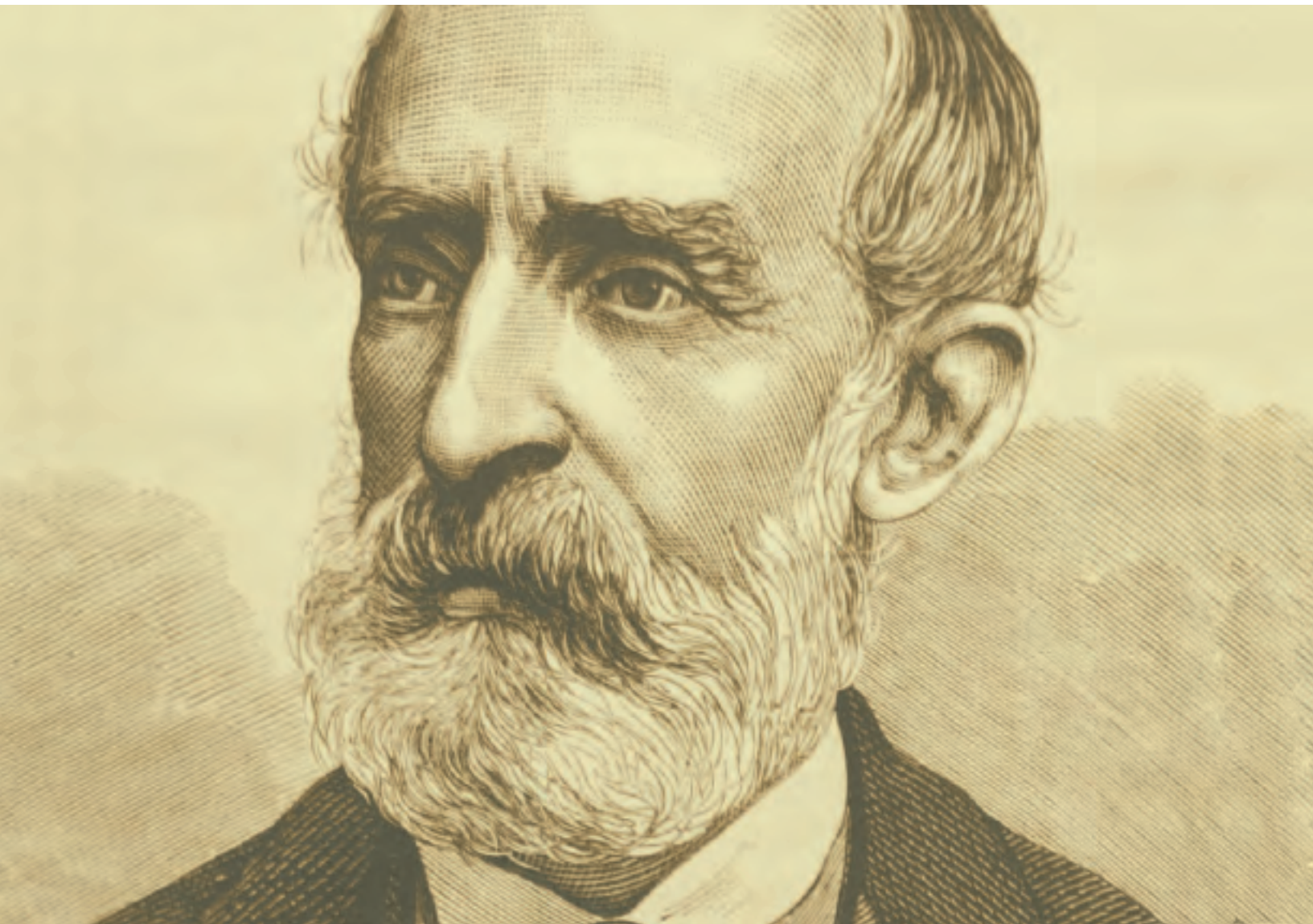




STRATEGIC REPORT



2018



“And you my kind sirs, members of the two trade bodies, heads of commerce, industry and financial institutions, farmers, industrialists, tradesmen and brokers, I once again encourage you to visit the stock exchange regularly and diligently, and to ensure health and vigour to our institution by concluding your business deals at the stock exchange.”

Baron Frigyes Kochmeister
First Chairman of the Budapest Commodity and Stock Exchange



STRATEGIC REPORT 2018

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A key player on the Hungarian money and capital markets, the Budapest Stock Exchange (BSE) provides economic operators with access to financial resources and offers investors a broad range of investment instruments. BSE's mission is to create a Hungarian economy based on stable and independent funding and to continuously develop the financial culture of the Hungarian population and corporate sector.

As the successor to the first Hungarian stock exchange, founded more than 150 years ago in 1864, the Budapest Stock Exchange plays a pivotal role both in Hungary's and the Central Eastern European region's capital markets. As a result of the dynamic growth it achieved after its re-establishment in 1990, BSE now provides the highest level of service in compliance with the standards of developed markets, to security issuers, traders and investors from around the world.

In the last two and a half decades, Budapest Stock Exchange evolved into the most innovative market in the region: it was the first to introduce, among other activities, options and futures trading. The exchange pioneered the listing of exchange-traded funds in the region and was among the first to use central counterparty services, an essential component of the safety of settlements, in collaboration with KELER.

Today, BSE offers investors the broadest range of products in the region. Alongside equities and debt securities, which are the traditionally the most popular, the range also includes investment funds and structured products, as well as international equities.

On 20 November 2015, the National Bank of Hungary concluded a purchase agreement with the former owners of the Budapest Stock Exchange, the Austrian CEESEG AG and Österreichische Kontrollbank AG. As a result of this transaction, MNB became the qualified majority shareholder in BSE. Brought under national ownership, BSE was required by its new owner to formulate a five-year strategy for 2016-2020 along the lines of capital market development objectives in order to set the priorities that will determine the direction of stock market development for years to come.

The purpose of the Strategic Report is to present, on an annual basis, what the BSE has accomplished from its five-year strategic plan for the 2016-2020 period. At the same time, the publication also provides an outlook on the undertakings of coming years as well as its ongoing tasks.

In addition to this Strategic Report and after adoption by the general meeting, BSE will naturally also publish its annual report presenting the business management activities of the Stock Exchange.

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BSE CAPITAL MARKET DEVELOPMENT STRATEGY 2016-2020

The overarching aim of the strategy devised by the Budapest Stock Exchange (BSE) for the period 2016–2020 is to formulate and implement a comprehensive capital market and stock exchange development programme in Hungary, which will result in capital fundraising increasing its role in Hungarian corporate finance, making it an effective supplement to credit from the banking sector, which predominates at present.

Having a highly developed capital market and stock exchange is a precondition for any competitive, innovative economy. A well-functioning stock exchange encourages investment in bonds and shares, which is of critical importance to enterprises that are denied credit by banks, especially during a slowdown in credit. Being present on the stock exchange requires companies to operate transparently, which greatly contributes to “cleaning up” the economy. In the face of global competition, it is essential for Hungary to establish leading centres of knowledge, innovation and production. This process is supported by developing enterprises listed on the BSE in a way that is centred on Hungary, with independent management, thus enabling regional expansion with the help of stock exchange financing.

The timing for formulating and implementing the new stock exchange development strategy is ideal for a number of reasons. Firstly, helping enterprises – in particular small and medium-sized enterprises (SMEs) – to find funding via the capital markets is the focus of economic policy at both the European and the global level. To promote this policy, the European Commission presented its concept for the Capital Markets Union, while in 2012 the USA passed the JOBS Act, with the main objective of fostering employment and innovation by developing capital markets. Capital markets also serve to promote a more effective distribution of EU funds within the 2016-2020 time frame. This framework provides opportunities for EU funds to be used to strengthen the economic role of the stock exchange, so there is a realistic chance of generating an effectively functioning capital market in Hungary by 2020.

Achieving the strategic goals demands even closer cooperation than before with the government, state institutions and market players in order to create a business and regulatory environment that actively supports balanced growth in the Hungarian economy through improvements to the capital market and the BSE. This will bring the BSE's role as a catalyst into the foreground, raise capitalisation as well as the number of offerings, and improve the profitability of the BSE in the medium term.

The most urgent task at present is to promote successful stock market launches by assisting initial public offerings (IPOs) from enterprises that can demonstrate stable performance, that have a business strategy offering serious growth potential, that meet the demands for high quality that will bolster investor confidence, and which therefore will attract substantial investor interest. Furthermore, it is important that the IPOs are priced at a level that facilitates future improvements in prices.

State-owned corporations represent one of the key issuer target groups, the public offerings of which could be implemented on the basis of a schedule to be prepared hand-in-hand with the government. Capital market presence contributes to improving the profitability of these companies, and is also indicative of the Hungarian state's commitment to developing the capital market. In addition to the fact that public listing allows for the recapitalisation of undercapitalised state-owned companies, it also generates immediate budgetary revenues. More efficient and effective operation also leads to other benefits, such as higher employment and growing tax revenues due to the increased activity of the company's suppliers and other business partners. Stock exchange sales seen during the wave of privatisation in Hungary in the 1990s generated considerable surplus for these companies in terms of competitiveness and innovation, as well as in establishing the capacities required for development. The seats of companies privatised on the Budapest Stock Exchange,



and consequently the centres of major business decisions that require highly qualified management and staff, remained in Hungary which had further positive added value at the level of the national economy.

In addition to this, identifying larger corporations and SMEs that may represent a good investment alternative, and assessing their stock market viability, is another essential component for building up a diverse issuer structure and for further increasing stock market turnover. For issuers, this represents immediate, continuous and long-term capital-raising opportunities, which will increase competitiveness and provide incentives for management and staff alike.

The fact that the government supports and pays particular attention to developing the domestic capital market to achieve long-term, sustainable economic growth and innovation is an important message for economic players. The state can contribute to developing the stock exchange in numerous forms; without such support, the chances of accomplishing impressive successes drop substantially in the short term. The support of the government is particularly important with regards to establishing a market-friendly regulatory environment, and promoting the use of EU resources to develop the stock exchange.

The strategy concentrates primarily on boosting the domestic stock market, with supplementary objectives being developing certain submarkets and increasing revenues not directly associated with share trading. In the interest of boosting the debt securities section, the BSE is cooperating closely with the Government Debt Management Agency (ÁKK), and is examining possible breakthrough opportunities in the derivatives, commodities and securities sections, as well as in data sales.

IN SUMMARY, THE BSE HAS SET THE FOLLOWING GOALS FOR 2016–2020:

- listing five new stocks or corporate bonds every year which conform to quality criteria,
- increasing the number of companies mature enough to be floated on the stock exchange – 50 companies within four years,
- increasing the number of large capitalisation liquid shares – the expansion of MSCI Hungary to five companies within four years,
- facilitating access to funds for SMEs – 30 companies on the SME market within four years,
- increasing stock exchange equity capitalisation/GDP ratio, objective: ~30%,
- increasing the liquidity of smaller securities – 20 quoted/analysed securities within four years,
- engaging active partners for stock exchange listings – ten IPO partners (NOMAD) within two years.



EXECUTIVE SUMMARY

THE YEAR OF VIBRANT DEVELOPMENT

EXECUTIVE SUMMARY FOR THE REPORT ON THE THIRD YEAR OF IMPLEMENTING THE BSE'S FIVE-YEAR STRATEGY

Once again, the year flew by quickly, and I can safely say that it was an outstanding one for the Budapest Stock Exchange. Following the steep price increase of 2017, the BUX broke another record at the start of 2018, and while other exchanges experienced substantial declines, we saw the index soar to near record heights on several occasions before the year-end. OTP, the biggest company on the exchange, reached a new record-high price after 11 years, while the second largest security, MOL, was at its highest level since the 2008 crisis.

Of the companies listed on the exchange, as many as three were promoted to the Equities Prime market (which embodies the highest standard), bringing the number of securities traded there to 19. The Xtend market was launched in line with the BSE's 2016-2020 strategy, enabling Hungarian small and medium-sized businesses to opt for an easier form of listing on the exchange. For the two first companies listed on the Xtend market, entry to the new market facilitated the raising of fresh capital.

We again presented 50 outstanding Hungarian businesses, and the success stories of 150 well-performing Hungarian companies featured in the three BSE50 publications published to date show that there is a growing number of domestic firms that are ready to go up to the next level and be listed on the exchange.

Increasing the competitiveness of the country's small and medium-sized businesses is a key objective of the government. This progression, however, requires capital, an increase in company size, occasionally the merging of businesses, as well as external markets: things that are much easier for listed companies to achieve.

I would add that we are doing our part to make this happen.

We use a comprehensive approach to attract companies to the exchange and to enable their entry to the trading floor: the exchange identifies companies suitable for membership and presents 50 of these companies in its publication. Meanwhile, the companies can become familiar with opportunities in capital market financing through the ELITE Programme before making any commitments. Those, however, who make the decision to float onto the exchange become eligible to participate in the Mentoring Programme, take advantage of the assistance of Nominated Advisers, raise capital by involving the National Stock Exchange Development Fund, and finally, to gain entry to the Exchange's Xtend market. In addition, the BSE's analytical/market-making programme also supports small and mid-cap companies in order to make their role in capital market circulation more pronounced. Through this particular service, we are in essence investing in developing the secondary market by, in addition to analyses, also purchasing market-making (as neutral members) from exchange members participating in the programme.

The service package is, thus a complete one, leaving it only up to these companies to choose to take advantage of the opportunities offered by the BSE in the future.

During the year, Opus and Konzum, two businesses that have grown considerably in size on the stock exchange, announced their intention to merge. The resulting company will be the fifth largest company on the stock exchange, with capitalisation expected to exceed EUR 1 billion. In addition, Regulated Real Estate Investment Companies (SZITs) have also appeared on the exchange.



As far as the investor side is concerned, demand by foreign investors and investment funds for stocks traded on the BSE is strong, but at the same time, the Hungarian retail stock portfolio could be larger. The retail stock portfolio in Hungary totals more than HUF 800 billion, of which nearly HUF 600 billion is direct stockholding, while slightly more than HUF 200 billion are investments through institutional investors. This is less than one-tenth of the current stock exchange capitalisation of approximately HUF 8,400 billion, and less than 2% of total retail savings, while the entire portfolio of retail assets held by the population today exceeds HUF 52,000 billion. Increasing the population's confidence in stock investments is of the utmost importance to us. The population, youth in particular, can be familiarised with the stock exchange through education, enabling them to handle the risks and great successes that are present in the market. There was indeed an abundance of the latter.

In no small part aimed at addressing potential investors, the Budapest Stock Exchange continued its educational programme: popular events were held under the BSE Academies banner, where key experts of the Hungarian capital market presented the world of the stock exchange to interested attendees. With secondary school students in mind, we again organised – in collaboration with the Money Compass Foundation – the Stock Derby competition, while secondary school students also had the opportunity to participate in the stock exchange game organised in partnership with the Central European Training Centre for Brokers (KEBA). The CFA Institute and the CFA Society Hungary held the Investment Research Challenge aimed at university students, and it is at this contest that the BSE hands out the prestigious Kochmeister Award. Through free of charge visits to the exchange, we were able to introduce 1,500 students to the world of the stock exchange.

Similarly to last year, the Budapest Stock Exchange continued building its international network of contacts in 2018 as well.

In the spring, the Budapest Stock Exchange (in the company of Hungarian issuers) introduced itself at high-profile investor events held in London and Warsaw. The stock exchanges of the V4 countries, as well as Romania and Slovenia, held a summit in Prague. Then in May, the BSE concluded an agreement with the Shanghai Stock Exchange that represents an opportunity for wide-scale collaboration. In July, the exchanges of the V4 countries held an introductory conference in London, followed by the prestigious Spring Europe MidCap Event in Paris, when we were present alongside six of our issuers. In September, the Central and Eastern European region's largest stock exchange conference was hosted in Poland, with the Hungarian exchange included among the invitees. In the autumn of 2018, after London and Milan, it was the BSE's turn to host the international Scaleup Summit conference.

Summary: 2018 was an exciting year for the Budapest Stock Exchange. Once again much has happened to us, through us and around us this year. Life in and around the Hungarian exchange is vibrant. We have reason to be satisfied, but cannot rest on our laurels either. We have further goals that we wish to achieve with support from our partners.

In addition to what I have stated above, the present publication on the development of the Budapest Stock Exchange and the capital market is intended to provide actors on the capital market, legislators and interested private individuals with a comprehensive overview of events on the BSE over the past year (which has been the third year of the strategic programme announced for 2016-2020), an idea of what can be expected in the near future and in what direction the Hungarian capital market will be developing down the line.

Richárd Végh
Chairman & CEO of the Stock Exchange



SUCCESSFUL YEAR FOR THE EXCHANGE, HIGH OPERATIONAL RELIABILITY

IPOS, CAPITAL INCREASES AND ADDITIONAL ISSUES

2018 proved to be an exciting year for the Budapest Stock Exchange. Several listed companies moved up to the next level and were promoted to the Prime market. As well, there were capital raises, IPOs, trading volume increased and new products were introduced to the BÉTa Market, and the very first players were listed on BSE Xtend.

After 2017, again in 2018 three companies were promoted from the Standard to the Prime category. This brings the number of companies whose securities are traded in the Equities Prime market to 19. Konzum was the first to be promoted, on 7 March 2018. It was the 7th most-traded security on the BSE during the year, with trading volume close to HUF 60 billion, which amounts to 2.2% of total trading volume.

ALTEO Nyrt. was promoted to the Equities Prime category on 12 September. The dynamically growing energy provider and trading company carried out an IPO in the autumn of 2016, having already been present on the exchange with a technical listing as well as realising a successful bond programme.

