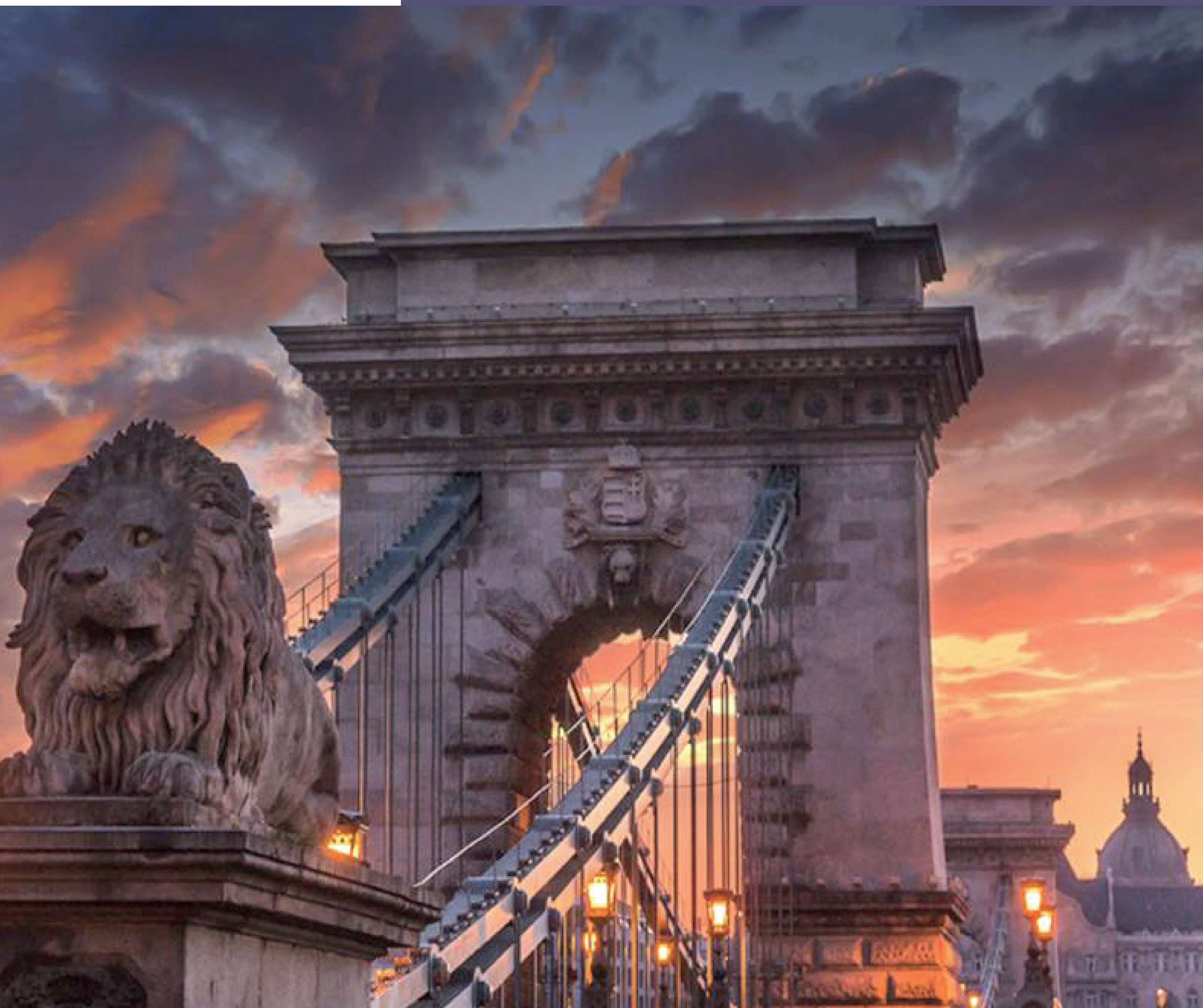
GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

ÁKK

GOVERNMENT DEBT MANAGEMENT REPORT

2015



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 2015.

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. 2015 was a very successful years in these respects: According to EUROSTAT the public debt ratio continued to decrease from 76.2 per cent to 75.3 per cent. Not only did indebtness decline, but the share of foreign currency debt also declined from 38 per cent to 31 per cent. The domestic ownership of public debt also increased due to the successfull retail debt program – now more than half of public debt is in the hand of domestic investors. All of these results were achieved with even 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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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:

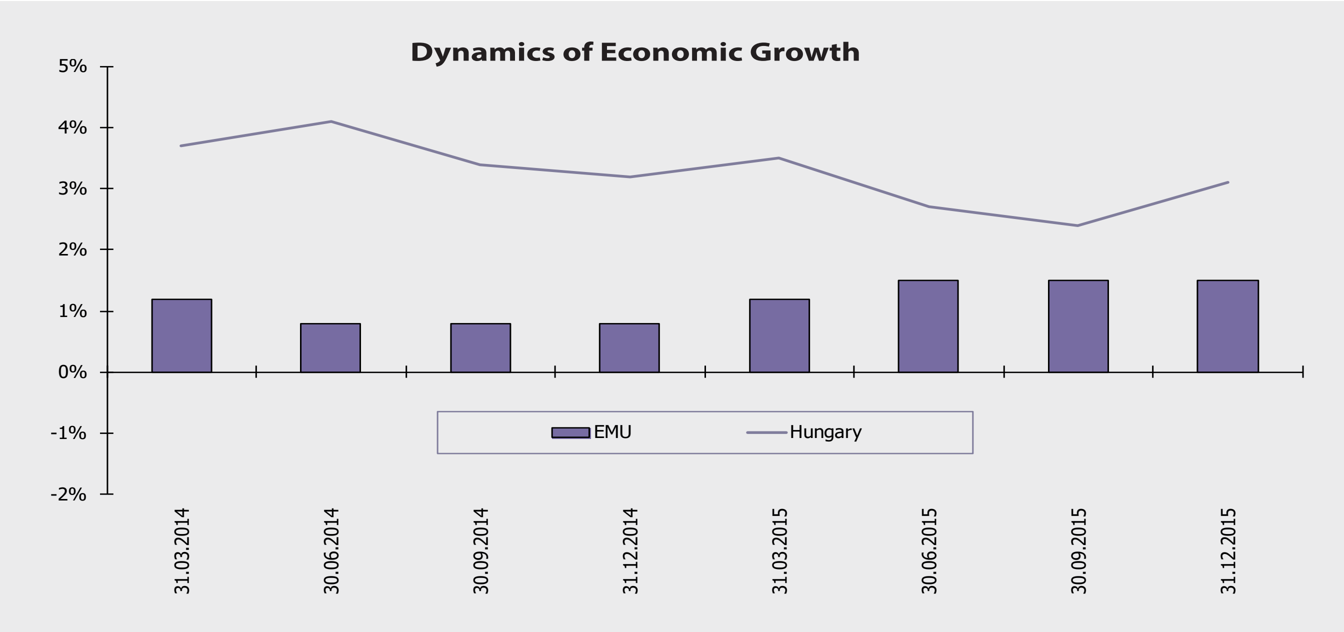
- Government bonds and retail government securities are recorded at nominal value.
- Discount treasury bills are recorded at the average sale price (at discount value), which is recalculated after every transaction involving the security concerned.
- Repo and reverse repo transactions actually increase 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 2015

During 2015 monetary policies in the advanced economies were divergent. In the US interest rate hikes has begun after the termination of the quantitative easing. At the same time the ECB in Europe turned to quantitative easing after cutting interest rates to zero. In the UK the central bank's monetary policy was strict relative to the Eurozone just like in the US. Besides the increasing deflationary pressure and the growth prospects, the divergence of monetary policies was primarily driving foreign exchange rates, interest rates and the performance of stock exchanges.

Economic Growth

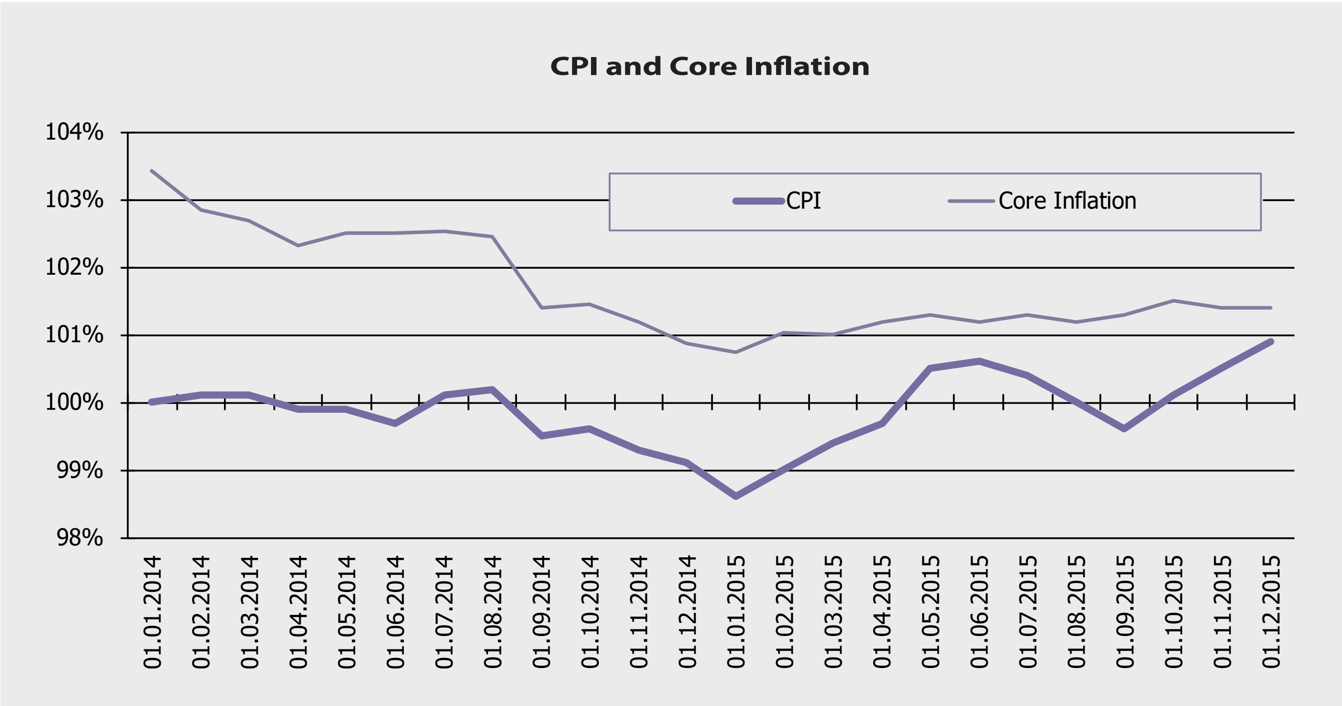


Source: CSO, Eurostat

GDP growth rate increased from 2.0% in 2013 to 3.6% in 2014 and decelerated to 2.9% in 2015 still exceeding significantly the average growth rate of the EU (Eurozone). In 2015 growth of industry (6.3%) and services sector (2.8%) contributed to economic growth similar to the previous years. Due to unfavourable weather conditions value added in the agricultural sector dropped (by 12.9%), the dynamics of the construction sector decelerated significantly (from 12.3% in 2014 to 2.9%). From expenditure approach all components contributed to economic growth in 2015 similar to 2014; as a result, the structure of growth was balanced. The dynamics of consumption increased (from 2.1% to 2.3%) while the dynamics of investment decelerated (from 11.3% to 0.5%) mainly as a result of high base but remained in the positive territory. The dynamics of exports increased (from 7.6% to 8.4%) and that of imports declined (from 8.5% to 7.8%); as a result, net exports contributed to the GDP growth rate by 1.0 percentage points in 2015.

