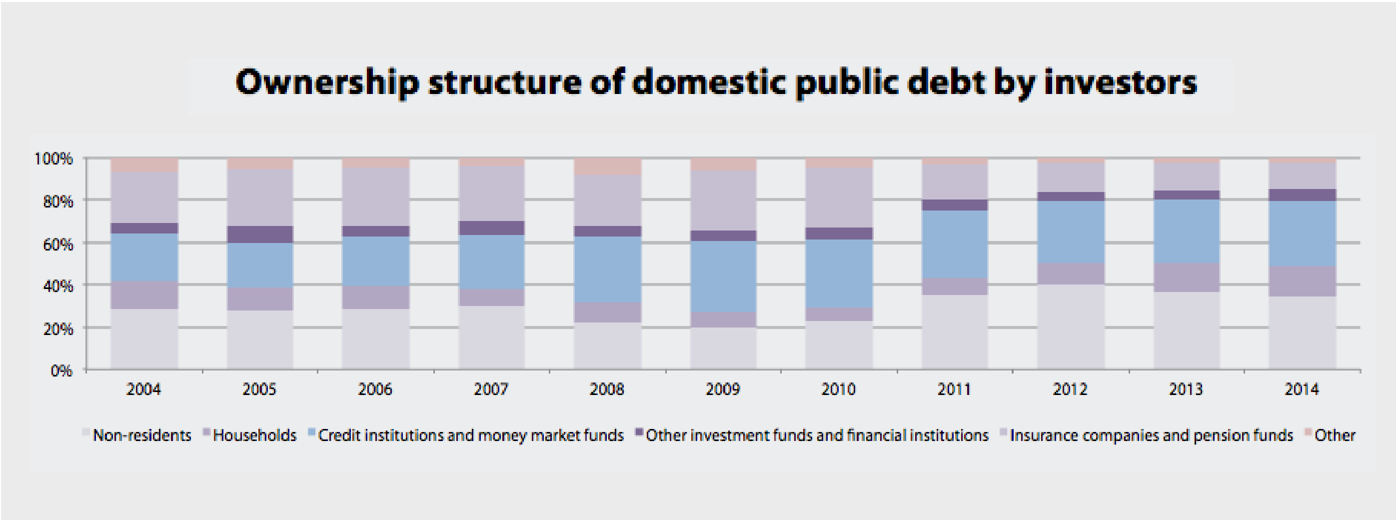
During 2014 the average life of the foreign currency portfolio decreased from 5.7 years to 5.5 years as a result of large negative net issuance, while the duration increased to 3.8 years due to the decrease of the yields.

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 2014 marked-to-market deposits placed with ÁKK totalled HUF 311 billion (EUR 1.0 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 domestic government securities in 2014. The share of the largest investor group – namely non-resident investors - declined from 36 per cent to 34 per cent. The share of credit institutions and insurance companies/ pension funds remained the same. Domestic retail investors, however, increased further their share significantly to 15 per cent.



Source: NBH, KELER, ÁKK

In 2014 non-residents decreased their share both in nominal and relative terms. Non-resident holdings of HUF denominated government securities decreased by HUF 121 billion to HUF 4,873 billion. At the same time the duration of their holdings increased by 0.8 year to 4.1 years, while the ATM of their holdings increased by 0.9 year to 4.8 years in 2014. 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 Single Treasury Account (STA) which serves as a financing reserve at a so-called optimal 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 STA if repo partners show adequate demand, otherwise it keeps the extra cash on the STA. Since the financial crisis, the banks have ample liquidity, and as a result ÁKK's repo tenders are regularly unsuccessful.

In 2014 ÁKK used the following instruments to manage the end-of-day balance of the STA:

• 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.