Budapesti Ingatlan Hasznosítási és Fejlesztési Nyrt. (BIF) was admitted to the Prime category on 2 October 2018. At the same time, the company also raised capital, introducing 2,870,244 new shares into trading. BIF entered the Hungarian real estate market almost 25 years ago, and its shares have been trading on the Budapest Stock Exchange for 20 years.

BILK Logisztikai Nyrt. made its capital market plans public in 2018. The company's stocks were introduced on the stock exchange, with a deadline for the commencement of trading set for June 2019. BILK may be the first issuer on the Hungarian floor whose stocks – after a successful transaction – can be traded in euros.

Mortgage bonds, which are real-estate mortgage-backed debt security, have been available on the exchange since 2001, and the range includes both variable and fixed-interest mortgage bonds. The boom in the mortgage market after the turn of the millennium made the trading of mortgage bonds a dynamically developing market segment. At present, 42 mortgage bonds of five mortgage banks (Erste Jelzálogbank Zrt., Takarékszövetkezet Jelzálogbank Nyrt., OTP Jelzálogbank Zrt., UniCredit Jelzálogbank Zrt. and K&H Jelzálogbank Zrt.) are traded on the BSE, in a total value of nearly HUF 1,175 billion. This is a roughly 55% increase compared to last year's total volume of HUF 760 billion. This volume increase is due mainly to the HUF 276 billion mortgage bond issue by OTP Jelzálogbank Zrt., but Takarékszövetkezet Jelzálogbank Nyrt. also contributed significantly to extending its product range on the offer side by raising the number of its BSE-traded securities for a total face value of HUF 121 billion.

The volume of the equity market also grew as a result of capital increases. In 2018, 13 joint-stock companies made 19 decisions to raise their equity capital in a total value of nearly HUF 80 billion. Most significant of these were the capital raises by KONZUM Nyrt. and FINEXT Nyrt.: by way of acquisitions, KONZUM Nyrt. increased its stock exchange capitalisation by a total of HUF 37.7 billion in the second half of 2018, while the introduction of the ordinary shares of FINEXT Nyrt. resulted in a series worth HUF 18.5 billion making its way into stock exchange trading. With the introduction of its second series of ordinary shares, FINEXT Nyrt. took a huge step towards becoming a regulated real-estate investment company.

In addition to the three new IPOs mentioned, several debt securities, structured products and investment units were also listed on the stock exchange in 2018. Our issuers contributed to the growth of the capital market by listing 13 new mortgage bonds, 10 new bonds,



8 new investment units and more than 150 turbo warrants and, in addition, the debt securities market also grew with additional issues having a total face value over HUF 360 billion.

The bond listing activities of Magyar Fejlesztési Bank Zrt. were outstanding in 2018 as well: the total volume of the securities which the bank listed on the exchange increased by EUR 105 million and, by listing other forint-denominated bonds, by HUF 75 billion in this year alone.

The WINGHOLDING 2019/I bond of WINGHOLDING Ltd. was added to the BSE offer list in the summer of 2016. The real property development and investment company issued bonds in three different placements for a total face value of EUR 36.04 million that year. The company's 2016-2017 bond programme, which had a total face value limit of EUR 40 million, was closed after the placement of the fourth tranche (total face value: EUR 3.96 million) in March 2017. These bonds can be traded on the BSE until June 2019, but in the meantime, the company started issuing and listing the new 2021/I series bond, and these new securities have been trading on the exchange to the tune of nearly EUR 31 million since August.

Megakrán Nyrt. made its decision on a private capital increase at its general assembly in November 2018, as a result of which it registered newly issued shares on the BSE Xtend market. The transaction, valued at a total of HUF 678 million, involved the National Stock Exchange Development Fund managed by Széchenyi Tőkealap-kezelő Zrt. to an extent of 40%, and other institutional and private investors at approximately 30% in each category. During the listing and continued trading, the company's Nominated Adviser was MKB Bank Zrt., and Megakrán also partnered with EY in the transaction.

For Megakrán, in addition to financial capital, listing also required raising intellectual capital. It was for this specific reason that the ambitious company joined the first round of the ELITE Programme, organised by the BSE and the London Stock Exchange Group and offering company financing, corporate governance methods and networking opportunities. Megakrán was also the first company that was awarded a grant as part of the BSE's Mentoring Programme at the GINOP call for applications to finance the public listing of IPO-ready SMEs. Megakrán made its decision on a private capital increase at its general assembly in November 2018, as a result of which it registered newly issued shares on the BSE Xtend market. As a result of the transaction, the company raised fresh capital in a total value of HUF 678 million, which the company plans to use to implement further developments, capacity building and market expansion.





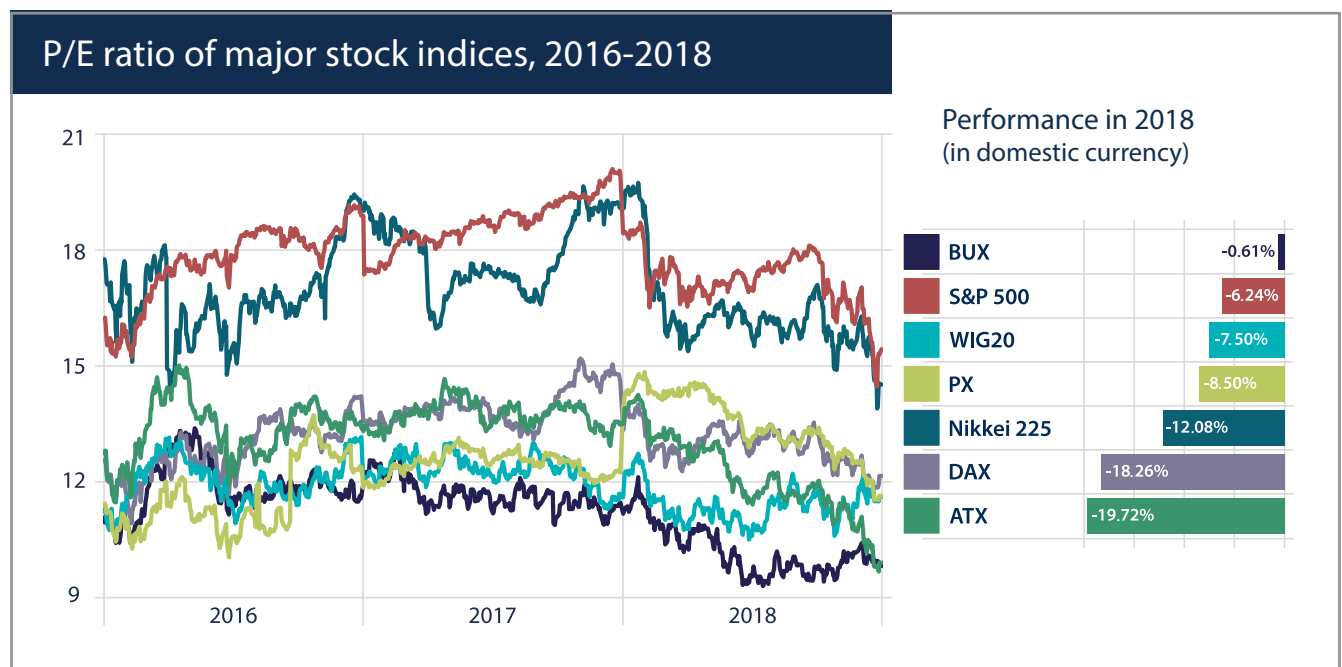
The other pioneering entrant to the BSE Xtend market was CyBERG Corp. Nyrt., owner and developer of the KAJAHU digital social restaurant chain and gastronomical concept franchise. By building on the restaurant network, the company is developing its social mobile services and its own digital platform on an ongoing basis, laying out the groundwork for it to grow into a data-based technology corporation.

Trading of the company's ordinary shares begins in January 2019 on the Exchange's MTF market. CyBERG plans to use the capital raised by listing on the BSE's Xtend market to set up the company's central management, launch the international sales of the franchise network and to continue developing the digital services of its hybrid model.

One of the Budapest Stock Exchange's priorities is to ensure access for domestic investors to cost-efficient, transparent and easy-to-understand investment products. Accordingly, the BSE expanded the range of the BÉTa Market to include seven exchange-traded investment funds in 2018, in addition to six European stocks whose market-making is ensured by OTP Bank. These new products allow for diversified investments in the largest US and European companies, serving as a good alternative for retail investors as well.

OUTSTANDING TURNOVER AND SIGNIFICANT FRESH CAPITAL ON THE BSE

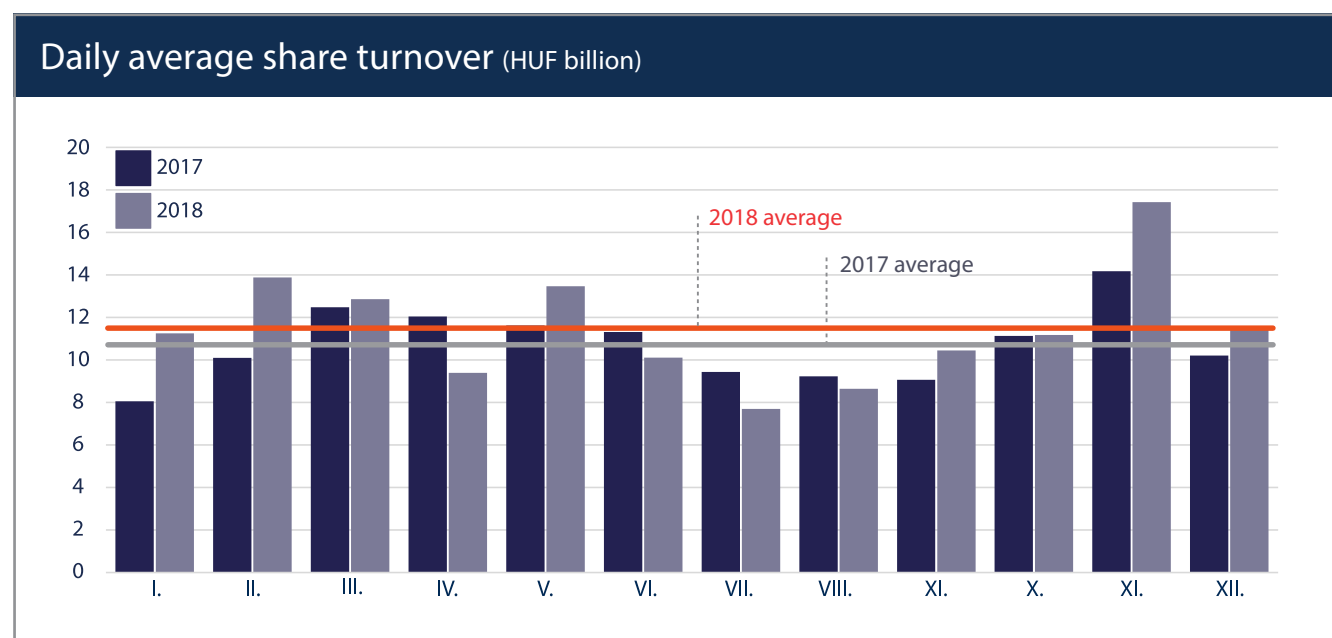
In 2018, the BUX Index's rising trend of the BUX index came to a halt after more than three years of growth, and the value of the index dropped by 0.6% compared to the year-end closing price for the preceding year. However, placing this moderate drop into global context, the Hungarian equity market index still performed well in relative terms, as even greater declines were seen not only in the large Western European and overseas indices, but also in the regional indices this year. Examining the long-term trend, BUX is still a favourite among stock indices at the global level. Despite the soaring observed in recent years, in terms of pricing the BUX is still considered to be relatively underpriced when compared with other stock indices.



Source: Bloomberg



In terms of market turnover, however, the rising trend continued unbroken. In 2018, average daily turnover on the exchange reached HUF 11.4 billion, 6.7% more than the preceding year. The high turnover is due in part to the increased volatility seen in the second half of the year, and in part due to the unique stories of the companies listed on the Hungarian exchange. In line with the positive developments observed in the Hungarian economy, increasingly improving figures were published towards the end of the year, promising a positive outlook for the future.



Source: BSE

The dynamic rise in turnover of small and mid-cap securities continued similarly to last year, as a result of which the turnover concentration of the Hungarian equity market dropped significantly in the recent period. The four blue-chip stocks accounted for 89% of total turnover this year – essentially the same as last year's figures and a 10% increase compared to the value recorded three years ago. Considering that in 2015 the daily average turnover of only 4 stocks exceeded HUF 100 million, the increase in the turnover of smaller securities is well reflected by the fact that, by the end of 2018, there were already eight such securities traded on the Hungarian exchange. In order to increase the visibility of small and mid-cap securities among retail and institutional investors, the BSE is continuing its analytical/market-making pilot programme launched in late 2017, using it to provide continuously updated information and basic liquidity to market players.



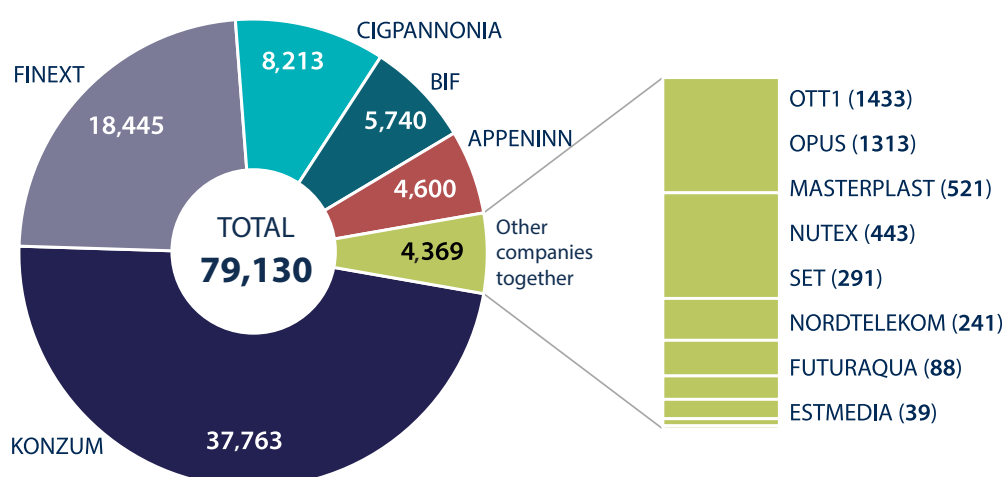
Top 10 most-traded equities and their performance (2018)

Name	Turnover (HUF billion)	Price, 28/12/2018 (HUF)	Price, 29/12/2017 (HUF)	Share price change (%)	Capitalisation, 28/12/2018 (HUF billion)
OTP	1,370	11,290	10,720	5%	3,161
RICHTER	531	5,430	6,780	-20%	1,012
MOL	507	3,078	3,005	2%	2,522
OPUS	114	490	700	-30%	159
MTELEKOM	75	440	458	-4%	459
4IG	31	1,580	205	671%	30
KONZUM	31	247	343	-28%	82
APPENINN	22	423	719	-41%	20
ESTMEDIA	13	138	55	151%	14
OTT1	13	206	233	-12%	7

Source: BSE

In respect of the fresh capital introduced to the exchange, 2018 was a record year. Companies already listed achieved record-high capital raises, and 2018 saw nearly HUF 80 billion in fresh capital pumped onto the domestic trading floor, greatly contributing to the growth of Hungarian capital market capitalisation which, compared to the estimated GDP value for 2018, reached 20% by year-end – 5.3 percentage points more than at the end of 2015 –, thereby supporting the achievement of the 30% target set out in the BSE's strategy.

Capital increases in 2018 (HUF million)



Source: BSE



DEVELOPING ISSUER SERVICES, STRENGTHENING CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

Effective corporate governance facilitates the increase in the company's value, and also ensures that the rights of shareholders and other stakeholders are well-represented.

The necessity of corporate governance was raised in the 1990s. The purpose of the application of corporate governance recommendations is to promote the transparent and efficient operation of the market, to support the implementation and enforcement of legislation, especially in terms of shareholders' rights and ownership functions, as well as to harmonise the interests of the company, its investors and the company's environment. Effective corporate governance facilitates the increase in the company's value, and also ensures that the rights of shareholders and other stakeholders are well-represented.

The BSE started formulating Corporate Governance Recommendations for listed companies in mid-2002. When compiling the recommendations, it used the principles most frequently applied internationally, and drafted them taking Hungarian experiences and the characteristics of the domestic market into account. The Exchange's Corporate Governance Committee has been operating since 2004 with the aim of supervising the continued development of recommendations by taking domestic industry requirements, draft EU legislation and general international trends into consideration, and also to represent industry considerations in the field of the further development of corporate law. Through the work of the Committee, the Stock Exchange wishes to ensure that the representatives of the professional community are able to participate in the decision-making process related to recommendations within an organised framework, while the Exchange retains its initiating role. Issuers, regulatory authorities and the representatives of the Exchange, as well as independent market experts and attorneys are all represented in the Committee.

With support from the stock exchange, the Corporate Governance Committee completely reworked and updated its Code of Corporate Governance Recommendations in 2017, which provides guidelines for corporate governance practices for issuers. The new recommendations are expected to be easier for issuers to handle and easier for investors to process, and will contain exactly the kind of relevant information that can provide an accurate snapshot of the governance systems of issuers, as well as their compliance with regulatory requirements and investor expectations.

The BSE cooperates closely with the Hungarian Economic Association (HEA) and the HEA's Corporate Governance Department, which in 2018 again was represented by an independent section at the 56th Itinerant Conference of the HEA. Another major event was the "Top-level corporate governance - 2018" conference, held on the occasion of the Hungarian Science Festival and hosted jointly by the Corporate Governance Department of the Hungarian Economic Association, the Budapest Stock Exchange and the Károly Keleti Faculty of Business and Management of Óbuda University.