I. Macroeconomic developments in 2015

Inflation



Source: CSO

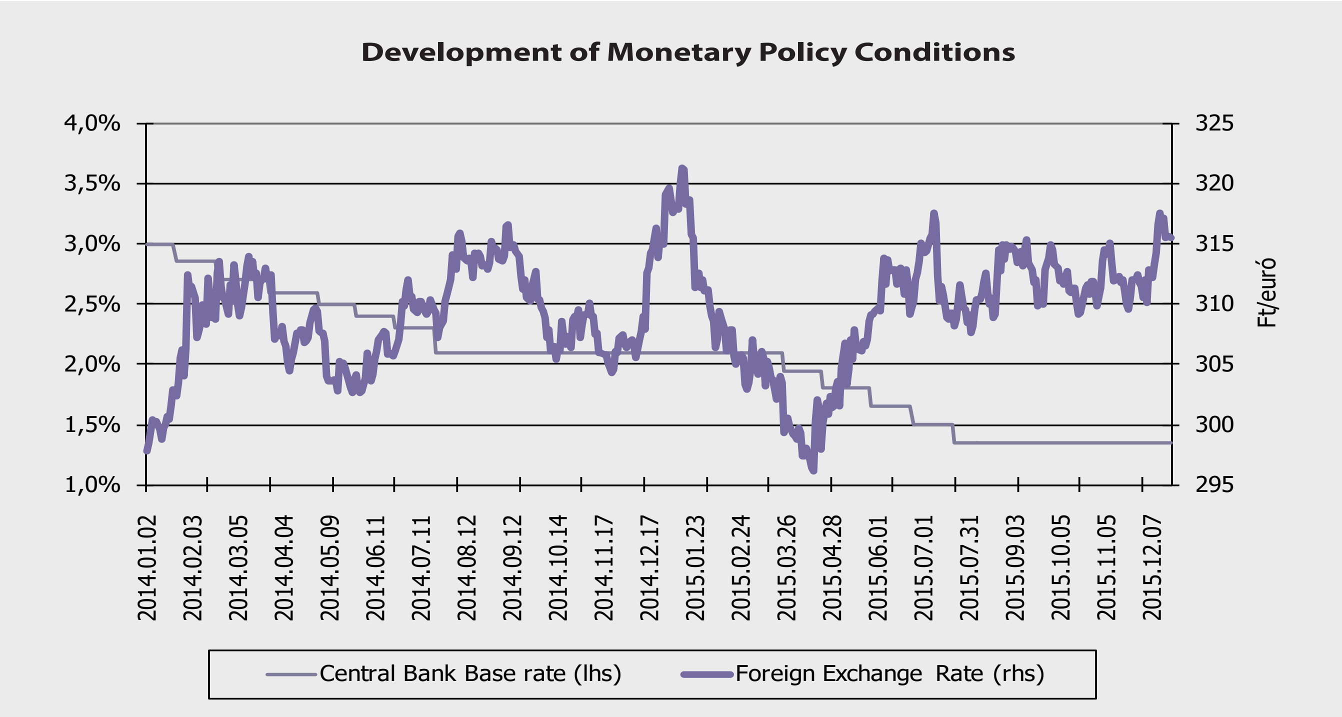
Following the deflation of 0.9% in December 2014 price dynamics turned positive again by December 2015. The price level of fuel and power (0.2%) and other goods including motor fuels (2.8%) dropped mainly as a result of declining energy prices. The price level of clothes decreased slightly (0.1%) but the price level of most goods – services (1.5%), consumer durable goods (1.7%), food (2.2%) and alcoholic beverages and tobacco (3.8% - mainly as a result of indirect tax hikes) – increased. Deflationary pressure is mainly the result of falling energy prices, in most cases the inflationary pressure was mild but positive. The average price level of 2015 declined slightly by 0.1%.

Monetary Conditions

The Monetary Policy Council of the Hungarian Central Bank decreased the central bank base rate from 2.10% at the beginning of the year to 1.35% during the first half of the year (from March to July in 15 basis points steps) and closed the interest rate cut cycle in July 2015. In June 2015 the Monetary Policy Council announced that the monetary policy framework would be modified in order to sustain the self-financing programme, the two-week deposit facility will gradually be replaced by a three-month instrument. The NBH would carry on with IRS tenders that support local banks' demand for longer-term maturity government securities. According to the Monetary Policy Council's assessment, unused capacities and subdued inflationary pressures are characteristic for the Hungarian economy and the central bank base rate has reached the level which ensures the medium-term achievement of the inflation target and a corresponding degree of support to the economy.

I. Macroeconomic developments in 2015

During 2015 the forint strengthened by 0.6% from 314,9 HUF/EUR to 313.1 HUF/EUR.



Source: NBH

At the beginning of the year the foreign exchange rate increased above 320 HUF/EUR partly driven by unfavourable global investor sentiment and also by the announcement of the Swiss National Bank about giving up the exchange rate target of 1.2 CHF/EUR in spite of the fact that the direct macroeconomic effects of this step were limited due to the preceding FX loan conversions in Hungary. Afterwards the forint strengthened below the important threshold of 300 HUF/EUR by the middle of April due to external and internal factors. The macroeconomic balance indicators of Hungary were favourable, the deflationary pressure eased and the economic growth remained robust both in scale and structure. In this environment the Monetary Policy Council of the National Bank of Hungary started to cut the central bank base rate cautiously in small steps supporting the forint. The ECB's start of quantitative easing and the Fed's signals indicating that they will not hasten the start of the interest rate hike cycle in light of mixed US macroeconomic data also strengthened the emerging market currencies and the Hungarian forint. Between the middle of April and the beginning of July the forint weakened significantly. The most important reason was the escalation of the Greek debt crisis. Although the Fed rate hike expectations eased as a result of worse than expected American macroeconomic data, Hungarian macroeconomic indicators remained favourable, and the rate cuts of the NBH were cautious, these factors were unable to counterbalance the negative effects.

During the second half of 2015 the forint fluctuated between the 310 HUF/EUR and the 315 HUF/EUR mark with no strong trend as a result of several factors negating each other. On the one hand the Greek government reached an agreement with the debtors terminating an important risk factor. Moreover, Hungarian macroeconomic indicators were performing well and the Monetary Policy Council of the central bank terminated the rate cutting cycle at 1.35% at a rate relatively high compared to the developed countries supporting the forint. On the other hand, new global risk factors emerged. Chinese growth prospects worsened significantly and the falling oil prices affected several emerging markets adversely. Although both factors affected Hungary only indirectly, worsening global investor sentiment put the Hungarian forint under pressure just like the other regional currencies. The Fed finally started the interest rate hiking cycle in December weakened the forint, too.

I. Macroeconomic developments in 2015

Fiscal Policy

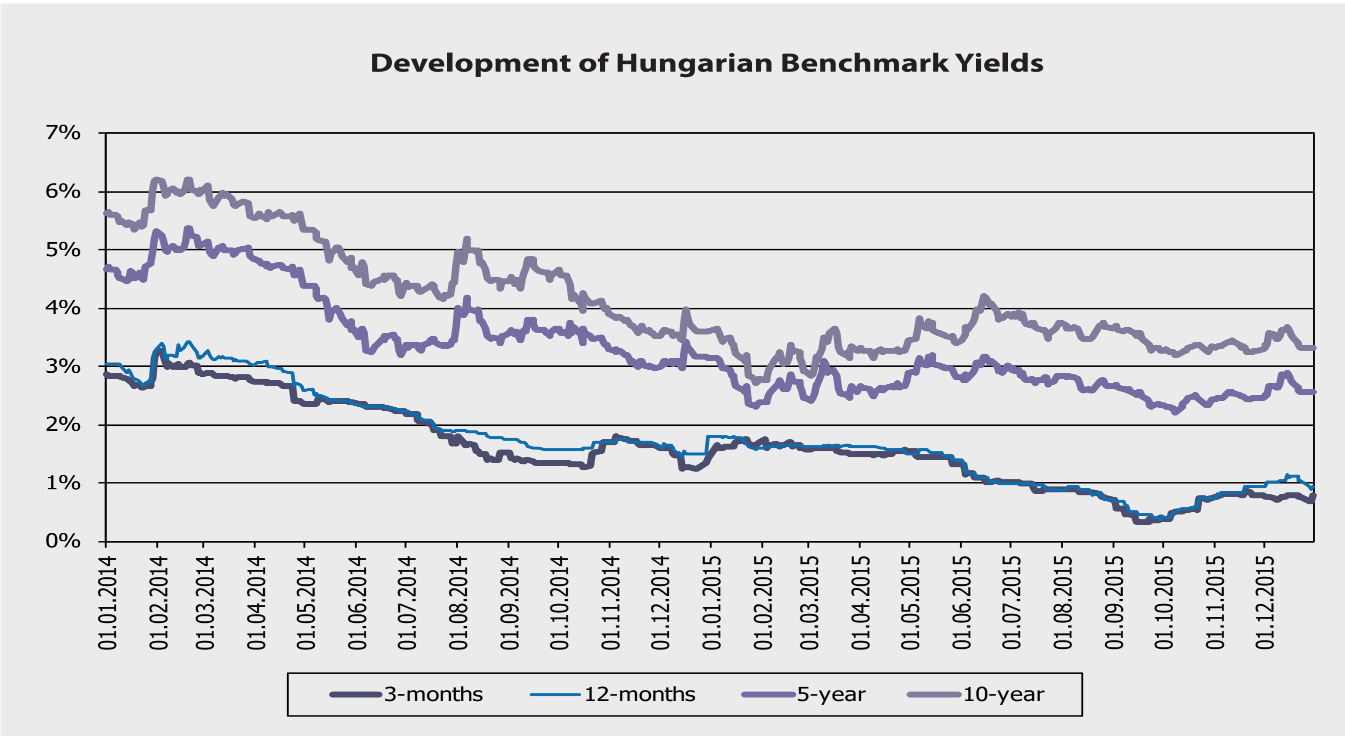
The deficit of the public sector was 1.9 per cent of GDP based on the financial accounts methodology. The cash-flow based (GFS) general government deficit (excluding local governments) amounted to HUF 1,218.6 billion (equaling 3.6% of GDP for the year 2015). In 2015 the accrual based (ESA) general government deficit (including local governments) amounted to HUF 625.5 billion (equaling 1.9% of GDP) according to preliminary data. The financing need of the state for the year 2015 increased compared to the previous year.[1]

Financing Position of the Economy

The households' savings to GDP ratio amounted to 7.9% in 2015. The net financing capacity of the corporate sector reached 3.7% in 2015. The economy of Hungary as a whole was a net lender towards the rest of the world in the amount of 7.7% of GDP causing a decline in the external indebtedness of Hungary. The current account posted a surplus of EUR 4.8 billion or 4.2% of GDP in 2015.

Forint yields

During the course of the year short-term interest rates declined significantly; long-term forint interest rates declined only slowly interrupted by temporary increases driven by the changing global investment sentiment.



Source: ÁKK

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

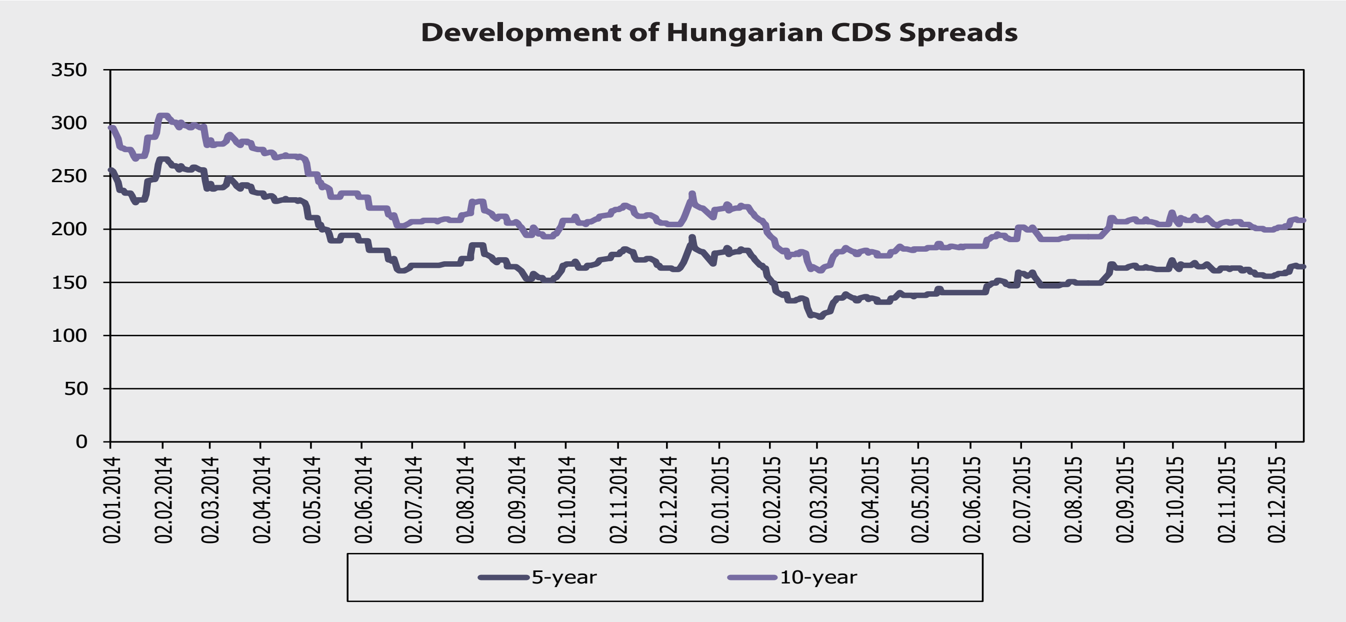
During the first half of the year 2015 short-term yield followed the decline of the central bank base rate. In July 2015 the Monetary Policy Council of the NBH announced the change of the monetary policy framework in order to proceed with the self-financing program. As of September 2015 the three-month deposit became the key policy instrument and they announced that the two-week deposit would be capped and reduced to HUF 1,000 billion gradually until the end of the year. At the same time to overnight deposit rate was decreased to 0.1% and the interest rate on overnight loan facility was reduced to 2.1%; as a result, the interest rate corridor was shifted downwards by 25 basis points. After the restructuring of the monetary policy instruments the difference between the central bank base rate and the yield of the short-term government securities increased first then dropped back, external factors – mainly the interest rate hike of the Fed in December and the uncertainty regarding the growth prospects of China – also played a role in this.

