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GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

# GOVERNMENT SECURITIES MARKET

## MONTHLY REPORT

DECEMBER 2014

The deficit of the central government amounted to HUF 825.7 billion in December. The net prefinancing of cash transfers from the European Union increased the net borrowing requirement by HUF 40.7 billion. Thus, the total net financing requirement amounted to HUF 866.4 billion in 2014. Net issuance was HUF 1,163.9 billion, including the sum of debt assumptions HUF 436.7 billion; out of which net HUF-denominated issuance was HUF 1,635.6 billion and net foreign currency denominated issuance was HUF -471.7 billion. Without debt assumptions net issuance was HUF 759.7 billion (HUF 727.2 billion including repos), out of which net HUF denominated issuance was HUF 1,525.5 billion and net foreign currency denominated issuance was HUF -765.8 billion.

| | 2013 | | 2014 | | Change | |
|---|---|---|---|---|---|---|
| HUF billion | December | % | December | % | HUF billion | % |
| Foreign exchange denominated debt | 8,904.9 | 40.5 | 8,957.9 | 37.5 | 53.0 | 0.6 |
| Government securities | 6,169.3 | 28.0 | 6,793.6 | 28.4 | 624.2 | 10.1 |
| Loans | 2,735.6 | 12.4 | 2,164.3 | 9.1 | -571.3 | -20,9 |
| HUF denominated debt | 12,976.4 | 59.0 | 14,612.0 | 61.2 | 1,635.6 | 12.6 |
| Government securities | 12,372.8 | 56.2 | 13,988.7 | 58.6 | 1,615.9 | 13.1 |
| Loans | 603.6 | 2.7 | 623.3 | 2.6 | 19.7 | 3.3 |
| Total | 21,881.4 | 99.5 | 23,569.9 | 98.7 | 1,688.6 | 7.7 |
| *Other obligations* | 117.3 | 0.5 | 311.2 | 1.3 | 193.9 | 165.4 |
| Total central government debt | 21,998.6 | 100.0 | 23,881.1 | 100.0 | 1,882.5 | 8.6 |

The HUF denominated debt of the central government increased by HUF 1,635.6 billion in 2014. The increase in domestic debt was the result of net government bond issuance of HUF 1,259.2 billion, the amount of discount Treasury bills decreased by HUF 316.3 billion and the total amount of retail government securities increased by HUF 722.6 billion. The stock of non-marketable government bonds decreased by HUF 49.5 billion. The volume of HUF loans increased by HUF 19.7 billion in 2014.

The foreign currency debt of the central government increased by HUF 53.0 billion in 2014. The foreign currency bond issue increased the debt by HUF 678.8 billion, the domestic P€MAK and residence bond issuance was HUF 498.8 billion, the drawdown of foreign currency denominated loans was HUF 48.1 billion. The debt assumptions worth HUF 294.1 billion increased, while the redemptions of foreign currency debt worth HUF 1,991.5 billion decreased the debt. The exchange rate revaluations totalling HUF 524.6 billion increased the Hungarian Forint value of the foreign currency debt in 2014.

Benchmark yields

| Maturity | 31.12.2013. | 30.11.2014. | 30.12.2014. | Change, basis points |
|---|---|---|---|---|
| 3-month | 2.87 | 1.64 | 1.43 | -21 |
| 6-month | 2.95 | 1.64 | 1.54 | -10 |
| 1-year | 3.05 | 1.68 | 1.80 | 12 |
| 3-year | 4.04 | 2.54 | 2.72 | 18 |
| 5-year | 4.70 | 2.97 | 3.15 | 18 |
| 10-year | 5.70 | 3.52 | 3.60 | 8 |
| 15-year | 6.30 | 3.83 | 3.83 | 0 |

Monthly OTC turnover of government securities increased in December and reached HUF 6,498.8 billion. Primary dealers, who account for the decisive part of all secondary government securities trading, made 66% of their secondary government securities deals with non-resident investors.

The volume of non-residents' holdings of Hungarian government securities decreased altogether by HUF 73.9 billion in December, and amounted to HUF 4,873.2 billion at the end of the month. This volume represented 34.8% of the total amount of domestic government securities.

The EUR/HUF exchange rate according to the National Bank of Hungary was 314.89 on the last working day of December.

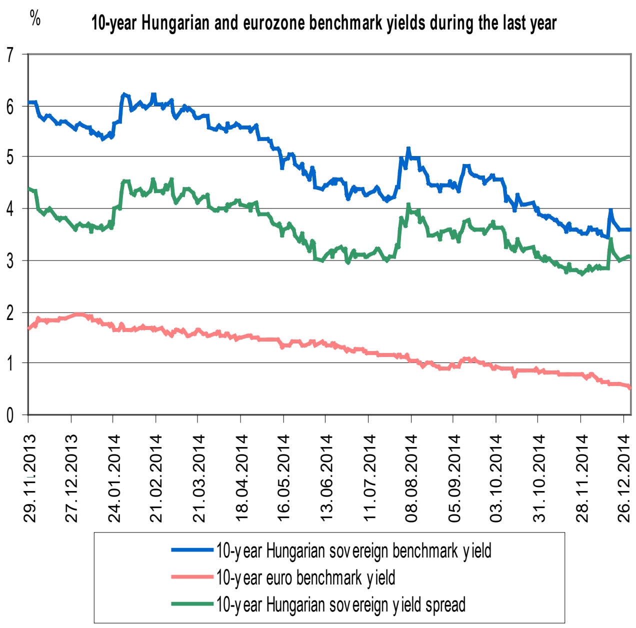
The credit rating of the long-term foreign currency debt of Hungary is as follows on the last working day of December: BB (Standard & Poor's); Ba1 (Moody's); BB+ (Fitch).