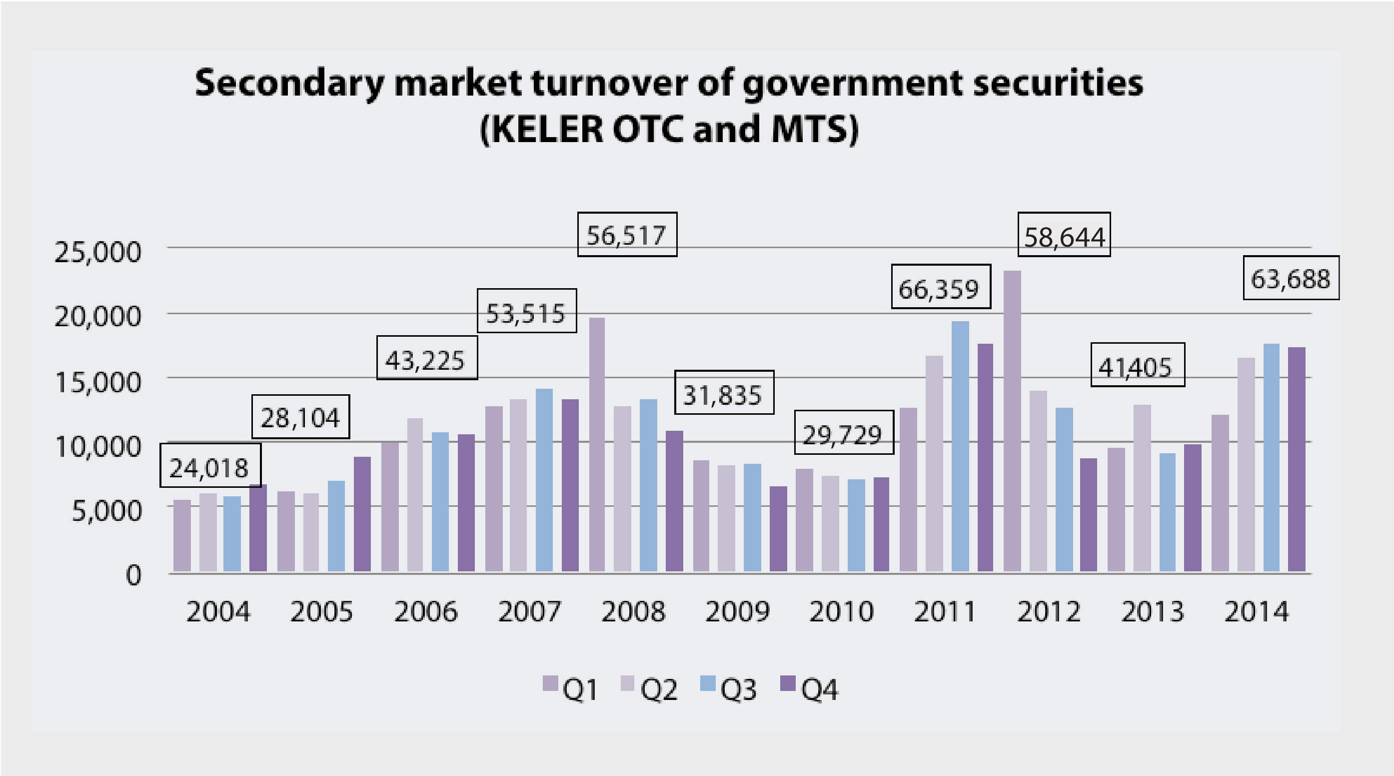
Sales of liquidity discount treasury bills took place 14 times in 2014 – mostly in Q1 - with a total volume of HUF 855 billion.

Liquidity repo transactions are ÁKK's main tool for fine-tuning the end-of-day balance of the Single Treasury Account. In 2014 the use of repo transactions decreased by 30 per cent to a total of HUF 5,248 billion concluded on 253 business days. Liquidity management was effective and the end-of-day STA balance was higher than the minimum target level except on only 2 days in 2014.

ÁKK concludes repo transactions not only for liquidity management purposes. The objective of the so-called stand-by repo transactions 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 90% of all secondary trade is executed in the over-the-counter (OTC) market. According to data from the Central Clearing House and Depository (Budapest) Ltd. (KELER), the total volume of OTC trading in government securities was HUF 63,206 billion in 2014 (more than 5 times the size of the total outstanding marketable debt), out of which 88 per cent was in government bonds and 12 per cent in discount treasury bills.