Long-term government bond yields showed a more mixed development in 2015. Robust Hungarian economic growth and easing deflationary pressure contributed to the increase of long-term yield expectations as market participants anticipated a stricter monetary policy. In addition the escalation of the Greek debt crisis also increased long-term forint yields in the middle of the year. The central bank's self-financing program however helped lowering the long-term government bond yields. During the second half of the year expectations of continuing US interest rate hikes put upward pressure on the long-term forint yields, whilst the European monetary easing subdued this pressure. In addition, Templeton, one of the most important investor in forint denominated bonds almost totally liquidated its exposure during 2015 with an elevating effect on yields. This exit however had limited market effect and increased significantly the diversion of investor base on the forint market.

By the end of the year 2015 the 3-months and the 12-months benchmark yields fell to 0.80% and 0.93%, respectively; the 5-year and the 10-year benchmark yields stood at 2.55% and 3.33%, respectively.

CDS Spreads

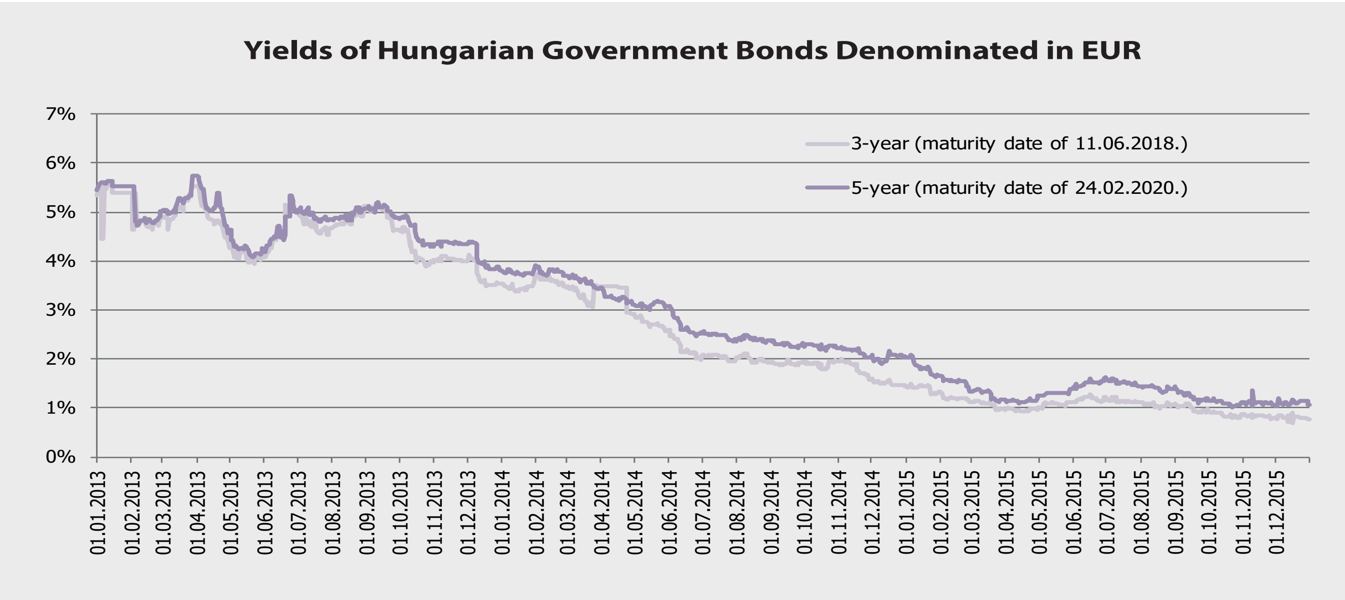
The 5-year CDS spread fell from 180 basis points to 120 basis points during the first two months of the year, and increased to 163 basis points during the remainder of the year. The unfavourable global investor environment was only partially offset by the favourable macroeconomic indicators (strengthening growth accompanied by favourable macroeconomic balance indicators) of Hungary. The improving credit rating of Hungary and expectations for further upgrades were decreasing CDS spreads, too.



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.

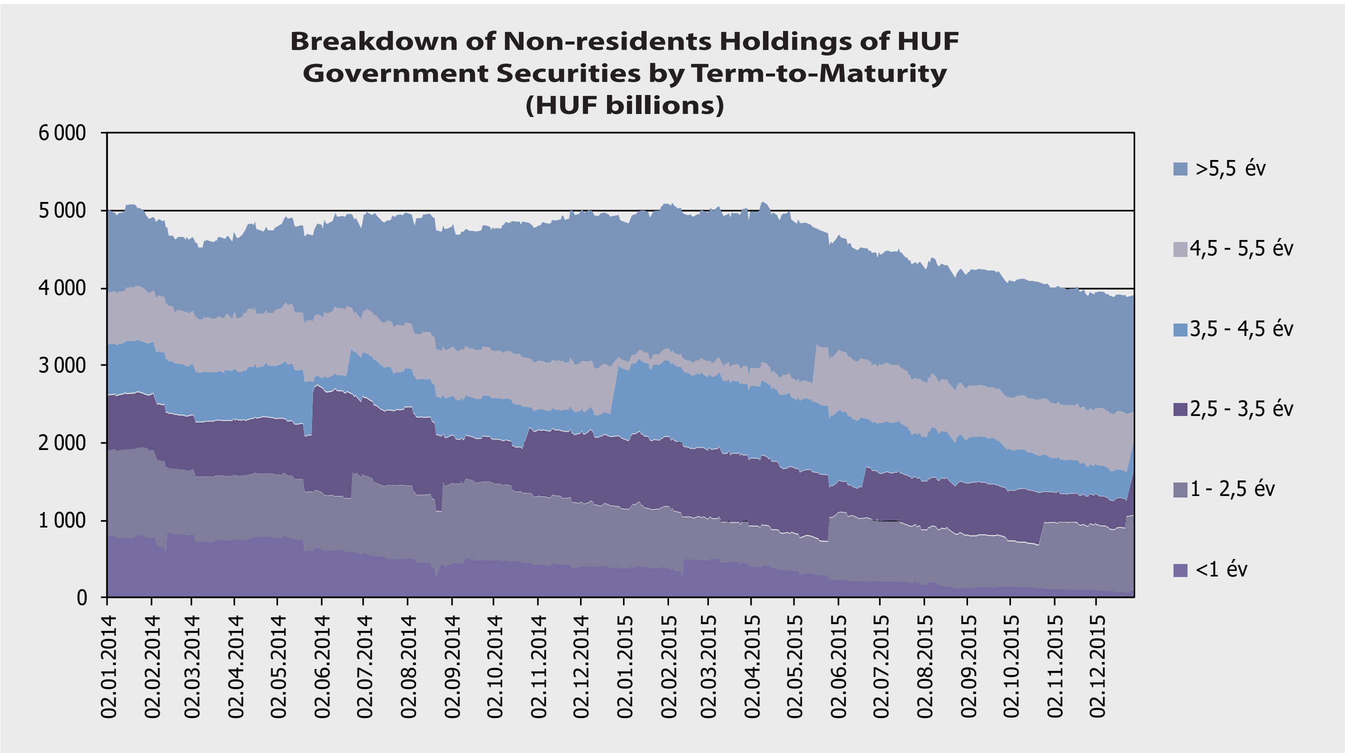


Source: Bloomberg

The yield of the Hungarian euro-denominated government bond maturing in July 2018 declined from 1.45% to 0.77% during the course of the year 2015. 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 into negative territory as a result of the monetary policy of the European Central Bank.

Government Securities Holdings of Foreign Investors

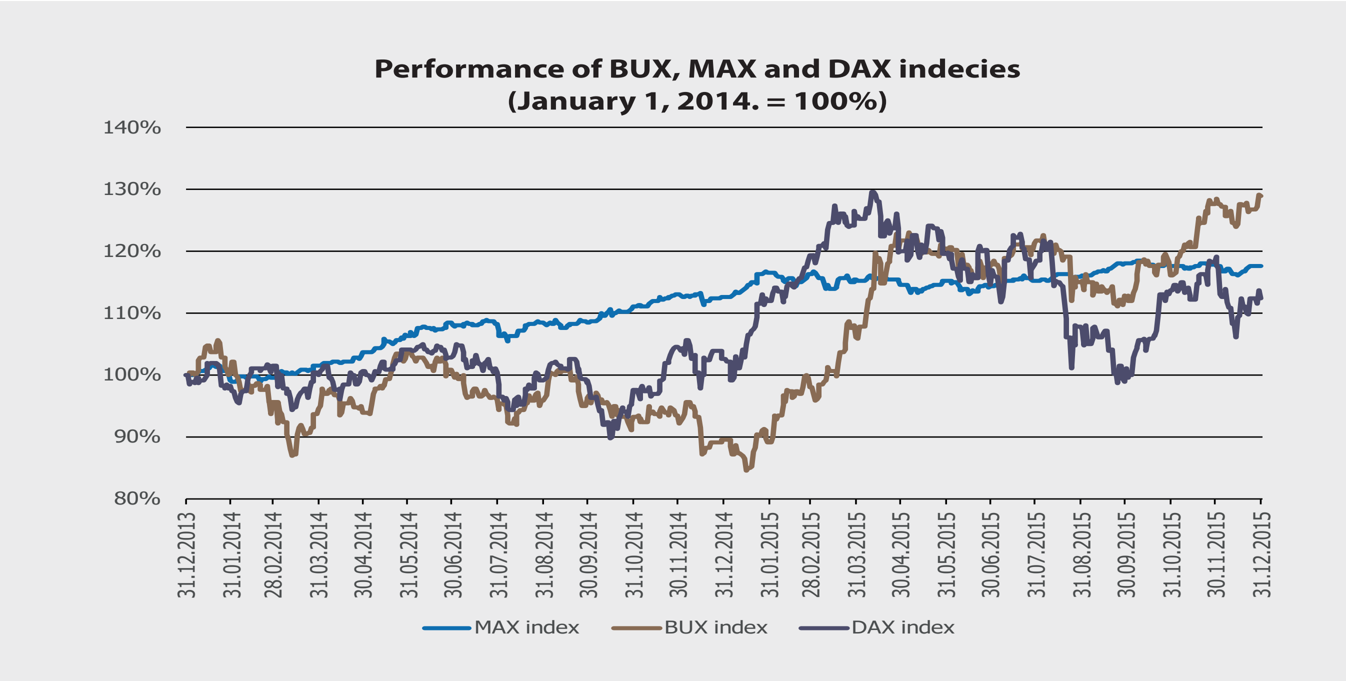
The value of forint-denominated government securities held by non-residents declined further during the year 2015. Non-resident holdings reached their historical record of HUF 5,202 billion in 2013 the amount decreased since then to HUF 4,873 billion by the end of 2014. During 2015 non-resident holdings declined further by HUF 977 billion reaching HUF 3,896 billion by the end of the year 2015. At the same time the average maturity of foreign investor holdings increased from 4.84 to 5.13.



Source: KELER Zrt.

The share of foreign holdings of forint-denominated debt decreased from 37% to 28% within the total debt. Adding to this the foreign exchange denominated debt held by non-residents the foreign holdings amounted to 49% of the total public debt portfolio.

Equity Markets



Source: ÁKK, Bloomberg

II. DEBT MANAGEMENT STRATEGY IN 2015

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 that 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 during the financial crisis is that the higher part of the government debt had been financed from abroad. Increasing domestic savings and the domestic financing of the debt support macroeconomic stability in the long term. Thus the second objective of ÁKK is to develop 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 2015 the composition of the central government debt conformed to the benchmarks.

Public debt management benchmarks

Benchmarks	Tolerance band	End 2014	End 2015
1. Foreign currency debt ratio	<40% FX	38.1%	33.5%
2. Foreign currency debt composition	95-105% EUR	99.2%	100.0%
3. Fixed coupon part of foreign currency debt	62.7-67.7%	63.8%	66.9%
4. Fixed coupon part of domestic debt	61-83%	61.8%	62.6%
5. Duration of domestic debt	2.5-3.5 years	2.88	3.1

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.

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 2015, 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 2015

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). 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 2015:

HUF Billion

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

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

The net financing requirement

In 2015 the total cash-flow based deficit of the central government was HUF 1,218.6 billion (or 3.6 per cent of GDP according to preliminary data), while the total net financing requirement amounted to HUF 1,033.3 billion (or 3.1 per cent of GDP) including negative net EU transfers.