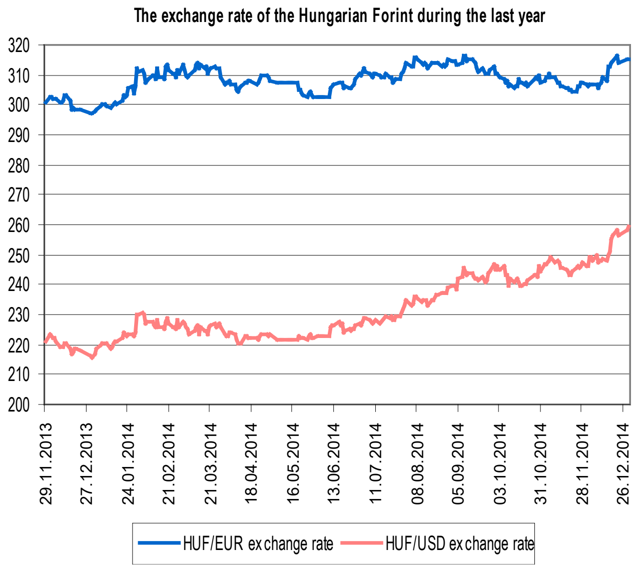
## CENTRAL GOVERNMENT GROSS DEBT

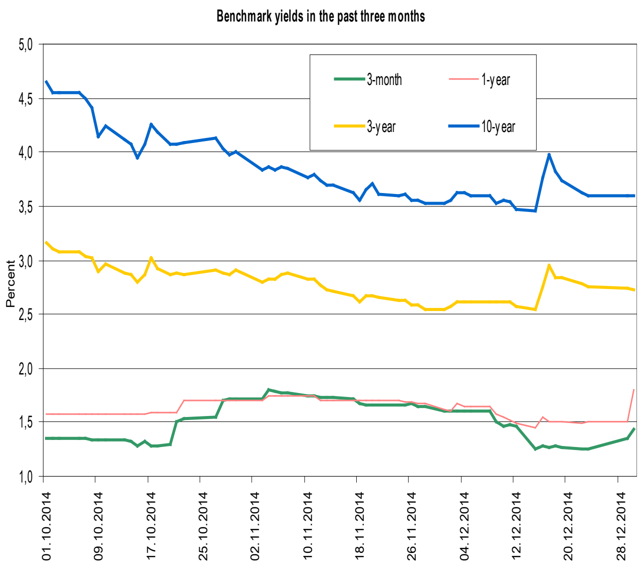
HUF BILLION

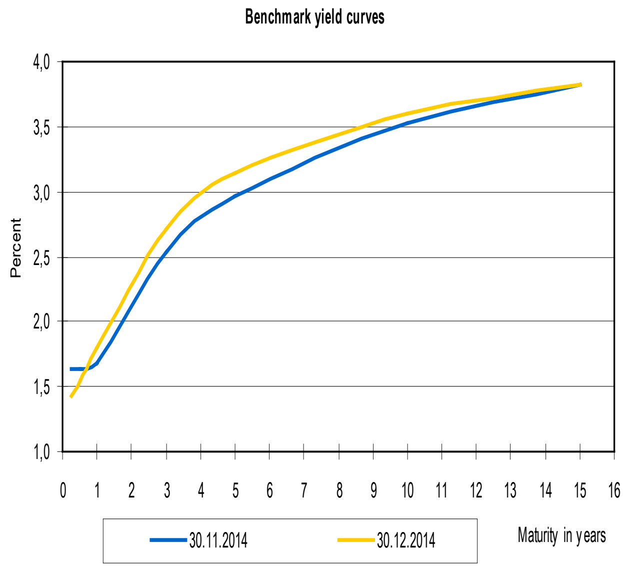
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Oct 2014 | Nov 2014 | Dec 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Forint denominated debt | 11,103.8 | 11,250.6 | 10,476.2 | 10,978.2 | 10,362.2 | 12,042.4 | 12,976.4 | 14,967.4 | 14,817.5 | 14,610.0 |
| 1.1. Loans | 145.7 | 219.9 | 438.7 | 540.8 | 590.8 | 566.8 | 603.6 | 659.7 | 658.1 | 623.3 |
| 1.2. Government securities | 10,958.1 | 11,030.7 | 10,037.5 | 10,437.4 | 9,771.4 | 11,475.6 | 12,372.8 | 14,307.7 | 14,159.4 | 13,988.7 |
| 1.2.1. Public issues | 10,465.4 | 10,599.7 | 9,613.2 | 10,019.6 | 9,378.1 | 11,077.1 | 12,182.3 | 14,149.3 | 14,000.9 | 13,847.7 |
| 1.2.1.1. Bonds | 8,245.3 | 8,570.6 | 7,519.2 | 7,965.8 | 7,353.4 | 8,184.1 | 8,588.8 | 9,693.7 | 9,789.9 | 9,848.0 |
| 1.2.1.2. Discount T-bills | 1,664.9 | 1,482.4 | 1,647.3 | 1,618.2 | 1,540.9 | 1,906.5 | 1,904.9 | 2,101.7 | 1,833.0 | 1,588.6 |
| 1.2.1.3. Retail securities | 555.2 | 546.4 | 446.6 | 435.7 | 473.8 | 986.6 | 1,688.5 | 2,353.8 | 2,378.1 | 2,411.1 |
| 1.2.2. Private placements | 492.7 | 431.0 | 424.3 | 417.8 | 403.2 | 398.5 | 190.5 | 158.4 | 158.4 | 141.0 |
| 2. Foreign currency denominated debt* | 4,472.6 | 6,774.8 | 8,466.7 | 8,842.8 | 10,170.4 | 8,326.6 | 8,904.9 | 9,546.3 | 8,866.1 | 8,957.9 |
