

A n n u a l R e p o r t

1999

136.43

163.87

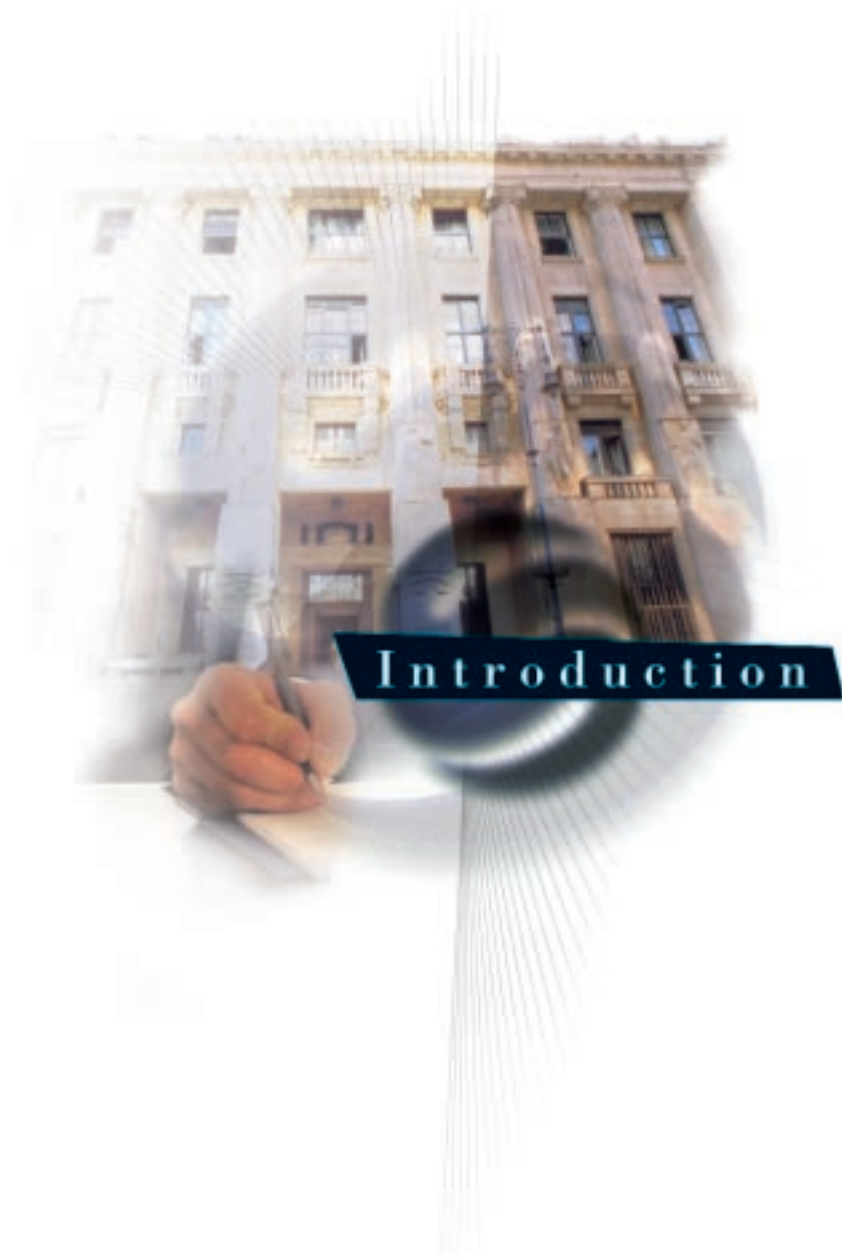
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**Introduction**

## Management Report

1999, the tenth year since its foundation, was a year of major changes in the history of the Budapest Stock Exchange. Several steps were taken partly to bring the efforts of previous years to fruition.

We managed to maintain our leading position in the region as evidenced by the Federation of European Stock Exchanges (FESE) granting associate membership to the BSE, as the first exchange from Central and Eastern Europe, in the middle of the year. The BSE was also recognized by the prize awarded to it for the second time by the financial periodical, Central European in 1999 as the best exchange in Central and Eastern Europe.

Launched in 1998 as the successful technical means of spot trading on the BSE, MMTS I, a leading edge remote trading system in terms of technology, motivated a strategic decision that futures trading should also be incorporated into MMTS I on a transitional basis until MMTS II, designed particularly to support the derivatives market is commissioned foreseeably at the end of the third quarter of 2000. As all the required technical aspects of trading and the regulatory environment had been developed, the course of trading could be changed on September 17, 1999 when the former open outcry system was replaced by

electronic remote trading (TTF). That way the exchange floor of the BSE lost all functionality with respect to every section of the exchange. The experiences gathered so far suggest that the change-over has been successful in terms of functioning and technology.

It was also last year that the preparations of the regulations and trading techniques for the standardized options market (TTO), also transitionally integrated into MMTS I, started, with the market actually starting up in February 2000. That was the last step the Exchange took to build a fully fledged market in terms of the basic functions as the same system supports cash trading and trading in futures and options products. All that offers an obviously competitive solution even in the face of the trading capabilities of the most developed exchanges and also conforms to and is even ahead of international trends. The significant changes in regulation demanded by the drastically new product type and the common trading platform forced the Exchange to revamp its former regulations, split into sets of rules governing the cash and the derivatives markets separately, and to combine them in a uniform system entitled Code of Trading.



Mr. András Simor

the Chairman of the Stock Exchange Council

## Management Report

As part of the improvement of exchange services, trading hours were extended in a number of consecutive stages thus trading hours, now between 10.00 and 16.30, on both the cash and the derivatives markets conform to Western European practices. Other developments connected to the improvement and expansion of trading capabilities, include the option module of MMTS, which supports both primary auctions and equity auctions, and the establishment of a new market maker system to enhance liquidity in the market of derivatives.

The changeover to cutting edge electronic remote trading gives information technology a leading role in the operation of the Exchange. The millenium bug (Y2K) caused no disturbances either in trading or in the back office IT systems. The 'load bearing' capacity of the system also proved to be outstanding during the tests of Y2K compliance, conducted jointly with broker firms, as the system could support without any problem the fictitious trade, which imposed a multiple of the average burden of several years' turnover on the system.

In 1999, the Exchange improved its datafeed services substantially. The purpose of the development was to create services

with data content that complies with international standards and investor expectations, and also ensures high quality technical support to the delivery of data. Since September 1999, in addition to trade related information and BUX values, the Exchange has been feeding real-time best order level information and best five order data to show the depth of the market from all of its markets.

After a series of smaller or larger crisis situations evolving in response to Hungarian or international news, a more optimistic period followed in late 1999, which was reflected not only by the movement of stock prices but also by the growth of liquidity in the equity market. The process of closing the gap with the international forerunners, which mostly took the form of spectacular improvements of the technical aspects of trading, is slowly coming to a close with the first results also reflected by an increasing portion of Hungarian securities being traded on the BSE.

Obviously, the processes the milestones of which

include the major events outlined above have not yet ended, and thus the near future of the Exchange will also be an era of continuous innovation and progressive change.



Dr. Mária Dunavölgyi  
the CEO of the BSE

## Major Events in 1999

### - January 18

Adding an extra hour to trading hours on both the cash (9.00 a.m. to 2.45 p.m.) and the futures (10.10 a.m. to 2.15 p.m.) markets.

### - February 8

Foreigners are licensed by the National Bank of Hungary as the foreign exchange authority to trade in equity futures contracts.