NEW CATEGORISATION SYSTEM

As part of its market development strategy adopted in 2016, the BSE set out to transform market structure and to rethink regulated market segmentation, aligning it with international best practices. The strategic objective in the focus of this transformation is to enhance the quality of the listed group of issuers, through which the exchange's reputation can be strengthened and investor interests better protected, thereby resulting in a safer market environment. In this context, in 2018 the BSE reviewed the system of categorisation currently applied to equities on its regulated market, including admission criteria as well as criteria to be met on an ongoing basis, as well as the modes for



transitioning between the various categories. In drafting the new regulations, the BSE sought to ensure that market admission criteria are not only realistic, feasible and clear, but also offer some flexibility, so as to promote the BSE's competitiveness in the international arena.

After mapping international practices and conducting internal consultations, in February 2018 the BSE launched a public consultation in order to learn more about the needs and preferences of Hungarian capital market players. This feedback was taken into account when developing the concept of the transformation of the BSE's current equity categorisation system, which was approved by the Board of Directors of the exchange. The key characteristics of the new categorisation system are as follows:

- In the Equities Prime market, the BSE's highest category, admission criteria have remained unchanged: issuers aspiring to this category must have a market value of at least HUF 5 billion, and a free-float of at least 25% (which can be replaced by a free-float capitalisation of HUF 2 billion or 500 shareholders) and a three-year operating history, and must mandatorily execute a public transaction of at least HUF 100 billion. At the same time, the BSE harmonised the criteria evaluated at the semi-annual review with admission criteria. Thus, in addition to adequate capitalisation, the BSE would no longer be evaluating turnover frequency but rather the aforementioned free-float criteria.
- The Standard category will be seeing more significant changes from 2019 onwards. Making things easier is the fact that in the future, this category will not require a public transaction. However, the BSE has introduced admission criteria similar to the Prime market but considerably looser: listing in the Equities Standard market requires market capitalisation of at least HUF 250 million, a free-float of at least 10% (or free-float capitalisation of HUF 100 million or 100 shareholders) and a one-year operating history. Concurrently, the BSE is also involving Equities Standard issuers into the group reviewed on a semi-annual basis, where – similarly to the Equities Prime market – it will audit compliance with admission criteria.

Starting from 2019, the BSE will be closing the Equities T market off to newly listing companies. Current Equities T issuers – if they cannot or do not wish to be promoted to the Equities Standard category – can remain in this segment indefinitely, and issuers that fail to comply with Equities Standard criteria will be reclassified by the BSE to the Equities T category.

The above amendments impacting the categorisation system of the BSE – depending on approval by the supervisory authority – are expected to enter into force as of 1 January 2019. Current issuers will be given a one-year grace period to comply with new review regulations. Other product groups of the cash market (e.g. investment units, structured products, debt securities) will not be affected by the changes.

ISSUER EVENTS

The BSE continued its series of issuer forums, which are fast becoming a tradition. In October 2018, the BSE organised a forum presenting its new Corporate Governance Recommendations and the amended system of equity categorisation, which focused on the detailed presentation of the new Corporate Governance Recommendations. Participants at the event discussed topics such as the elimination of the public transaction requirement in the Equities Standard category, setting up an admission threshold upon listing into the Standard category, the transformation of the system of compliance with the category and the alignment of admission criteria, as well as the elimination of the opportunity to list on the Equities T market. The BSE's new equity categorisation system was also introduced at the forum.

This issuer forum held in November 2018 focused on Employee Stock Ownership Plans (ESOPs). The growth of interest in ESOPs and the amendment of background regulations made the matter highly topical. At the forum, experts and exchange issuers talked about key topics and practical experiences related to the regulation, setting up and operation of ESOP organisations. Among other things, the event focused on ESOPs serving the implementation of the remuneration policy, international examples, trends, the operation of ESOP organisations, the subject, conditions and procedure of ESOP allowances, the relationship between personal income tax and ESOPs, and the fiscal rules affecting regulated capital market transactions.



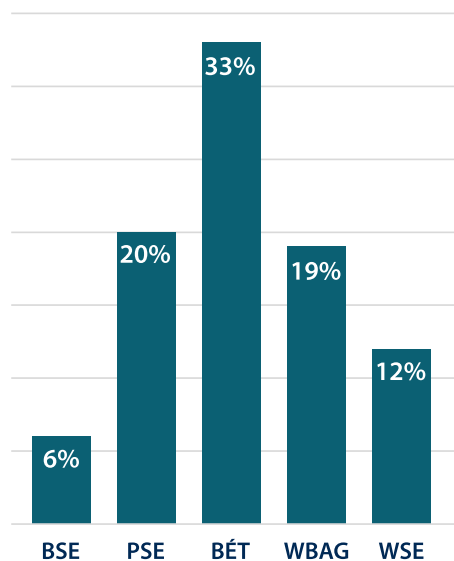
DATA SALES AND THE BSE

RISING INCOME WITH DROPPING SUBSCRIPTION FIGURES, FINE-TUNING OF NEW PRODUCTS AND PRICING

Data sales revenues represent approximately 30-35% of the total revenues of the BSE, which is an outstanding ratio even by the standards of regional countries.

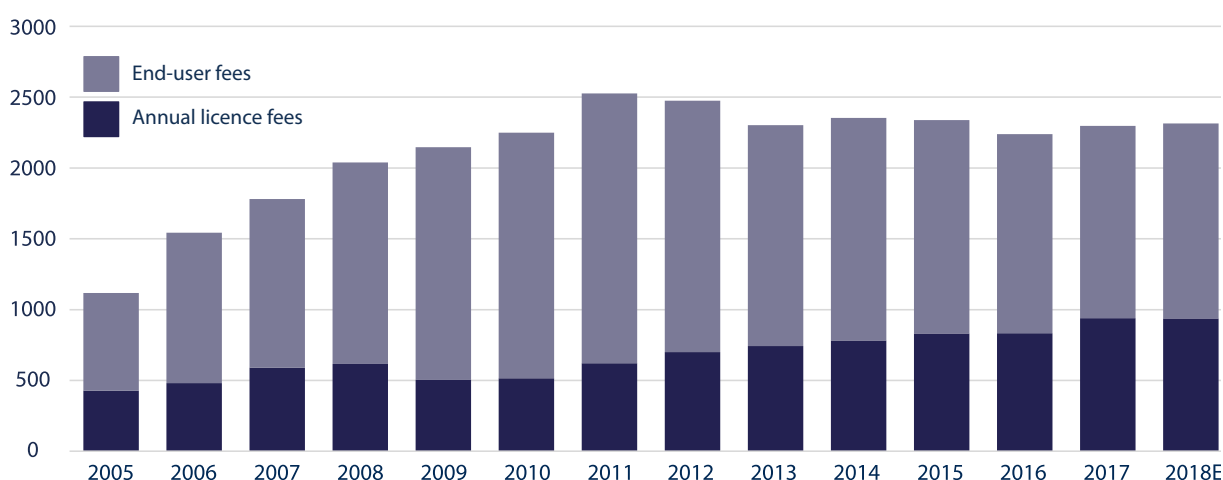
Looking back, we have more than doubled our data sales revenues over the past 13 years. After the slight drop following the 2011 turning point, the trends of the past three years have brought us to another uphill phase. Looking at the revenue structure, we can establish that while annual licence fees were practically on a continuous growth path on account of constantly increasing vendor numbers, the erratic changes in end-user fees eroded the increase in revenues.

Ratio of data sales and total revenue* in the region



*2017 audited balance sheet results
(non-consolidated)

The BSE's data sales revenues (in thousands of EUR)



Source: BSE



This year, for the first time after many years, a slight growth was observed in end-user fees, thanks to activity by small investors, while annual licence fees stagnated.

In 2019, we are planning to make the following changes with a view to maximising revenues. With regards to professional end-user fees, the prices of the (most popular) data of depths 1 and 5 will be subjected to a slight increase, while the price of data of depths 10 and 20 (which have the lowest number of users) will be reduced, thereby having prices converge and, at the same time, encouraging users to switch to a higher package.

The entry into force on 3 January 2018 of the amendment to the Markets in Financial Instruments Directive (MiFID II) – the directive regulating the complete European Union investment services market – and the related EU regulation (MiFIR) brought significant changes into the activities of the BSE as a market operator. The two most important developments impacting the area are the transitioning of the VIS data feed to a fixed version (fVIS), and making the data files of KELER – as the publisher of over-the-counter trading data (APA) – accessible.

Both projects involved significant IT developments and are considered to be major innovation milestones.

As part of the Data Working Group of FESE (Federation of European Exchanges), we collaborated with other member exchanges on numerous issues in 2018. We are attempting to interpret, find consensus-based implementation solutions for and, if necessary, ask for clarification on various directives and regulations issued by the ESMA (European Securities and Markets Authority) or the European Union.



A DEVELOPING CAPITAL MARKET ECOSYSTEM

GROWING NETWORK OF PARTNERS

2018 saw the BSE continue to build its network of partners and develop its existing relationships. We concluded numerous cooperation agreements with Hungarian and international organisations, which continue to strengthen awareness of the Hungarian capital market and promote the raising of capital by the small and mid-cap sector.

We first signed a support agreement with the Ministry for National Economy (NGM) with a view to increasing the efficiency of the Hungarian SME (small and medium-sized business) sector. Hungarian SMEs can apply for non-refundable grants from the BSE, which they can use to obtain the necessary know-how for capital market financing, and to cover the costs of going public. The appearance of the new grants represents a milestone within the context of the BSE's aspirations to offer new services that make public listing more accessible to dynamically developing medium-sized businesses. With this measure, the Government is making an important contribution to the development of the domestic capital market.

In May, the Budapest Stock Exchange signed a cooperation agreement with one of the largest stock exchanges of the world: the Shanghai Stock Exchange. Among other things, the two organisations will be collaborating on developing new products available to both Hungarian and Chinese investors. The cooperation also involves the exchange of information relating to the capital market, stock exchange operation and regulation. This was another step by the BSE to establishing a closer collaboration with the dynamically growing Chinese capital market.

In September, the Exchange commenced cooperation with the Hungarian Intellectual Property Office (SZTNH) in order to use existing infrastructure to support the listing of Hungarian companies on the Budapest Stock Exchange. The agreement was officially signed by SZTNH President Dr Viktor Łuszcz and BSE Chairman & CEO Richárd Végh at the BSE50 conference organised and hosted by the Budapest Stock Exchange.

Among other things, the cooperation between the BSE and the SZTNH seeks to help innovative economic players in Hungary to register and utilise their intellectual property-related rights domestically and in their export markets as effectively as possible, and to thereby gain a competitive advantage, increase sales and the company's value. In the course of the collaboration, the organisations provide consulting and training for companies looking to go public, and share information about the needs of market players in the R+D+I field.

The aim of the Budapest Stock Exchange is to use the support provided to help medium-sized companies – that represent the backbone of the SME sector – grow into professionally and transparently operating corporations that are able to hold their own at the international level as well. One of the pillars of this is the BSE's BSE50 publication, which has been published each year since 2016, and the closely related BSE50 – Medium-sized Enterprises' Summit. Selection is preceded by lengthy research with the help of professional partners each year. This year again saw companies selected that have reached outstanding achievements in their industry or market segment. Each of the companies featured in the publication has both a successful track record and great growth potential that combine to provide a stable foundation for further growth – whether this involves going public, entering a foreign market, development or other investment projects.



When selecting the 50 companies, this year placed greater emphasis on “young” companies founded around 2010 or later. This shows how, besides the successful companies founded 20-30 years ago, the new generation of medium-sized businesses is increasingly strong and growing in numbers. These companies are usually characterised by dynamic growth and conscious company development.

In line with the practice of previous years, in 2018 the publication was again presented at the BSE50 – Medium-sized Enterprises’ Summit, with the keynote address delivered by Sándor Csányi, Chairman & CEO of OTP Bank, one of the largest public corporations. He held the bank up as an example for potential future exchange member companies that have a great growth potential.

The BSE participated in numerous events in 2018 as well, both as a sponsor or presenter, and we also organised a number of our own events.

It is extremely important to the BSE to maintain good relationships with the owners and managers of companies planning to go public at some point, with the representatives of already listed companies, the executives of domestic banks, investment service providers, and the partners and experts of financial and tax consultancy firms and – last but not least – with the investors themselves.





IDENTIFYING IPO-READY COMPANIES

The success of stock exchange listing – based on international literature – is jointly determined by qualitative and quantitative criteria. This is precisely why the BSE considers the identification of IPO-ready companies through quantitative analyses and qualitative observations and meetings to be of importance.

The basis of the quantitative analysis is the so-called scoring methodology, developed in collaboration with the MNB in early 2016. The financial reports of the 2014 fiscal year served as the foundation of the aforementioned methodology. This is why the BSE felt it would be important to repeat the study using the most recent data available, and based on the reports from 2016, in order to gain a more accurate picture of the characteristics of IPO-ready companies. In repeating the study, the objective of the BSE is to confirm to Hungarian company managers that capital market fundraising can be a realistic way to satisfy financing needs, and to use research results to continue the discourse aimed at market development with capital market players and potential issuers.

Based on the experiences of the nearly 500 meetings between the stock exchange and market players and potential issuers over the course of the past three years, we have made two modifications in the methodology.

Firstly, one difference compared to how the previous study was prepared is that when drawing up the present study, the BSE left out the requirement of at least seven years of operation from among the criteria. The reason for this is that based on our experiences, due to M&A transactions and company transformations (from Bt. to Kft., from Kft. to Zrt.), there may be IPO-ready companies that have otherwise been operating for a long time, but have only been officially registered in the past seven years.

The other is that the rate of accepted foreign ownership was set at 20% by the BSE as opposed to the former maximum of 80%. The reason for this is that based on the experiences of consultations with potential issuers, listing on the Budapest Stock Exchange only represents a realistic alternative for companies that have their decision-making centres in Hungary.

With the help of profitability, operating, capital structure and risk indicators generated using the data culled from balance sheets and profit and loss statements, BSE experts identified 345 IPO-ready SMEs – a number higher than previous results. In the coming years, the BSE will continue to focus on the performance of the scoring procedure and the identification of (and subsequent contact with) IPO-ready companies.

Nonetheless, we are committed to not only identifying companies that are either sufficiently mature for listing on the exchange or are on the appropriate growth path to soon reach the potential issuer level, but also to seeking such companies out and establishing contact with them. This leads us to contact 50 successful Hungarian companies year after year, and present them in our “BSE50 – 50 domestic company success stories” publication.

It was in 2016 that the BSE first compiled a list of successful Hungarian small and primarily medium-sized companies with great growth potential to showcase them in a single publication; companies with stories and track records that can provide inspiration for others. Building on the warm reception of the 2016 publication, the BSE published another collection of success stories in 2017. Seeing the positive feedback and the strength of the community shown in the publication led us to seek out the hidden treasures of the country once again in 2018.

The basis for the methodology, similarly to the preceding years, was again the growth indicators and ‘soft’ market factors culled from balance sheets and profit and loss statements. As in the two previous years, the Hungarian business weekly Figyelő provided assistance with the journalistic aspects and project management aspects of the publication, alongside the EY consulting team. The BSE staff travelled approximately 2,000 km within Hungary to conduct interviews with the heads/owners of the 50 successful Hungarian businesses.

Although the methodology remains unchanged, there are still new features compared to the 2017 issue. The 2018 publication placed a greater emphasis on businesses founded in or around 2010. This is a confirmation of sorts that in addition to market players established



20 or 30 years ago, the new generation of medium-sized companies is also able to achieve a strong and stable growth path. The other change concerns the sector-level distribution of the companies selected. Beyond the fact that the publication has no industry focus, the best companies in the country continue to come from the same sector, and as such, it is unavoidable that some become dominant. While in 2017 this dominant role was filled by the food industry, in 2018 most of the companies (namely 13) represented the manufacturing industry, followed by 11 players from the IT sector and service provision companies, with 9 trading companies also included in the best 50. In terms of geographical distribution, last year we again observed that Budapest is the centre of Hungarian economic life, as the capital city continued to increase its dominance. While the 2017 publication had 18 companies from the capital city, one year later, this number jumped to 25, meaning that half of the firms in the publication are Budapest-based. Also noteworthy is Pest County with 9 of the 50 companies, but the counties of Fejér, Győr-Moson-Sopron, Bács-Kiskun, Veszprém, Hajdú-Bihar, Szabolcs-Szatmár-Bereg and Borsod-Abaúj-Zemplén are also home to successful Hungarian businesses.

The total sales revenue of the companies included this year exceeded HUF 437 billion. Their median turnover amounted to HUF 3.5 billion, which exceeds the HUF 2.1 billion value of businesses that have sales revenues exceeding HUF 1 billion. Expressed as a percentage, this shows a 10% increase over the average of the preceding year. Earnings before interest, taxes, depreciation and amortisation (EBIDTA) were 9%, an 8% increase compared to 2016 financial data. These 50 companies have a stable growth path in domestic markets, but their export activities are also gradually moving into the foreground. According to 2017 financial reports, they generated a total of HUF 127 billion on export activities, representing 30% of total revenues.



Similarly to previous years, the publication was presented at the BSE50 – Medium-sized Enterprises' Summit held on 20 September 2018. The conference, which lasted from morning until afternoon, was attended by distinguished representatives of the domestic economic arena. The more than 400 people in attendance had the opportunity to listen to presentations and speeches by OTP Chairman & CEO Dr Sándor Csányi, MKB CEO Ádám Balog, ELITE Group CEO Luca Peyrano, KAVOSZ Zrt. CEO László Krisán, MFB Zrt. Managing Director Adrien Berta, Wallis Asset Management Zrt. CEO Zsolt Müllner and EY Partner Martin Steinbach. The presentations were followed by panel discussions, where attendees had the chance to listen to the stories of Béflex, Julis-K9 and Transmoduls, as well as visiting the Xtend, ELITE, IR/PR or Industry 4.0 workshops.