| 2.1. Loans | 846.5 | 2,529.4 | 4,112.7 | 4,292.8 | 4,458.1 | 3,312.5 | 2,735.6 | 2,898.7 | 2,227.9 | 2,164.3 |
| 2.1.1. Foreign loans | 838.8 | 2,529.4 | 4,112.7 | 4,292.8 | 4,361.9 | 3,229.0 | 2,400.2 | 2,518.7 | 1,901.6 | 1,889.9 |
| 2.1.2. Domestic loans | 104.0 | 0.0 | 0.0 | 0.0 | 96.2 | 83.5 | 335.4 | 379.9 | 326.3 | 274.4 |
| 2.2. Government securities | 3,626.1 | 4,245.5 | 4,354.0 | 4,550.0 | 5,712.3 | 5,014.1 | 6,169.3 | 6,647.6 | 6,638.2 | 6,793.6 |
| 2.2.1. Issued abroad | 3,626.1 | 4,245.5 | 4,354.0 | 4,550.0 | 5,712.3 | 4,924.2 | 5,736.9 | 5,768.4 | 5,733.5 | 5,844.6 |
| 2.2.2. Issued domestically | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 89.9 | 432.5 | 879.2 | 904.7 | 948.9 |
| Total | 15,576.4 | 18,025.4 | 18,942.9 | 19,821.0 | 20,532.6 | 20,369.0 | 21,881.4 | 24,513.7 | 23,683.7 | 23,569.9 |
| Other liabilities | 9.1 | 78.5 | 20.1 | 220.01 | 422.9 | 351.1 | 117.3 | 222.2 | 230.9 | 311.2 |
| Total central government debt | 15,585.5 | 18,103.9 | 18,963.1 | 20,041.0 | 20,955.5 | 20,720.1 | 21,998.6 | 24,736.0 | 23,914.5 | 23,881.1 |
| *Marketable HUF debt* (1.2.1.1+1.2.1.2.+1.2.2.) | *10,402.9* | *10,484.0* | *9,623.3* | *10,001.8* | *9,297.6* | *10,489.1* | *10,684.2* | *11,953.8* | *11,781.3* | *11,577.6* |
| *Gross debt/GDP* | *61.3%* | *68.2%* | *74.0%* | *75.6%* | *75.8%* | *73.9%* | *75.7%* | | | |

*Foreign exchange debt is recorded at the mid exchange rate of the NBH at the end of the year/month.