### - February 17

Official starting date of publishing the Equity Investment Fund Portfolio Index (RAX).

### - March 4

Countries known to belong to CESI set up five professional committees (Derivatives Market Committee, Members' Committee, Issuers' Committee, IT Committee, PR and Marketing Committee) responsible for continuous consultation and the exchange of information. The BSE chairs and 'hosts' the Derivatives Market Committee.

### - March 26

The BSE gets promoted to a new category of membership in FIBV from correspondent to associate member.

### - April 6

The BSE reduces the size of FX futures contracts to one tenth.

### - April 23

The BSE holds its annual ordinary General Meeting where the new Council, Supervisory Board, Ethics and Professional Committees get elected.

### - May 3

The Exchange Council appoints dr. Mária Duna-völgyi as the new CEO of the BSE.

### - May 17

Trading hours get extended on both the cash (9.00 a.m. to 5.00 p.m.) and the futures (10.00 a.m. to 3.30 p.m.) markets.

### - June 3

The Budapest Stock Exchange is the first to be admitted as an associate member by the Federation of European Stock Exchanges (FESE).

### - June 7

Amendments to the Regulations governing the Operation of the Market of Standardized Futures in response to the launch of remote electronic trading.

### - September 17

Farewell by the futures market to the exchange floor as it converts to electronic trading, which is coupled with the listing of new futures contracts (OTP, Richter, BorsodChem, 3 year Hungarian Government Bond) which opens for trading on October 1. With uniform hours for both cash and futures trading between 9.00 a.m. and 5.00 p.m., the exchange opening hours now match western markets.

### - October 1

The National Bank of Hungary as the foreign exchange authority grants the BSE a license for the new equity futures contracts (OTP, Borsod-Chem, Richter).

### - October 1

The volume included in the BUX basket of a particular share is determined on the basis of the public ownership ratio of shares outstanding during basket review.

### - November 1

Amendments to the Regulations on Transactions and Trading on the Exchange to accommodate auction orders.

### - November 16

BSE organizes a road-show with member broker firms and issuers participating in the shows presented in London and New York.

### - November 24

The Exchange Council passes the concept of the new uniform Code of Trading.

### - December 20

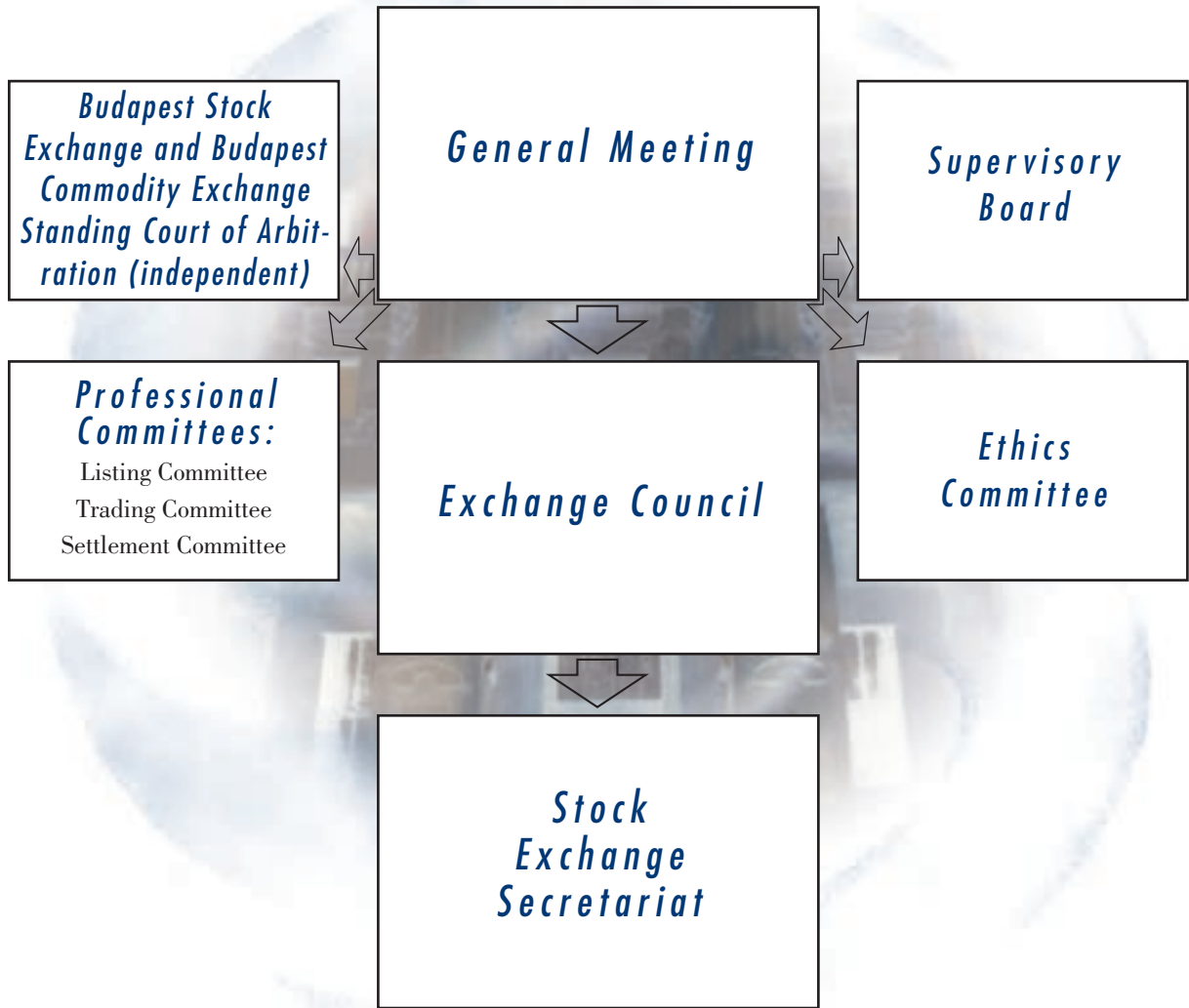
BSE holds an extraordinary General Meeting, which amends the Charter and decides to divide the net assets of the Exchange among the members in preparation for transforming the Exchange into a company limited by shares.





## Overview of the BSE

*Structure*



## *International Relations*

The creation of a uniform European capital market, the increasingly global nature of investments and the concentration of investors on exchanges have placed exchanges among more acute competitive pressures and the dimensions of competition are also changing. The development of capabilities – although as yet only technical – by large information service providers forecasts a new dimension, namely IT providers entering the market as electronic exchanges. Exchanges responded to that challenge by offering services and access options, both at favorable costs in a manner so as to help new technical and technological solutions and exchanges coexist rather than crowd each other out.

The concentration and globalization of investors, the sophistication of analytical methods and the spread of electronic trading have eroded the loyalty of investors to a single market place. Faced with that phenomenon, exchanges reacted by doing their best to increase the liquidity of the market, to cooperate with each other and to develop products on a permanent basis. Among such conditions, the BSE has no option other than to offer superior quality and highly competitive services at the least possible cost and to ensure that these services are communicated to the widest circle of market participants. Highly reliable management of the flow of trade, the transparency of the market, safe settlement and the supporting image are all guarantees of the future development of the BSE. The BSE needs to be open to changes in other markets and to become familiar with what market participants require. A look at other capital markets in the world clearly suggests how inappropriate it would be to leave any segment of the market uncovered or any investor's need unsatisfied.

