

Hungarian government securities

Hungarian government bonds are popular savings products in the investment market, mainly due to their safety and favourable interest rates. The Hungarian State is liable for the obligations under the government securities.

Government securities are debt securities, the issuer of which, in this case, the Hungarian State undertakes to pay the amount of money (face value) and the predetermined interest (coupon) specified in the security at the time and in the manner specified. The purpose of issuing government securities is to finance the Hungarian State's budget and to renew maturing debt.

The issuance of Hungarian government securities, the management of the outstanding debt and the operation of the distribution system are arranged by the Public Debt Management Agency (ÁKK Zrt.).

1. To whom are Hungarian government securities recommended?

- ✓ those looking for a safe investment opportunity, as government securities are a symbol of safe investment, where the repayment of capital and interest is guaranteed by the state;
- ✓ those seeking a predictable, secure return;
- ✓ those seeking flexible investment opportunities, as the Hungarian government securities offer short-, medium- and long-term solutions;
- ✓ those who do not want to take risks or who have no experience in more complex investments;
- ✓ those who want to optimise their interest tax liabilities, as Hungarian government securities can be bought in both a Long-Term Investment Account and a pension savings account.

2. Definitions

Government securities	A debt security issued by the state, the purchase of which is in effect a loan from the investor to the state at a predetermined interest rate and for a predetermined term.
Face value	Also known as the base denomination, which is the amount expressed in money terms in respect of a debt security that represents the claim for the principal from the holder of the security.
Interest (coupon)	The amount expressed as a percentage of the face value of debt securities, payable on the interest payment date(s).
Interest payment date	The calendar day on which the interest payment is due.
Term	The period between the issue and maturity of a government security at the end of which the face value and interest are paid to the investor.
Accrued interest	Interest accrued but not yet due in respect of a given government security since the date of issue or since the last interest payment.
Net Price	The current price of the relevant government security without accrued interest.
Gross Price	The sum of the net exchange rate and accrued interest.

Yield on purchase	The yield to maturity that the buyer realises if all cash-flows from the bond can be reinvested at the same yield and the bond is held to maturity.
Yield on sale	The yield at which Erste Befektetési Zrt. takes back the bond from the customer.
Primary market	The primary markets are where financial instruments are issued and first sold, i.e. where new securities are placed.
Secondary market	The trading venue for government securities already in circulation, which in Hungary can take the form of exchange trading in the BSE's debt securities section or OTC trading.
Primary dealer	Investment firms and credit institutions contracted to place and distribute government securities with the public. Primary dealers are responsible for the delivery of the securities to be issued to investors and for ensuring the liquidity of the secondary market.

3. What you need to know about Hungarian government securities

The issuance of government securities in Hungary are arranged by the Public Debt Management Agency (ÁKK), which can be by auction or by subscription. Auctions are used to issue large volumes of government securities, which are therefore mainly bought by institutional investors (e.g. pension funds, insurance companies), while government securities issued specifically for the general public (e.g. domestic and foreign individuals) can be bought through subscription.

Classification of government securities:

1. By maturity
 - short maturity, i.e. government securities with a maturity of one year or less;
 - medium maturity, typically with a maturity of between one and five years;
 - long maturity, i.e. government securities with a maturity of more than 5 years.
2. Based on interest
 - Fixed rate government securities: pay investors a pre-determined amount of interest;
 - Floating-rate government securities: the interest rate varies from time to time during the term upon pre-determined terms;
 - Discounted securities: in this case, no interest is paid, but the paper may be purchased at a price below face value and the face value is paid at maturity. The difference between the two represents the profit for the investor.

3. Risk factors

- Issuer risk, a negative shift in the risk rating of the Hungarian State.
- Lack of liquidity in the secondary market: resulting in a loss of capital if the government securities are sold before maturity.
- Capital protection applies only if the government security is held to maturity.
- Floating rate government securities carry interest risk due to the volatility of the applicable reference rate.
- If the Issuer is insolvent (e.g. state bankruptcy), the payment of principal and interest is doubtful.