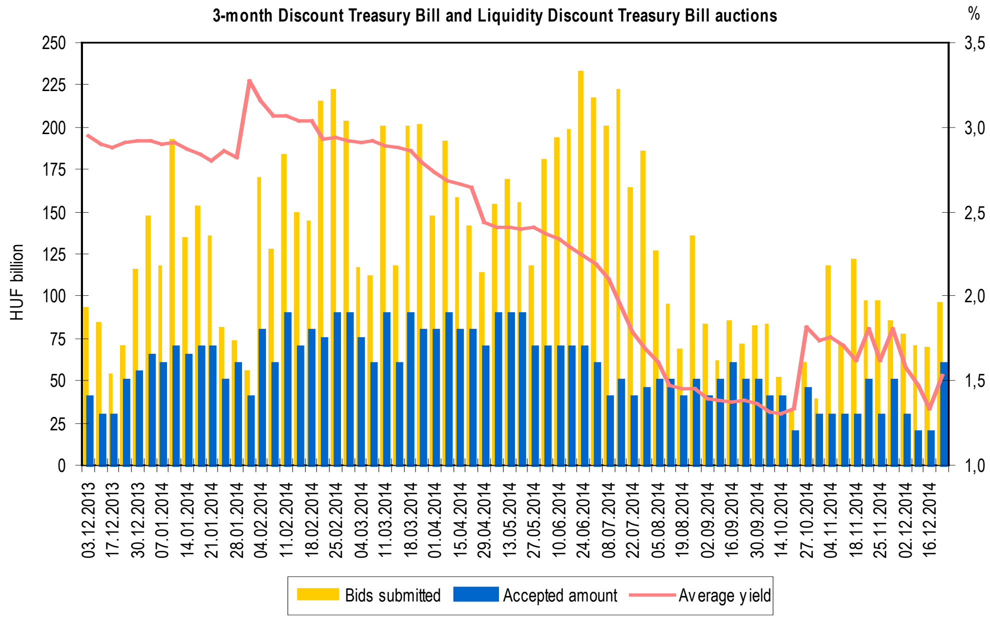



## DISCOUNT TREASURY BILL AUCTION RESULTS

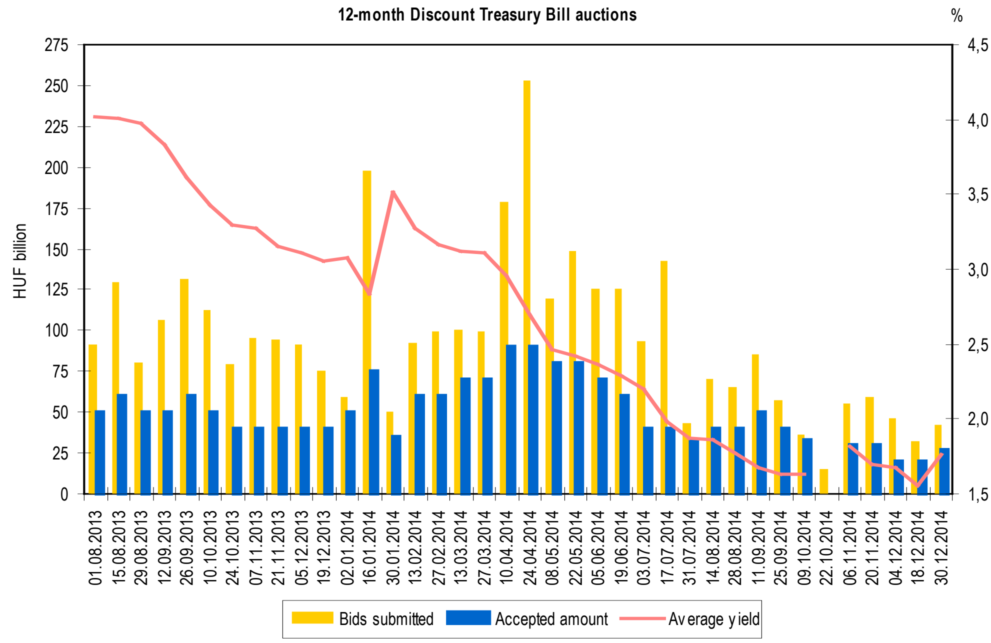
| | Liquidity Discount T.Bills | 3-month Discount T-bills | | | | 12-month Discount T-bills | | |
|---|---|---|---|---|---|---|---|---|
| Code of T-bills | D141230 | D150311 | D150318 | D150325 | D150408 | D151111 | D151223 | D151223 |
| ISIN code | HU0000520184 | HU0000520283 | HU0000520291 | HU0000520309 | HU0000520234 | HU0000520242 | HU0000520317 | HU0000520317 |
| Maturity in days | 27 | 91 | 91 | 92 | 91 | 336 | 365 | 350 |
| Date of auction | 01.12.2014 | 02.12.2014 | 09.12.2014 | 16.12.2014 | 29.12.2014 | 04.12.2014 | 18.12.2014 | 30.12.2014 |
| Date of financial settlement | 03.12.2014 | 10.12.2014 | 17.12.2014 | 23.12.2014 | 07.01.2015 | 10.12.2014 | 23.12.2014 | 07.01.2015 |
| Redemption date | 30.12.2014 | 11.03.2015 | 18.02.2015 | 25.03.2015 | 08.04.2015 | 11.11.2015 | 23.12.2015 | 23.12.2015 |
| Maximum yield (%) - ISMA | 1.85 | 1.60 | 1.50 | 1.34 | 1.57 | 1.68 | 1.62 | 1.85 |
| Minimum yield (%) - ISMA | 1.80 | 1.55 | 1.45 | 1.33 | 1.40 | 1.65 | 1.50 | 1.65 |
| Average yield (%) - ISMA | 1.81 | 1.58 | 1.47 | 1.33 | 1.53 | 1.67 | 1.55 | 1.76 |
| Maximum yield (%) - EHM | 1.88 | 1.62 | 1.52 | 1.36 | 1.59 | 1.70 | 1.64 | 1.88 |
| Minimum yield (%) - EHM | 1.82 | 1.57 | 1.47 | 1.35 | 1.42 | 1.67 | 1.52 | 1.67 |
| Average yield (%) - EHM | 1.84 | 1.60 | 1.49 | 1.35 | 1.55 | 1.69 | 1.57 | 1.78 |
| Average selling price (%) | 99.8644 | 99.6022 | 99.6298 | 99.6613 | 99.6147 | 98.4653 | 98.4528 | 98.3177 |
| Amount offered for sale (HUF million) | 50,000.00 | 30,000.00 | 20,000.00 | 20,000.00 | 60,000.00 | 30,000.00 | 20,000.00 | 60,000.00 |
| Amount of bids submitted (HUF million) | 85,500.00 | 77,720.00 | 71,030.00 | 69,950.00 | 96,200.00 | 46,650.00 | 32,150.00 | 42,200.00 |
| Amount of bids accepted (HUF million) | 50,000.00 | 29,999.97 | 19,999.99 | 20,000.00 | 59,999.99 | 19,999.98 | 19,999.99 | 26,999.97 |
| Bid-to-cover ratio | 1.71 | 2.59 | 3.55 | 3.50 | 1.60 | 2.33 | 1.61 | 0.70 |
| Bids submitted (pcs) | 60 | 83 | 81 | 39 | 87 | 56 | 58 | 68 |
| Bids accepted (pcs) | 18 | 29 | 26 | 9 | 54 | 20 | 41 | 40 |
| Market sales* (HUF million) | 50,000.00 | 29,999.97 | 19,999.99 | 20,000.00 | 59,999.99 | 19,999.98 | 19,999.99 | 26,999.97 |
| Retained on ÁKK's own account | 0.00 | 9,000.03 | 10,000.01 | 10,000.00 | 18,000.01 | 6,000.02 | 20,000.01 | 27,000.03 |
| Total amount issued (HUF million) | 50,000.00 | 39,000.00 | 30,000.00 | 30,000.00 | 78,000.00 | 26,000.00 | 40,000.00 | 54,000.00 |