All the above has driven the Budapest Stock Exchange towards increasingly closer cooperation with

the international associations of exchanges. In June, 1999, the Federation of European Stock Exchanges (FESE) granted associate membership to the BSE, which brings several benefits. The BSE is invited to the meetings of the Federation, has consultative rights and has first hand access to important information. Excellent relations with the management of member exchanges allow the BSE to become familiar with what other leading securities markets think about current development issues and with international practices and thus ensure that the market in Hungary progress in line with EU standards.

Formerly a correspondent member, the BSE advanced to associate membership status in the Federation of International Stock Exchanges (FIBV) in 1999. Reclassifying the BSE as a full member is on the agenda at the FIBV, whose General Meeting is expected to pass the related resolution next year after a thorough audit of compliance with membership requirements. The BSE looks back on years of cooperation with the exchanges of the region, which has allowed it to calculate and publish CESI for the fourth consecutive year. This year, the exchanges in CESI member countries have set up several working committees responsible for establishing closer cooperation in a variety of topics (IT, Membership Matters, Issuance, PR & Marketing, Derivative Markets). In 1998, the Budapest Stock Exchange became an associate member of the International Securities Market Association (ISMA). ISMA guidelines serve as a model for developing regulations for the securities market in Hungary and related rules.

The BSE is a member of the Financial Information Services Division/Information Industry Association (FISD/IIA) and used its major directives to develop the new BSE vendor agreements.

## Membership

The market uncertainties developing in the wake of the financial crisis in Russia in fall 1998 did not leave the business of investment service providers trading on the BSE unaffected, and investors responded by greater aversion to riskier investments. Security was a first priority and investments earning a balanced yield (government paper, funds investing into bonds, real property) became increasingly popular. It was partly due to these effects that the number of exchange members changed substantially in 1999. The Budapest Stock Exchange counted fifty-nine members in late 1998 only to drop to fifty-two by December 31, 1999 through nine companies departing and two new firms joining the Exchange. 1999 brought a reduction in the number of section members not holding a seat on the Exchange as all the three individual traders terminated membership in the derivatives section. Consequently, there were fifty-one members in the equities section, twenty-four in the governments securities section and thirty-three in the derivatives section on December 31, 1999.

In 1998 the Membership Regulations of the Budapest Stock Exchange in-

corporated the provisions of the Securities Act and allowed banks engaged in the provision of investment services and foreign investment services and credit institutions – acting through a branch – to acquire membership in the BSE. That opened the way for exchange member banks to obtain the right to trade in the government securities and the derivatives sections. As at December 31, 1999, two credit institutions traded on the Exchange, however, both acquired the right to trade as section members without a seat.

Banks are now licensed to offer a full range of investment services under the Securities Act as of January 1, 1999, which created the opportunity for universal banks to acquire the right to trade in all the sections of the Exchange. Commercial banks refused to seize the opportunity by the end of the reporting period, whilst the first quarter of 2000 saw two commercial banks join the BSE as members.

The membership applications received suggest that this trend will continue and certain exchange members

with a credit institution in the background are likely to merge with their 'banking parent'.

**BUDAPEST STOCK EXCHANGE**  
*List of Members and Section Members without a seat*  
 (December 31, 1999)

**Members:**

- ÁB-Monéta Investment Co.
- ABN Amro Equities (Hungary) Ltd.
- Biztonság Invest Co.
- BNP-Dresdner (Hungary) Securities Co.
- Bre-wor Observer Broker Co.
- Buda Broker Ltd.
- Buda-Cash Broker Ltd.
- Budapest Investment Co.
- CA~IB Securities Co.
- Cashline Broker Securities Ltd.
- CIB Securities Co.
- Citibank Securities (Hungary) Co.
- Concorde Securities Ltd.
- Credit Suisse First Boston (Budapest) Co.
- Daewoo Securities (Hungary) Co.

## Membership

DH Dunaholding Broker Co.  
 Diana Investment Co.  
 Dunainvest Stock Exchange Agency Co.  
 Eastbrokers Budapest Co.  
 Equilor Investment Co.  
 Equitas Broker Co.  
 Erste Bank Investment Hungary Co.  
 First Hungarian-English Broker Agency Co.  
 Garmond Capital Co.  
 Generalbroker Securities Co.  
 German Investment Co.  
 Hanwha Capital Budapest Co.  
 Hungarian Securities Trading and Investment Co.  
 IE-New York Broker Co.  
 ING Baring Securities (Hungary) Co.  
 Investpoint Investment Co.  
 K & H Broker Co.  
 Király Broker Securities Co.  
 Konzumbroker Co.  
 London Broker Securities Co.  
 Microbroker Investment Co.  
 MKB Securities and Investment Co.  
 National Bank of Hungary  
 Nomura Securities Hungary Ltd.  
 OTP Securities Co.  
 Pakett Broker Securities Co.  
 Postabank Securities Co.  
 Procent Investment Co.  
 Quaestor Securities Co.  
 Quantum Broker Co.  
 Rabobank Investment Co.  
 Raiffeisen Securities and Investment Co.  
 Swap Stock Exchange Agency Co.  
 Takarék Broker Co.  
 WestLB Investment Co.  
 Wintrust Securities Co.  
 Wood & Company Co.

### **Section Members without a Seat:**

ABN Amro (Hungary) Bank  
 K & H Bank

## *Trading System*

### **MMTS I**

Trading in the cash market in 1999 was fully supported by MMTS (Multi Market Trading System), the trading system commissioned at the end of the previous year, which – as the experience gathered over more than a year suggests – has fulfilled the expectations by being reliable and flexible. There have been trading days when the number of trades reached 17,300, which the previous trading system could not have managed. It offered the opportunity to extend trading hours, which occurred in the first half of the year (May 17) and matched the hours of trading on the cash market to London and New York hours (the market is open between 10.00 a.m. and 4.30 p.m. for trading on each exchange day). The auction module, operated live by the Government Debt Management Agency in the primary market of government securities since September, 1999, was also delivered as part of MMTS I. The auction module had a successful debut on the equities market as well when the State Property Holding Company (ÁPV Rt.) used it in two stages of selling a large package of stock.

Futures trading was transitionally incorporated into MMTS I (on September 17) to accommodate the need

posed by market participants – and to follow foreign trends. That paved the way to operating a futures market with greater control and reliability and one that fulfils present-day expectations despite the lack of full functionality. Developments to launch the long-awaited options market have been started and were completed in the first quarter of 2000 (the market started up on February 18, 2000). The market has also been transitionally operating as part of MMTS I.

### **MMTS II**

The objective of the MMTS II project is the implementation of the derivatives market. The new derivatives trading system (MMTS II) has been especially designed to accommodate trading in derivatives products and will allow functions such as spread transactions, will support multi-level clearing membership and request for quote. It also supports the allocation of deals to customers and the breakdown of transactions into ‘component quantities’. Owing to its technology, MMTS II has superior parameters in both services and speed than the transitional systems used at present.

## *Clearing and Settlement*

The Central Clearing House and Depository (Budapest) Ltd. (KELER Rt.) was incorporated by the National Bank of Hungary (50 %), the Budapest Stock Exchange and the Budapest Commodity Exchange (25-25 %) on October 12, 1993 to act as a depository and as a house of clearing and settlement. When KELER Rt. was established the BSE transferred to it the functions of physical delivery of securities and the financial settlement of securities transactions.