THE LIST OF BUSINESSES INCLUDED IN THE BSE50 PUBLICATION FOR 2018 IS AS FOLLOWS:

Agri-Corn Kft.	DM-Ker Kft.	Marso Kft.	TcT Group
Aimotive Kft.	Dorsum Informatikai Fejlesztő és Szolgáltató Zrt.	Megaholz Kft.	TR Consult Kft.
Barion Payment Zrt.	Félegyházi Pékség Kft.	Megakrán Nyrt.	Transmoduls Kft.
BÉFLEX Zrt.	Ferzol Lemezmegmunkáló Kft.	Mentavill Kft.	Tungsram Group
Benei és Társa Kft.	GalvanPlastik Kft.	Mobilbox Kft.	Turbine Kft.
Biropharma Kft.	Gamma Digital Kft.	Olimpia Kerékpárgyártó Kft.	Tutti Kft.
BlackBelt Kft.	Gerbeaud Gasztronómia Kft.	Panzi-Pet Kft.	ÚjHÁZ Centrum
CÉH Zrt.	Gloster Infokommunikációs Kft.	Protecta Kft.	W.UP Szolgáltató Kft.
Cerbona Élelmiszergyártó Kft.	Helia-D Kft.	Regio Játékkereskedelmi Kft.	Wallis Asset Management
CODECOOL Kft.	Hell Energy Magyarország Kft.	Roland Divatház Zrt.	WebEye Telematics Zrt.
Columbus Klíma Group	K9-Sport Kft.	Somogyi Elektronik Kft.	Weinberg '93 Kft.
CyBERG Corp. Nyrt.	Kész Építő Zrt.	Star-Plus Kft.	Wellis Magyarország Zrt.
CYEB Group	Lenergy Magyarország Kft.		



MILESTONES OF THE NOMAD COOPERATION

The institution of Nominated Advisors (NOMADs) and the BSE Mentoring Programme are connected at various levels, as NOMADs directly help companies in preparing for public listing and provide wide-ranging assistance through extensive capital market experience. Nominated Advisors have a dual function: on one hand, they assist in the company's preparation from the very start of the IPO process, and on the other, they provide continuous support to already admitted issuers to ensure their compliance with applicable rules.

Prior to the floating of the issuer, their task is to carry out a due diligence screening of the issuer. They primarily perform this themselves, but during this process they can also rely on the opinions and findings of other advisors (in particular auditors and legal counsel). They then participate in the preparation of the Information Document or the Prospectus, and subsequently monitor whether the given issuer has fulfilled all disclosure obligations.

NOMADS monitor companies on an ongoing basis, and their presence greatly increases the security of the market and thus also serves investor interests. They play a priority role in the BSE's market building, and in addition to acquisition tasks, they also have supervisory roles. In the future, the BSE is looking to have companies float that live up to exchange standards not just from a quantitative-qualitative point of view, but that are also fully aware of what listing on the stock exchange entails and are ready to comply with all relevant rules.

LIST OF NOMADS:

BDO Corporate Finance	KBC Securities Hungary Branch Office
Concorde MB Partners	MKB Bank Zrt.
Equilor	OTP Bank Nyrt.
Ernst & Young	PWC Hungary
Erste Befektetési Zrt.	Raiffeisen Bank Zrt.
Grant Thornton Corporate Finance	Random Capital Zrt.
Heal Partners	Unicredit Bank Hungary Zrt.
Invescom	RSM Hungary

ELITE PROGRAMME – IN PARTNERSHIP WITH THE LONDON STOCK EXCHANGE FOR SMES

Having a sufficient number of well-functioning companies is essential to establishing a well-functioning stock exchange and a healthy capital market ecosystem. One of the priority objectives of the BSE's strategy is to support medium-sized companies and develop the ecosystem around the BSE – an approach which we believe can also enhance the competitiveness of companies. As a key economic player, the Exchange is committed to promoting the development of Hungarian medium-sized businesses and raising investor awareness about these hidden treasures of the Hungarian economy. Recognising the importance of corporate education and building a domestic and international community, in 2016 the BSE examined international practice, assessed domestic needs and based on these, it opted for the ELITE Programme provided by ELITE S.p.A., which seemed to best serve the above objectives. The Programme primarily supports businesses with outstanding growth potential and which are looking to raise external funds, with the various players gaining practical know-how with the help of the Programme.

The ELITE Programme was launched in 2012 by the Milan stock exchange (ELITE Italy), and since 2014 has been functioning as a subsidiary of the London Stock Exchange Group (ELITE UK and ELITE International). The aim of the Programme is to provide corporate



governance and external funding know-how to participating companies, thus supporting them in reaching more carefully considered operative and strategic decisions that can also serve as the basis for an IPO. The number of participants in the Programme (built on a two-year company financing and organisational development training) exceeded 1,000 member companies this year. In the course of the cooperation which began in 2016, the BSE has helped 17 Hungarian companies join the ELITE Programme, bringing Hungary into first place in ELITE International in terms of numbers: the country is home to the most companies among the 112 companies from 25 countries (followed by Romania, Bulgaria and Croatia).

Beyond the high-quality international training, the companies also benefit from becoming well-known, from exploiting business generation opportunities, the exchange of experiences with Hungarian and international companies, and consultation with ELITE partners (more than 200 consultants, banks, attorneys, etc.). By learning about international best practices, Hungarian medium-sized companies are able to become more competitive on the international stage. The ELITE Programme is more than a mere training course. Besides the courses and awareness raising, companies also have a chance to make international contacts with medium-sized companies of similar size and mentality. Altogether, 35 sectors from a total of 35 countries are represented from within and outside Europe. This year has seen companies join from – amongst others – Brazil, Mexico, Canada, the US state of Ohio, Belgium, the Czech Republic and Norway.

Based on the statistical survey conducted by ELITE S.p.A. among Italian firms (May 2018, with similar results at the international level as well), an average increase of 25% in sales revenues can be observed as a result of the Programme. In addition to revenues, progress can also be measured in other indicators: after joining the ELITE Programme, companies have seen an average of 23% EBITDA margin increase, and an average of 24% organic growth (current staff numbers/staff numbers at the start of the Programme). This shows that ELITE targets businesses with great growth potential that are planning to use outside funding to implement their plans or which are looking to expand their corporate governance know-how, or that are simply looking for business generation opportunities. In some cases, the Programme provides them with support in implementing generational succession.

The ELITE Programme gives growing companies a sound professional foundation to progress to the next level, and also exposes them to a community that provides them with further benefits, as they can learn a lot from one another on how to resolve certain challenges faced on the Hungarian market. Companies become familiar with a broad range of financing models and can then decide for themselves which direction to head into after the conclusion of the Programme. Listing on the stock exchange is not mandatory. However, Hungarian experience has shown that the Programme primarily attracts companies that are planning to go beyond bank financing and that are looking to go public on the stock exchange in the medium or long term. The majority of Hungarian companies in the Programme are either preparing for an IPO or are already present in one of the BSE's markets.

The training is for the most part held in London and Milan, but the BSE also contributes a 3-day professional module to the ELITE International curriculum. In addition, the BSE is also looking to provide ELITE companies with content and meeting opportunities on an ongoing basis, and accordingly, we have organised networking events and thematic workshops (Company Assessment, Medium-sized Companies through the Eyes of a Stock Analyst, Corporate Risk Management and the Significance of Internal Audit, Communication – Ethical Influencing and Manipulation).

In the interest of reaching potential ELITE companies, the BSE has participated in numerous industry events and business meetings as organiser or cooperating partner, and thus we estimate that over the ELITE Programme was directly presented to over 300 companies. After the 11 business breakfast meetings held in 2017, we held 20 similar events in 2018. The BSE continues to rely on its banking and consulting partners (Budapest Bank, CIB Bank, UniCredit Bank, Concorde MB Partners, EY, PwC, Deloitte Private, MAPI Klub, FBN-H, MKIK, MGYOSZ, HVCA, Knowledge to Money Club, HIPA) in liaising with the companies and is also striving to contact new businesses. For instance, a 5-stop roadshow was realised in collaboration with Budapest Bank on the topic of company assessment, where BSE staff and ELITE companies also delivered presentations. During the last 5-stop acquisition events alone, we managed to address more than 140 businesses directly.



In the autumn of 2018, we hosted the BSE50 – Medium-sized Enterprise Summit, highlighting the ELITE Programme. Attendees were provided information at a dedicated stand, ELITE CEO Luca Peyrano gave a morning presentation on the ELITE community as well as their objectives and current issues, while the afternoon panel discussions presented the experiences of two Hungarian ELITE firms.

In addition to acquisition programmes, the ELITE Growth Compass service also went live this year on the BSE's website: a site which allows Hungarian companies to find out what phase of development their company is in – and also receive feedback from BSE experts on what they should do in order to enhance development.

As a result of the BSE's active acquisition activity, the eight companies presented below joined the ELITE community in 2018, bringing the total number of participating businesses to 17.

Agri-Corn Kft. is a family business founded in 1992. It is known for the Civita brand name, and manufactures 'farm-to-table' foodstuffs, free of gluten, lactose, additives and chemicals, from GMO-free farming. The growth of the company is well reflected by the fact that over 10 years, its turnover has increased from HUF 835 million to more than HUF 2.5 billion. It is rolling out developments on an ongoing basis, and just last year, it came out with a new technology that enables it to become the first in the world to produce high-fibre, additive-free corn flour. The next big hurdle to clear will be strengthening exports. They are primarily planning to open up towards Western Europe, with exports currently representing 40% of their turnover. The company wishes to increase this ratio to 80% within three years.

Founded in 1991, Chemark Kft. is now a major pesticide producer in the European market, with a production volume of nearly 40,000 tonnes per year. Owned by four Hungarian private individuals, the company has annual sales revenues of HUF 11 billion and has over 300 employees. Their clientele includes large multinational manufacturers of original products, as well as emerging businesses dealing with generic products. They offer a wide range of services: in addition to pesticide formulation, packaging and the related logistics services, they also provide analytical services, along with packaging and formulation development.

Celebrating its 10th anniversary this year, DM-Ker Kft. has in just a short time become a major market player in Hungary in the sale and servicing of construction industry and agricultural machinery. The founders and owners of this fully Hungarian-owned business have decades of experience in the industrial and agricultural machinery market. In addition to the sale of machinery, the company also specialises in repairs, and the sale of parts. It has a nationwide sales network, providing a full range of services from four business sites to more than 5,000 customers in the agriculture and construction industries. The company – a small enterprise of just three people back in 2010 – now has a staff of nearly 60. It sold 385 machines in 2017, with turnover exceeding HUF 6.5 billion. Thanks to its purposeful building of market presence and active participation on the international scene in the sector, DM-KER Kft. now represents the brands of several well-known manufacturers.

The legal predecessor of Első Pesti Malom Zrt. was Első Pesti Hengermalom Társaság, founded in 1839 by renowned Hungarian statesman Count István Széchenyi – namesake and builder of Budapest's Chain Bridge. With an annual milling capacity over 50,000 tonnes, it is one of the country's largest milling industry companies. The company was established in its current form in 2000: it operates 4 milling plants and a grain warehouse, and also holds a stake in a feed-mixing and agri-pellet manufacturing plant. Research and development plays a priority role within the company, as it seeks to identify, process and mill grains (such as spelt, triticale, einkorn wheat, oat) of ever higher quality and nutritional value.

Szallas.hu Kft. is a market leading business specialising in online accommodation brokering. By 2017, its turnover had reached HUF 23 billion through the szallas.hu portal providing online accommodation booking services to private individuals. Its two other successful products are szallasguru.hu, which provides discounted travel offers, and konferenciahotelek.hu, offering its services for booking corporate events and travel. Internationally, key markets for the company are Croatia, Poland, Romania and Slovakia. Szallas.hu, which recently acquired its Polish competitor Spanie.pl and has acquired a stake in Romanian-based Travelminit.ro, is looking to become a dominant player on the



online accommodation market within the Central Eastern European region by 2021. The company's plans to have 50% of its group-level revenues from international sources by 2021, and to become a key regional player on the online travel market by that time.

The Columbus Klíma company group is a significant enterprise on the Hungarian air-conditioning and air engineering market. It offers its customers a unique, stable and diverse range of products, paired with a high-quality technical background and repair services. The company has a national reseller network, and conducts import, brand representation and wholesale activities. Its field of expertise is the cooling of technological liquids and air-conditioning systems for buildings.

Gloster Infokommunikációs Kft. is fully Hungarian-owned, and has been a supplier of business and IT solutions in the Hungarian IT sector for over 17 years. Originally, the main activity of this medium-sized IT/telecommunications business was the distribution of network IT giant Cisco's products, but as a result of a strategy review at the beginning of 2018, the company's activities have taken a new direction. It currently provides complex corporate business services, such as IT security, data storage and collaboration solutions or IT network architecture design and unique software development.

With its 3 million metres of inventory at its centres in Hungary, Croatia, Romania and the Czech Republic, Textura Kft. has become the largest workwear textile trader in Central Europe. In addition, it is also committed to impeccable quality: the threads and fabrics used in its manufacturing are subjected to continuous quality control.

All in all, the Budapest Stock Exchange expects the ELITE Programme to attract a high number of potential issuers into the Exchange's catchment area – ones who can potentially be admitted to the BSE's Xtend market as relevant market players. In addition, as another important aspect, this allows quality companies to approach the Exchange, and to make a well-grounded decision to reach the level of a capital market transaction. This creates an opportunity for both the issuer and the investor to find what they are looking for and what to expect down the line.





MARKET AND PRODUCT DEVELOPMENTS

CONTINUATION OF THE ANALYTICAL/MARKET-MAKING PROGRAMME

At the end of 2017, with the help of four investment service providers, the BSE launched an analytical/market-making pilot programme with a view to improving the turnover and liquidity of the small and mid-cap companies participating in the programme.

To achieve the desired effect, the programme took two approaches: analysis and market-making. While investors received free of charge, high-quality evaluations about issuer companies through regular analyses, opportunities for continuous training and a liquid order book were supported by market-making (continuous buy and sell quotations with a pre-specified maximum spread and minimal volume). The analyses were made available to investors through the BSE website as well as through the investment service providers responsible for preparing these analyses.

The businesses undertaking market-making and analytical services were selected from among BSE members (Concorde Securities Ltd., MKB Bank Zrt., OTP Bank Nyrt. and Wood & Company), while the group of issuers for the programme were selected primarily on the basis of size, free-float and liquidity (ALTEO, ANY Biztonsági Nyomda, Appeninn, BIF, CIG Pannónia, Duna House, Graphisoft Park SE, Masterplast, Pannergy, Rába, Zwack). Market-making services were provided by the service provider in charge of the analysis.

Certain details of the programme were fine-tuned after the December 2017 launch, and it reached its finalised form by the middle of the year as follows:

Issuer/stock	Market-maker/analyst	Max. spread	Min. volume	Min. performance
ALTEO	MKB Bank Zrt.	350	2400	70%
MASTERPLAST		400	3000	70%
BIF*				
ANY Biztonsági Nyomda (ANY Security Printing Company)	Wood & Company Financial Services, a.s.	180	1100	70%
Graphisoft Park SE		145	500	70%
APPENINN	Concorde Értékpapír Zrt.	200	3000	70%
CIG Pannónia		150	6700	70%
DUNA HOUSE		250	450	70%
PANNERGY	OTP Bank Nyrt.	150	3500	70%
RÁBA		225	1400	70%
ZWACK		150	90	70%

*In respect of Budapesti Ingatlan Nyrt., MKB Bank Zrt. only provided analytical services.

When the programme was launched, the plan was that the BSE would examine the effectiveness of the programme at the end of the 12-month pilot period (at the end of 2018), and would then decide whether to continue. Accordingly, the BSE evaluated the statistics based on trading data, and also conducted widespread market consultations in order to assess the program as reliably as possible. In this context, it polled participating exchange members, institutional and retail investors, as well as involved issuers through personal meetings and questionnaires.



The statistics and feedback painted a positive picture about the programme. The analysis offers substantial benefits to investors, with its more than 100 quarterly analyses and commentaries being particularly helpful for retail and foreign players. In respect of the equities involved in the programme, turnover increased by a total of 19%, including 10-30% – depending on the given equity – market-makers. As well, liquidity improved for seven of the ten quoted stocks (significantly for five of them) in respect of buy and sell orders of approximately EUR 5,000.

The BSE's analytical/market-making programme, thus contributed to increasing turnover and improving liquidity.

Based on the above success and after consulting with market players, the BSE has decided to continue the current programme within the following framework:

- the programme is announced for three years, facilitating planning for all stakeholders,
- in addition to the analysis part, market-making will also become optional with an increased volume to be quoted (equivalent to approximately EUR 10,000) – creating value for institutional investors as well,
- the programme will continue with the current group of equities from the beginning of 2019, but at the same time, new issuers may be added, while equities traded on the BSE Xtend market in simplified form may be included in the analysis branch.

The BSE expects the continuation of the programme with an analytical focus to have a significant positive impact on the securities of small and medium-sized companies quoted on the BSE, and that it will make listing on exchange an even more attractive option to currently unlisted companies.

MORTGAGE BOND INDEX

The growth of the domestic housing loan portfolio and the increasing popularity of HUF-denominated mortgage loans laid the foundation for a greater emphasis on mortgage bond-based financing. To this end, the MNB introduced the Mortgage Funding Adequacy Ratio (MFAR) and drafted the related legislation in order to establish and facilitate optimal maturity matching. Accordingly, credit institutions must finance a given percentage of their long-term HUF-denominated retail mortgage loan portfolio with mortgage-backed sources.