*Without issuance onto ÁKK's own account

3-month Discount Treasury Bill and Liquidity Discount Treasury Bill auctions



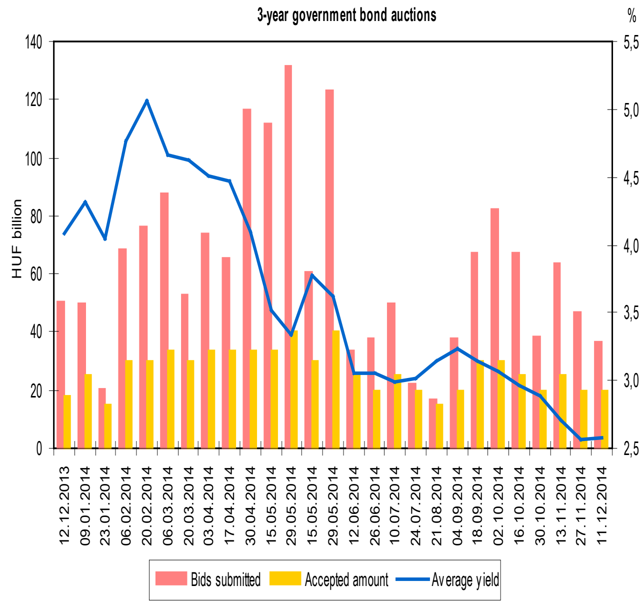

12-month Discount Treasury Bill auctions

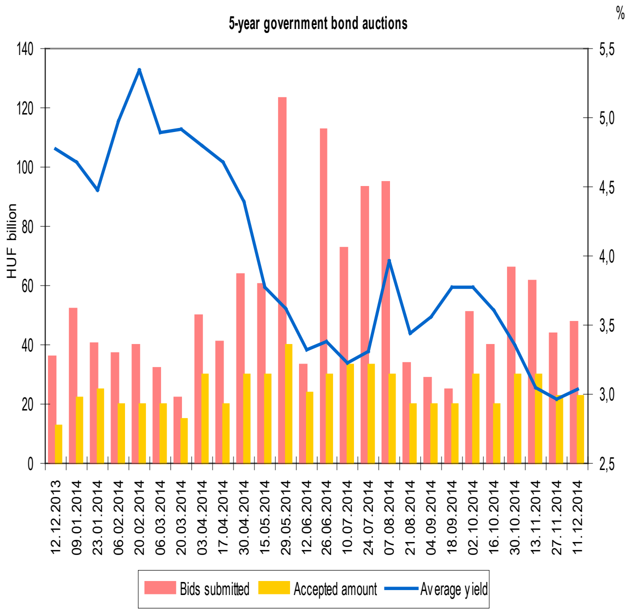


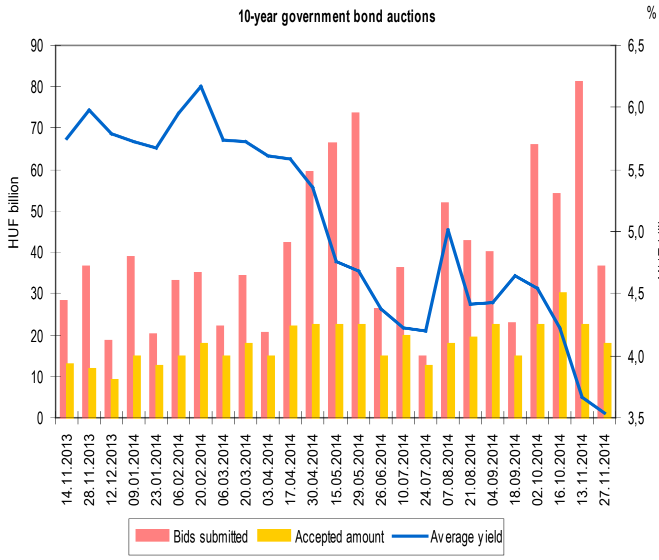
## GOVERNMENT BOND AUCTION RESULTS

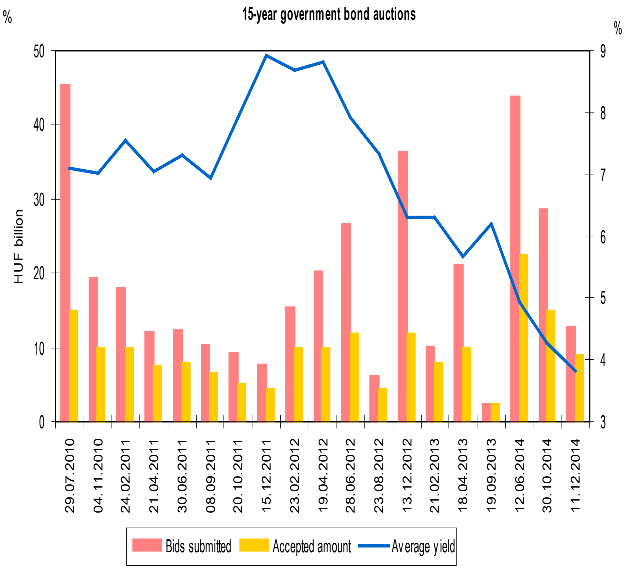
| Government Bond | 2017/C | 2018/B | 2020/B | 2028/A | 2019/B |
|---|---|---|---|---|---|
| ISIN code | HU0000402821 | HU0000402730 | HU0000402953 | HU0000402532 | HU0000402649 |
| Maturity (in years) | 3 | 3 | 5 | 15 | 5 |
| Coupon (%) | 2.09% | 4.00% | 3.50% | 6.75% | 2.41% |
| Auction | 15th auction | 25th auction | 7th auction | 17th auction | 28th auction |
| Date of auction | 04.12.2014 | 11.12.2014 | 11.12.2014 | 11.12.2014 | 18.12.2014 |
| Date of financial settlement | 10.12.2014 | 17.12.2014 | 17.12.2014 | 17.12.2014 | 23.12.2014 |
| Redemption date | 20.12.2017 | 25.04.2018 | 24.06.2020 | 22.10.2028 | 20.05.2019 |
| Maximum annual yield (%) - ISMA | | 2.60 | 3.05 | 3.83 | |
| Minimum annual yield (%) - ISMA | | 2.55 | 3.00 | 3.80 | |
| Average annual yield (%) - ISMA | | 2.58 | 3.03 | 3.82 | |