### **The Clearing and Settlement of Cash Transactions**

The method of clearing and settlement of cash transactions at the BSE is DVP using multilateral netting on a rolling basis

- with a settlement cycle of T+5 days for securities in the equities section (T being transaction day). This type of settlement is exclusive to the members of the Exchange.
- with a shorter settlement cycle of T+2 days for securities featuring in the government securities section, relaying on a two-tier clearing system operated separately from membership on the Exchange (with General and Individual Clearing Members). An automatic government securities lending system and the system of taking out of the trade.

In order to support the security of settling the transactions on the exchange, KELER Rt. operates a multi-tier system of guarantees, including:

- collective guarantee funds (Exchange Settlement Fund and Government Securities Exchange Settlement Fund) – to which members have to effect payment each week based on the average weekly turnover during the most recent period of 10 or 4 weeks, respectively;
- the system of individual cover, which requires members to generate a daily margin to be used as cover, which is calculated on the basis of the net position on day T+1.

When the BSE launched its new trading system, transactions known as negotiated deals were also introduced. In order to ensure clearing and settlement of

these bilateral transactions KELER Rt. has developed and launched a system of gross settlement, which means that negotiated deals are separated from the remainder of trades and are cleared DVP in a gross basis.

### **The Clearing and Settlement of Futures Transactions**

When clearing the futures transactions concluded on the BSE, KELER Rt. evaluates positions and generates margins every day. All the contracts traded on the BSE are settled in cash, although the terms of physical delivery have also been developed for futures with a single underlying equity.

In order to ensure the security of futures transactions, KELER Rt. operates a unique system of guarantees also in this market. The major component of the system is KELER's performance guarantee for derivative transactions. The additional elements of the guarantee system include

- deposit in a Fund,
- financial security and
- the collective guarantee Fund.

A new complex margining system (SPAN) was implemented in June last year to support the trading of futures and options on the BSE. Also, a sophisticated system of clearing membership capable of supporting the derivative markets and with functions to calculate and monitor capital based and market based position limits has been developed. The system will be launched at the same time in all the derivative markets supported by KELER in the first quarter of 1999.

The fact that despite the hectic twists of the market and the substantial reductions in price participants had to realize last year, the settlement of exchange transactions was not endangered even once and all the transactions concluded on the exchange were settled shows how secure the system of clearing and settlement is in both markets.

## *Vendor Policy*

The Budapest Stock Exchange took major steps to develop its information vending services in 1999. Formerly, the vendor datafeed of the Exchange only included trade data of deals concluded in the trading system, the value of BUX and end-of-day data.

The Exchange wished to set up vendor datafeed that matches international standards and fulfils investor expectations in data content and relies on high quality technical background.

In addition to trade data and BUX values, the Exchange has been operating a real time data feed that conveys best price level information and the five best price levels to show market depth from all of its markets.

It gives indication of the status of securities such as security board and sends messages about security status, suspension and halt before and in the course of trading each day.

Since the development, the trading data of the Exchange have been available against a fee only and investors may only have controlled access to real-time data under a subscription agreement.

Vendors pay their fees in line with the three stage pricing structure: a technical connection fee is payable upon establishing a direct link with the Exchange, the vendor pays annual license fee for the data and a

monthly variable fee for real-time information.

### *Hungarian Vendors of the BSE:*

**real-time data**

- Fornax Rt. (best five price level)
- MTI-ECO Kft. (best price level)
- Teledatacast Kft. (best five price level)

**delayed data**

- Duna TV
- ECO.NET Hungary Kft.
- Internet Securities Magyarország Kft.

### *International Vendors of the BSE:*

**real-time data**

- Bloomberg LP. (best five price level)
- Bridge Information Systems International Inc. (best five price level)
- Primark Data Company (best five price level)
- Reuters Ltd. (best five price level)
- Telekurs Finanzinformationen AG (best price level)





**Market Activity**

## Cash Market

Turnover on the cash market grew by 16 per cent in 1999 (from HUF 13,847 billion in the previous year HUF 16,005 billion). A jump in volumes on the government securities market was the prime mover of growth, with the turnover in government bonds up 35.6 per cent and T-bills 23.6 per cent higher in 1999. At the same time, turnover on the equities market stagnated and showed a slight drop of 0.8 per cent from the year before.

The percentage share of government bonds in cash market turnover increased from 35 per cent last year to 41 per cent, whilst the ratio of shares to total cash turnover fell to 41 per cent from 50 per cent in 1998.

Liquidity growth is reflected by the increase in the number of trades concluded each day, up on average from 4140 in 1998 to 5896 in 1999, representing a rise of 42 per cent. Trade size averaged at HUF 10.8 million on the cash market, and at HUF 4.7 million in the equities market only. A look at the year as a whole shows that the largest turnover was realized in Mol stock (HUF 2374 billion), with OTP ranking second (HUF 1008 billion) in trades. The concentration of turnover is clearly indicated by the ten equities with the largest turnover making up 91.5% of the total turnover in the market of equities.

The market of government bonds recorded 3158 transactions during the year (as compared to 3946 trades in 1998), and turnover increased to HUF 6508 billion from HUF 4800 billion a year ago.

The turnover in T-bills reached HUF 2556 billion in 1999 on HUF 2071 billion in 1998, but there was a sharp decline in the number of deals concluded (from 2522 trades in 1998 to 1873 trades in 1999).

Total cash market turnover in proportion to the capitalization of the exchange ('velocity') came to 110 per cent in 1999, whilst the velocity of turnover in equities only was 83 per cent. These figures compare well internationally with similar ratios in neighboring exchanges hardly reach half of the values recorded by the BSE.

The capitalization of the BSE rose 34 per cent on year end 1998, which was the result of the increase in the capitalization of equities (up 37 per cent) and government bonds (up 45 per cent). The growth of capitalization in equities was supported by an increase in listed quantity (at 27 per cent calculated in the face value of equities listed) and rising market prices. There were 16 new listings at a total face value of HUF 138 billion and two companies were delisted in the equities section. Quoted Category 'A' shares made up 88 per cent of the capitalization in equities. The ratio of capitalization of the four largest companies to total market capitalization in equities stood as follows at the end of 1999: MATÁV 44.3%, MOL 12.5%, OTP 9.6%, RICHTER 7.5%.

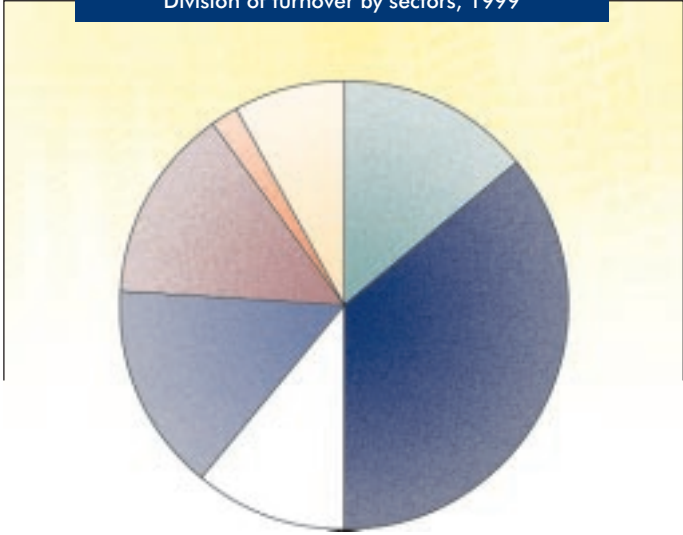
As compared to its year-end value in 1998, the BUX index closed 40 per cent higher in 1999, whilst the percentage growth measured in USD over the same period came to 18.6 per cent. Most of the growth is owing to the positive sentiment in the capital market in the last two months of the year. The lowest closing value of the index in the year was 5253 points (on March 4, 1999), and BUX peaked at 8875 points (on December 28, 1999).