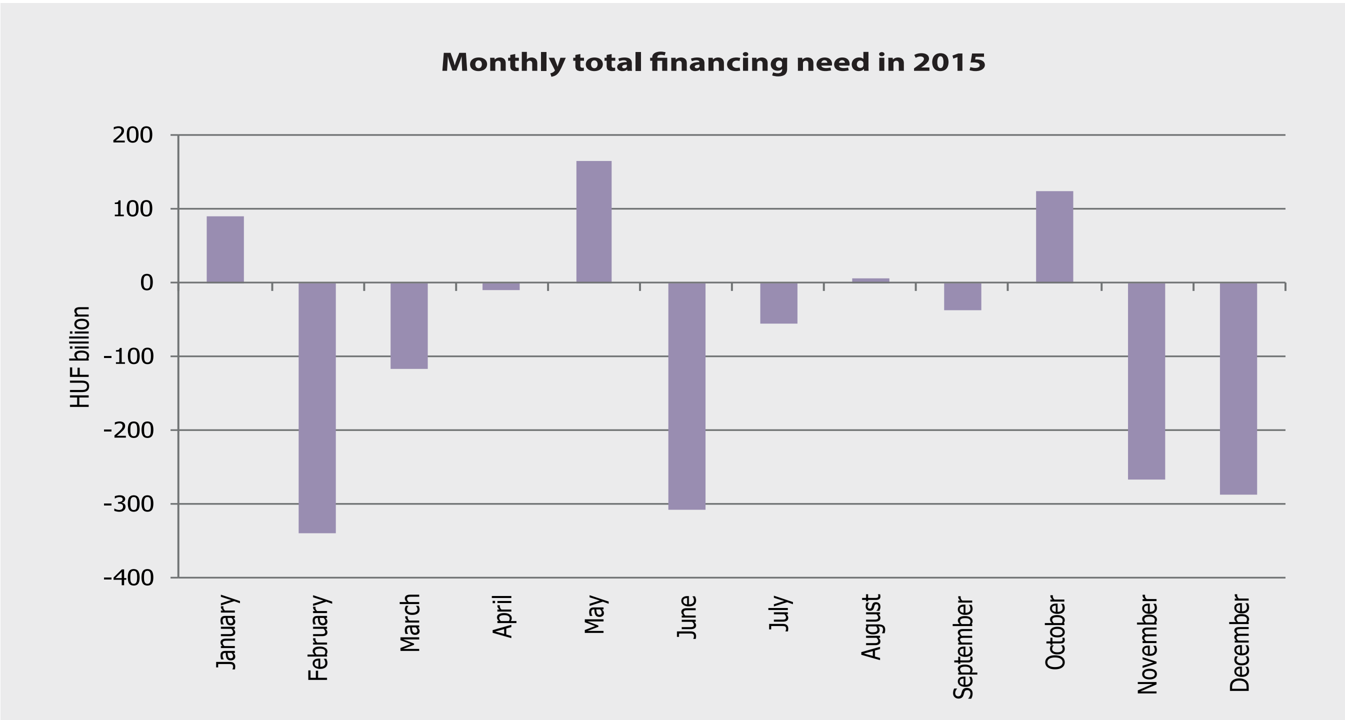
III. The financing requirements in 2015

Borrowing requirements in 2015:

	Plan December 2014 (HUF billion)	Outturn (HUF billion)	Outturn/Plan (per cent)
Central government balance	-825.0	-1195.9	145%
Balance of the Social Security funds	0.0	-24.9	-
Balance of the extra-budgetary funds	-52.0	2.2	-4%
Net financing need of the central government	-877.0	-1218.6	139%
Privatisation revenues	0.0	0.0	-
Net EU transfers	192.0	185.3	-
Total net financing requirements	-685.0	-1,033.3	151%
Short term debt redemptions	-3,062.2	-3,043.3	99%
Long term debt redemptions	-2,036.7	-3,800.2	187%
Gross financing requirements	-5,783.8	-7,876.8	136%

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

The monthly financing needs showed a significant fluctuation in 2015 as well; large part of the financing requirement materialized in the last two months of the year.



Source: Hungarian State Treasury, ÁKK

III. The financing requirements in 2015

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 6,843.5 billion, 34 per cent higher than planned in 2015. 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 an foreign currency bond buyback program.

Government debt redemptions: [2]

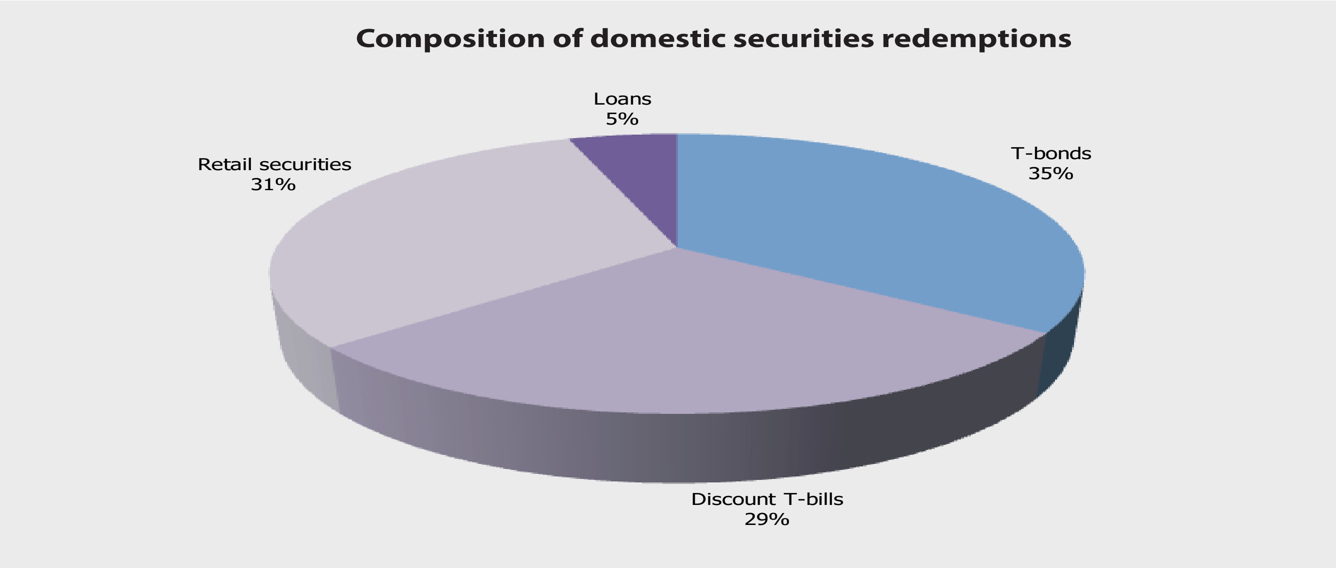
HUF billion

	2014	2015 plan	2015 outcome
Domestic debt	**5,930.0**	**4,367.6**	**5,450.4**
T-bonds	2,410.1	998.9	1,885.0
Discount T-bills	1,904.9	1,639.9	1,588.6
Retail securities	1,363.7	1,652.1	1,695.2
Loans	251.3	76.8	281.6
Foreign currency debt	**1,989.5**	**731.3**	**1,393.1**
Bonds	925.9	653.5	928.8
Loans	1,063.6	77.7	464.3
Total	**7,919.5**	**5,098.8**	**6,843.5**

Source: ÁKK

Total domestic debt redemptions exceeded the plan by HUF 1,083 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 29 per cent of the total forint redemptions of HUF 5,450 billion.

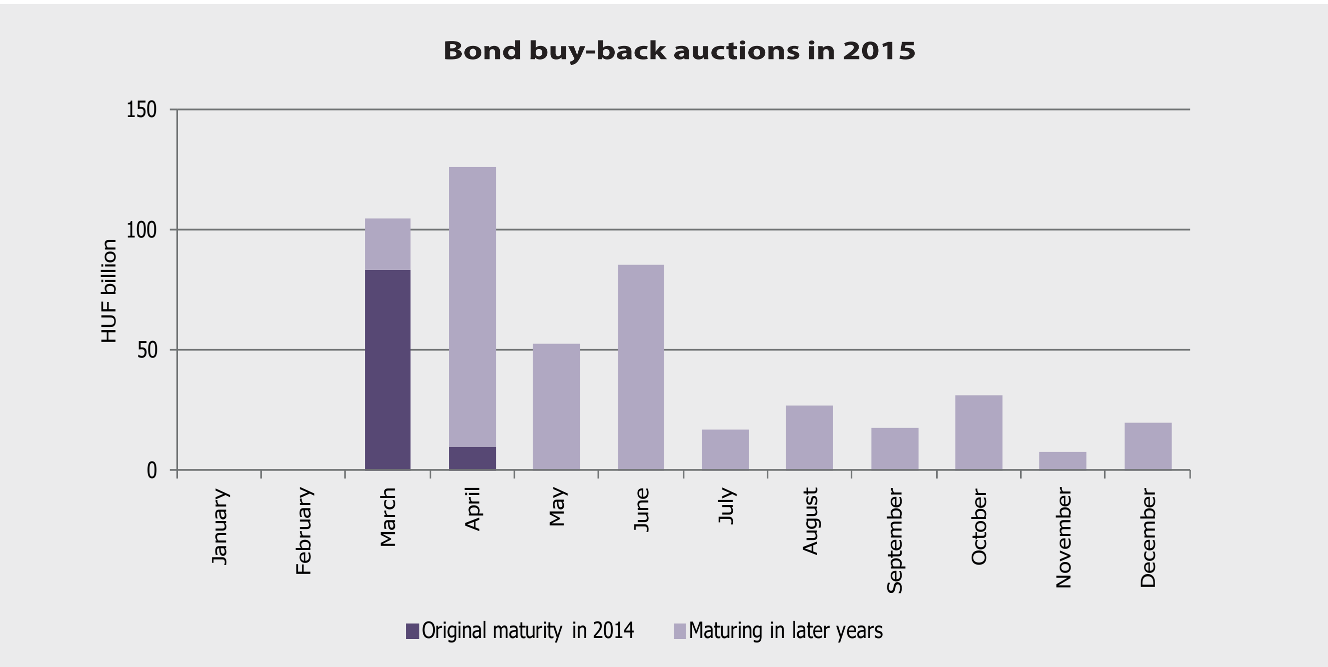
2 In this publication the redemption and gross issuance of short-term debt is reported according to the OECD methodology. The amount of redemption of T-bills equals the outstanding volume of the short-term debt at the beginning of the year and gross issuance equals the sum of the redemption figure and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



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 part 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 2015 ÁKK bought back a total of HUF 490 billion bonds before their maturity on 19 occasions. 81 per cent of the repurchased bonds (HUF 397 billion) had a maturity after 2015, i.e. these buy-backs also helped to smooth maturities from one year to another.



Source: ÁKK

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 2015 22 exchange auctions were held at which ÁKK exchanged a total of HUF 638 billion short-term bonds for long-term ones.

Foreign currency debt redemptions

In 2015 one USD bond (USD 1.5 billion) and the first series of Premium Euro Hungarian Government Bonds (EUR 1 billion) matured. Moreover in order to reduce the share of foreign currency debt within the total debt ÁKK bought back EUR 1.1 billion FX bond from the market. Smaller repayments took place in the case of IFI project financing and other loans in 2015. Beside these items early prepayment of assumed and short term foreign currency loans totalling EUR 1.3 billion decreased the share of foreign currency debt within the total debt.

IV. Financing

In 2015 the HUF denominated issuance amounted to HUF 6,919 billion (97%), while foreign currency issuance was HUF 207 billion (3%).

Gross debt issuance:

HUF Billion

	2014	2015 plan	2015 outcome
Domestic debt	**7,457.2**	**5,829.3**	**6,918.6**
T-bonds	3,653.9	2,125.0	2,984.9
Discount T-bills	1,588.6	1,527.0	901.6
Retail securities	2,086.2	1,954.1	2,801.5
Loans	128.4	223.2	230.6
Foreign currency debt	**1,223.7**	**159.8**	**206.6**
Bonds	1,177.6	159.8	206.6
Loans	46.2	0.0	0.0
Total	**8,680.9**	**5,989.1**	**7,125.2**

Source: ÁKK

Net HUF denominated financing totalled HUF 1,468 billion, while net foreign currency financing amounted to HUF -1,186 billion, so the total net issuance was HUF 282 billion in 2015.

Net issuance:

HUF Billion

	2014	2015 plan	2015 outcome
Domestic debt	**1,527.2**	**1,461.7**	**1,468.2**
T-bonds	1,243.8	1,126.1	1,099.9
Discount T-bills	-316.3	-112.9	-687.1
Retail securities	722.6	302.0	1,106.3
Loans	-122.9	146.4	-51.0
Foreign currency debt	**-765.8**	**-571.4**	**-1,186.5**
Bonds	251.6	-493.7	-722.2
Loans	-1,017.4	-77.7	-464.3
Total	**761.4**	**890.2**	**281.7**

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 1,100 billion (by HUF 26 billion lower than planned), while the sales of retail securities set a new historical record of HUF 1,106 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 to HUF -51 billion.

In 2015 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 19% higher than planned originally. The issuance of all kinds of instruments increased except the discount T-bills; bond issuance was higher than planned by 40% and that of retail instruments by 43%. Project financing loans of HUF 231 billion were drawn in HUF in line with plans in 2015.