Source: KELER, BSE

The average size of deals with Primary dealers (excluding retail transactions) was HUF 1,040 million, which is by HUF 200 million higher than in the previous year. Over the year, the 2023/A government bond with a 9 year remaining term-to-maturity had the largest turnover (HUF 11,185 billion), followed by the 5-year 2019/A and the 8 year 2022/A bond.

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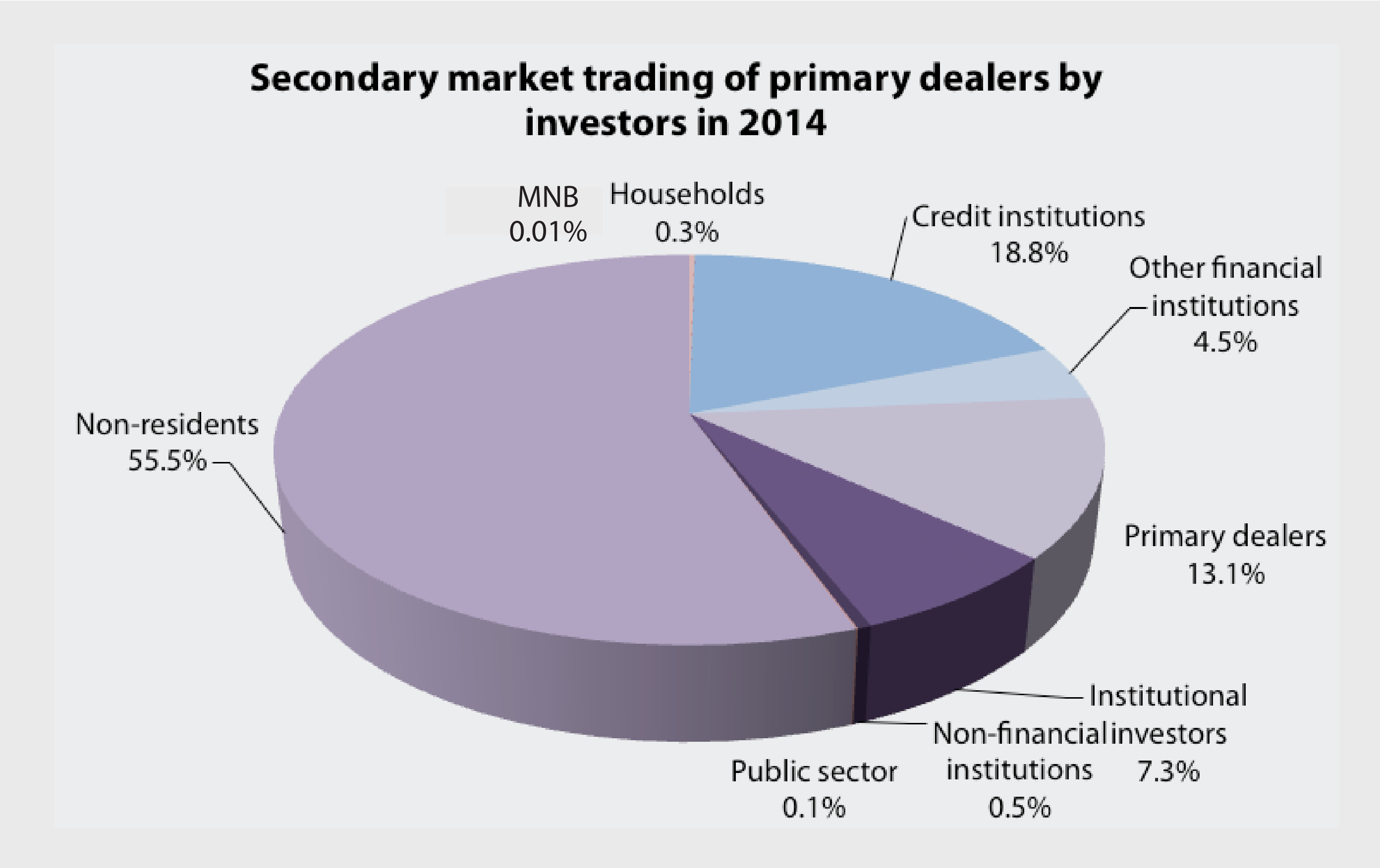


Source: Primary dealers, ÁKK

The most active Primary dealer and the winner of the title 'Primary dealer of the Year' for 2014 was Citibank Europe Plc.