| Maximum annual yield (%) - EHM | | 2.60 | 3.05 | 3.83 | |
| Minimum annual yield (%) - EHM | | 2.55 | 3.00 | 3.80 | |
| Average annual yield (%) - EHM | | 2.58 | 3.03 | 3.82 | |
| Maximum price (%) | 99.3800 | 104.5929 | 102.5109 | 131.2962 | 97.3500 |
| Minimum price (%) | 99.3000 | 104.4292 | 102.2565 | 130.9165 | 97.2600 |
| Average price (%) | 99.3100 | 104.4930 | 102.3359 | 131.0657 | 97.3100 |
| Amount offered for sale (HUF million) | 20,000.00 | 20,000.00 | 20,000.00 | 12,000.00 | 12,000.00 |
| Amount of bids submitted (HUF million) | 115,570,68 | 36,750,00 | 47,600.00 | 12,800,00 | 35,000,00 |
| Amount of bids accepted (HUF million) | 29,999.93 | 19,999.95 | 22,999.97 | 9,000.00 | 12,000.00 |
| Bid-to-cover ratio | 3.85 | 1.84 | 2.07 | 1.42 | 2.92 |
| Bids submitted (pcs) | 135 | 57 | 54 | 58 | 65 |
| Bids accepted (pcs) | 35 | 40 | 27 | 33 | 10 |
| Tail (average price - minimum price) | 0.01 | 0.06 | 0.08 | 0.15 | 0.05 |
| Market sales* (HUF million) | 29,999.93 | 19,999.95 | 22,999.97 | 9,000.00 | 12,000.00 |
| Non-competitive offer (HUF million) | - | - | 0.00 | - | - |
| Total amount issued (HUF million) | 30,000.00 | 20,000.00 | 32,200.00 | 9,000.00 | 12,000.00 |