Government bonds

Fixed coupon 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 4 occasions the 10-year bond was replaced by the 15-year fixed rate bond. The floating rate bonds were offered 24 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 3.1. ÁKK sold a total of HUF 2,260 billion of bonds via auctions (including HUF 406 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 2,985 billion, versus total bond maturities of HUF 1,885 billion, which resulted in a net issuance of HUF 1,100 billion.

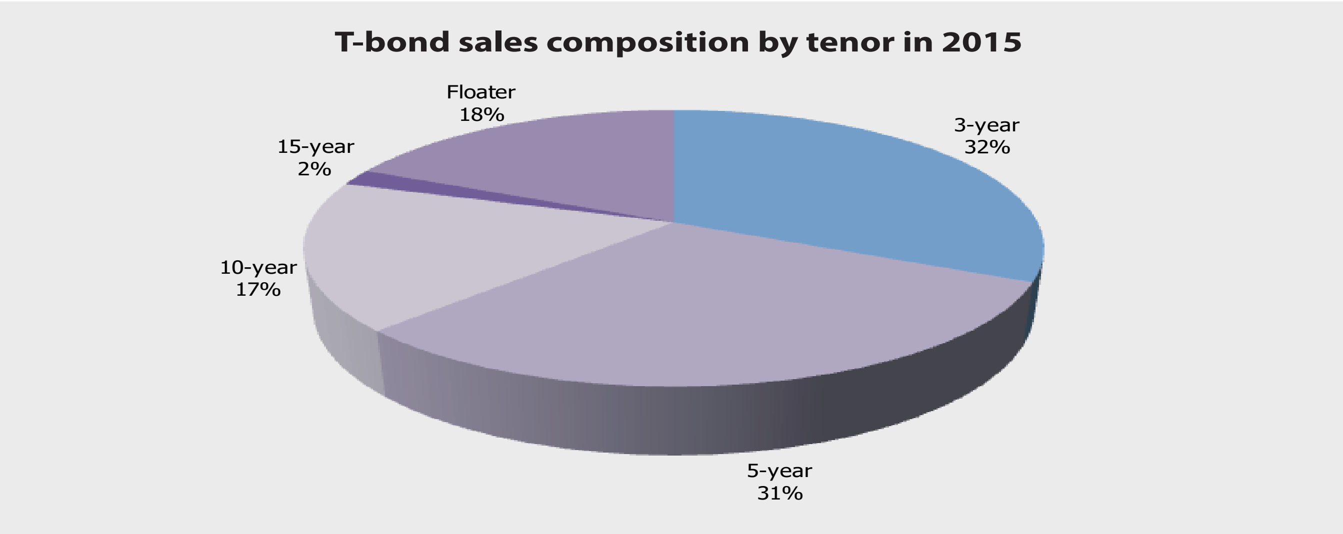
On-the-run bond series in 2015 (HUF billion):

	Tenor	Number of auctions	Competitive sales in 2015	Non-competitive sales in 2015	Outstanding
2018/C	3-years	25	601	117	721
2018/D*	3-years	14	194	42	236
2020/B	5-years	25	555	139	901
2021/A*	5-years	10	139	36	175
2025/B	10-years	21	329	64	868
2031/A	15-years	4	35	8	43

Source: ÁKK

*Floating rate bonds

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, while in the case of floating rate bonds the demand decreased:



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).

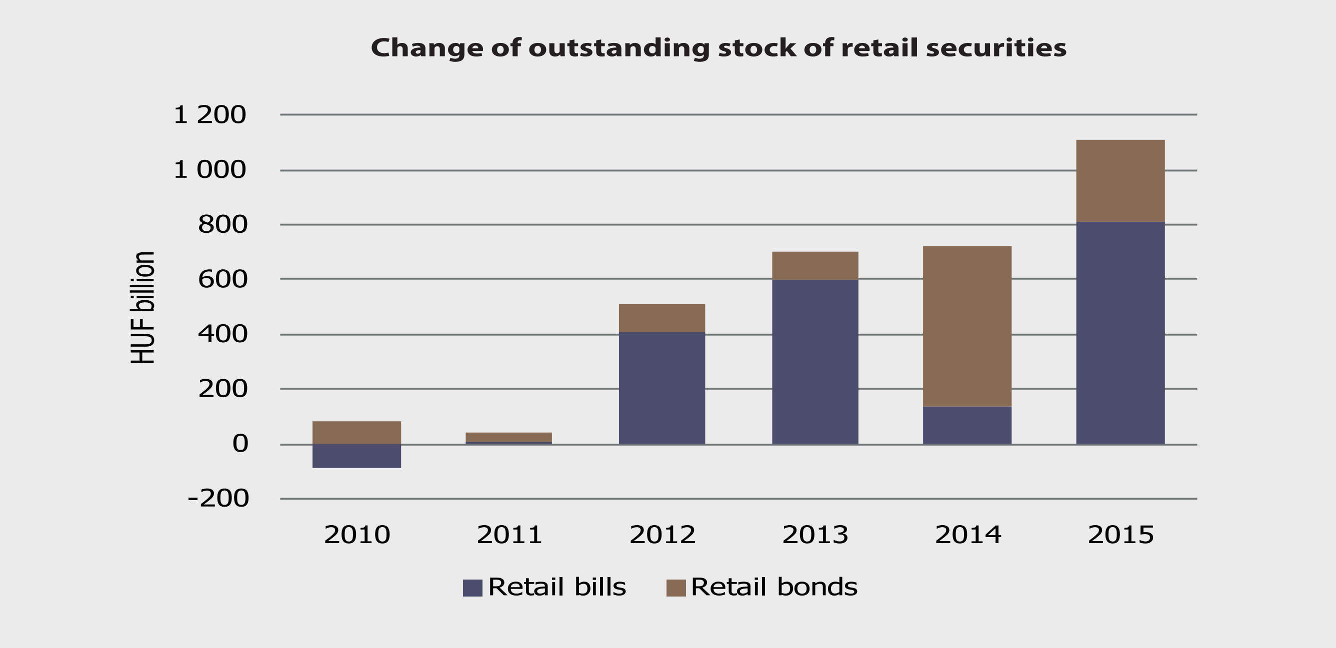
In 2015 ÁKK sold discount treasury bills in a total of HUF 902 billion, much less amount as in 2014. ÁKK originally planned a small negative net discount T-bill issuance; however, the outstanding T-bill stock actually declined by HUF 687 billion over the year as due to the increased net bond and retail issuance ÁKK reduced the issuance of discount treasury bills to reduce excess liquidity.

Retail securities

One of the strategic objectives of ÁKK is to develop the 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 2015 as well. ÁKK contributed to this success by a broader selling network and competitive pricing for these instruments. The stock of the one-year interest bearing T-bill grew by HUF 727 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 52 billion and by HUF 48 billion respectively.

In line with the objectives of public debt management, long term bonds continued to play a more important role in the retail scheme in 2015 as well. The inflation-linked Premium Government Bond and the floating rate Bonus Government Bond had a net sale of HUF 270 billion. The very long term Baby-bond (with a maturity of 19 years) added an additional HUF 8 billion to funding. The total retail debt stock grew by HUF 1,106 billion over the year, which is almost four times higher than the HUF 302 billion planned, and contributed to a large extent to the year's successful financing from the domestic market.



Source: ÁKK

Foreign currency financing

In line with the announced plan ÁKK did not issue any foreign currency bond in the international market in 2015.

Only new series of domestic Premium Euro Government Bond and Residency bond were issued in 2015. The net domestic foreign currency bond issuance was a bit higher than planned and amounted to HUF -109 billion. Due to the ample demand for retail and domestic wholesale securities, ÁKK was able to reduce the outstanding stock of international bonds through buying back from the market. Thus, net FX bond issuance was HUF -722 billion (compared to the planned net issuance of HUF -494 billion).

Series	Currency	Date of issuance	Maturity	Tenor (years)	Coupon
2018/X	EUR	05.03.2015	21.09.2018	3	Floater (Premium)
2020/T	EUR	14.01.2015	20.12.2020	5	Fixed (Zero coupon)

Source: ÁKK

According to the plan ÁKK did not drew any project financing loan in foreign currency. Due to the early prepayment of assumed and short term loans, the net FX loan redemption was HUF 464 billion, much higher than planned.

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 -1,186 billion (compared to the plan of HUF -571 billion) in 2015.

V. The government debt in 2015

During 2015 the central government debt increased by HUF 819 billion (or by 3.4 per cent) to HUF 24,700 billion. The size of the debt was influenced by several factors.

The net domestic issuance was HUF 1,473 billion (with repos) that covered the net borrowing need totalling 1,033 billion and a part of the net FX debt redemption. Central government debt increased by HUF 123 billion due to debt assumptions of transport companies and the Media Service Support and Asset Management Fund (MTVA) (however, some part of this transaction had no effect on size of the total ESA 2010 public debt). The increasing stock of other obligations, namely marked-to-market deposits increased the central government debt by HUF 445 billion. The net FX redemption decreased the debt by HUF 1186 billion, while the value of public debt also decreased due to the appreciation of the forint against other currencies by HUF 37 billion

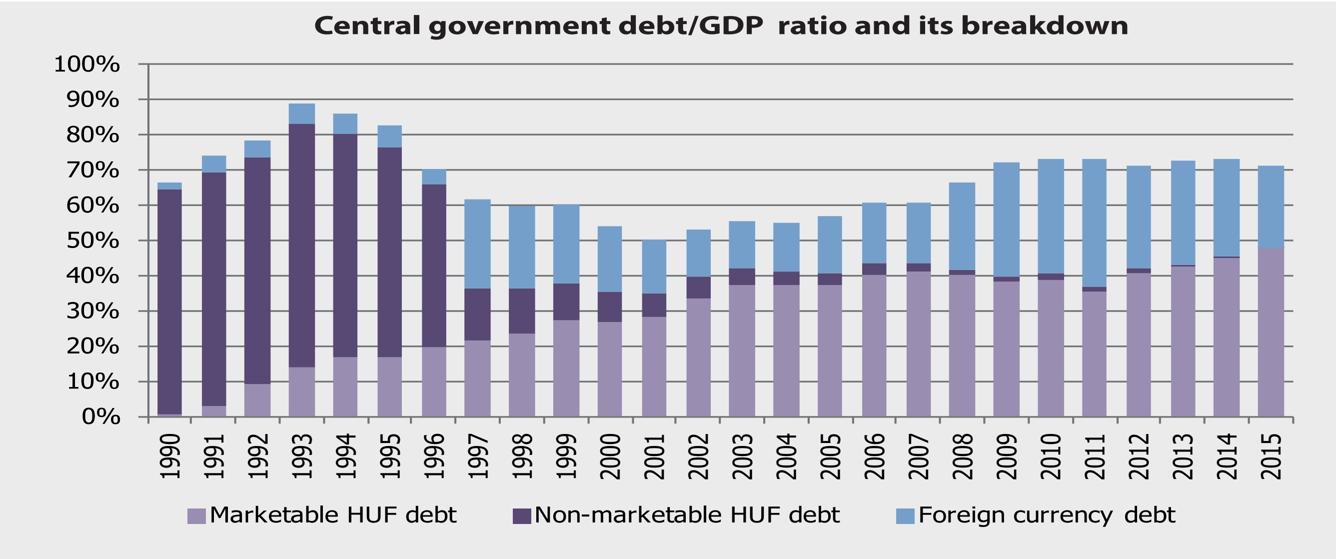
Central government debt

HUF Billion

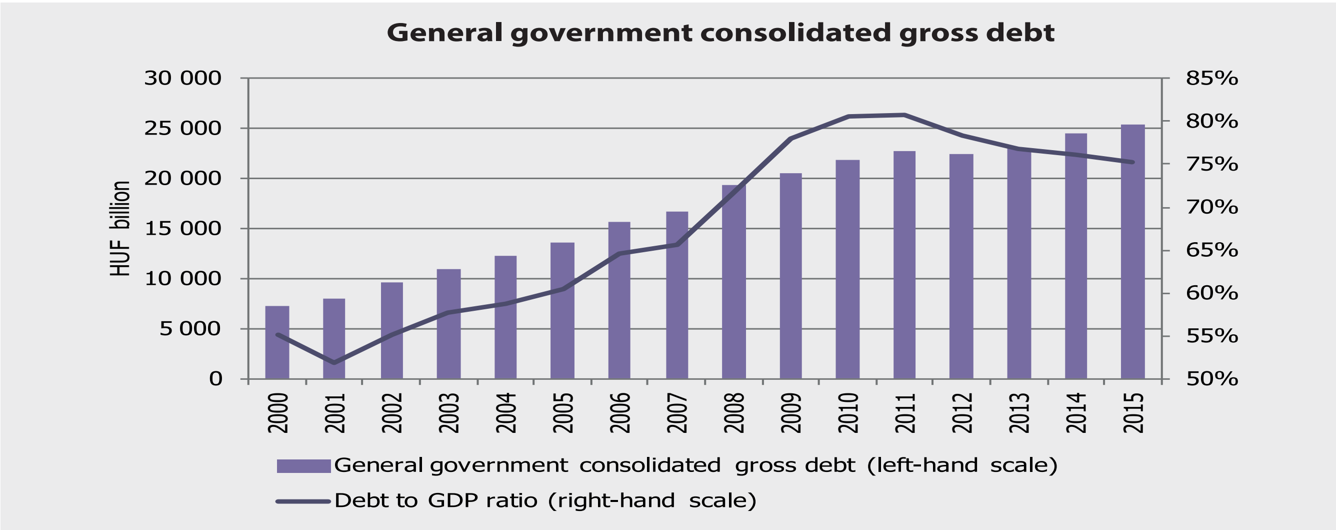
	2014		2015		Change
Domestic debt	**14,612**	**61%**	**16,208**	**66%**	**1,596**
Loans	623	3%	694	3%	71
Government bonds	9,989	42%	11,095	45%	1,106
Discount T-bills	2,411	10%	3,517	14%	1,106
Retail securities	1,589	7%	902	4%	-687
Foreign currency denominated debt	**8,958**	**38%**	**7,736**	**31%**	**-1,222**
Loans	2,164	9%	1,697	7%	-468
Bonds	6,794	28%	6,039	24%	-755
Total debt	**23,570**	**99%**	**23,944**	**97%**	**374**
Other obligations	311	1%	756	3%	445
Grand total debt	**23,881**	**100%**	**24,700**	**100%**	**819**

Source: ÁKK

The debt of the central government compared to the GDP (debt ratio) decreased in 2015. According to preliminary data, the central government debt managed by ÁKK decreased from 74.2 to 73.3 per cent of GDP.