With the end of 1999 getting closer, a more optimistic period followed in the wake a number of smaller or larger crisis situations created by international or domestic news, and the optimism was reflected both by the change in equity prices and the new increase of liquidity in the market of equities. The process of closing the gap so as to catch up with the international leading edge, mostly through the spectacular development of the technical aspect of trading is slowly approaching its final stage and the shift of trade to the BSE of an increasingly larger portion of Hungarian securities quoted on exchanges abroad is manifestation of the first results, which are indicated by comparison of the BSE to London ratio across the years: 1996: 32.9% to 59.3%; 1997: 40.4% to 55.3%; 1998: 41.7% to 55.2%; 1999: 48.1% to 51.1%.

The rate as of 29.12.1999. was: 252.52 HUF/USD

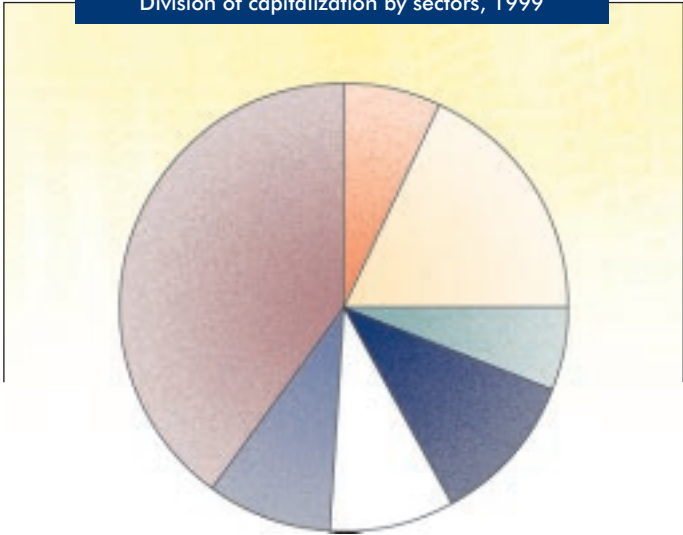
# Cash Market

Division of turnover by sectors, 1999



- Chemicals 14%
- Oil processing 36%
- Pharmaceutical 11%
- Banks 15%
- Telecom 14%
- Power Supply 2%
- Others 8%

Division of capitalization by sectors, 1999



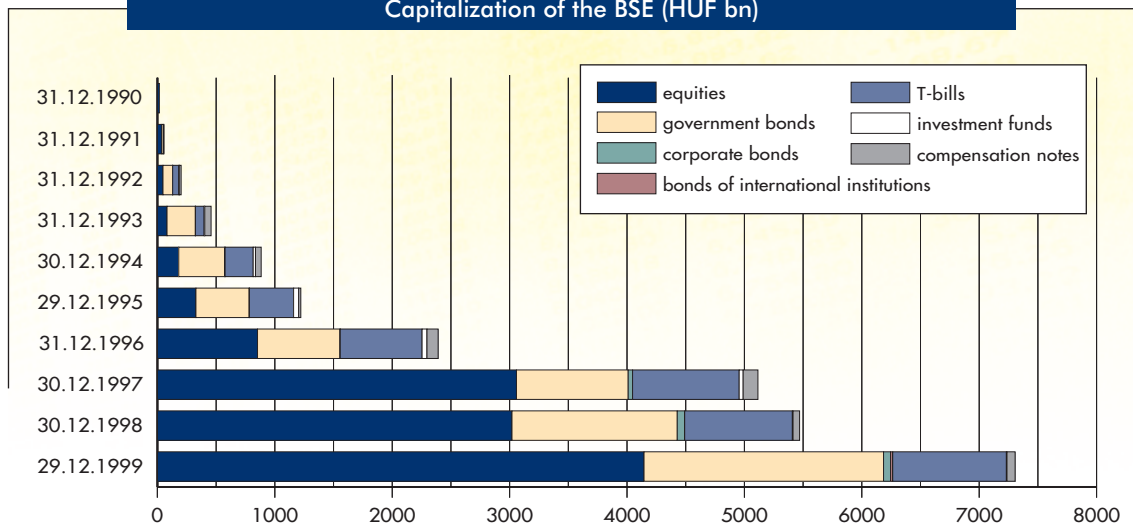
- Chemicals 6%
- Oil processing 11%
- Pharmaceutical 9%
- Banks 9%
- Telecom 40%
- Power Supply 7%
- Others 18%

## Cash Market

### MAIN FIGURES OF THE BUDAPEST STOCK EXCHANGE (31 December 1990 - 29 December 1999)

	1990. 31 Dec.	1991. 31 Dec.	1992. 31 Dec.	1993. 31 Dec.	1994. 30 Dec.	1995. 29 Dec.	1996. 31 Dec.	1997. 30 Dec.	1998. 30 Dec.	1999. 29 Dec.
<b>Number of BSE members</b>	42	48	48	47	51	56	57	63	60	52
Brokerage firms	21	31	41	46	50	55	56	62	59	51
Banks	21	17	7	1	1	1	1	1	1	1
<b>Number of securities admitted to the BSE</b>	6	22	40	62	120	166	167	149	144	135
equities	6	20	23	28	40	42	45	49	55	66
government bonds		1	4	16	25	34	36	28	30	30
corporate bonds		1	1	1	3	3	2	7	8	8
bonds of international institutions										2
T-bills			10	10	31	50	50	44	42	23
investment funds			1	6	20	36	33	20	8	5
compensation notes			1	1	1	1	1	1	1	1
<b>Securities admitted to the BSE at nominal value (HUFbn)</b>	6.1	33.3	189.9	441.8	856.3	1 217.8	1 833.6	2 467.1	3 020.4	3 894.6
equities	6.1	18.2	28.8	38.3	79.8	211.7	286.1	398.2	526.3	670.9
government bonds		15.0	80.0	237.0	374.2	418.4	616.2	903.5	1 328.1	1 988.6
corporate bonds		0.1	0.1	0.3	1.6	1.6	1.2	37.0	51.0	59.3
bonds of international institutions										17.5
T-bills			59.3	76.9	256.6	413.5	750.1	961.7	967.1	1 012.0
investment funds			1.7	9.0	23.8	43.0	40.4	27.0	8.2	6.5
compensation notes			20.0	80.3	120.3	129.7	139.7	139.7	139.7	139.7
<b>Total capitalization of the BSE in % of GDP</b>					20.40%	22.32%	36.06%	61.29%	53.71%	68.26%*
<b>Equities capitalization of the BSE in % of GDP</b>					4.19%	5.99%	12.86%	36.64%	29.65%	38.72%*
*Preliminary										
<b>Capitalization on the BSE (HUFbn)</b>	16.4	53.6	201.9	457.0	883.8	1 221.3	2 390.9	5 115.2	5 470.0	7 305.8
equities	16.4	38.2	47.2	81.7	181.5	327.8	852.5	3 058.4	3 020.1	4 144.9
government bonds		15.3	82.3	241.7	392.9	454.0	703.4	951.8	1 408.0	2 040.3
corporate bonds		0.1	0.1	0.3	1.8	1.7	1.3	37.1	63.1	59.7
bonds of international institutions										18.4
T-bills			54.4	74.0	239.6	376.3	697.2	908.4	917.4	968.4
investment funds			1.9	5.5	19.3	42.8	41.6	33.8	5.7	5.0
compensation notes			16.0	53.8	48.7	18.7	95.0	125.7	55.7	69.2