In order to facilitate the development of the Hungarian HUF-denominated mortgage bond market, the BSE (in collaboration with the MNB) developed the observation period of mortgage bond indices, which was launched in December 2017. After the end of the successful one-year test period, the BSE decided to officially launch the mortgage bond index family, with live trading of mortgage bonds commencing on 3 December 2018.

The upturn of the mortgage bond market was also reflected in the dynamic rise in the number of issuer mortgage banks. Thus, when the indices became official in December 2018, the mortgage bonds of already five issuers (the mortgage banks of Erste, Takarék, OTP, UniCredit and K&H) were put into the index baskets. Furthermore, the volume of mortgage bond issues also increased substantially, with over HUF 150 billion in new mortgage bonds floated on the BSE during the one year observation period.

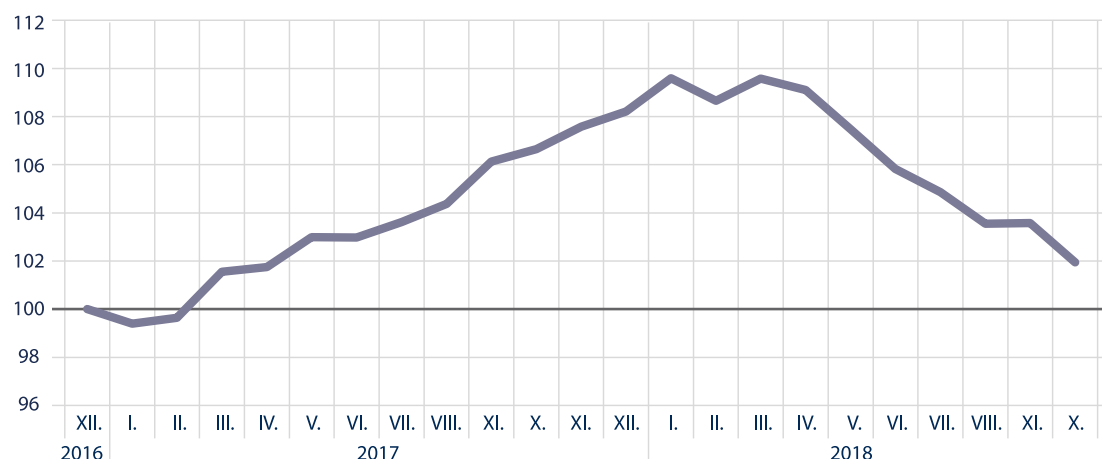
The mortgage bond index family continues to comprise a total return index, and two yield indices calculated for two different terms:

- Budapest Stock Exchange Mortgage Bond Total Return Index (BMBX Total Return),
- Budapest Stock Exchange Mortgage Bond 3-year Yield Index (BMBX Yield 3Y),
- Budapest Stock Exchange Mortgage Bond 5-year Yield Index (BMBX Yield 5Y).

The calculation of mortgage bond indices is based on the market-making of mortgage bonds in the basket. The index baskets contain fixed interest, HUF-denominated mortgage bonds, which must also comply with requirements specified in the relevant manuals, and that are currently traded on the BSE. The Total Return index values of the observation period, based on monthly calculations, and the changes in these index values are shown in the diagram below.



BMBX Total Return Index (12/2016 - 10/2018)*



*At the end of the current month

Source: BSE

With the index family becoming official in December 2018, the frequency of the calculation of mortgage bond indices also changed, as once-monthly calculations were replaced by the daily calculation and publication of indices. The indices reflect the current status and development direction of the Hungarian HUF-denominated mortgage bond market as transparent indicators, thereby facilitating pricing and the assessment of HUF-denominated mortgage bond portfolios for issuers and investors.

NEW MEMBERS, NEW SERVICES

The range of foreign instruments traded on the BSE was expanded in 2018 to include new types of products – namely exchange-traded funds (so-called ETFs). The seven new ETFs were floated onto the BSE's BÉTa Market. New ETFs allow investors to purchase, in a single transaction, a highly diversified portfolio covering the entirety of the market represented by the given ETF. Given the novelty of the product range, the BSE (in collaboration with the MNB) performed thorough preparatory work for registration and the regulatory requirements relating to tradability, and also transposed the necessary market segmentation changes into trading and satellite systems.

With the ETFs introduced, the given indices can be used to take positions on the performance of European (German in particular) as well as US markets. In addition to instruments profiting from price increases (long ETFs), the new ETFs also include instruments that generate profits when markets drop (short ETFs).

Along with the introduction of the ETFs, the equity offer was also expanded: 2018 saw six new European leading stocks (Allianz, Deutsche Telekom, Henkel AG Pref, Münchener Rückversicherung, SAP and Volkswagen Pref) become available on the BSE. At the moment, 26 foreign instruments can be traded on the BÉTa Market.

OTP Bank Nyrt. acts as market-maker for the BÉTa Market, which, in order to ensure sufficient liquidity, offers continuous buy and sell quotations with a pre-specified maximum spread and minimal volume in the given instrument.

Depending on the success of the new products, the BSE's future plans include the further expansion of the product range in line with investor demands.



BRAND-BUILDING, COMMUNICATION

MEDIA PRESENCE AND EVENTS (HUNGARIAN)

Marketing communication and PR play important roles in the capital market development activities of the Budapest Stock Exchange.

THE HUNGARIAN CAPITAL MARKET IN THE MEDIA

Investor communication continued to focus on increasing the stockholding by the Hungarian population in 2018 as well. In this context, with the BSE's support, daily articles, interviews and news reports were published on the most prestigious, most widely read and most widely listened-to economic media platforms. As a result of the activities of the BSE's Sales and Marketing Division, not only OTP Bank, MOL, Richter and Magyar Telekom, but also small securities and companies involved in the new programmes of the BSE (BSE Xtend, Mentoring Programme, ELITE) received considerable attention in the media.

Contact and liaison with the Hungarian press is now ongoing via several channels, and the development of this relationship is not limited to professional support provided to one or two economic financial media outlets. The Exchange is also making an effort to establish and nurture closer relationships with media entities that have a greater reach to retail investors. Beyond statements and reports on monthly turnover data – now published on a regular basis and which mostly provide useful information to the specialised press on the Hungarian capital market – the Budapest Stock Exchange also publicises all important events and happenings related its activities as we try to be available to the representatives of the Hungarian press with press releases, interviews and industry articles.

Expressed in figures, in 2018 we released 4,000 stock exchange-related reports in the press, generating more than 270 million views. The calculated media equivalency value was more than HUF 800 million in this period.

The BSE has been working on reaching investors, potential and current issuers, as well as BSE partners through social media since September 2016. At the end of 2015, the Facebook page of the Budapest Stock Exchange had less than 500 followers, but by the end of 2018, we increased this to nearly 12,000, reaching the benchmark, the typical level for Hungarian investment service providers. At the same time, the number of LinkedIn followers jumped from less than 300 to above 1,700.

EVENTS

The Budapest Stock Exchange holds two priority events each year. The first is the birthday of the Exchange in June, where together with the representatives of issuers on the Hungarian trading floor, exchange members and key partners, the Budapest Stock Exchange celebrates the anniversary of its reopening on 21 June 1990 after decades of involuntary hiatus. The other is the Best of the BSE Awards Gala. By giving out the awards at the Best of BSE Gala to kick off the year, the BSE evaluates the preceding year and ceremonially launches the next. The Awards Gala for 2017 was held on 18 January 2018, which also marks the anniversary of the launch of the Hungarian Exchange back in 1864.

For nearly twenty years, the Budapest Stock Exchange has held an annual ceremony, the 'BÉT Legek' (Best of BSE) Gala. A professional panel of capital market experts decides on award recipients, determining category winners based on entries received or turnover data.

While for most of the categories, winners are selected on the basis of a quantitative methodology, in the case of the category for Domestic Stock Trading Platform of the Year, a panel consisting of members of the Stock Exchange Advisory Board chose the winner after evaluating the entries received and on the basis of user ratings.



At the 2017 Gala, the award for Stock Trading Company with the Highest Turnover for the Year went to Concorde Securities Ltd. with a turnover of HUF 1,302 billion. The award for BUX Futures Index Trading Company with the Highest Turnover for the Year to Erste Befektetési Zrt. The title of the Currency Futures Trading Company with the Highest Turnover went to Raiffeisen Bank Zrt., while OTP Bank took home the award for Stock Issuer with the Highest Turnover for the Year with HUF 1,133 billion. Waberer's International Nyrt. (listed last year) was named Stock Issuer of the Year, while MFB Zrt. was chosen Bond Issuer of the Year. Portfolio-Telettrader Kft. was given the award for Data Service Provider of the Year. When awarding the title of Investment Service Provider of the Year, in addition to turnover data, the panel also took the nominee's work performed in the interest of the Hungarian capital market into account, meaning that this year the award went to Erste Befektetési Zrt. The award for Issuer Transparency went to OTP Bank, and the Special Mid-Cap Issuer Transparency award to Graphisoft Park SE. Random Capital Zrt.'s 'NetBoon' online trading system was named Domestic Stock Trading Platform of the Year for 2017.

The 2017 Best of BSE award ceremony was sponsored by the KELER Group.

The communication activities of the Budapest Stock Exchange focus on attracting potential issuers, mainly IPO-ready medium-sized businesses. Events play a key role in this respect – not only happenings organised by the BSE, such as professional forums, business breakfast meetings, conferences, BSE Academies and visits to the stock exchange, but also college and university lectures given by our experts.



After 2016 and 2017, on 20 September 2018 the BSE again hosted the BSE50 – Medium-sized Enterprises' Summit for SMEs, with hundreds of participants and a keynote address by OTP Bank Chairman & CEO Dr. Sándor Csányi. The BSE50 2018 publication was also presented at the event. Just as its previous editions, it presents the inspirational stories of 50 Hungarian businesses, from the automotive industry through machinery production to IT companies.

On 4-5 October 2018, the Budapest Stock Exchange hosted the Scaleup Summit, the international start-up conference realised with support from the European commission, as part of which (primarily) technology start-ups were able to meet corporate investors. On 13 December 2018, with a view to creating a tradition, the Exchange organised the very first in the series of BSE CEO60 events where professional investors – fund managers, analysts, private bankers – will be able to meet up with the heads of BSE issuers (Magyar Telekom was first) several times each year.

The BSE's event activities in terms of figures: Surpassing the preceding year, in 2018 we participated at or organised close to 150 conferences, professional forums, bell-rings, visits to the exchange, press conferences, business breakfast or tea meetings. For thousands of people, these events presented the only chance to meet with the BSE and the BSE's representatives at the domestic or international level.

BIB REPORT

Ever since the 1990 reopening, education has been a priority for the Budapest Stock Exchange. The continuous development of the capital market profession, as well as the transmission of the very latest know-how and innovation are the keys to the successful operation of the BSE. When the BSE re-opened in 1990, it had only one staff member with hands-on professional experience on the former Budapest trading floor. As this was also the time when electronic trading was starting up, we needed to build up a completely new generation of experts. This is what the educational programme of the BSE focused on at the time.

It was the BSE's competitive educational activities offered for a fee to market players that led to the idea of further developing these programmes with support from the owners. This led to the establishment of the Budapest Institute of Banking (BIB), the exclusively-owned educational subsidiary of the Exchange, in the autumn of 2017. Since the foundation of the BIB, our wide-ranging educational activities are now being implemented within a more streamlined structure.

All activities that are subject to the payment of tuition fees and which qualify as professional training are conducted by the BIB. These extend beyond capital market topics, covering the entire financial/economic spectrum, as well as teaching "soft skills" that are essential today for anyone working in the financial arena. For issuers and exchange members, we now only hold tuition-free events, where topics are limited to the operation and regulation of the BSE. Nonetheless, the Budapest Stock Exchange has remained accessible for visiting school groups and we also continue to hold free-of-charge stock exchange courses for retail investors.

The foundation of the BIB is rooted in the matching of market needs with the social responsibility objectives of the National Bank of Hungary and the Budapest Stock Exchange. Its operation is based on a comprehensive banking/money market further training concept. Complex regulatory requirements adopted in the interest of market stability, digitalisation and increasing competitiveness made the reform of financial further training extremely urgent. Up-to-date knowledge is becoming increasingly valuable in the financial institution sector. The operation of a competitive financial system requires competitive knowledge, and competitive knowledge requires high-quality, world-class training. This quality has to be reflected in up-to-date knowledge, professional ethics, the efficient communication of knowledge and in modern educational technology alike.

One of the pillars of the BIB's educational programme is the one- or two-day courses held for financial institutions that cover a wide educational spectrum relating to the banking system and related areas. The other pillar is the area of so-called official trainings. This includes insurance brokerage or financial intermediary activities, which require a special MNB examination and where application for



the examination is subject to participation in a 30-hour preparatory course. This is a special form of adult education, but after having obtained accreditation, the company carved out a place for itself in this particular segment as well. This also includes the organisation of preparatory courses for qualifying examinations in the stock market (broker training), as well as for examinations for options, futures and securities administrators. The third pillar is the area of individual corporate training courses, where the BIB offers training customised for the given company or bank – with on-site training if needed; alongside OKJ (National Qualifications Registry) courses for cashier and foreign currency cashier positions.

BIB courses feature the very best domestic and international lecturers, who convey up-to-date knowledge to students in a practice-oriented and experience-based methodology. Distinguished experts of market firms or the professional managers of the MNB provide first-hand answers to topical banking/financial questions or supervisory authority aspects. For example, the guest of the very first exclusive BIB Talks event hosted by the Budapest Institute of Banking was psychologist Mihály Csíkszentmihályi, father of the 'flow' theory, fellow of the American Academy of Arts and Sciences, member of the Hungarian Academy of Sciences, winner of the Prima Primissima and the Széchenyi Prize; with nearly 100 managers and executives from the Hungarian corporate and financial sector in attendance at the event.



The majority of the BIB's educational portfolio is in Hungarian, aimed at Hungarian players, but in 2017-2018, 10% of the more than 70 banking/financial courses were in English. The company's medium-term objective is to use its special training courses to become a regional/international training and educational centre. In 2017/18, the first full academic year, the company was in contact with more than 100 trainers. More than 900 students registered for traditional banking and financial courses, and the feedback on student satisfaction (with average scores above 9 on a scale of 1 to 10) gave a positive confirmation of the initial aims. In September 2018, broker training at the BIB was launched with higher student numbers than in the preceding years, but official and OKJ (National Qualifications Registry) courses are also attended by an increasing number of financial institution associates that meet customers face-to-face. Modern e-learning, which adapts flexibly to student schedules, is particularly popular, with currently 4,200 financial institution associates studying up-to-date know-how with the help of the Budapest Institute of Banking.



INTERNATIONAL RELATIONS

ROADSHOW EVENTS AND INTERNATIONAL CONFERENCES

Once again this year, the Budapest Stock Exchange took part in numerous conferences and inter-exchange meetings, enhancing cooperation between stock exchanges and international investor relations.

In March 2018, London hosted the Master Investor Show, where the Budapest Stock Exchange had the opportunity to introduce itself to potential British retail investors. HIPA also took its place on the stage alongside the BSE, while ALTEO, Waberer's and Duna House were represented with individual stands.

At the Investor Roadshow organised by Wood & Company in Warsaw in the spring, not only the BSE, but also WizzAir, PannErgy, Duna House, ANY Biztonsági Nyomda, Konzum and Opus also had the opportunity to introduce themselves.

In June, a conference was organised by the London Stock Exchange presenting the V4 capital markets. Hungary was represented by Minister of Foreign Affairs and Trade Péter Szijjártó and BSE Chairman & CEO Richárd Végh. The event focusing on the stock exchanges of the V4 saw executive officers and investors in attendance discuss the underlying opportunities of the region's capital markets, exchanges and listed companies. The discussions focused on the current situation of the region's capital markets, the underlying investment opportunities and on prioritising the economy-enhancing role of exchanges.

On 27-28 June, the Budapest Stock Exchange and six domestic issuers attended the Spring Europe MidCap Event – a prestigious investor conference – in Paris. ANY Biztonsági Nyomda, Duna House, Konzum, Opus, Pannergy and Waberer's all conducted bilateral talks with the nearly 150 institutional investors from Western Europe in attendance, predominantly from France, Germany and the Benelux countries.

The Krynica Economic Forum, the largest conference of the Central and Eastern European region was organised in Poland for the 28th time between 4 and 6 September. The event saw the heads of the stock exchanges of Warsaw, Budapest, Bucharest, Prague, Bratislava, Ljubljana, Sofia and Zagreb declare that cooperation is needed to ensure that mutual interests are appropriately represented in the process of establishing the capital market union.

On 4 and 5 October 2018, the Budapest Stock Exchange organised the ScaleUp Summit, where international scale-ups, corporations and investors gathered to set up potential business cooperation. The conference focused on scale-ups, i.e. fast-growing companies, usually from the technology sector, and with capital investments over EUR 1 million. The aim of the series of events is to support the growth of European tech-oriented scale-up businesses, as the difference between Europe and the United States in this respect is vast. US firms have invested USD 744 billion since 2010 in 12,780 transactions – three times more than the European figures. Over the same period, European companies invested USD 209 billion as part of 5,917 acquisitions.

At the conference, renowned international CEOs and representatives of the European Commission discussed and debated the difficulties and trends that impact companies looking to grow. For companies that have progressed beyond the start-up phase, the event provided an opportunity to get to know (with the support of experts) the heads of corporations and potential institutional investors in the hope of future business collaboration.

The series of international introductions concluded with an event held in November 2018, namely the Hungary Investor Day hosted in London by J.P. Morgan.



CHINESE NETWORKING

AGREEMENT WITH THE SHANGHAI STOCK EXCHANGE

A key element of the capital market development activities of the Budapest Stock Exchange is to strengthen the cooperation with dynamically developing China.