4. Factors affecting the price of government securities

- risk rating of the issuer;
- remaining time to maturity;
- development of risk-free yields in forint for the remaining maturity;

- volatility of market yields;
- development of the market liquidity.

5. Government securities traded by our company

5.1. Hungarian Government Bonds

Hungarian government bonds are transferable securities issued in dematerialised form (electronically registered) with different maturities (3, 5, 10 and 15 years). They have a base denomination, i.e. a face value of HUF 10,000, and are fixed or floating rate securities, with interest payments made annually or semi-annually.

The way in which government bonds are issued and purchased is by auction. Only the Primary Dealers may participate directly in the auction and investors may bid through the Primary Dealers. After the issue, they can be sold on the secondary market and admitted to trading on the Budapest Stock Exchange (BSE).

The Hungarian government bonds are available for purchase by both resident and non-resident natural and legal persons and entities without legal personality.

5.2. Discount Treasury Bills

Discount Treasury Bills (DKJ for short) are also transferable securities issued in dematerialised form with a face value of HUF 10,000. They have a maturity of between 3 and 12 months and do not pay interest, but are issued at a discount price, i.e. below the face value, and are redeemed at face value at maturity. The yield on the security is the discount, i.e. the difference between the face value and the purchase price.

Discount Treasury Bills are placed on the public market by means of an auction, in which only Primary Dealers may participate directly and investors may bid through Primary Dealers. They are liquid on the secondary market and are also admitted to trading on the Budapest Stock Exchange (BSE).

The range of investors is the same as for government bonds, in that they can be purchased by resident and non-resident natural and legal persons and entities without legal personality.

5.3. Retail government securities

I. One-year Hungarian Government Securities

One-Year Hungarian Government Securities are fixed-rate government securities with 1-year maturity and a base denomination of HUF 10,000.

Product parameters

Issuer	Hungarian State
Issuance	By subscription
Face value	HUF 10,000
Type of interest	Fixed rate
Interest rate	To be fixed per Series in the Public Offer of the respective Series*.
Minimum quantity	10
Subscription Price	100% (i.e. HUF 10,000)
Capital guarantee	At the maturity of the One Year Hungarian Government Securities, the invested capital will be paid out.
Subscription period	Typically one week, as specified in the Public Offer of the given series*
Issue date	Second business day of the week following the closing of the subscription. The exact date will always be recorded in the Public Offer of the relevant Series*.
Term	1 years
Maturity date:	To be fixed per Series in the Public Offer of the respective Series*.
Interest Payment Date	Paid on the Maturity Date.
Participants in the subscription of one-year Hungarian Government securities	Domestic and foreign individuals
Allocation procedure to be applied in the subscription	Proportional allocation. In other words, if the quantity of the issued One-Year Hungarian Government Securities is less than the subscribed quantity, each Customer will receive a share of the issued quantity in proportion to its subscription. Order of satisfaction: domestic individual, foreign individual.
Settlement of Bonds	During secondary distribution day T+2.
Investors in the secondary market	Same investors as indicated for the primary market. *The Public Offer of each Series is available at

**The Public Offer of each Series is available at www.allampapir.hu and www.ersteinvestment.hu.

Price quotation

In the course of the secondary distribution following subscription, Erste Befektetési Zrt. will quote a bid/offer price for each series of One-Year Hungarian Government Securities that it previously sold or for which it received a subscription order in the course of its distribution activities, provided that the face value of the One-Year Hungarian Government Securities to be sold/purchased reaches HUF 100,000 (one hundred thousand).

II. Hungarian Government Securities Plus

Hungarian Government Securities Plus are fixed progressive interest-bearing government securities with 5-year maturity and a base denomination of HUF 10 000.