Source: ÁKK



Source: EUROSTAT

Characteristics of the HUF debt portfolio

During 2015 the HUF-denominated debt that accounts for 66 per cent of the total debt increased by HUF 1,596 billion (10.9 per cent) to HUF 16,208 billion.

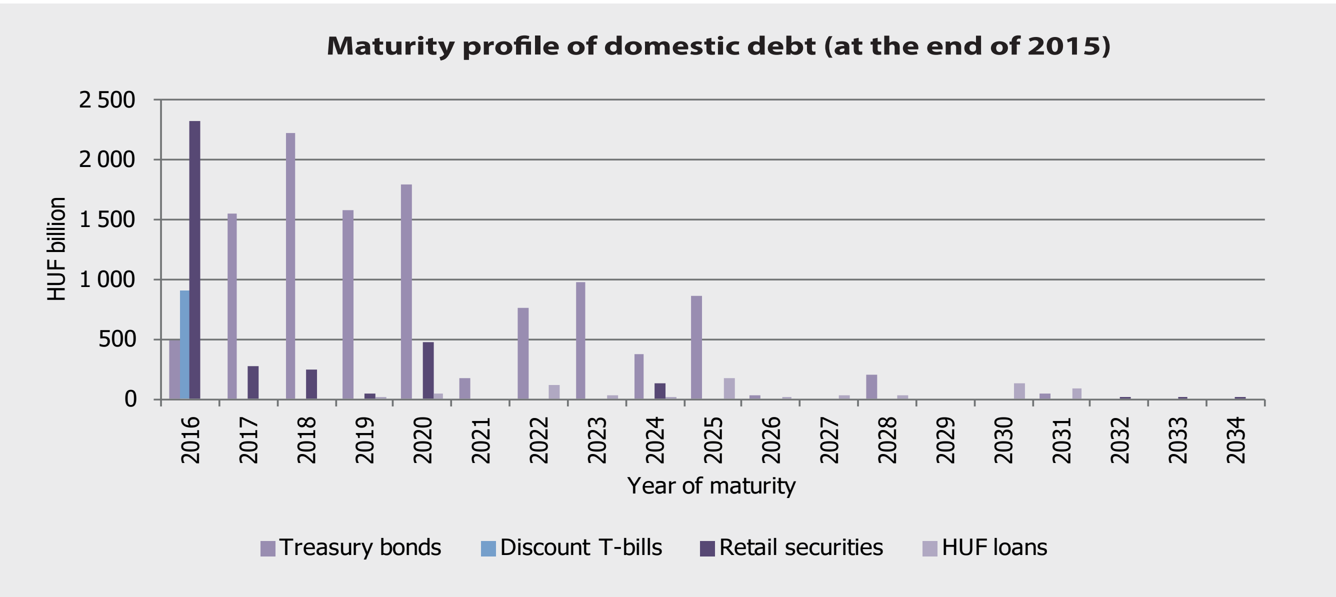
45 per cent of total public debt was in the form of long-term HUF government bonds (excluding retail bonds). The total domestic bond portfolio of HUF 11,095 billion consisted of 23 bond series, the average size of a series was HUF 481 billion (ca. EUR 1.5 billion). 9 series had a volume in excess of HUF 600 billion (ca. EUR 2 billion), and the largest bond series reached HUF 1,181 billion (or EUR 3.8 billion).

The HUF 902 billion discount T-bill stock consisted of 17 series. There were 4 larger series with an average volume of HUF 144 billion (or EUR 460 million).

In 2015 the portfolio of retail government securities jumped from HUF 2,411 billion to HUF 3,517 billion. Retail securities accounted for 22% of the total domestic debt in comparison to their 17 per cent share at the end of 2014.

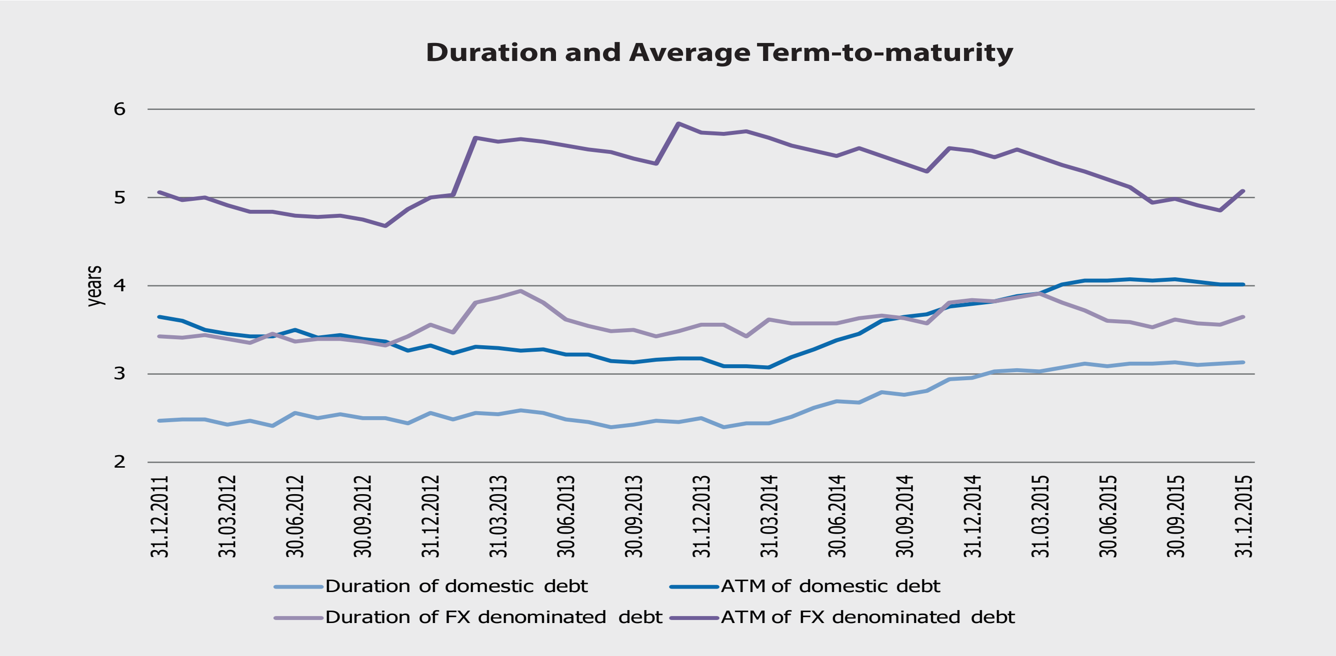
The non-marketable component of the HUF bond portfolio continued to decrease in amount and proportion in 2015 as well, as there are no new issuances of such government bonds and the existing portfolio matures gradually. The end-of-year volume of non-marketable government bonds was HUF 52 billion, 0.2 per cent of the total debt.

The volume of loans denominated in Hungarian forint increased in 2015 (mainly as a result of debt assumptions) by HUF 71 billion to HUF 694 billion.



Source: ÁKK

As a result of the increased domestic bond issuance in 2015, the duration and average term-to-maturity characteristics of the domestic debt increased. The duration of the HUF denominated debt portfolio increased from 2.95 years to 3.13 and the average term-to-maturity also increased from 3.8 years to 4.0 years in 2015.

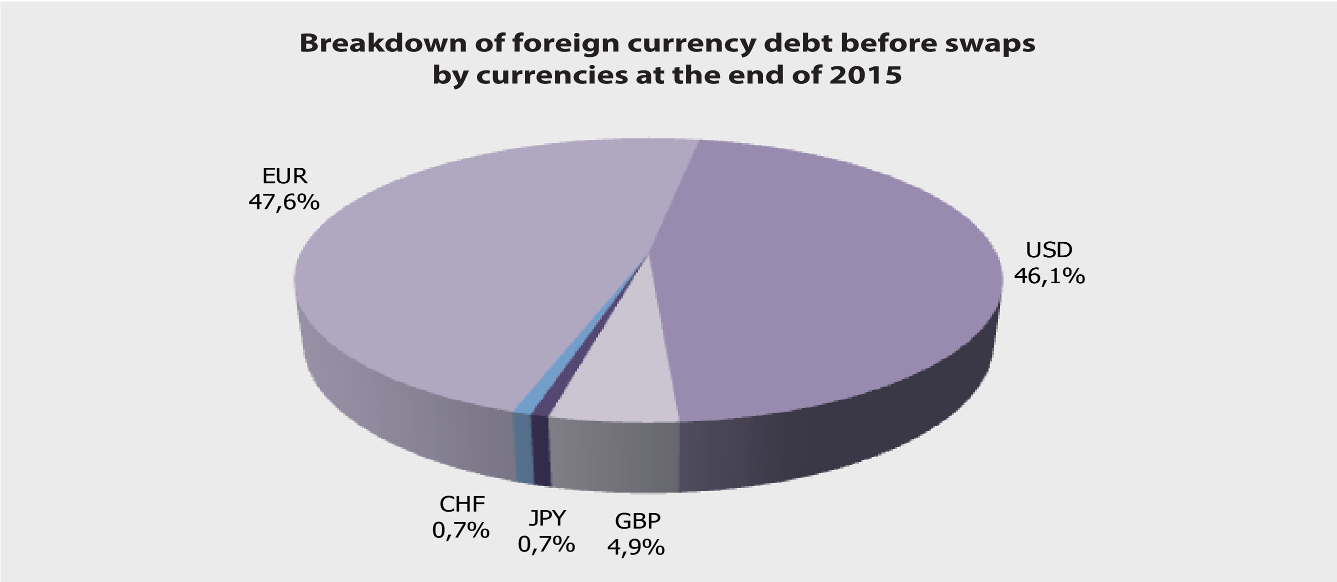


Source: ÁKK

Characteristics of the foreign currency debt portfolio

The gross foreign currency government debt decreased by HUF 1,222 billion in 2015, reaching HUF 7,736 billion (EUR 25 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 38 to 31 per cent during 2015.