VIII. The institutional framework for the issuance of government securities

ÁKK sells government securities through intermediaries. In the domestic market, 89 per cent of HUF-denominated government securities were sold through the Primary dealers in 2014, 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 2014 7 out of the 15 Primary dealers were non-resident institutions.

Primary dealers at the end of 2014:

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.
Merrill Lynch International
MKB Bank Zrt.
Magyar Takarékszövetkezeti Bank Zrt.
Országos Takarékpénztár és Kereskedelmi 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'.

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 one of its retail government securities, the Interest Bearing Treasury Bills.

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

VIII. The institutional framework for the issuance of government securities

Retail debt programmes

The State Treasury's branch network provides direct access to government securities for retail investors. Managed 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 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 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 started to sell Treasury Savings Bill Plus, a dematerialised 1-year treasury bill in autumn 2013.

The dealers of foreign currency bond issues

In 2014 Hungary issued 2 USD bonds in the international capital markets. Lead managers of international bond issuances are selected from among the primary dealers individually for each transaction.

In 2014 the lead managers of the bonds were as follows:

BNP Paribas, Citigroup, Deutsche Bank Securities, JP Morgan Securities (for all 2 bonds)

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 in 2013 and 2014. 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 authorises the minister responsible for the public finances (the Minister for National Economy) to provide for the implementation of the budget, financing of the deficit, continuous solvency of the budget, the recording of the government's debt and repayment obligations, 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.

[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.

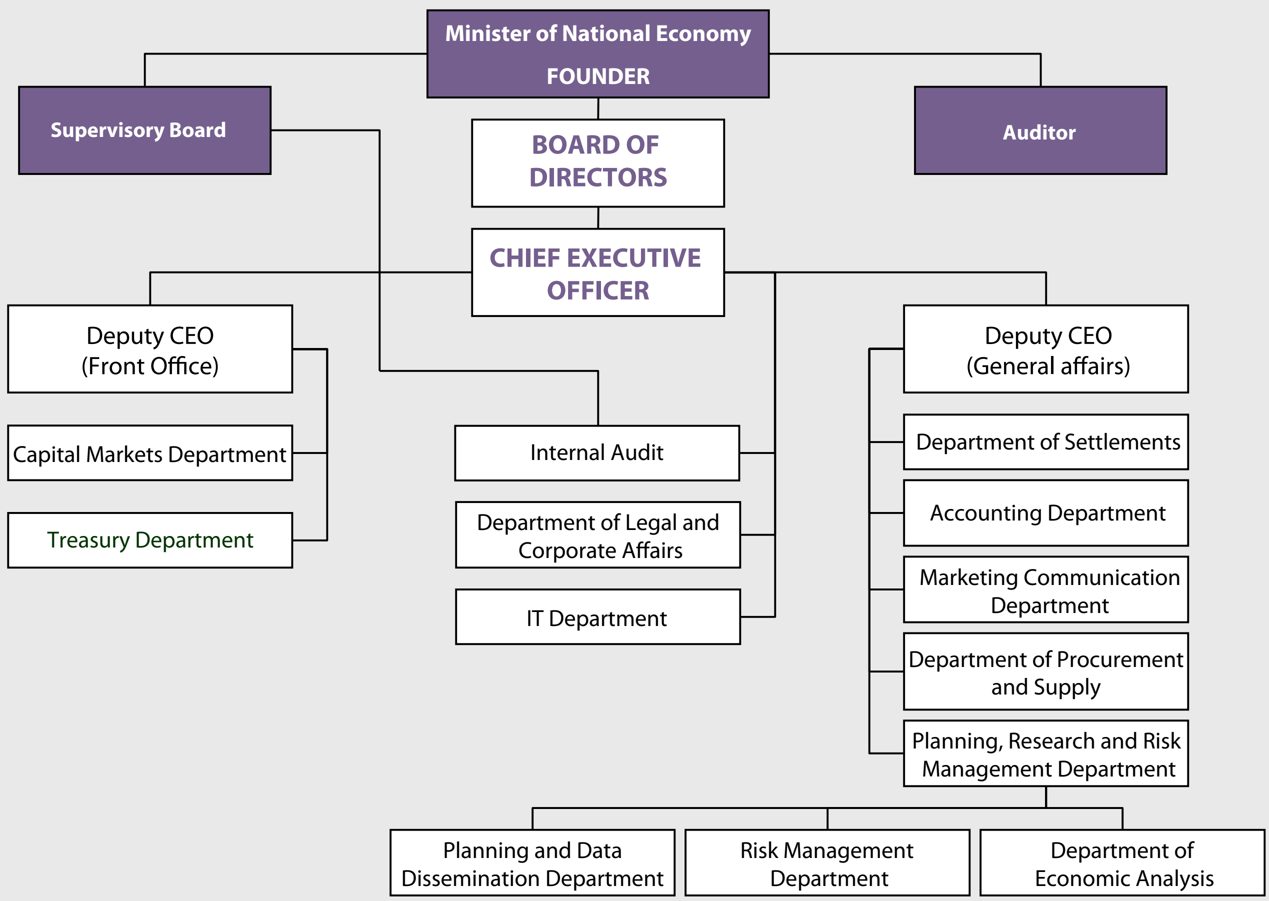
IX. The institutional framework and the objectives of government debt management