Product parameters

Issuer	Hungarian State
Issuance	By subscription
Face value	HUF 1
Type of interest	Fixed progressive rate
Interest rate	The interest rate for each interest period is determined in the Public Offer for the relevant Hungarian Government Securities Plus series*.
Subscription Price	100% (i.e. HUF 1)
Capital guarantee	At maturity of the bond, the invested capital will be paid out.
Subscription period	Typically one week, as specified in the Public Offer of the series*
Issue date	Second business day of the week following the closing of the subscription. The exact date will always be recorded in the Public Offer of the relevant Series*.
Term	5 years
Maturity date:	To be fixed per Series in the Public Offer of the respective Series*.
Interest Settlement Dates	In the first year, semi-annually, in the following years annually
Interest Payment	On the interest settlement date (except the last interest payment date at maturity), the issuer will settle (credit to the securities account of the holder of the Hungarian Government Securities Plus) in securities of the same series (Hungarian Government Securities Plus) with a face value equal to the amount of the interest expressed in money terms. If the interest payment is made on the last interest payment date at maturity, the interest on the Hungarian Government Securities Plus (the interest amount in HUF) registered in the securities account will be paid by ÁKK Zrt. by transfer.
Participants in the subscription of the Hungarian Government Securities Plus	Domestic and foreign individuals
Allocation procedure to be applied in the subscription	Proportional allocation. In other words, if the quantity of the issued Hungarian Government Securities Plus is less than the subscribed quantity, each Customer will receive a share of the issued quantity in proportion to its subscription.
Settlement of Bonds	During secondary distribution day T
Investors in the secondary market	Same investors as indicated for the primary market (subscription).

**The Public Offer of each Series is available at www.allampapir.hu and www.ersteinvestment.hu.

Price quotation

In the course of the secondary distribution following the subscription, Erste Befektetési Zrt. will quote a bid/offer price for each series of Hungarian Government Securities Plus that it previously sold or for which it received a subscription order in the course of its distribution activities, provided that the face value of the Hungarian Government Securities Plus to be sold/purchased reaches HUF 100,000 (one hundred thousand). In the 5 working days following the interest payment date, this means a net 100% purchase price, otherwise the price may be different.

III. Premium Hungarian Government Securities

Premium Hungarian Government Securities are variable-rate dematerialized government securities with 3-5 years' maturity and a base denomination of HUF 1000. The Interest Payable is the sum of the Interest Base Rate and the Interest Premium. The Interest Base of each Series is equal to the percentage of the annual average change in the consumer price index for the calendar year preceding the year in which the interest is calculated, as officially published by the Central Statistical Office, such that if this value were negative, the Interest Base would be equal to 0%. A given series will provide a variable Interest Premium above this Interest Base. The rate of the Interest Premium for each series will be determined in the relevant Public Offer of the Public Debt Management Agency (hereinafter referred to as the "ÁAK").

General product parameters

Issuer	Hungarian State
Method of issuance:	Pipelined issuance*
Face value	HUF 1,000
Type of interest	Variable interest
Issue price	The Face Value on the Issue Date, and thereafter the sum of the Face Value and Accrued Interest in the course of Primary Issuance.
Capital guarantee	At maturity of the bond, the invested capital will be paid out.
Interest fixing date	The interest rate for a given interest period is determined on the 2nd (second) business day preceding the first day of the interest period, except for the first interest period.
Interest Base	Equal to the percentage of the annual average change in the consumer price index for the calendar year preceding the year in which the interest is calculated, as officially published by the Central Statistical Office, such that if this value were negative, the interest base would be equal to 0%.
Interest premium	In all cases, the relevant Public Offer published by ÁAK prevails.
Determination of the interest rate	The sum of the specified Interest Base and Interest Premium.
Investors	Natural persons who are resident or non-resident for currency purposes.
Investors in the secondary market	Same investors as indicated for the primary market.
Settlement of Bonds	During the Primary Issuance in case of purchases by customers until Cut off T+2 days. In the case of sales by customers, settlement is on day T+2 regardless of Cut-off. T+2 days after Primary Issuance.
Cut-off	16:30 CET

*A way of public issuance of a security where the sale is made during a period determined by the issuer with the same maturity date. The issue price of the security may vary during the issue period.

Price quotation

During the Primary Issuance Period

- Ask price quotation (at which the Customer may make a call): Face Value + Accrued Interest
- Bid price quotation Erste Befektetési Zrt. as Dealer will quote a bid price during the Primary Issuance Period in the range of HUF 100 000 to HUF 10 000 000 per day and per Customer.