At the beginning of 2017, the BSE laid down the foundations of a capital market cooperation with China by signing a cooperation agreement with the Bank of China. In May of the same year, it signed an agreement with the Shanghai Gold Exchange, one of the key platforms of global gold trade, and this year it concluded a strategic agreement with one of the largest stock exchanges of the world: the Shanghai Stock Exchange. This was another step by the BSE to establishing a closer collaboration with the dynamically growing Chinese capital market. Within the framework of the newly launched partnership, the two stock exchanges will develop investment products together, while also initiating joint research projects. The cooperation also involves the exchange of information relating to the capital market, stock exchange operation and regulation.



By concluding the agreement, the BSE entered into a collaboration with one of the five largest stock exchanges in the world (the Shanghai Stock Exchange is generally ranked 4th-5th in annual aggregations). The shares of more than 1,400 companies are traded on the Shanghai Stock Exchange and its daily average turnover is greater than the entire Hungarian market capitalisation.

Founded in 1990, the Shanghai Stock Exchange operates in the form of a non-profit organisation, and is governed directly by the China Securities Regulatory Commission (CSCR: the Chinese securities market supervision authority). The exchange is one of China's two independent stock exchanges besides Shenzhen, with both markets offering a wide range of stocks, bonds and other securities.

Asia has dominated the global IPO scene since 2014, with the Shanghai and Shenzhen stock exchanges responsible for 436 initial public offerings in 2017 alone, i.e. a quarter of new IPOs worldwide. In terms of the total value of transactions, the Shanghai Stock Exchange was a global leader both last year and in 2016.

CONTINUED PROGRESS IN THE COOPERATION WITH THE BANK OF CHINA

An indication of how seriously the Budapest Stock Exchange takes Asian relations is that the cooperation agreement concluded with the Bank of China (BOC) in 2017 advanced to the next level in 2018, when the trading of the first CNY-denominated structured bonds issued by the BOC in the region started in December. The underlying product of the security – which was subscribed to by institutional investors (fund managers, banks and other companies) – is the 4.85%-rate CNY-denominated bond issued by the Hungarian State, maturing in July 2020. The total nominal value of the series is EUR 8.5 million or USD 15 million. The product is the first issue in the region by a Chinese bank.

The cooperation agreements concluded to date aim at developing new publicly tradable joint products for Chinese and Hungarian investors that will help the Budapest Stock Exchange expand its range of products to include ones linked to the Chinese capital market, and that will also encourage Chinese investors to learn about and invest in Hungarian businesses.





In addition, the BSE and the Bank of China will also take joint steps to ensure that Chinese companies active in Hungary and the Central Eastern European region choose the Hungarian capital market for the purpose of raising capital in the future as well.



COOPERATION WITH V4 STOCK EXCHANGES

IN February 2018, the Prague Stock Exchange hosted the first V4+2 summit of Central and Eastern European exchanges, attended by the CEOs of stock exchanges from Croatia, the Czech Republic, Hungary, Poland, Romania and Slovakia.

The aim of the initiative was to spark a cooperation between the stock exchanges, primarily relating to plans of the European Union. The objective of the group is to assess the impact of EU plans on the capital markets of the V4+2 region, to identify areas where intervention is needed and to start consultations on these areas with European Union representatives.

Joint action is useful not just because it provides a means for the participating stock exchanges to voice their opinions, but also because it allows the European Union to receive unified feedback from the markets representing the entire region. Local capital markets play a strategic role in financing the economic growth of Central and Eastern Europe, which is why ensuring the development of local ecosystems is of crucial importance in respect of the region's competitiveness.



FESE-RELATED WORK

The cooperation between the Budapest Stock Exchange and the Federation of European Securities Exchanges (FESE) was elevated to a new level in 2018.

FESE is the common interest representation organisation of European regulated capital markets and exchanges. Its main purpose is representing these markets in European Union decision-making processes, primarily in establishing the Capital Markets Union. It currently includes 35 stock, commodity and energy exchanges from 30 countries. It counts the Deutsche Börse in Frankfurt, Euronext, the NASDAQ (which has offices in Europe as well), along with the Warsaw, Vienna, Prague and Bucharest exchanges among its members. The Budapest Stock Exchange has been actively collaborating with the Federation of European Securities Exchanges since 1999. The BSE became a full member of the organisation in 2004, following Hungary's accession to the European Union, but afterwards – in the previous ownership structure – only had technical membership through the CEESEG Group. After the National Bank of Hungary acquired majority ownership of the BSE, the Hungarian stock exchange was again granted full membership in the FESE as of June 2016. This allows the BSE to create cooperation opportunities with other stock exchange members and to gain more experience in international capital markets, thereby ensuring that the operation of the domestic stock exchange is EU-compliant and that the BSE is able to appropriately represent the interests of the Hungarian market when assessing frequently changing acts of legislation.

As an indication of closer cooperation, the FESE appointed BSE Chairman & CEO Richárd Végh to be Chairman of the Board at its general meeting on 4 December 2018. Petr Kobic, Member of the Management Board of Vienna Stock Exchange, was elected President of the organisation, thus reinforcing the role of the region's capital markets at the European level.

The European parliamentary elections of 2019, and the establishment of the new European Commission makes the work of FESE – based in Brussels and collaborating closely with the European Commission – particularly important. The organisation provides opinions on the new directives and draft regulations of the Commission relating to capital markets. FESE's key lobby topics currently include the regulation related to MiFID II/MiFIR, the Securities Financing Transactions Regulation (SFTR), making data sales pricing unified and more transparent, the tick size regime, but the organisation also focuses on the impact of Brexit on the capital market sector.



COOPERATION WITH THE GOVERNMENT AND THE MARKET

The exchange's comprehensive new toolkit, developed in collaboration with the government and the market, could serve as a basis for as many companies as possible test themselves on the Budapest Stock Exchange in the future. Establishing and setting up a system on this scale in order to help companies go public on the exchange is unprecedented in the history of the Budapest Stock Exchange. This gives rise to optimism that the number of publicly-traded companies will increase substantially down the line.

The toolkit for public listing can briefly be summarised as follows: the first step is identifying companies that, beyond the requisite figures, also have underlying potential. The next step is the ELITE Programme, where companies learn about the opportunities in company development, networking and capital market financing, which is then followed by the BSE's Mentoring Programme. This latter stage represents a commitment, as does the use of the capital fund and NOMADs. The final step is the BSE's Xtend market, which is already actual public listing.

The BSE's programmes are thus striving to promote the listing of new companies in various ways and from different angles, but still in a concerted manner, with the Exchange present as a supporting and expert partner throughout the entire process. The key message is that the BSE is a partner for Hungarian businesses in the process they undertake when they advance to the next level – from strategic co-thinking all the way to actual fundraising.

CHANGES IN THE LEGAL ENVIRONMENT

Ever since its modern-day reopening, the Exchange has strived to play an active role in shaping the capital market's regulatory environment, aiming to ensure that the domestic legal landscape supports the Hungarian capital market in developing and adapting as much as possible to continuously changing market conditions, meanwhile keeping investor protection, market stability and the reinforcement of market confidence in mind at all times. To this end, it is in continuous contact with legislators, the supervisory authority as well as market actors, and monitors the changes of the regulatory environment of capital markets within and outside of the European Union.

The fact that, in 2016, the BSE identified its involvement in the review and enhancement of the capital market's legal environment as a means of implementing its strategic goals, this aspect of its activities has been increasingly highlighted. The 2016 strategy itself already identified a number of regulatory steps that can be used to encourage new issuers to go public, to stimulate the demand side and to promote the BSE's own activities. The BSE continuously monitors the implementation of these regulatory objectives, identifies new tasks, and channels the initiatives by market players it deems to be worthy of support towards legislators.

During 2018, the BSE consulted on numerous occasions with the National Bank of Hungary and the Ministry of Finance in relation to the domestic transposition of the Prospectus Regulation and the applicable amendment of the Capital Market Act, in order to ensure that the Hungarian capital market becomes as competitive as possible by EU standards in the eyes of issuers looking to list at the BSE.

In part due to the lobbying activity of the BSE, the legal regulations on regulated real-estate investment companies were amended favourably. With the continued fine-tuning of Act CII of 2011, the so-called SZIT Act (where 'SZIT' is the Hungarian acronym for Regulated Real Estate Investment Companies), the BSE feels that the legal environment of SZITs has been settled in a reassuring manner. The amendment of the Government Decree No. 78/2014 (III.14) on the rules pertaining to the investment and borrowing by collective investment schemes allows real estate funds to also hold SZIT stocks in their liquid asset portfolios. This step could lead to a new investment group to appear in the ownership structure of SZITs, which could encourage even more issuers to become SZITs.



In the second half of 2018, the BSE contributed to the Competitiveness Report prepared by the National Bank of Hungary. In addition to assessing Hungary's competitiveness, the publication published in 2019 will also offer detailed recommendations regarding measures that could contribute to the country's successful convergence. The BSE made recommendations in two areas:

- Broadening the capital market must be one of the pillars of the proposed new financial model. This can be implemented by, on one hand, attracting successful Hungarian companies (state-owned companies, banks, small and medium-sized businesses) to the Hungarian stock exchange and, on the other, through measures supporting the development of the capital market. With a view to accomplishing these objectives, the BSE has identified a wide spectrum of potential tools, ranging from the introduction of stock programmes for small investors through tax benefits all the way to the launching and support of a new capital market platform specialising in SMEs.
- More capitalisation of household savings is needed, and more Hungarian private and institutional funds should be injected into Hungarian corporate equities. This would contribute not only to strengthening the Hungarian SME sector, but to stimulating the entire capital market. The proposed measures include, amongst others, making the gains on exchange transactions tax-free, as well as the introduction of new health and pension-oriented savings and fusion products.

NATIONAL STOCK EXCHANGE DEVELOPMENT FUND

The National Stock Exchange Development Fund facilitates the listing of Hungarian medium-sized companies on the BSE's main market or its Xtend platform. Through its investments, it can strengthen companies looking to go public (e.g. by financing their entry to foreign markets, improving management or their product development), but can also ensure demand for the company's stocks during the IPO.

As a result of a public call for publications, Széchenyi Tőkealap-kezelő Zrt. became the operator of the National Stock Exchange Development Fund, which has executed nearly 100 investment transactions from the Széchenyi Venture Capital Fund since 2011.

The primary goal of the Fund is to have the companies which it finances go public on the Xtend market within a maximum of 2 years and for them to list on the BSE's regulated markets within 2-5 years through an initial public offering. Therefore, these capital investments must primarily serve development and growth and to establish the conditions for public trading. These include the supplementation of management, setting up the IT system, organising the legal environment or even fine-tuning their corporate image.

Of the HUF 30 billion at NtfA's disposal, the fund manager typically participates in transactions worth HUF 1 billion, usually for a time horizon of 2-3 years. The participation of a market co-investor is always mandatory. Another important requirement is that the Fund can only invest into privately operating companies (of the 'kft' or 'zrt' types) or public limited companies registered on the MTF through public and private transactions.

The Fund can make two types of investments. Firstly, it can finance the development of companies that could list on the BSE Xtend medium-sized market or the main market of the Budapest Stock Exchange (pre-IPO investment) in the medium term. Or, the National Stock Exchange Development Fund can also subscribe to stocks during listings, regardless of whether this involves listing on the BSE Xtend or the main market, or public or private offerings (IPO investments).

In the case of public offerings, the Fund for the most part makes its decisions based on prospectuses prepared by Nominated Advisers that comply with exchange requirements. This is also true when a company's equities are listed directly on one of the BSE's markets after raising private capital. For pre-IPO investments, the Fund examines the given company's business plan based on the criteria of its transparent system of rules. In this case, the process is identical to that of a typical VC investment. An important requirement is that the Fund cannot invest into companies already listed on the regulated market, i.e. into companies already in the BSE's Equities Prime and



Standard markets. However, it can make capital investments into companies listed on BSE Xtend (given that it is not a regulated market but an MTF platform) or companies listed on the exchange with bonds. The National Stock Exchange Development Fund can also subscribe to stocks as part of new listings, regardless of whether this involves listing on the main market or BSE Xtend. The average term of a pre-IPO investment is 0-24 months, while the average term for IPO investments is 3-5 years, but at the same time, the planned term of the various transactions – both pre-IPO and IPO investments – cannot be longer than the final date of the current term of the Fund.

In May 2018, the Fund reached another important milestone: the National Bank of Hungary approved the fund management policy submitted by Széchenyi Tőkealap-kezelő Zrt., and the team started active operations. This is when all financial, organisational, HR and statutory conditions were in place for the Fund to start placements for potential companies. As such, June 2018 saw the first Investment Committee meeting held with the very first proposals submitted – where the Committee already discussed specific investment opportunities in collaboration with the experts of the Budapest Stock Exchange.

The BSE team had an important background role in 2018 in channelling and attracting the first companies, and its experts also attended meetings of the Investment Committee and the Board of Directors. In addition, the BSE team supported the establishment of product and decision-making processes with background analysis and market research. The BSE's role was primarily apparent in establishing the operating conditions of the fund manager, while BSE staff will also have an important role in seeking out and filtering active projects in the coming period. Additionally, the parties will continue to hold consultations on using the support programmes and services preparing the companies for going public, and about setting the tasks and requirements related to the public issue.

As a venture capital fund, the National Stock Exchange Development Fund supports the success of the Xtend market similarly to the ELITE Programme. On the one hand, it boosts supply by enabling target companies to progress to the next level in terms of size (and quality) through the investments made and contributions offered by the fund, which helps those companies get closer to being listed on the stock exchange. On the other hand, it may also have a positive effect on the demand side at the stock exchange since the fund can itself subscribe to shares during an IPO.

However, the effects of the Capital Programme go beyond direct benefits: the support it provides contributes to implementing the capital market infrastructure and know-how, and to improving the capital market liquidity of medium-sized companies, which may also lead to an increase in the number of quality IPOs and/or MTFs listings. It should be underlined that part of the advisor costs and the costs of entering the market are financed by the capital programme.

The first actual investment by the NTfA was realised at the listing of Megakrán Nyrt. in October 2018 – an important milestone for both the BSE and the NTfA. During the private issue and transaction, the capital raised totalled HUF 678 million, of which the majority shareholder sold stocks in a value of HUF 22.6 million. Based on the composition of the total capital increase, the NTfA was involved to the tune of 40%, with the remaining 60% raised from the market (30% institutional and 30% private investors).

Projected onto total company value, the ratio of new shareholders is 23.59%, of which the NTfA represents a total of 9.44% (holding 73,350 shares). Of the HUF 678 million in privately raised capital, the NTfA provided HUF 271 million. The subscription period successfully ended on 19 November 2018, and the registered new stocks were allocated on 20 November 2019 with a price of HUF 3,702 per share. Megakrán Nyrt. will use the capital raised to finance the developments and investment projects for the coming 3-4 years, which can assist the company in acquiring market share and strengthening its market position.

Plans are to have an even closer cooperation between the NTfA and the BSE in 2019 in seeking out potential companies and implementing acquisition events. During the year, several pre-IPO and IPO cases could be submitted to the Investment Committee and, if approved, to the Board of Directors.



MENTORING PROGRAMME: SUMMARY OF THE GINOP PROJECT

In 2017, the Ministry for National Economy announced a call for applications under the subject heading “Increasing the efficiency of the SME sector, primarily through measures designed to facilitate public listing”. The Budapest Stock Exchange submitted an application, which the NGM accepted and deemed to be worthy of support.

As a result, as of 6 February 2018, within the framework of the BSE's GINOP (Economic Development and Innovation Operating Programme) Mentoring Programme, Hungarian SMEs can apply for non-refundable grants from the BSE, which they can use to gain the necessary know-how for capital market financing, and to cover the costs of going public.

The GINOP mentoring project is made up of two parts. The first part of the project aims to support SMEs taking part in the training programme implemented through international cooperation, while the objective of the second is to set up a programme supporting the preparation of SMEs for the stock exchange and going public.

In the first project element, the BSE aims to launch a cooperation programme providing European training and mentoring services and conveying these to target group enterprises. The companies participating in this international cooperation have the opportunity to take part in a complex training/mentoring programme, where they can learn from the most highly qualified advisors and extend their network of contacts. In addition, the programme also allows businesses to find the financing method most favourable for them, whether through loans or equity financing or even through the BSE.

The goal of the second part of the project is to support medium-sized enterprises in their preparation for the stock exchange and to encourage them to raise funds via the capital market if there is no or only insufficient financial funding available on the money markets. The target group comprises more mature medium-sized companies which are ready for transparent public operation, but which have not yet begun preparations for the stock exchange listing process due to a lack of know-how or financing.

As a whole, the BSE GINOP mentoring project focuses expressly on businesses which show potential for listing and to be an attractive investment option for Hungarian institutional or private capital investors after the preparatory period.

Megakrán Nyrt., the first to list on the Xtend market, was also the first company that was awarded a grant as part of the BSE's Mentoring Programme at the GINOP call for applications.

STOCK EXCHANGE ADVISORY BOARD

The Stock Exchange Advisory Board (TTT) of the Budapest Stock Exchange was set up at the beginning of 2016 by the new Board of Directors of the BSE elected at the end of 2015 with the purpose of including in the development and implementation of the new strategy of the Stock Exchange (now owned by the Central Bank of Hungary) as wide a range as possible of concerned industry stakeholders. The task of the Advisory Board is to prepare, substantiate and provide an opinion on the strategic and business decisions of the institution. The 17 members of the Advisory Board include current and former leaders and major figures of the money and capital markets, as well as the leaders of various professional chambers and administrative bodies. The Stock Exchange Advisory Board was convened three times this year. In January, it gave out awards for the best performances of 2017 on the Hungarian capital market. The Best of BSE Awards, which have a history spanning 20 years, was presented in 13 categories on the basis of market performance and the decision of the Stock Exchange Advisory Board. At its September meeting, the Advisory Board reviewed the implementation of the Exchange's strategy, with particular emphasis on increasing the range of issuers, active partners for stock exchange listings; increasing the number of IPO-ready companies and reducing the risks of listing; providing funds to SMEs; improving and expanding issuer services; increasing equity ratio in Hungarian retail and institutional portfolios; developing financial literacy and financial awareness, education,



and other external supporting factors also required for the implementation of the strategy. In addition to reviewing and evaluating the main events and developments of the year, the December meeting also focused on the expected directions for development in the year ahead as well as on presenting the categories for the 2019 Best of BSE Awards.