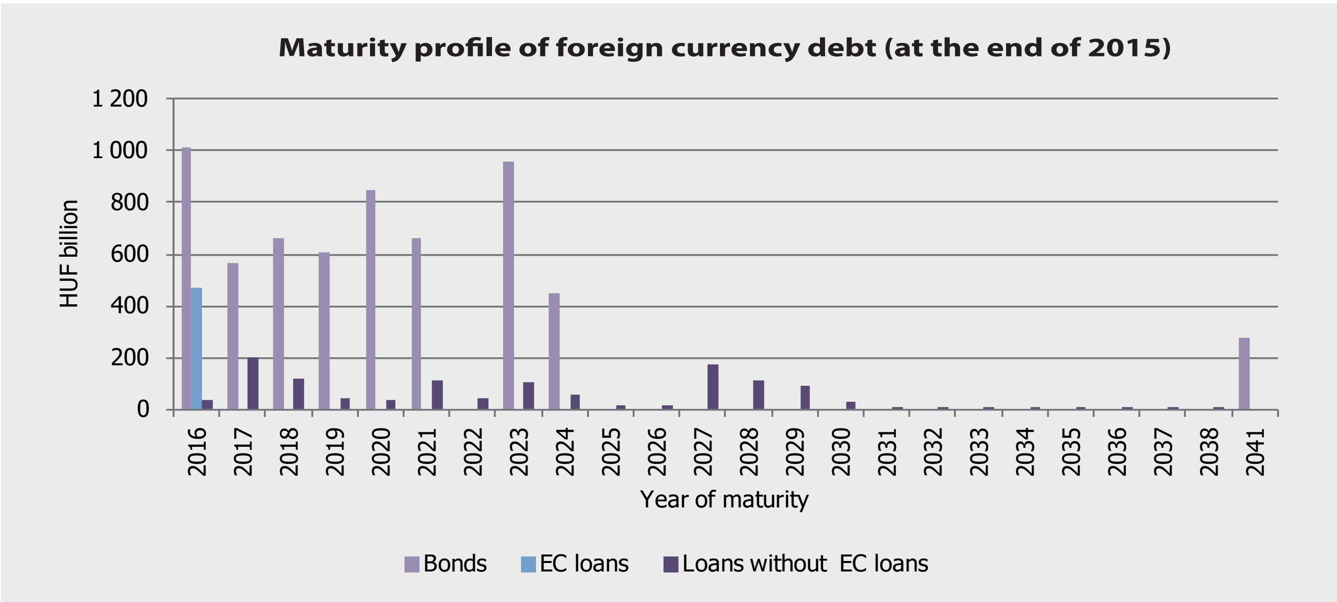
The volume of outstanding foreign currency bonds (after swaps) reached HUF 6,039 billion by the end of the year, decreasing significantly from the end of 2014 (HUF 6,794 billion), mainly as a result of no international foreign currency denominated bond issuance, the maturities and buy-backs and also the appreciation of the forint. On 31 December 2015 there were 24 series of foreign currency bonds outstanding, 12 of which had been issued in euro (including the domestic euro bonds as well), 8 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 78% of the total foreign currency debt portfolio.



Source: ÁKK

At the end of 2015 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 well as loans from the European Commission. As a result of the prepayment of some assumed and short term loans the share of loans within the total foreign currency debt declined from 24 to 22 per cent.



Source: ÁKK

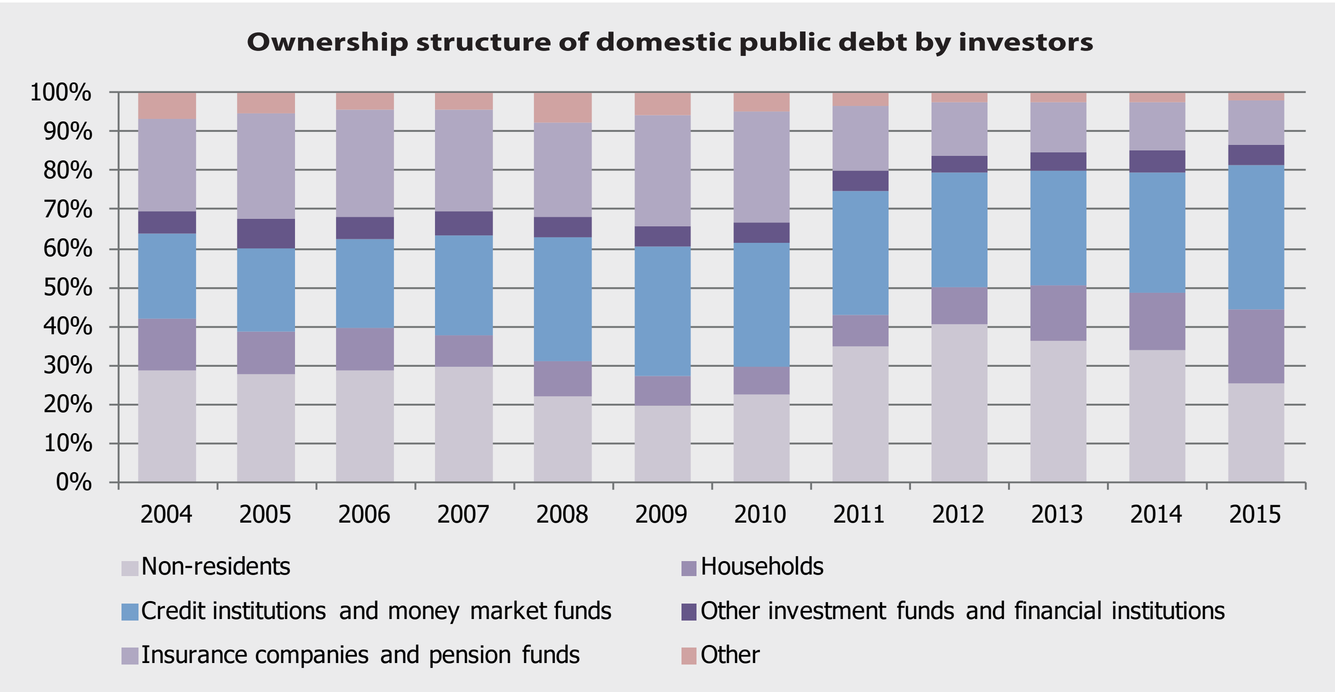
During 2015 the average term to maturity of the foreign currency portfolio decreased from 5.5 years to 5.1 years as a result of no new issuance, and the duration also decreased from 3.8 years to 3.6 years.

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 2015 marked-to-market deposits placed with ÁKK totalled HUF 756 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 domestic government securities in 2015. The share of the former largest investor group – namely non-resident investors - declined from 34 per cent to 26 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 19 per cent.



Source: NBH, KELER, ÁKK

In 2015 non-residents decreased their share both in nominal and relative terms. Non-resident holdings of HUF denominated government securities decreased by HUF 977 billion to HUF 3,896 billion. At the same time the duration of their holdings increased by 0.3 year to 4.4 years, while the ATM of their holdings increased by 0.3 year to 5.1 years in 2015. 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.

In 2015 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.

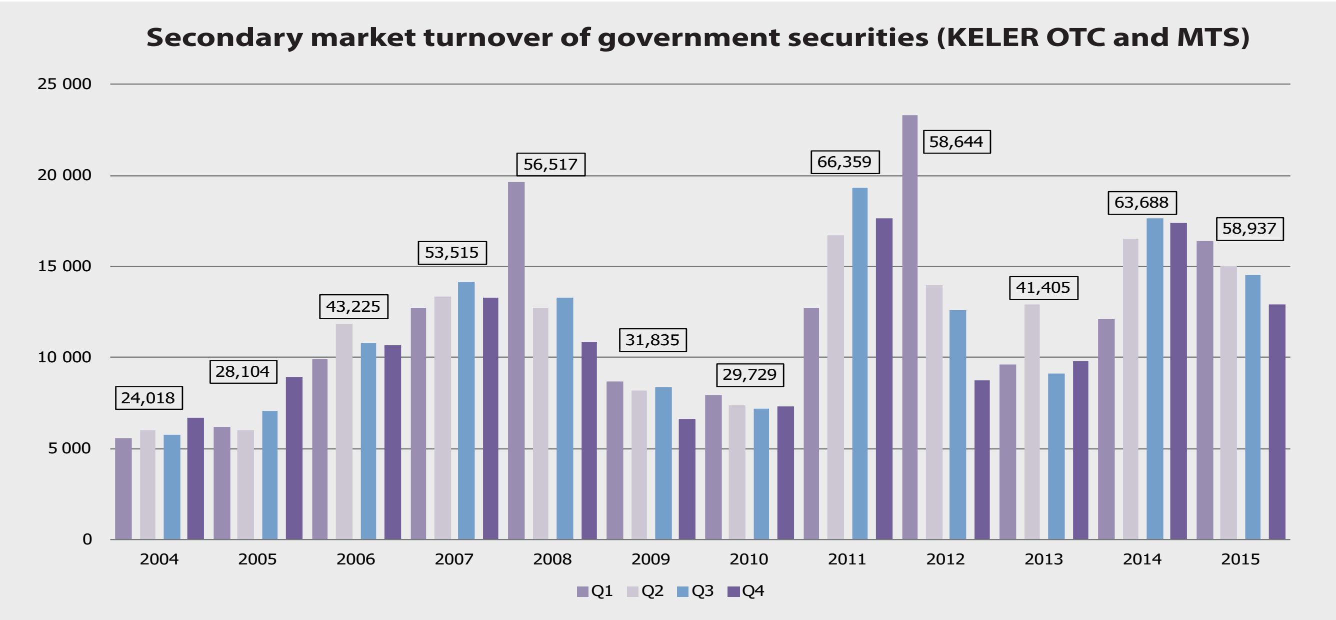
Sales of liquidity discount treasury bills took place 6 times in 2015 – mostly in Q1 and Q4 - with a total volume of HUF 263 billion.

Liquidity repo transactions are ÁKK's main tool for fine-tuning the end-of-day balance of the Single Treasury Account. In 2015 the use of repo transactions increased by almost 100 per cent to a total of HUF 10,000 billion concluded on 251 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 2015.

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.

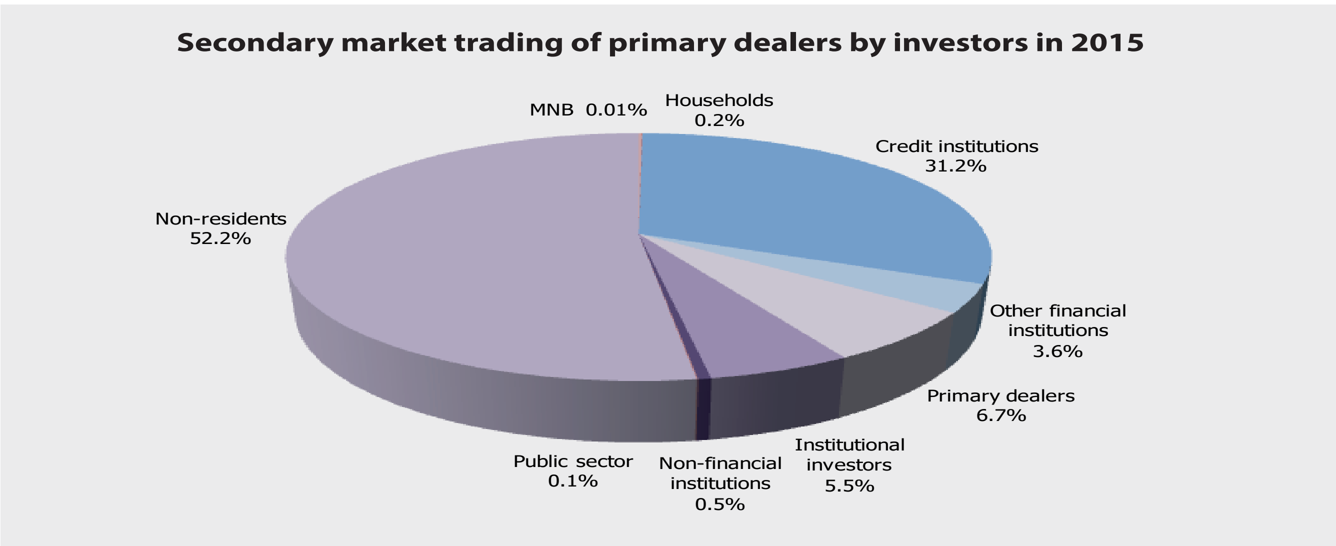
VII.The secondary market of Hungarian government securities

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 95% 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 58,626 billion in 2015 (almost 5 times the size of the total outstanding marketable debt), out of which 90 per cent was in government bonds and 10 per cent in discount treasury bills.



Source: KELER, BSE

The average size of deals with Primary dealers (excluding retail transactions) was HUF 1,186 million, which is by HUF 150 million higher than in the previous year. Over the year, the 2019/A government bond with a 4 year remaining term-to-maturity had the largest turnover (HUF 10,397 billion), followed by the 7-year 2022/A and the 3 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 2015 was ING Bank N.V..

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 2015, 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 2015 7 out of the 15 Primary dealers were non-resident institutions.

Primary dealers at the end of 2015:

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.
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.

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, Half-year Interest Bearing Treasury Bills, Premium- and Bonus Hungarian Government Bonds.

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 started to sell Treasury Savings Bill Plus, a dematerialised 1-year treasury bill in autumn 2013.

The dealers of foreign currency bond issues

In 2015 Hungary did not issued government bonds in the international capital markets. Lead managers of international bond issuances are selected from among the primary dealers individually for each transaction.

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 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 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.