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;
- 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).

Organisational structure of ÁKK as at 31 December 2014



In 2015 the organisational structure of AKK changed significantly, for further information see AKK's website (www.akk.hu)

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 provides a wide range of information for anyone interested in the government securities market or the government debt. Already the homepage shows the most important data, such as the latest news, the current volume of government debt, 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 menu also contains information about the Pension Reform and Debt Reduction Fund managed by ÁKK.

'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.

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.

X. The information services of ÁKK

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);
• Desktop issuance calendar (in December of the year preceding the actual year).

The Issuance calendar are also available in printed form from ÁKK.

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
Fax: (+361) 488-9445
E-mail: pal.eva@akk.hu, rusznak.ferenc@akk.hu

Appendix

1. The central government gross debt as at 31.12.2014 (HUF million)

HUF denominated debt			
Hungarian Government Bonds	**Maturity**	**Coupon**	**Outstanding amount**
2015/A	12.02.2015	8.00%	342,796.82
2015/B	22.12.2015	Floating rate	92,644.09
2015/C	24.08.2015	7.75%	258,823.14
2015/I	08.12.2015	Floating rate, Premium	11,134.38
2015/J	11.01.2015	Floating rate, Premium	96,426.06
2015/K	19.03.2015	Floating rate, Premium	38,427.98
2015/L	28.11.2015	Floating rate, Premium	51,223.13
2016/A	31.12.2016	Floating rate	6,680.00
2016/B	02.01.2016	Floating rate	9,000.00
2016/C	12.02.2016	5.50%	466,742.72
2016/D	22.12.2016	5.50%	467,879.06
2016/I	28.11.2016	Floating rate, Premium	4,994.00
2016/J	02.05.2016	Floating rate, Premium	56,989.73
2017/A	24.11.2017	6.75%	902,147.40
2017/B	24.02.2017	6.75%	689,196.74
2017/C	20.12.2017	Floating rate	503,225.49
2017/I	05.03.2017	Floating rate, Premium	46,764.72
2017/J	10.05.2017	Floating rate, Premium	2,044.66
2017/K	10.05.2017	Floating rate, Premium	35,130.70
2017/L	10.05.2017	Floating rate, Premium	126,118.28
2018/A	20.12.2018	5.50%	491,198.46
2018/B	25.04.2018	4.00%	777,649.90
2018/I	25.04.2018	Floating rate, Premium	45,094.46
2018/N	20.04.2018	Floating rate, Bonus	6,254.84
2018/O	20.04.2018	Floating rate, Bonus	16,524.39
2018/P	23.07.2018	Floating rate, Bonus	9,367.00
2019/A	24.06.2019	6.50%	1,184,806.80
2019/B	20.05.2019	Floating rate	398,599.65
2019/I	03.02.2019	Floating rate, Premium	5,560.22
2019/J	03.02.2019	Floating rate, Premium	13,803.34
2019/K	03.02.2019	Floating rate, Premium	22,165.96
2020/A	12.11.2020	7.50%	768,553.27
2020/B	24.06.2020	3.50%	205,191.00
2020/N	20.05.2020	Floating rate, Bonus	34,811.22
2020/O	20.05.2020	Floating rate, Bonus	113,338.42
2020/P	22.07.2020	Floating rate, Bonus	85,764.76
2020/R	23.07.2020	Floating rate, Bonus	32,294.16