After the Primary Issuance Period

After the Primary Issuance Period, Erste Befektetési Zrt. will quote both an ask and a bid price in the range of HUF 100,000 to HUF 10,000,000 per day and per Customer.

The applicable Fee Schedule of Erste Befektetési Zrt. shall apply to any fees.

Before making any investment decision, you should consider whether the investment suits your longer-term plans and investment objectives and that you have assessed and understood the potential risks and characteristics of the investment and that you find them acceptable.

6. Tax information

The interest earned on bonds and the income earned on redemption or transfer is **interest income** within the meaning of Article 65 of the Personal Income Tax Act. In Hungary, from 1 January 2016 interest income earned is subject to a 15% tax rate, while interest income earned up to 31 December 2015 continues to be subject to 16% tax. If the sale, income or interest payment is arranged through a statutory paying agent, the tax is assessed, deducted and paid by the paying agent on a transaction-by-transaction basis and does not have to be reported by the individual in his/her tax return.

Under Act CXVII of 1995 on Personal Income Tax, the income (interest, yield) from retail government securities issued by the Hungarian State from 1 June 2019 is exempt from tax.

From 1 January 2017, Section 3/A of Act LXVI of 1998 on Health Care Contributions will be repealed. Under the change, the 6 percent healthcare contribution on interest income will be abolished, so that the 6 percent healthcare contribution will not be deducted from interest income credited after 31.12.2016.

The above rules also apply to **non-resident individual** investors, with the difference that in possession of a certificate of residence issued by the foreign state in which the individual is resident for tax purposes, the paying agent determines the tax deduction liability and the tax rate on the basis of double taxation treaty, or, failing this, in accordance with the provisions of the Personal Income Tax Act. In addition, in the case of a foreign individual whose state of residence does not have a double taxation treaty with Hungary, the organisation that is deemed to be the paying agent under the law must deduct 15% tax on the interest income.

In the case of an investment under a long-term investment contract with an investment service provider pursuant to the provisions of the Personal Income Tax Act in effect at the time of the preparation of this Product Information, the investor may apply the preferential tax rules provided for by the Act under the conditions set out in the Personal Income Tax Act. In addition, it is also possible, subject to compliance with the conditions laid down by law, to place the bonds in a pension savings account.

For more information on the pension savings account scheme, its advantages and tax features, please visit our website (http://ersteinvestment.hu/hu/erste_nyugdijjelotakarekossagi_szamla.html).

Government securities transactions can also be traded in a Long-Term Investment Account. For more information on the Long-Term Investment Account, its advantages and tax features, please visit our website (http://ersteinvestment.hu/hu/erste_tbsz.html).

The tax information is not exhaustive. Before making your decision, please check out the information in detail on the legal conditions for interest income, long-term investment accounts (TBSZ) and other taxation issues (including the case where the transaction is not concluded through an investment service provider) and consult your tax advisor as the tax conditions and the choice of a scheme for the Long-Term Investment Account can only be weighed on the basis of the investor's individual circumstances. Tax laws and their interpretation may change and Erste Befektetési Zrt. cannot be held liable for the consequences thereof.

7. Further Conditions

For further information, please refer to the Prospectus and the Public Offer prospectus for the issuance of the government securities, which are available on the website of Erste Befektetési Zrt. (www.ersteinvestment.hu) and on the website of the Issuer (www.allampapir.hu).

The information contained in this document is not exhaustive and Erste Befektetési Zrt. reserves the right to make changes.

The content of this document does not constitute an investment offer, an invitation or solicitation to make an offer, investment advice or tax advice. It is intended solely to provide investors with certain specific information about the Investment Loan to assist them in obtaining sufficient information about this form of investment prior to entering into a transaction. Further information on the Investment Loan is also contained in our **Terms and Conditions of Business** and our notices, which are available on the website of Erste Befektetési Zrt. (www.ersteinvestment.hu).

Please contact our staff and they are happy to help you if you need further information on this product or service in addition to the above in order to make a prudent investment decision. We also ask you to carefully consider the object of your investment, its risk, its charges, the fees and charges related to the management of your account and the losses that may result from your investment before making your investment decision.