*Without issuance onto ÁKK's own account



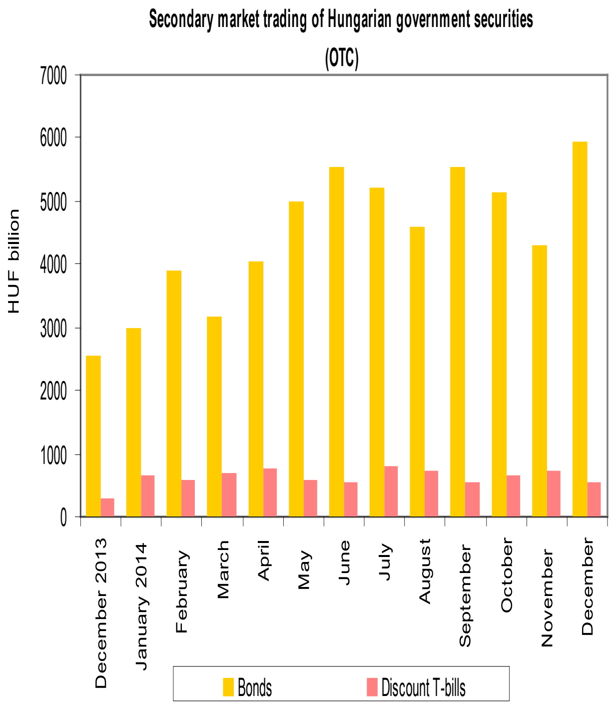



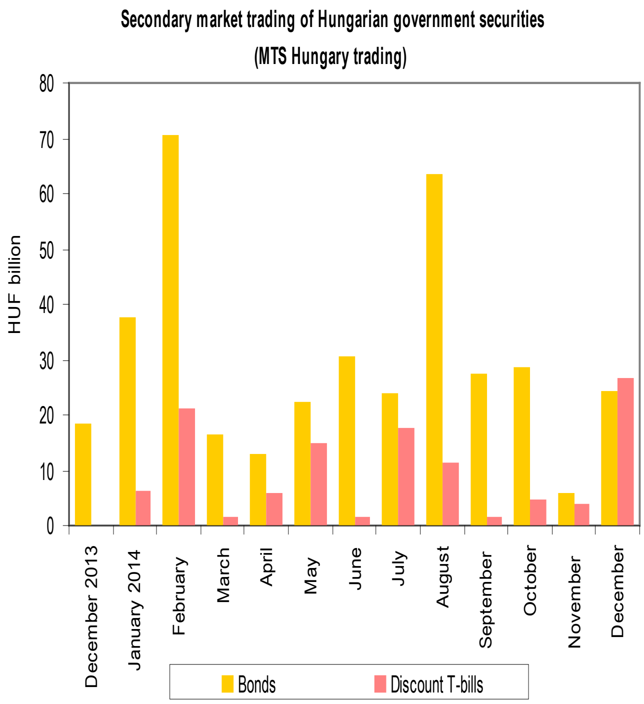



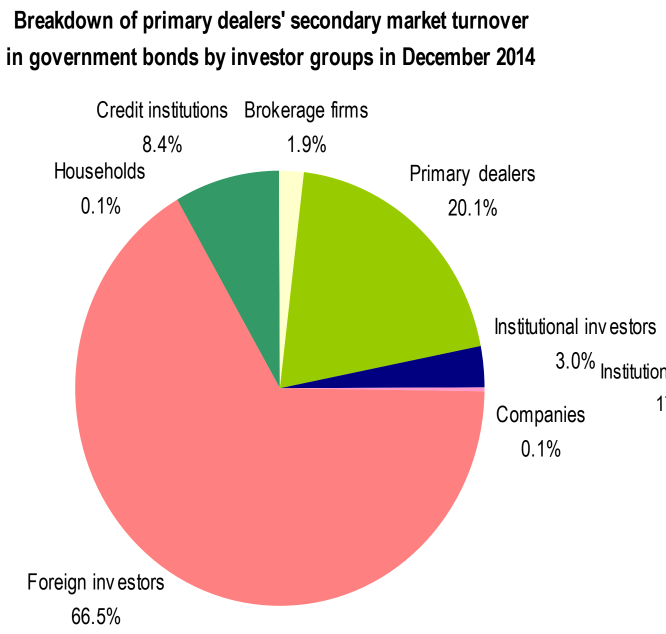



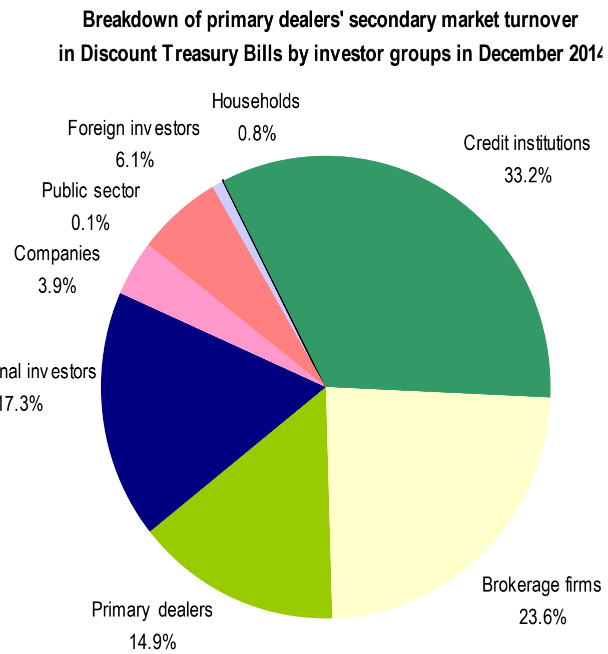
## INTEREST RATE RESETS OF FLOATING RATE GOVERNMENT BONDS IN DECEMBER 2014

| Government Bond | Date of interest rate reset | Interest period | | Date of interest payment | Reset interest rate (%) | Interest payable (%) |
|---|---|---|---|---|---|---|
| 2016/B | 23.12.2014 | 02.01.2015 | 02.07.2015 | 02.07.2015 | 1.68 | 0.84 |
| 2015/B | 17.12.2014 | 22.12.2014 | 22.06.2015 | 22.06.2015 | 1.48 | 0.75 |
| 2015/I | 05.12.2014 | 08.12.2014 | 08.12.2015 | 08.12.2015 | 3.00 | 3.00 |
| 2017/C | 18.12.2014 | 20.12.2014 | 20.03..2015 | 20.03.2015 | 2.10 | 0.53 |
| 2016/A | 30.12.2014 | 31.12.2014 | 31.03.2015 | 31.03.2015 | 2.50 | 0.62 |



## HUNGARIAN GOVERNMENT SECURITIES INDICES

| | MAX index | RMAX index | MAX Composite index | ZMAX index |
|---|---|---|---|---|
| Value as at 30 December 2014 | 652.0469 | 536.0266 | 625.3948 | 524.1348 |
| Changes compared to the end of the month before | -2.1272 | 1.1346 | -1.6616 | 1.0019 |