2022/A	24.06.2022	7.00%	717,630.53
2023/A	24.11.2023	6.00%	894,997.13
2024/N	26.08.2024	Floating rate, Bonus	73,579.28
2025/B	24.06.2025	5.50%	473,519.45
2026/A	28.02.2026	Floating rate	51,165.00
2026/B	24.04.2026	Floating rate	70,177.72
2026/C	24.10.2026	Floating rate	3,975.04
2028/A	22.10.2028	6.75%	179,900.49
2032/S	02.12.2032	Floating rate, Babybond	9,575.81
2033/S	01.02.2033	Floating rate, Babybond	728.56
Matured, but unclaimed government bonds			83.37
Total			**10,894,699.33**
Repos with government bonds (repos actually increase or decrease the total amount)			32,441.00
Discount Treasury Bills			**1,586,948.45**
Repos with discount Treasury bills (repos actually increase or decrease the total amount)			1,678.92
Interest Bearing Treasury Bills			**1,088,989.46**
Out of which matured, but unclaimed			37.30
Semi-annual Interest Bearing Treasury Bills			**28,816.12**
Out of which matured, but unclaimed			0.00
Treasury Savings Bills (Plus)			**32,420.63**
Treasury Savings Bills (1-year)			**252,203.44**
Treasury Savings Bills (2-year)			**70,496.53**
HUF loans			**623,297.45**
Matured, but unclaimed other retail government securities			53.45
Total HUF debt			**14,612,044.79**

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*					**1,658,326.87**	**5,266.37**
of which: IMF and EC loans					**472,335.00**	**1,500.00**
Loans assumed from the market*					**506,013.51**	**1,606.95**
Government bonds						
Code	**Currency**	**Maturity date**	**Maturity (years)**	**Coupon**	**Outstanding amount (HUF million)**	**Outstanding amount (EUR million)**
120	USD	03.02.2015	10	4.75%	388,695.00	1,234.38
121	EUR	24.02.2020	15	3.88%	303,963.32	965.30
122	GBP	09.05.2017	12	5.00%	201,875.00	641.10
126	EUR	18.07.2016	11	3.500%	291,573.66	925.95
128	GBP	30.03.2016	10	5.00%	201,875.00	641.10
129	EUR	04.07.2017	10	4.38%	310,166.65	985.00
130	JPY	26.10.2017	10	2.11%	54,215.00	172.17
132	CHF	20.05.2016	8	4.000%	52,370.00	166.31
133	EUR	11.06.2018	10	5.75%	432,393.72	1,373.16
135	USD	29.01.2020	10	6.25%	518,260.00	1,645.84
136	USD	29.03.2021	10	6.38%	777,390.00	2,468.77
137	USD	29.03.2041	30	7.63%	323,912.50	1,028.65
138	EUR	11.01.2019	7	6.000%	295,996.60	940.00
139	USD	21.02.2023	10	5.375%	518,260.00	1,645.84
140	USD	19.02.2018	5	4.13%	323,912.50	1,028.65
141	USD	22.11.2023	10	5.750%	518,260.00	1,645.84
142	USD	25.03.2024	10	5.375%	518,260.00	1,645.84
143	USD	25.03.2019	5	4.00%	259,130.00	822.92
Total					**6,290,508.94**	**15,862.23**
Cross-currency swaps					**-445,897.76**	
Premium Euro Hungarian Government Bond						
Code	**Currency**	**Maturity date**	**Maturity (years)**	**Coupon**	**Outstanding amount (HUF million)**	**Outstanding amount (EUR million)**
2015/X	EUR	21.12.2015	3	Floating rate, Premium	303,250.11	963.04
2016/X	EUR	25.05.2016	3	Floating rate, Premium	282,783.79	898.04
2016/Y	EUR	25.10.2016	3	Floating rate, Premium	179,156.21	568.95
2017/X	EUR	21.04.2017	3	Floating rate, Premium	9,545.24	30.31