### Capitalization of the BSE (HUF bn)



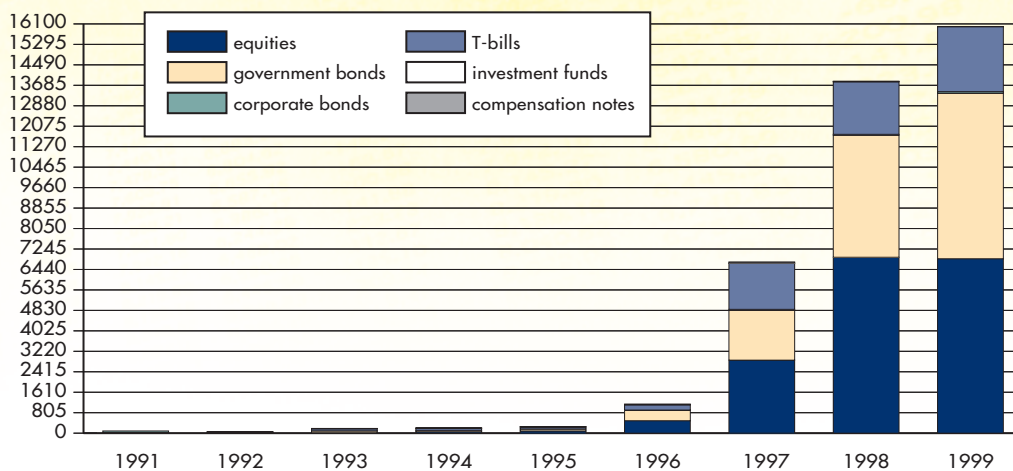
The rate as of 29.12.1999. was: 252.52 HUF/USD

## Cash Market

### TURNOVER OF THE BUDAPEST STOCK EXCHANGE ( December 1990 - December 1999)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Cash turnover at market value (HUFbn, double counted)	6.12	10.11	33.67	185.69	211.23	253.18	1 145.44	6 736.31	13 847.33	16 005.83
equities	6.12	9.81	6.01	18.26	57.11	87.27	490.53	2 872.71	6 920.71	6 862.66
government bonds		0.30	12.36	73.38	53.89	77.16	418.21	1 959.44	4 800.16	6 508.59
corporate bonds		0.00	0.00	0.00	0.01	0.05	0.57	39.13	35.77	64.06
bonds of international institution										6.47
T-bills			15.06	85.00	81.22	81.11	206.33	1 817.74	2 070.70	2 558.56
investment funds			0.03	0.10	0.26	3.43	8.88	2.33	1.64	0.93
compensation notes			0.21	8.95	18.74	4.16	20.93	44.97	18.35	4.56
<b>Number of transactions</b>	<b>4 255</b>	<b>13 676</b>	<b>8 145</b>	<b>21 185</b>	<b>70 744</b>	<b>71 240</b>	<b>170 956</b>	<b>504 879</b>	<b>1 026 646</b>	<b>1 474 083</b>
equities	4 255	13 637	6 715	14 283	57 854	60 851	153 937	478 236	1 011 514	1 461 482
government bonds		31	875	693	715	418	910	2 210	3 946	3 158
corporate bonds		8	4	3	9	12	3	192	200	650
bonds of international institution										28
T-bills			392	866	1 062	1 412	1 022	3 031	2 522	1 873
investment funds			76	612	981	2 265	2 128	1 597	790	1 106
compensation notes			83	4 728	10 123	6 282	12 956	19 613	7 674	5 786
<b>Average daily number of transactions</b>	<b>24</b>	<b>54</b>	<b>32</b>	<b>84</b>	<b>281</b>	<b>286</b>	<b>689</b>	<b>2 044</b>	<b>4 140</b>	<b>5 896</b>
<b>Average daily turnover (HUFm)</b>	<b>33.8</b>	<b>40.1</b>	<b>133.6</b>	<b>736.9</b>	<b>838.2</b>	<b>1 016.8</b>	<b>4 618.7</b>	<b>27 272.5</b>	<b>55 836.0</b>	<b>64 023.3</b>
<b>Turnover/transaction (HUFm)</b>	<b>1.4</b>	<b>0.7</b>	<b>4.1</b>	<b>8.8</b>	<b>3.0</b>	<b>3.6</b>	<b>6.7</b>	<b>13.3</b>	<b>13.5</b>	<b>10.9</b>
<b>Number of working days</b>	<b>181</b>	<b>252</b>	<b>252</b>	<b>252</b>	<b>252</b>	<b>249</b>	<b>248</b>	<b>247</b>	<b>248</b>	<b>250</b>
						1995. Apr.-Dec.	1996.	1997	1998	1999 Jan-Dec
Futures turnover at market value (HUFbn, single)						10.16	190.94	1 415.97	2 934.47	1 289.30
T-bills						5.91	29.22	73.32	119.16	0.00
BUX						0.53	49.15	1 004.17	1 782.36	1 118.97
Currencies						3.72	111.61	336.84	973.96	22.76
Shares									51.34	135.26
Interest rates							0.95	1.64	7.65	12.31
<b>Number of transactions</b>						1 444	19 444	87 011	148 013	168 009

### Cash turnover of the BSE (HUF bn)



The rate as of 29.12.1999. was: 252.52 HUF/USD

## Futures Market

Breaking a tendency of growth experienced in past years, the turnover in the futures market of the Budapest Stock Exchange plummeted to less than half of the volume the market reached in 1998, which is mainly seen as a result of the uncertainty shared by most of the participants of the derivatives market after the dramatic impact of the events in fall 1998. Many of them left the market and were reluctant to return and resisted the attraction of a much 'calmer', more balanced and typically optimistic market sentiment. A drastic decline mostly in the number of foreign exchange deals and to a smaller extent in interest rate futures also had an adverse effect on volumes.

Total 1999 market turnover in futures calculated in market value was HUF 1289 billion. That involved 1.85 million contracts sold in 168 thousand trades. Turnover bottomed during the summer months of the year (HUF 75-89 billion per month) and peaked in December at HUF 165 billion in market value. On average, there were 672 trades in futures a day and the average daily number of contracts was 7395.

The structure of turnover was rearranged substantially. The dominance of the BUX contract increased further to reach almost 90 per cent of the total annual turnover in futures despite the reduction in terms of market value to two-thirds of previous year's turnover. The rise in trading equity futures, lunched in summer 1998, could only compensate for part of the decrease in the turnover of 'more established' contracts.

There were 33 members of the derivatives section at the end of 1999.

### The BUX futures contract remains the most liquid derivatives product

The BUX futures contract with the official stock index of the exchange as the underlying remained the most popular product of the derivatives market of the Budapest Stock Exchange during 1999. The average monthly turnover of the product was 132 thousand contracts (HUF 93 billion), the majority of which (88 per cent of the contracts) concentrated in the December 1999 instrument. The turnover topped the HUF 100 billion monthly level in the first four months and in December. Open interest fluctuated between 40 and 46 thousand contracts only to surpass 50 thousand contracts by a large margin (peaking at 62,021 contracts worth of open interest in mid-November). When the December 1999 instrument matured, the number declined heavily and the year closed with open interest standing at 20 thousand contracts in the index futures product.