The Chairman of the advisory board is former Stock Exchange Chairman Mihály Patai, the Chairman and CEO of UniCredit Bank.

Members of the Advisory Board: Zoltán Bánfi, MKB Bank Zrt; Dr Tamás Bánfi, Corvinus University of Budapest; György Barcza, Government Debt Management Agency; Dr Ilona Hardy, Aranykor Voluntary Pension Fund; Ádám Hegyi, Primare Partners; György Jaksity, Concorde Értékpapír Zrt; Zsigmond Járai, MOL Nyrt; Kálmán Nagy, Concorde MB Partners; Dr András Nemescsói, DLA Piper Horváth and Partners Law Office; Gábor Orbán, Richter Gedeon Nyrt.; Dr László Parragh, Hungarian Chamber of Commerce and Industry; Dr Norbert Szivek, Cretum Vagyonkezelő Zrt.; Hannes Takacs, European Bank for Reconstruction and Development; Sándor Vizkeleti, Association of Hungarian Investment Fund and Asset Management Companies; Levente Zsembery, Hungarian Venture Capital and Private Equity Association.

Richárd Végh, Chairman and CEO of the BSE, takes part in the work of the Advisory Board in a consultative capacity.

CONCLUDED COOPERATION AGREEMENTS

Our collaborations which started in 2016 in order to develop the capital market developed even further in 2018, and we also established new contacts, as detailed previously. We have a long-standing relationship with the Government Debt Management Agency, but we also actively collaborate with the Chamber of Hungarian Auditors, the National Association of Voluntary Funds, the Confederation of Hungarian Employers and Industrialists (MGYOSZ), MFB Invest Befektetési és Vagyonkezelő Zrt, the Hungarian Chamber of Commerce and Industry (MKIK) and the Money Compass Foundation.

In addition to nurturing Hungarian industry relations, we also strive to seek out potential partners in the international arena, such as the Shanghai Stock Exchange, Sustainable Stock Exchanges, the Federation of European Stock Exchanges or the Bank of China. Cooperation with these entities effectively supports the BSE in its effort to attain its goals. It was in this spirit that we entered into cooperation agreements with the ELITE Programme of the London Stock Exchange Group in 2016 and with the Bank of China in 2017.

The group of the BSE's international partners continued to expand in 2018. Within the framework of the partnership with the Shanghai Stock Exchange, the two stock exchanges will develop investment products together, while also initiating joint research projects. The cooperation also involves the exchange of information relating to the capital market, stock exchange operation and regulation. By concluding the agreement, the BSE has entered into a collaboration with one of the five largest stock exchanges in the world.

The remaining pages of the Report contain more details on the various partnerships listed above.

WORK BY COMMITTEES

The work of the Budapest Stock Exchange is supported by auxiliary committees in which the BSE also takes on a major operative role. Stock exchange committees can be categorised into two larger groups.

One group comprises the committees whose key function is to represent the interests of stakeholder partners (the Committee of Issuers and the Trading Committee). Pursuant to the provisions of the Capital Market Act – although the Board of Directors has the right to approve stock exchange regulations – prior to adopting or amending certain regulations, the Board of Directors must request the opinions of stakeholders. Thus, prior to the approval of the exchange's rules for trading and for the suspension of trading, the Board must offer exchange traders an opportunity to express their opinions thereupon. Likewise, before approving regulations on the listing,



withdrawal or rules of procedure of securities, the issuers of the securities listed on the exchange or their trade associations must also have a chance to comment on the regulations. In addition to this interest representation function, committees also provide support to the BSE in order to increase the efficiency of its work.

The other group is made up of committees whose task is purely to provide advisory support, such as the Settlement Committee, the Index Committee or the Corporate Governance Committee.

It is true for all the above detailed committees that the BSE coordinates the work of the committees, including, among other things, managing the amendments of the regulations applicable to the committees, refreshing the composition of committees, organising committee meetings, drafting agenda items as well as related proposals and submissions, besides ensuring that minutes of the meetings are kept. The BSE delegates one member to all committees: these members have no voting rights but are actively involved in committee work.

TRADING COMMITTEE

The Trading Committee held two meetings in 2018, discussing the following topics:

- review of the BUX futures contract size and tick size,
- review of the tick size practice of equity futures contracts,
- Possibilities of developing the BÉTa Market – expanding the product range with ETF's,
- functional changes related to the T7 implementation project,
- upcoming review of volatility price corridors and maximum order quantities as per the MiFID ,
- re-activation of the spread order type,
- continuation of the analytical/market-making programme.

In addition, the committee reached a decision on two topics by way of electronic voting, firstly in respect of the establishment of the settlement prices, and secondly regarding the introduction of a new futures contract.

INDEX COMMITTEE

The Index Committee had three meetings in 2018, on the following topics:

- twice to go over the regular index review,
- the extraordinary management of company events in the index between reviews,

Moreover, committee decisions were made by written votes on seven occasions, five times on the necessity of the extraordinary transfer of company events in the indices, and twice on minor amendments of the Manuals.

SETTLEMENT COMMITTEE

The Settlement Committee had one meeting in 2018, with the following topics on the agenda:

- reforming the management of company events,
- KELER report on the SMP project,
- statistics on the data quality of audit trails, feedback to the market,
- review of the reporting practice of investment service providers,
- technical management of the cancellation of derivatives market trades in KELER.

In addition, opinions were provided on a regulatory amendment by written vote on one occasion.



COMMITTEE OF ISSUERS

The Committee of Issuers held four meetings in 2018, and held one written vote. The committee's work focused on the following issues:

- modernisation of the issuer disclosure system (KIBINFO) and transformation of its operations,
- the reform of the management of company events as developed by KELER,
- transformation of the equity categorisation system,
- multiple amendments of the second book of the GBR (with the right to express an opinion).

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee had five regular meetings in 2018, and performed a wide range of activities outside of meetings, primarily in the following areas:

- the committee reviewed and comprehensively amended the Corporate Governance Recommendations issued by the BSE and last published in 2012,
- as part of its annual monitoring activities, it processed and evaluated the annual FT reports published by issuers,
- it published its annual monitoring report on the results of the assessment of issuer FT reports.



BEYOND THE TRADING FLOOR: SUSTAINABILITY

THE GROWING IMPORTANCE OF KNOWLEDGE

It is of particular importance to the Budapest Stock Exchange to play an active role in the country's sustainable development by also supporting initiatives that are important for society as a whole. This is why, in addition to its core activities, the BSE also takes on a significant role in the field of financial education and training.

Today, financial skills and know-how are essential for purposeful life planning. It is for this reason that the Budapest Stock Exchange feels it has a responsibility to convey to both the younger and older generations knowledge of basic financial skills and about the operation and characteristics of the stock exchange.

Interest in programmes and competitions is very high, which shows that the population, including young people, have recognised the tremendous importance of financial literacy.

Another key objective is training the managers and employees of publicly traded companies, in particular those of companies that expect to be traded on the exchange at one point.

The Budapest Institute of Banking (BIB), a subsidiary of the Exchange, is responsible for vocational training courses, while the BSE organises programmes for the general public, in particular for secondary school and university students. These include the BSE Academy's exchange courses for retail investors, visits by school groups and the Kochmeister Award. This year, we decided to give the Kochmeister Prize to the team submitting the best written analysis in the competition organised by the CFA Institute and CFA Society Hungary. We hope to see as many talented young people as possible enter the field of stock analysis. This is why, in addition to the other prizes, we also give vouchers for BIB training courses.

STOCK DERBY COMPETITION

In close collaboration with the Money Compass Foundation, the Budapest Stock Exchange organises a regular competition for secondary school students that aims to increase investor awareness and knowledge about the stock market. Through the game, organised with huge success both last year and this year, players (secondary schools students and teachers) had the chance to discover the world of stock market trading, gaining valuable experience and know-how about the capital market and deal-making, but without having to risk their own money.

More than 1,500 students took part in the February 2018 game. Each player had HUF 2 million in virtual capital to set up their own portfolios using real-time stock price data, and to buy and sell equities traded on the BSE. The game was supplemented by a detailed Stock Exchange Alphabet as well as a stock exchange quiz. Based on the balance of the one-month Stock Derby, players issued more than 20,000 orders, in a total value of HUF 4.4 billion.

At the end of the game, players with the highest value portfolios were given valuable prizes, but respondents who completed the stock exchange quiz correctly week after week and participants that were continuously active were rewarded as well. The Money Compass Foundation also offered special prizes to the best performers of the Money Compass School Network.

KEBA STOCK EXCHANGE GAME

More than 1,300 students from nearly 200 secondary schools, including 30 teams from regions beyond Hungary's borders, tested themselves in the popular financial/securities-trading competition of the Central European Training Centre for Brokers (KEBA). Having progressed from the qualification round started in November 2017, followed by the semi-finals. In the end, the 'Stock Market Hussars' team of Debrecen's Fazekas Mihály Secondary School emerged victorious in the grand final.



Students were tasked with solving investment-related test questions in the qualification round, and also participated in an online stock exchange game that went on for nearly three months, played virtually on 20 exchanges of the world. The best teams made it to the live, oral final, where they had the opportunity to give an account of their knowledge before distinguished financial experts. In addition to the representative of Erste Befektetési Zrt. (the game's main professional partner), the panel of judges also included representatives of the BSE, KELER and numerous other brokerage firms.

As was the case in previous years, the best performers were rewarded with major professional awards and valuable prizes donated by the organisers. Erste Befektetési Zrt. rewarded the winning team with a summer internship at the company, but students were also given many other prizes. The professional grand prize, 100 hours of 'broker training', was provided by the Budapest Institute of Banking. The high level of skills and knowledge attainable at BIB allow students to take on important jobs and positions at companies and institutions within the Hungarian or the international financial institution sectors.

Due to the high level of preparation at the schools, this year's competition was decidedly fierce. In addition to foreign markets, KEBA also placed great emphasis on the Hungarian capital market, and the panel of judges felt that the level of students' skills in this area had noticeably improved. The organisers are hoping that this specialised knowledge acquired by young people will slowly seep over to the world of parents and grandparents as well, thereby promoting a gradual improvement in financial literacy of the whole of society.

CFA-KOCHMEISTER INVESTMENT RESEARCH CHALLENGE

This is the 10th year that the CFA Institute and the CFA Society Hungary are hosting the Investment Research Challenge, their stock analysis competition for university students. At the 2018-2019 contest, the Budapest Stock Exchange is awarding the prestigious Koch-





meister Prize to the team submitting the best written analysis, while the four best teams of the oral and written phases will receive a prize of a total of HUF 500,000 from the BSE, but the other teams will also receive Kindle e-book readers from the BSE.

In addition to the valuable prizes give by the CFA Society Hungary, AEGON Hungary Fund Management (the primary sponsor of the challenge) will be rewarding well-performing students with investment vouchers worth tens of thousands of forints, as well as internships. The winning team will have the opportunity to represent Hungary at the regional final in Zurich, where they will compete with teams from Europe, the Middle East and Africa, and from where they can advance to the global finals in New York.

Each Hungarian institution of higher education can nominate a maximum of two teams of 3-5 members to the English language challenge. Contestants can test their financial and company analysis skills acquired at university in practice, as their task is to draw up an 8- to 10-page fundamental investment analysis on Duna House Nyrt., a company traded on the Budapest Stock Exchange.

BSE ACADEMIES

One of the priority goals of the BSE's strategy for 2016-2020 is to improve the population's financial literacy. This is why the BSE Academy series of events on the BSE's educational activities places a particular focus on holding lectures and presentations that are open to all, free of charge.

As part of the lecture series, key experts of the Hungarian capital market introduced the world of the stock exchange, focusing on fascinating topics such as stock exchange psychology, Hungarian and international stock investments, the impact of economic news on the markets, as well as current market trends.

This year, attendees had the opportunity to listen to the following presentations:

- investment opportunities through ETFs (presented by OTP Treasury staff),
- being aware of market outlooks (Erste Befektetési Zrt.),
- investments on HOLD (HOLD Fund Management).





FINTELLIGENCE LABORATORIES

In order to enhance financial literacy, the government has developed a seven-year national financial awareness development strategy for 2017-2023, one of the priority objectives of which is to reach the age group most receptive to modern financial knowledge – namely students in higher education. An outstanding tool for this objective is the FINTELLIGENCE Financial Education Network, where students are introduced to the topic through an experience-based transfer of knowledge.

In the framework of the Network, FINTELLIGENCE Laboratories were opened in two locations to date, at the universities of Miskolc and Debrecen, with modern financial laboratories to also be established in Pécs, Budapest, Szeged and Cluj-Napoca (Romania), with financial and professional support from various banks. The University of Debrecen has established a unique, trust-based system of cooperation with the government, the private sector and financial institutions, which contributes to accomplishing the institution's educational, scientific and innovation goals.

Students in the finance-accounting undergraduate training of the University's Faculty of Economics will have the opportunity to use the 36 computers in a specially equipped classroom of the FINTELLIGENCE laboratory to learn about the latest technologies and applications used in the financial arena today. In the future, the University will also announce courses providing basic level practical financial training, open to any student of the University, while secondary school groups also get the opportunity to take part in interactive classes on finance.



CSODALÁMPA ALAPÍTVÁNY (MAGIC LAMP FOUNDATION)

In addition to educational initiatives, the BSE has been supporting the Magic Lamp Foundation for years, which seeks to make the wishes of sick children come true, bringing them unexpected joy and encouragement to persevere with lengthy treatments. The BSE made 35 of these wishes come true between 2013 and the end of 2018. Besides the financial support, BSE staff are also involved in the wish-granting process.



ACTIVITIES OF THE KELER GROUP

KELER Központi Értéktár Zrt. celebrated its 25th anniversary in 2018, while KELER KSZF Zrt. – guaranteeing the settlement of transactions made on the BSE as a central counterparty – had its 10th anniversary. In recent years, the KELER Group has become a key player on the Hungarian capital market, focusing on the secure and efficient operation of the basic services and infrastructures operated by it. In addition to ensuring the stability of the domestic capital market, one of the Group's key objectives is to seek out and introduce business opportunities that represent value for both domestic and international markets.

In 2018, the KELER Group continued implementing its strategic measures that aim to make KELER to a dominant, leading depository and clearing house in the Central and Eastern European (CEE) region through stable and reliable IT infrastructure and efficient organisation.

In line with the provisions of the Regulation (EU) 909/2014 of the European Parliament and of the Council (Central Securities Depositories Regulation - CSDR), in 2017 KELER submitted the documents needed for the authorisation procedure to the National Bank of Hungary. Although KELER already complies with most of the criteria set out in the regulation, due to the complexity and level of detail required by the procedure, authorisation is only expected to be obtained in 2019. One of the most significant provisions of the CSDR, one which impacts and influences all European capital markets, pertains to the settlement discipline of securities transactions, provisions which the Hungarian market must also meet as of September 2020. The KELER Group commenced preparations by involving market players.

Basic IT developments continued, which serve to update KELER's basic systems to meet modern requirements. The enhancement of depository infrastructure increases the efficiency of the Hungarian capital market and facilitates its integration into European capital markets. In addition to ensuring basic operation, increasing efficiency was again a priority in 2018, to which end organisational development measures supporting process-based operation were taken.

The first direct securities depository link with the Polish central depository was established as part of the international strategy supporting efficient securities settlement. As part of the structural reform support programme announced by the European Union, KELER and MNB are partnering with the European Bank for Reconstruction and Development (EBRD) for a two-year programme to support and implement the project aimed at establishing direct relations with CEE markets.

Within the framework of innovation supporting the operation of the domestic capital and energy market, KELER continued developing its Trade Reporting product in 2018. After obtaining the permits needed to become an APA (Approved Publication Arrangement) and ARM (Approved Reporting Mechanism) provider, KELER began its service provider activities related to compulsory reporting.

In 2018 KELER KSZF, celebrating its 10th anniversary and holding an EMIR permit, continued to increase its financial profitability by pursuing its strategic objectives, involving further international markets and products, and expanding its clientele. Similarly to previous years, in addition to capital market settlements, an increasing proportion of its revenues were generated by energy market (gas and electricity market) clearing activities.

KELER KSZF is prepared for the securities settlement of new SME companies listed on the Xtend market from 2018, to which end it completed a successful authorisation procedure with the MNB.

In line with plans, as a result of the successful conclusion of negotiations started in 2017 with Irish electricity market players, in 2018 KELER KSZF launched its clearing bank services provided on the electricity markets of Ireland and Northern Ireland (SEMOpX).



Monitoring the Brexit process and in order to mitigate the potential unfavourable effects thereof, KELER KSZF – with the approval of ÁKK – concluded an agreement with the Italy-based MTS S.p.A. that is taking over the services of London-based EuroMTS Ltd. in order to ensure that the settlement services related to securities trading on the MTS Hungary platform continue to be ensured after 1 March 2019.

As it progressed in line with the objectives set out in its strategy, keeping them focused in the right direction, the KELER Group once again closed a successful fiscal year in 2018. The company group continues to strive to retain its leading role among the medium-sized infrastructures of the Central and Eastern European region. In order to accomplish this goal, in addition to financial profitability – all while promoting this aspect – it aims to establish operations that will enable the Group to adapt to its continuously changing environment, provide appropriate responses to customer needs, while ownership value is also increased on a continuous basis.