Total					774,735.35	2,460.34
Residence Bond						
Code	**Currency**	**Maturity date**	**Maturity (years)**	**Coupon**	**Outstanding amount (HUF million)**	**Outstanding amount (EUR million)**
2018/T	EUR	20.12.2018	5	2.53%	33,850.68	107.50
2019/T	EUR	20.12.2019	5	2.24%	140,362.22	445.75
Total					**174,212.89**	**553.25**
Total foreign currency debt					**8,957,899.80**	
Total central government debt					**23,569,944.58**	
Other obligations of ÁKK (marked-to-market deposits placed at ÁKK)					**311,150.48**	
Grand total					**23,881,095.06**	
* 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-
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+

All of the three ratings agencies assigned 'stable' rating outlook at the end of 2014

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-

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-

All of the three ratings agencies assigned ‚stable' rating outlook at the end of 2014

3. The addresses of primary dealers

Primary dealer	**Address**
BNP Paribas SA	Budapest, H-1051 Széchenyi István tér 7-8.
CIB Bank Zrt.	Budapest, H-1027 Medve utca 4-14.
Citibank Europe Plc.	North Wall Quay 1, Dublin, Ireland
Deutsche Bank AG	Taunusanlage 12, Frankfurt am Main 60368, Germany
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.	Amstelveenseweg 500, Amsterdam, Netherlands
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[5*]

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:
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, 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, 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,
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, 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, 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, mark-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.

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

(2) The prefinancing of debt maturing in the first six months of the budget year – which has an amount not exceeding the amount of expected payments during the first six months of the budget year - shall not be deemed as transaction resulting government debt under paragraph 1 in the previous budget year.

(...)

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 Act on 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 State Deposit Insurance Fund, and performing duties – advice related to business strategy also implied - related to borrowing loans and credits, or issuance of debt securities of such Fund,

d) may participate in management and sale of the assets of the Pension Reform and Debt Reduction Fund,

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.

(…)

Appendix

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

I. Balance sheet

data in HUF thousand

	Assets	2013	2014
	A) Fixed assets	87,995	80,924
I	Intangible assets	17,973	18,951
II	Tangible assets	58,548	48,917
III	Invested financial assets	11,474	13,056
	B) Current assets	313,787	389,140
I	Inventories	0	0
II	Receivables	11,077	4,479
III	Securities	0	0
IV	Cash and cash equivalents	302,710	384,661
	C) Accrued and deferred assets	27,133	22,493
Assets in total		428,915	492,557

data in HUF thousand

	Liabilities	2013	2014
	D) Capital and reserves	354,914	354,914
I	Subscribed capital	300,000	300,000
IV	Profit reserve	54,914	54,914
VII	Balance-sheet profit or loss	0	0
	E) Provisions	0	0
	F) Liabilities	61,545	127,373
I	Subordinated liabilities	0	0
II	Long-term liabilities	0	0
III	Short-term liabilities	61,545	127,373
	G) Accrued and deferred liabilities	12,456	10,270
Liabilities in total		428,915	492,557

Budapest, 10 April 2015

György Barcza
CEO

II. Profit and loss account

data in HUF thousand

	Liabilities	2013	2014
I	Net sales revenue	1,033,400	1,112,902
III	Other revenue	108,836	22,228
IV	Material expenses	364,530	272,069
V	Personnel expenses	748,365	759,720
VI	Depreciation and amortisation	31,210	30,561
VII	Other expenses	5,787	5,529
A	Operating profit or loss	-7,656	67,251
B	Profit or loss from financial transactions	15,266	9,550
C	Profit or loss on ordinary activities	7,610	76,801
D	Extraordinary profit or loss	0	0
E	Profit or loss before taxation	7,610	76,801
XII	Tax payable	783	7,714
F	Profit or loss after taxation	6,827	69,087
23	Approved dividends	6,827	69,087
G	Balance-sheet profit or loss	0	0

Budapest, 10 April 2015

György Barcza
CEO

6. Senior officials of ákk in december of 2014

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

Notes