The underlying product of the BUX futures contract, i.e. the stock index was subject to a major change in 1999: since October 1, the composition of the index basket has been determined using a capitalization weighted calculation adjusted with free float, which will hopefully increase the tradability of the futures contract.

### Foreign exchange contracts suffer a heavy fall of turnover

The high turnover in the foreign exchange market in earlier years (particularly in 1998) suffered a heavy blow in 1999 with only HUF 23 billion turned over in this type of product. That derives partly from

#### Changes in Futures Turnover (HUF billion)

Products:	1998	1999	Rate of growth (%)
BUX	1 782	1 119	-37,21%
Equities	51	135	164,71%
Currencies	974	23	-97,64%
Interest Rates	127	12	-90,55%
Total	2 934	1 289	-56,07%

The rate as of 29.12.1999. was: 252.52 HUF/USD

## *Futures Market*

the fact that a tool (basket transactions) which lent itself as a means of quasi arbitrage in former years ceased to exist and partly from the regulation (in a manual developed for the purpose) and the control of settlement prices by a pricing body cooled down speculative (occasionally manipulative) sentiments in respect of foreign exchange products.

Most of the turnover in foreign exchange concentrated in the USD and Euro contracts from among the 5 foreign exchange products, and they made up 51 and 43 per cent, respectively, of total turnover in terms of market value. Otherwise, the DEM futures contract, which was gradually delisted (i.e. no new instruments were opened) represented 5 per cent, whilst the GBP and the SFR contracts jointly made up a mere 1 per cent of total turnover. Currencies did not show such a high concentration of turnover as the indexed contract but the majority of deals were concluded for the months of the quarterly cycle (primarily for the June, September and December instruments). In terms of the distribution of volumes over time, the month of January, the early part of the summer and the end of the year show modest peaks.

### **Interest based products: the launch of a new product type**

Successful as they were a few years ago, interest based products were proved beyond doubt to be outdated by the results in 1999 – at least for the time being. With interest rate levels stabilizing as a result of favorable macroeconomic circumstances, the products based on interest rates have fallen from grace with investors. Consequently no deals were concluded in any of the four interest based products listed formerly by the BSE (1 and 3 month BUBOR and 3 and 12 month discount T-bill contracts) during 1999.

On the other hand, the choice of interest based product available on the Budapest Stock Exchange widened on October 1, 1999, when the 3 year government bond contract, a derivatives product that repre-

sents a major departure in design from its predecessors, was listed. This successful tool, which has been around in international money markets for quite some time, offers portfolio managers of institutional investors and investment funds to protect at least the fixed income components of the assets entrusted to them against interest rate movements of undesirable rate or direction. In addition, the contract – as any derivatives product – lends itself to speculation. The opportunity to list such a product in the Derivatives Section of the Budapest Stock Exchange arrived in the wake of favorable changes in the market of Hungarian government bonds (medium term bonds are used to cover an increasing portion of the public sector borrowing requirement) and the development of settlement services (the possibility to use physical delivery in the futures market). The first three months of the product in 1999 were unquestionably positive, as a total of 12,230 contracts (with market value at HUF 12.3 billion) changed hands during the period. Three major participants of the derivatives section agreeing to improve liquidity in the marketplace by acting as specialist market makers also contributed to the successful launch of the contract. The ratio of turnover was the lowest in October (at 12 per cent of the total annual volume) with the remainder more or less evenly distributed between the last two months of the year. The majority of contracts were concluded for the September 2000 instrument.

### **Successful futures contracts with a single underlying equity**

The absolute value of turnover and the market share of equity futures contracts Matáv, Mol and TVK, listed in the summer of 1998, and OTP, Richter and BorsodChem, added on October 1, 1999, to widen the available range, were higher than in the preceding year (even if we consider that they were only traded for six months in 1998). The total turnover of the product type in 1999 included approximately 182 thousand contracts representing HUF 135 billion in market value.

The rate as of 29.12.1999. was: 252.52 HUF/USD



## Futures Market

That is to say, equity futures made up more than 10 per cent of the turnover in derivatives in terms of the whole year and they offered an alternative appreciated by market participants in addition to the index contract, which would have been the sole product of dominance in the derivatives market if not for equity futures contracts. An analysis of the second half of the year tips the balance even further in favor of equity futures which came to represent 17 per cent of the total turnover in futures by then.

As regards the market value of turnover, Matáv equity futures took the biggest share (43 %) followed by Mol (36 %) and TVK (13 %). Taking the number of contracts traded in the market in 1999 as the criterion for ranking, a different list results due to varied contract size and the substantial difference in market value: Mol (47 %), TVK (29 %) and Matáv (20 %). During the last quarter of 1999 when they were traded, the newly listed equity based contracts represented lower volumes. As regards popularity in the market, the following ranking may be set: Richter is followed by OTP and BorsodChem. In 1999, most of the deals occurred in the instruments that were listed earlier and in the December instrument of the BorsodChem equity contract, whilst March 2000 was the most popular instrument of the OTP and Richter contracts. (The ratio of these instruments, however, was as extreme within the total volume as observed in the case of the December 1999 maturity of the index contract.) In response to market

requirements, the maturity structure of futures contracts with a single underlying equity changed in the fall of 1999. Quarterly and semi-annual instruments were listed to replace the former semi-annual and annual maturities. The distribution of turnover across time shows an unquestionable preference for the second half of the year: 75 per cent of the number of contracts and 83 per cent of market value were turned over during that period, with December representing a peak.

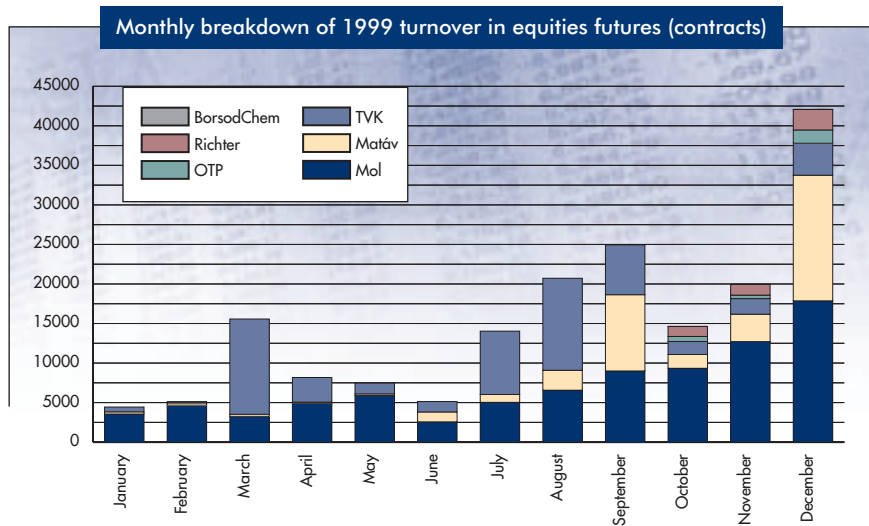
Since early February, 1999, foreigners have been entitled to trade in equity contracts – just as in BUX futures – in line with the foreign exchange license issued by the National Bank of Hungary. Starting with the December 1999 instrument, contract settlement has taken the form of physical delivery (as opposed to cash settlement of earlier instruments).

### Development, training and marketing

1999 was a year of intensive market and product development in respect of both the futures market (as described above – including the changeover to electronic trading and new products) and the preparation of the options market (to be discussed in detail below).

Market participants learnt about the opportunities presented by the 3 year Hungarian government bond contract in a series of lectures entitled ‘Derivative Evenings’ and at a conference. Also, a variety of publi-

cations (brief overviews and longer, more professional studies) have been written to describe the new products.