OUTLOOK FOR 2019

If 2016 was the year of construction, and 2017 the year of networking, 2018 was the year of vibrant development for the Budapest Stock Exchange. In 2020 the BSE will be celebrating the 30th anniversary of its 'modern-day' history, and will be concluding its current five-year strategy. In 2019, our activities will continue in line with plans, but at the same time we will, in a sense, be taking our endeavours up to the next level.

Our goals still include increasing the number of IPOs and listings on the exchange, something that the Budapest Stock Exchange will be actively supporting throughout the coming year as well. This is particularly true in respect of the BSE Xtend market tailored for the needs of Hungarian medium-sized businesses, where the very first securities were listed at the end of this year (the stocks of Megakrán and CyBERG). Helping further companies list on the exchange and collecting the experiences regarding the operation of the new platform will also be important tasks in the coming year. As well, 2018 saw the very first investments made by the National Stock Exchange Development Fund. For the first time, a company was awarded a grant as part of the GINOP call for applications to finance the public listing of IPO-ready SMEs (Mentoring Programme), and the ELITE company development programme now has 17 Hungarian participating firms. We hope that these pioneering businesses will inspire others in 2019 to set off on the path towards going public.

Of course 2019 is also set to be an exciting year on the main market. We may see capital increases as well as new companies being promoted from the Equities Standard to the Prime category, as a reflection of their growth. The merger of Konzum Nyrt. and Opus Global Nyrt. could help a new blue-chip to be added to the stocks traded on the Budapest Stock Exchange, which would be the first merger in the history of the BSE between two public limited companies of the 'Nyrt' type. In terms of new issues, we hope that the number of SZITs will continue to grow. In addition, we are expecting 2019 to potentially be the year of banks listing on the exchange, as numerous banks have indicated such intent.

This shows that building the Hungarian capital market is not the exclusive domain of the Budapest Stock Exchange, as issuers, the government, domestic banking and independent investment service providers, capital investment and consultant sectors also play important roles. Although we have already achieved much together (as shown by this year's report), we at the BSE feel that the potential of the Hungarian capital market to contribute to increasing the competitiveness of the Hungarian economy is still massive.

In order to have the largest possible range of Hungarian medium-sized businesses opt for public listing, we are looking to provide more than just a tried-and-tested service portfolio – BSE Xtend, the National Stock Exchange Development Fund, the Mentoring Programme funded from GINOP funds and the ELITE Programme – and also want to be proactively involved in shaping the regulatory environment. At the same time, we are also working on further expanding our range of services.

We believe that among the numerous micro and small businesses, as well as the usually extremely productive but mostly foreign-owned large corporations, we must pay priority attention to the most successful Hungarian medium-sized businesses. For them, public listing entails benefits in the longer term (such as flexible financing, transparency, business confidence); accordingly, it is worthwhile to offer them incentives, such as fiscal advantages, to go public. Another important aim to be achieved, in our opinion, is to strengthen the Hungarian institutional investor sector. The fact that nearly two-thirds of the stocks traded on the BSE are in foreign hands means that Hungarian businesses are attractive investment targets at the international level as well, but also indicates the relative weakness of domestic demand.

Launching a sustainability programme will be another important objective of the Budapest Stock Exchange in 2019. In 2018, we joined the Sustainable Stock Exchanges initiative, made up of a membership of 80 global exchanges committed to sustainability. This may



represent the first step towards the introduction of green investment products, such as bonds, the wide-scale institutionalisation of sustainability reports, or potentially the expansion of Corporate Governance Recommendations.

Naturally, the BSE will be organising and hosting its iconic events this year as well. The Best of BSE Award rewarding and recognising the best issuer and investment service provider performances of 2018 at the beginning of the year, the 29th anniversary of the Exchange on 21 June, and the BSE50 medium-sized company conference in September 2018.

We hope to meet all our partners involved in the development of the Hungarian capital market at these events – the representatives of blue chips, mid-caps and medium-sized company issuers, the experts of the National Bank of Hungary and the government, investment service providers, the corporate divisions of commercial banks, Nominated Advisers, as well as financial, business, legal and communication consultants. Thank you for continuing to support the building of the Hungarian capital market in the coming year! We are confident that will be able to prepare for the 30th anniversary of the reopening of the Budapest Stock Exchange in worthy fashion.



GLOSSARY

ADH	<p>Alliance Data Highway</p> <p>A system that provides access to direct stock exchange data. The data feed infrastructure used by the BSE.</p>
Order book	<p>A “book” containing the buy and sell orders for a specific security, where individual orders are organised in order of priority. That priority determines that better priced orders precede less favourably priced orders, while in case of equally priced orders the order that was placed earlier will have priority.</p>
APA	<p>Approved Publication Arrangement</p> <p>A solution used to send/manage transaction and transparency reports falling within the scope of MiFID II / MIFIR.</p>
Arbitrage	<p>A transaction or group of transactions that exploits operating/pricing fluctuations on the market, resulting in extra profit without taking on any risk.</p>
Market-maker	<p>A broker that assumes an obligation to continuously display buy and sell quotations for a given security, typically with a narrow bid-ask spread.</p>
Transfer	<p>The trading of a security on a given market is stopped as a result of the decision of the issuer, while trading of the same security is transferred to another regulated market operating in the European Union. Investors may decide to sell their stocks before delisting from the given market, or to transfer their investments to a service provider that has access to the new trading location of the security.</p>
Cash market	<p>Market of financial instruments on which futures and options markets are based.</p>
Investment Service Provider	<p>A company with BSE trading rights (a bank or a brokerage firm), which accepts orders for the conclusion of stock exchange transactions.</p>
Bear market	<p>A prolonged period of falling stock prices.</p>
BSE	<p>Budapest Stock Exchange</p>
BÉTa	<p>The name of the multilateral trading facility (MTF) operated by the BSE; a platform suitable for trading in foreign stocks in HUF. Stocks purchased on the BÉTa Market are identical to stocks quoted on foreign stock exchanges.</p>
BEVA	<p>Investor Protection Fund</p>
Bid-Ask spread	<p>The difference between the best buy and sell price in the order book at a given point in time.</p>
BLM	<p>Budapest Liquidity Measure.</p>



Blue chip shares	The most liquid and most highly traded stocks on a given market.
BMBX indices	<p>In response to the upswing in the domestic mortgage bond market, the BSE, working in cooperation with the MNB and mortgage banks, introduced three new mortgage bond indices on a pilot basis.</p> <p>Total return index: BSE Mortgage Bond Total Return Index (BMBX Total Return)</p> <p>Two yield indices: one for a 3-year term (BSE Mortgage Bond 3-Year Yield Index – BMBX Yield 3Y) and one for a 5-year term (BSE Mortgage Bond 5-Year Yield Index – BMBX Yield 5Y).</p>
Budapest Institute of Banking	The educational institution of the BSE.
BUX Index	The official index of the BSE, the BUX provides a continuously updated display of the average price changes of the most important stocks on the market with automatic updates after each transaction.
CCP	<p>Central Counterparty</p> <p>Central Counterparty – A clearinghouse service, which provides a guarantee of transaction execution to the parties directly involved in the settlement (i.e. to the brokerage firms themselves, not the underlying clients).</p>
CEEGEX	Central Eastern European Gas Exchange
CETOP Index	The stock market index reflecting the performance of Central European stocks.
Crossing network	An alternative trading system.
CSCR	China Securities Regulatory Commission
CSDR	<p>Central Securities Depositories Regulation</p> <p>European Union regulation on central securities depositories.</p>
Day trading	Intraday buying and selling – the buying and selling of a stocks within the same trading day.
Dematerialisation	The removal of the physical (paper) form of a security, from which point forward the security only exists in electronic recording.
ELITE Programme	A program designed to promote the growth of companies organised by the London Stock Exchange Group.
Preferred stock	A stock that provides special rights in addition to common shareholder rights. The most frequent type of preferred stock is the preferred ordinary share, which allows owners to receive extra dividends in addition to the ordinary annual dividend paid.
Settlement cycle	The time between the transaction and the actual execution of the transaction. For stock transactions, this means 3 settlement days.



Securities deposit account	An account held on behalf of the client designed to record securities deposited by the client.
Securities account	A record maintained for the benefit of the owner of the securities of dematerialised securities and the associated rights.
EMIR	European Union regulation on derivatives, central counterparties and trade repositories.
ETF	Exchange Trading Fund An investment fund traded on the stock exchange.
Hedging transaction	A transaction concluded to reduce risks originating from open positions.
FESE	Federation of European Securities Exchanges European stock exchange alliance
GINOP	Economic Development and Innovation Operational Programme
Local Business Tax	Hungarian Investment Promotion Agency Hungarian Investment Promotion Agency
Bull market	A prolonged period of rising stock prices.
Iceberg order	A limit order where only a certain predefined part of an order is visible, which is publicly available in the order book. When this visible part is entirely tied up, the visible part is replenished from the remaining order quantity, until the entire amount is tied up.
JMM	Mortgage Funding Adequacy Ratio
Capitalisation	The total value of stocks listed on the stock exchange – the listed quantity multiplied by the price of the securities.
KELER	Központi Elszámolóház és Értéktár Zrt. (Central Clearing House and Depository)
KELER KSZF	Central Counterparty; fulfils the function of a CCP in Hungary.
De-listing procedure	The given stock will no longer be traded on the stock exchange, nor will it be traded on any other regulated markets.
KMOP	Central Hungary Operational Programme
Contract	Standardised trading unit used in the course of the trading of stock exchange futures products; only multiple whole numbers of which can be contracted.



Bond funds	Funds that primarily invest in debt securities, government securities and corporate bonds. They can be differentiated based on whether they contain short-term or long-term securities.
Free float	The entirety of stocks held by shareholders that do not qualify as strategic investors, and whose participation does not exceed 5 percent.
LEI	Legal Entity Identifier A global legal entity identifier
Limit order	An order that can be executed at a specified price or better. As a result, based on the market situation, limit orders cannot always be executed immediately.
Lombard loan	Buying of securities against a loan, where the securities purchased are the loan collateral.
London Stock Exchange	London Stock Exchange
Long position	An open position where investors profit if the price of the security goes up.
MAD	Market Abuse Directive European Union directive on market abuse.
MAR	Market Abuse Regulation European Union regulation on market abuse.
Margin	Security requested in advance (most typically cash or government securities) for the purpose of hedging against potential negative changes in value of open positions.
MiFID, MiFID II	Markets In Financial Instruments Directive European Union directive regulating capital markets.
MiFIR	Markets In Financial Instruments Regulation European Union regulation regulating capital markets.
NBH	National Bank of Hungary
MSCI Emerging Markets Index	The index that measures the equity market performance of global emerging markets. The index consists of 23 emerging countries: Brazil, Chile, China, Czech Republic, South Africa, United Arab Emirates, Egypt, Philippines, Greece, India, Indonesia, Qatar, Colombia, Korea, Poland, Hungary, Malaysia, Mexico, Peru, Russia, Taiwan, Thailand, Turkey.
MSCI World Index	The index which measures the global equity market performance of developed markets as classified by the MSCI.



MTF	Multilateral Trading Facility Multilateral (alternative) trading platform
NASDAQ	National Association of Securities Dealers Automated Quotations National Association of Securities Dealers Automated Quotations
NHP	Funding for Growth Scheme (Növekedési Hitelprogram).
NOMAD	Nominated Advisor A nominated advisor on the BSE Xtend market, who assists potential issuer companies in entering the market.
NTfA	National Stock Exchange Development Fund
OTC market	Over the Counter Off-floor trading market (including the MTF and OTF platforms).
Price to Book Ratio (P/B Ratio)	Price to Book Ratio – shows how the price of the company determined by the market correlates with its book value. The higher the value, the more positive is the assessment of the activities of the company.
Price/Earnings ratio	Price/earnings per share – compares market value assessment with accounting profit. It can be used to compare the market perception of companies with similar profiles. The higher the value, the more positive the assessment of the market is.
Money Market funds	Liquidity funds that invest mostly in bank deposits and short-term government securities, and traditional investment funds that typically hold one-year government securities in their portfolios.
Market order	An order placed without an actual price specification that can be executed by matching with counter orders in the order book (possible even with multiple prices and through several contracts). The parts that cannot be immediately matched are cancelled, depending on the model used, or remains active for a pre-specified amount of time.
Portfolio	The totality of the investment assets held by the investor is referred to as the investor's portfolio.
Private Equity	Private equity
REMIT	Regulation of the European Parliament and of the Council on wholesale energy market integrity and transparency.
Share	A security embodying equity participation rights.



Stock funds	Funds that are primarily characterised by stock exposure, the riskiness of which is determined by the extent to which stocks are held compared to the total assets of the fund: if the extent is 'merely significant', then the stock is called a majority stock fund; if it is entirely made up of stocks, then it is referred to as a pure stock fund.
Share price index	An indicator reflecting the weighted average price of shares listed on a given stock exchange.
Limited company	A business association that is founded with share capital consisting of a predetermined number of shares at a predetermined nominal value (registered capital), where the obligation of a member (shareholder) towards the limited company is limited to the payment of the face value or the issue price of the share. Subject to the exception set out by law, shareholders are not liable for the commitments of the limited company.
RQFII	Renminbi (RMB) Qualified Foreign Institutional Investor Renminbi Qualified Foreign Institutional Investors
Short position	An open position where investors profit if the price of the security goes down.
Short selling	The borrowing and simultaneous sale of a given security, which allows taking up a short position in the cash market.
SZIT	Regulated Real Estate Investment Company
T2S	Target2 Securities A single European securities settlement engine operated by the ECB.
T7	A trading platform developed and operated by Deutsche Börse, the Frankfurt exchange.
TR	Trade Reporting A trade report. KELER KSZF takes orders for the preparation of TR reports on the transactions of energy market non-clearing members and sends them to the respective energy market non-clearing members as part of the TR service.
Ordinary share	A share representing general ownership rights, with the word 'ordinary' frequently dropped from the term.
Stock exchange	A public, centralised, and organised market, a location where a predetermined group of people can buy and sell predetermined commodities, within a predetermined timeframe in compliance with strict rules of procedure.
Stock exchange price index	A summary indicator displaying the value of securities listed on a stock exchange. Provides a reliable picture of the state of the market.
SEAB	Stock Exchange Advisory Board



Client account	An account held at an investment company, credit institution, commodities exchange service provider designed to provide a record of the financial assets of the client.
Hybrid funds	Funds that invest in stocks, bonds, and money market investments to varying degrees. Hybrid funds can be categorised into cautious, balanced, and dynamic funds, representing increasing levels of risk through their varying composition of assets.
Vendors	Professional data providers. Real-time stock exchange trading data is available only through so-called vendors (distributors, data providers).
Venture Capital	Venture capital
Volatility	A figure that indicates the volatility of, and thereby the price risk, embodied by the security.
XETRA	An exchange trading system. Also used by the BSE.
Xtend	BSE market for medium-sized enterprises.



BARON FRIGYES KOCHMEISTER

Frigyes Kochmeister plays a distinguished role in the history of the Hungarian stock exchange: he was the very first chairman of the Budapest Commodity and Stock Exchange founded in 1864, who was in office for an unprecedentedly long time, up until 1900.

Frigyes Kochmeister was born in Sopron in 1816, and after finishing his studies at local schools, he went on to study as a pharmacist in keeping with family traditions. He served as an intern at the pharmacy of his father Ede Kochmeister, and in 1833 graduated from the Vienna University of Sciences with a degree in pharmaceutics. His interest in economy and commerce was already visible at this time, as he also studied economics, and later went on to acquire banking and trade practice, as well.

He continued to widen his vision when he toured Europe in 1841, visiting several countries including France, Italy, Germany, Belgium and England. Combining his interest in pharmaceutics, which he brought from home, his experiences in trade and his Europe-wide network of contacts, he opened a pharmaceutical wholesale and produce shop in Budapest in 1842. Here, according to Pest coffeehouse legends as told by Vilmos Balla, he was “busy selling alcohol and scented soap, freckle cream, ‘callus water’ and his famous tooth powder”. The tiny shop grew to become a well-known wholesale store, which continued to be a major player in the country’s pharmaceutical supply for a long time. He then set up a pharmaceutical manufacturing laboratory and was also responsible for organising colonial produce trade.

The later years of the career of Frigyes Kochmeister, now widely known and with successful enterprises and businesses to his name, was characterised by highly active social undertakings. He assisted in setting up numerous organisations and associations and held prestigious positions in many. In 1859, he was elected to be the Chairman of the Pest Chamber of Commerce and Industry and was also one of the founders of the Trade Academy, the Lloyd Company and the Pest Grain Association. In 1864, he participated in founding the Budapest Commodity and Stock Exchange, of which he was elected first Chairman, holding on to this position for more than 30 years, up until 1900. He was involved in both the 1867 foundation and management of the General Credit Bank of Hungary. He was a member of the board of the Rolling Mill Company, and even served as a member of parliament in the House of Magnates.

Legends say that Frigyes Kochmeister, the longest-reigning chairman of the Hungarian Stock Exchange, was highly popular among brokers of his time. During the opening ceremony of the Budapest Commodity and Stock Exchange, he drew attention to the international significance of stock exchanges, and called on farmers, industrialists, tradesmen and brokers “to visit the stock exchange regularly and diligently, and to ensure health and vigour to our institution by concluding your business deals at the stock exchange”.

He was appointed President of the National Protestant Orphanage in 1874 after the building was built using the 80,000 forints donated by him. Frigyes Kochmeister, typically dressed in an imposing frock and sporting a full white beard, was awarded the rank of baron in both Austria and Hungary. He died in 1907 in Budapest.

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