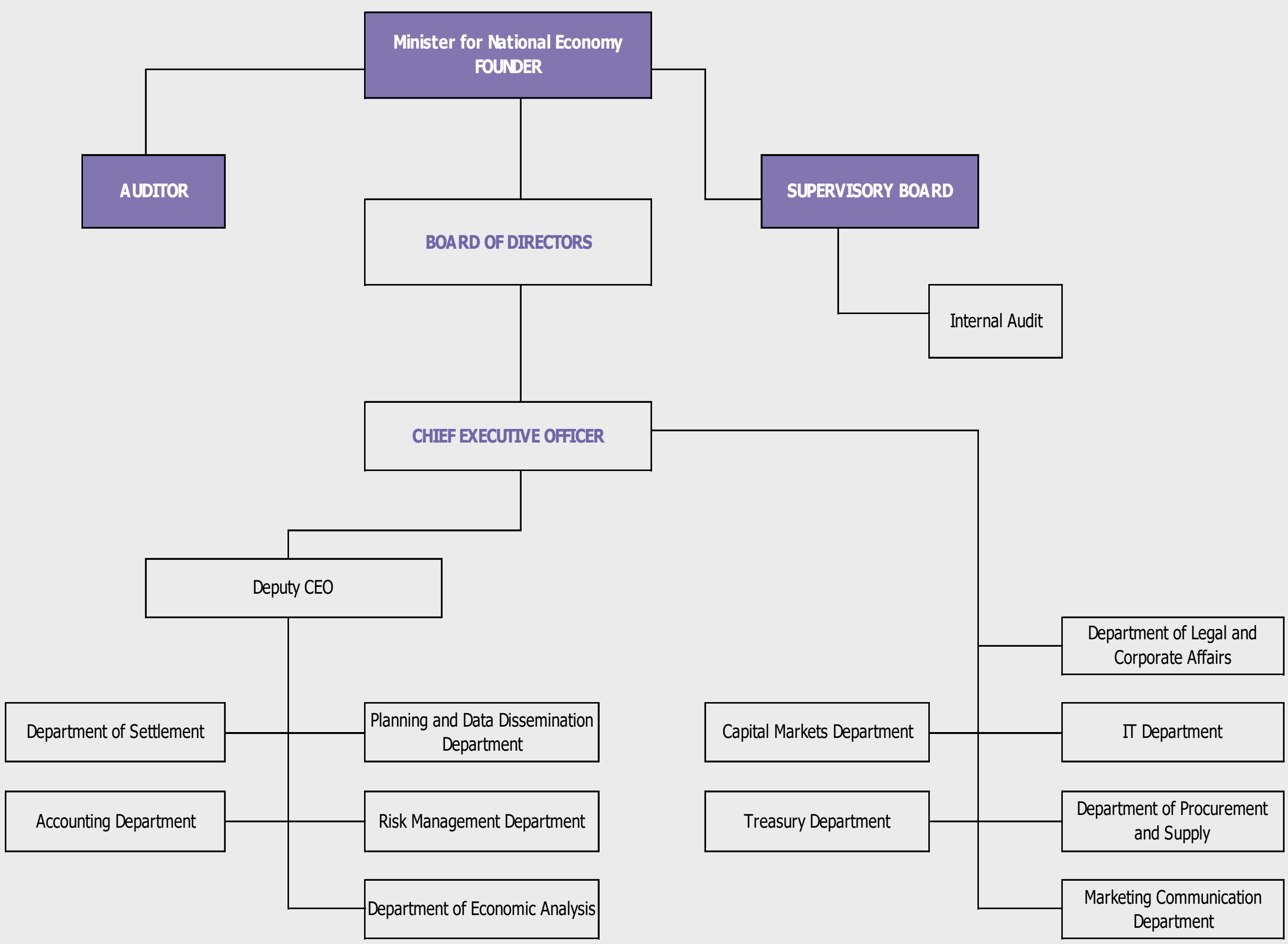
IX.The institutional framework and the objectives of government debt management

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 2015



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 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 until and closed in January 2015 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.

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).

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1. The central government gross debt as at 31.12.2015 (HUF million)

HUF denominated debt			
Hungarian Government Bonds	Maturity	Coupon	Outstanding amount
2016/A	31.12.2016	Floating rate	3,340.00
2016/B	02.01.2016	Floating rate	9,000.00
2016/C	12.02.2016	5.50%	281,936.08
2016/D	22.12.2016	5.50%	158,704.33
2016/I	28.11.2016	Floating rate, retail	4,887.18
2016/J	02.05.2016	Floating rate, retail	55,311.04
2017/A	24.11.2017	6.75%	614,639.09
2017/B	24.02.2017	6.75%	426,786.83
2017/C	20.12.2017	Floating rate	503,339.98
2017/I	05.03.2017	Floating rate, retail	45,714.22
2017/J	10.05.2017	Floating rate, retail	2,000.72
2017/K	10.05.2017	Floating rate, retail	34,876.67
2017/L	10.05.2017	Floating rate, retail	148,502.86
2018/A	20.12.2018	5.50%	491,791.79
2018/B	25.04.2018	4.00%	778,553.73
2018/C	22.06.2018	2.50%	721,104.84
2018/D	24.10.2018	Floating rate	235,860.46
2018/I	25.04.2018	Floating rate, retail	43,366.07
2018/J	05.07.2018	Floating rate, retail	92,770.41
2018/K	21.11.2018	Floating rate, retail	71,491.59
2018/N	20.04.2018	Floating rate, retail	6,109.27
2018/O	20.04.2018	Floating rate, retail	16,469.31
2018/P	23.07.2018	Floating rate, retail	14,727.67
2019/A	24.06.2019	6.50%	1,181,380.05
2019/B	20.05.2019	Floating rate	398,607.89
2019/I	03.02.2019	Floating rate, retail	5,275.84
2019/J	03.02.2019	Floating rate, retail	13,704.88
2019/K	03.02.2019	Floating rate, retail	33,043.82
2020/A	12.11.2020	7.50%	893,641.38
2020/B	24.06.2020	3.50%	901,351.70
2020/I	24.04.2020	Floating rate, retail	110,713.28
2020/J	26.08.2020	Floating rate, retail	82,593.29
2020/N	20.05.2020	Floating rate, retail	34,578.62
2020/O	20.05.2020	Floating rate, retail	113,229.79
2020/P	22.07.2020	Floating rate, retail	85,756.69
2020/R	23.07.2020	Floating rate, retail	43,886.89
2021/A	23.06.2021	Floating rate	175,366.66

2022/A	24.06.2022	7.00%	764,976.03
2023/A	24.11.2023	6.00%	975,997.60
2024/B	26.06.2024	3.00%	382,875.87
2024/N	26.08.2024	Floating rate, retail	139,297.70
2025/B	24.06.2025	5.50%	868,474.33
2026/B	24.04.2026	Floating rate	39,177.72
2028/A	22.10.2028	6.75%	206,375.00
2031/A	22.10.2031	3.25%	43,158.15
2032/S	02.12.2032	Floating rate, Babybond	16,302.36
2033/S	01.02.2033	Floating rate, Babybond	1,776.16
2034/S	01.02.2034	Floating rate, Babybond	534.98
Matured, but unclaimed government bonds			83.37
Total			**12,273,444.19**
Repos with government bonds (repos actually increase or decrease the total amount)			38,370.00
Discount Treasury Bills			**894,273.94**
Repos with discount Treasury bills (repos actually increase or decrease the total amount)			7,277.83
Interest Bearing Treasury Bills			**1,815,951.56**
Out of which matured, but unclaimed			37.30
Semi-annual Interest Bearing Treasury Bills			**81,026.62**
Out of which matured, but unclaimed			0.00
Treasury Savings Bills (Plus)			**80,182.19**
Treasury Savings Bills (1-year)			**235,510.49**
Treasury Savings Bills (2-year)			**87,739.63**
HUF loans			**694,106.52**
Matured, but unclaimed other retail government securities			53.40
Total HUF debt			**16,207,936.36**

Foreign currency debt					Outstanding amount (HUF million)	Outstanding amount (EUR million)
Loans granted by International Financial Institutions*					**1,411,111.45**	**4,506.62**
of which: IMF and EC loans					469,680.00	1,500.00
Loans assumed from the market*					**285,694.25**	**912.41**
Government bonds						
Maturity date	Currency	Amount in original currency	Maturity (years)	Coupon	Outstanding amount (HUF million)	Outstanding amount (EUR million)
24.02.2020	EUR	965,300,000	15	3.88%	302,254.74	965.30
09.05.2017	GBP	500,000,000	12	5.00%	212,480.00	678.59
18.07.2016	EUR	869,814,000	11	3.50%	272,356.16	869.81
30.03.2016	GBP	491,178,000	10	5.00%	208,731.00	666.62
04.07.2017	EUR	759,790,000	10	4.38%	237,905.44	759.79
26.10.2017	JPY	25,000,000,000	10	2.11%	59,530.00	190.12
20.05.2016	CHF	197,500,000	8	4.00%	57,152.55	182.53
11.06.2018	EUR	1,343,158,000	10	5.75%	420,569.63	1,343.16
29.01.2020	USD	1,975,000,000	10	6.25%	566,094.25	1,807.91
29.03.2021	USD	3,000,000,000	10	6.38%	859,890.00	2,746.20
29.03.2041	USD	1,250,000,000	30	7.63%	358,287.50	1,144.25
11.01.2019	EUR	940,000,000	7	6.00%	294,332.80	940.00
21.02.2023	USD	2,000,000,000	10	5.375%	573,260.00	1,830.80
19.02.2018	USD	715,630,000	5	4.13%	205,121.03	655.09
22.11.2023	USD	2,000,000,000	10	5.75%	573,260.00	1,830.80
25.03.2024	USD	2,000,000,000	10	5.375%	573,260.00	1,830.80
25.03.2019	USD	773,030,000	5	4.00%	221,573.59	707.63
Total					**5,996,058.69**	**14,780.16**
Cross-currency swaps					**-797,177.26**	
Premium Euro Hungarian Government Bond						
Code	Currency	Maturity date	Maturity (years)	Coupon	Outstanding amount (HUF million)	Outstanding amount (EUR million)
2016/X	EUR	25.05.2016	3	Floating rate, Premium	296,930.59	948.30
2016/Y	EUR	25.10.2016	3	Floating rate, Premium	178,022.32	568.54
2017/X	EUR	21.04.2017	3	Floating rate, Premium	46,020.20	146.97
2018/X	EUR	21.09.2018	3	Floating rate, Premium	40,586.91	129.62
Total					**561,560.03**	**1,793.43**

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%	33,660.40	107.50
2019/T	EUR	20.12.2019	5	2.24%	139,494.96	445.50
2020/T	EUR	20.12.2020	5	2.00%	105,396.19	336.60
Total					**278,551.55**	**889.60**
Total foreign currency debt					**7,735,798.72**	
Total central government debt					**23,943,735.07**	
Other obligations of ÁKK (marked-to-market deposits placed at ÁKK)					**755 982,63**	
Grand total					**24,699,717.71**	

* 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+

Moody's and Fitch Ratings assigned a 'positive' rating outlook, while Standard and Poor's assigned a 'stable' rating outlook to the long-term foreign currency debt of Hungary at the end of 2015.

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+

HUF denominated debt			
Date of change	**Moody's**	**Standard and Poor's**	**Fitch Ratings**
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-

Moody’s and Fitch Ratings assigned a ‘positive' rating outlook, while Standard and Poor’s assigned a ‘stable' rating outlook to the long-term foreign currency debt of Hungary at the end of 2015.

3. The addresses of primary dealers

Primary dealer	Address
BNP Paribas SA	10 Harewood Avenue, NW1 6AA London, UK
CIB Bank Zrt.	Budapest, H-1027 Medve utca 4-14.
Citibank Europe Plc.	Budapest, H-1051 Szabadság tér 7. (Hungarian Branch)
Deutsche Bank AG	Budapest, H-1054 Hold u. 27. (Hungarian 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) 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.

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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,

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	2014	2015
	A) Fixed assets	80,924	75,699
I	Intangible assets	18,951	18,232
II	Tangible assets	48,917	47,161
III	Invested financial assets	13,056	10,306
	B) Current assets	389,140	378,979
I	Inventories	0	0
II	Receivables	4,479	12,314
III	Securities	0	0
IV	Cash and cash equivalents	384,661	366,665
	C) Accrued and deferred assets	22,493	73,681
	Assets in total	492,557	528,359

data in HUF thousand

	Liabilities	2014	2015
	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	45,674
	F) Liabilities	127,373	119,383
I	Subordinated liabilities	0	0
II	Long-term liabilities	0	0
III	Short-term liabilities	127,373	119,383
	G) Accrued and deferred liabilities	10,270	8,388
	Liabilities in total	492,557	528,359

Budapest, 27 May 2016

György Barcza
CEO

II. Profit and loss account

data in HUF thousand

	Liabilities	2014	2015
I	Net sales revenue	1,112,902	1,154,509
III	Other revenue	22,228	3,625
IV	Material expenses	272,069	248,946
V	Personnel expenses	759,720	778,735
VI	Depreciation and amortisation	30,561	33,146
VII	Other expenses	5,529	50,524
A	Operating profit or loss	67,251	46,783
B	Profit or loss from financial transactions	9,550	5,939
C	Profit or loss on ordinary activities	76,801	52,722
D	Extraordinary profit or loss	0	0
E	Profit or loss before taxation	76,801	52,722
XII	Tax payable	7,714	9,854
F	Profit or loss after taxation	69,087	42,868
23	Approved dividends	69,087	42,868
G	Balance-sheet profit or loss	0	0

Budapest, 27 May 2016

György Barcza
CEO

6. Senior officials of ÁKK in december of 2015

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