| Annual yield earned on the index portfolio | 12.58% | 3.31% | 10.83% | 2.46% |

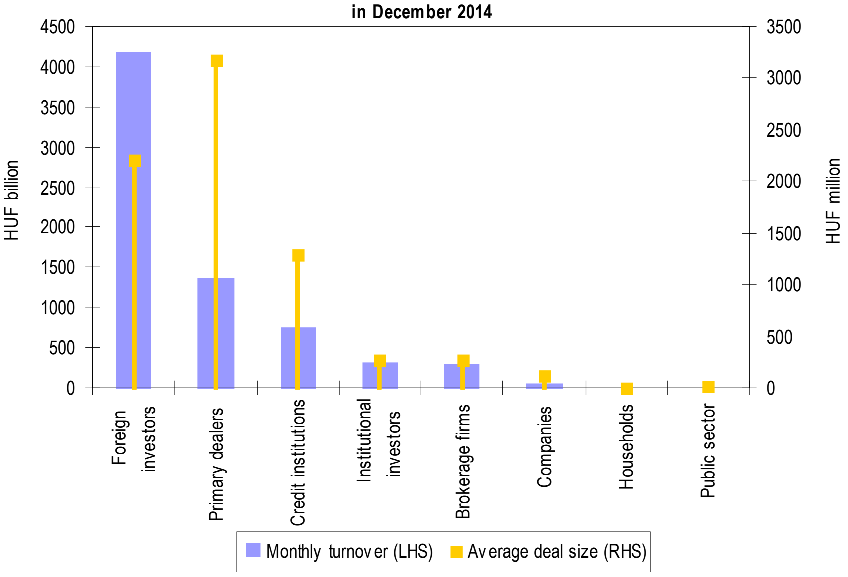
**Government securities with the highest secondary market turnover in December 2014**

| Government security | Date of redemption | Turnover (HUF billion) |
|---|---|---|
| 2022/A | 24.06.2022 | 1,102.7 |
| 2019/A | 24.06.2019 | 982.3 |
| 2023/A | 24.11.2023 | 886.3 |
| 2016/D | 22.12.2016 | 476.1 |
| 2017/A | 24.11.2017 | 464.7 |
| 2017/B | 24.02.2017 | 403.5 |
| 2025/B | 24.06.2025 | 297.6 |
| 2020/A | 12.11.2020 | 290.5 |
| 2016/C | 12.02.2016 | 279.0 |
| D141230 | 30.12.2014 | 227.0 |

**The outstanding volume of government bonds with benchmark status at the end of December 2014**

| | HUF billion | |
|---|---|---|
| Government bond | 30.11.2014 | 30.12.2014 |
| 2018/B | 733.69 | 777.65 |
| 2020/B | 156.14 | 205.19 |
| 2025/B | 455.48 | 473.52 |
| 2028/A | 171.31 | 179.90 |

**Primary dealers' trading with different investor groups in December 2014**




**Non-residents' holdings of Hungarian government securities during the last year and the MAX index**