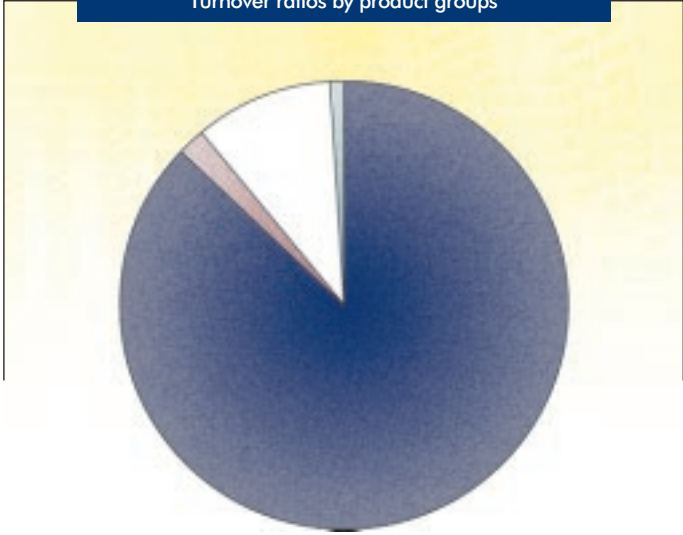


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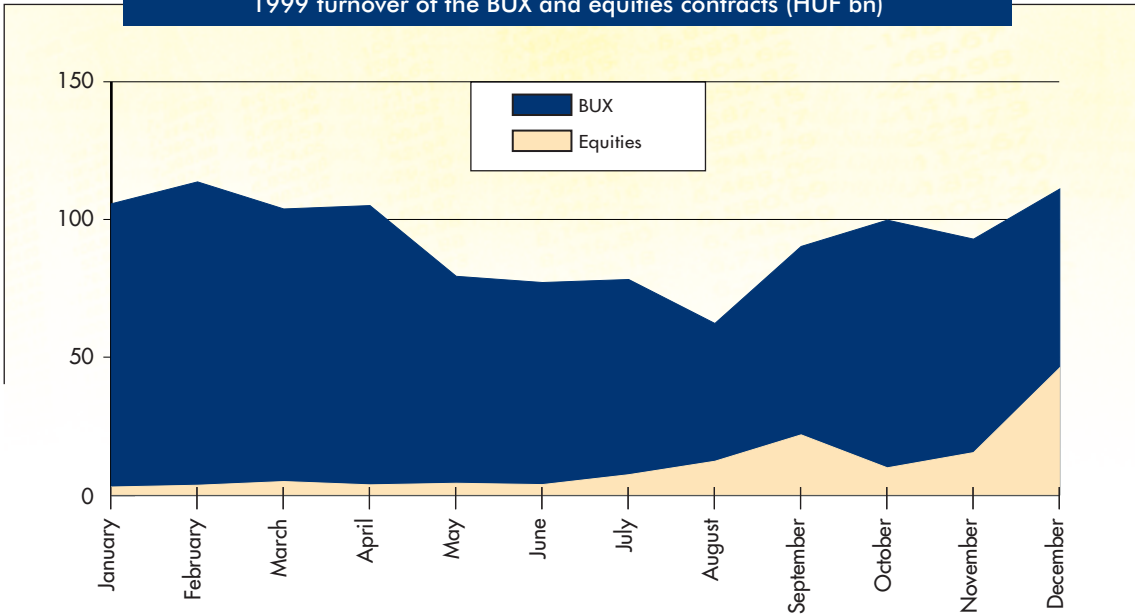
## Futures Market

Turnover ratios by product groups



● BUX 87%   
 ● Currencies 2%   
 ○ Shares 10%   
 ● Interest rates 1%

1999 turnover of the BUX and equities contracts (HUF bn)



The rate as of 29.12.1999. was: 252.52 HUF/USD

## *Options Market*

Intensive preparations of the regulatory background and the trading aspect of the market of standardized options, which are transitionally also integrated into MMTS I, continued in 1999 and culminated in a successful market launch in February, 2000.

The options product line developed in consultation with market participants included the addition of 6 equity based options (Mol, Matáv, OTP, TVK, Richter, BorsodChem) alongside with an index based product (BUX) to the List of Contracts. At present (when the manuscript was submitted on April, 2000), the index option and the first three equity options are open for trading. Trading in option contracts is also open to foreign investors under a license issued by the National Bank of Hungary as the foreign exchange authority. Turnover data of the first month are unquestionably promising and reflect intensive interest on behalf of in-

vestors in this new opportunity in the capital market although the volumes are relatively low as yet.

A total of 1072 contract were turned over in 188 trades during the first 22 exchange days when option products were traded. Most of the turnover (86 per cent of the number of contracts) concentrated in index options with put options being the most popular representing 2/3 of all the transactions in writing options.

As this entirely new product type required significant amendments to the regulations and as a common trading platform is used, the Exchange reconstructed its former regulations, containing separate sets of provisions governing the cash and the derivatives markets to create the Code of Trading, which presents all the rules in a uniform structure. The Exchange Council adopted the Code of Trading in the early part of 2000 with effect from February 18, 2000 when the options market started up.

## The Stock Index of the Budapest Stock Exchange (BUX)

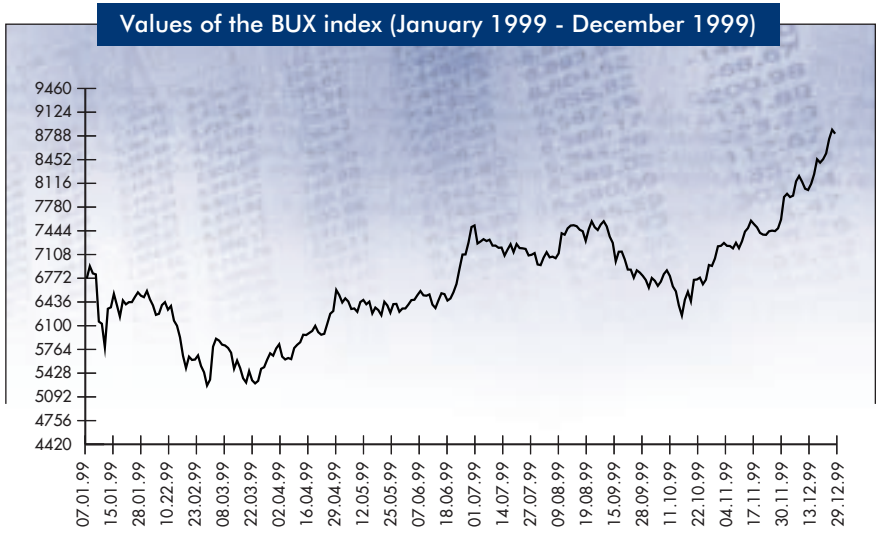
Founded in 1990, the Budapest Stock Exchange considered it necessary to create the proprietary index of the exchange in the first year of operating to offer better and easy-to-understand information to investors. The immediate objective was to create a ratio the value of which would change to reflect actual market circumstances as well as the degree and size of prevailing price movements. The Budapest Stock Exchange has been calculating and publishing its stock index since 1991. The official name of the index is Budapest Stock Index (BUX).

The basis of the index is 1000 points reflecting its status on January 2, 1991. The index took its final shape on January 1, 1995 and became the official stock index of the BSE. At the outset, the index was calculated on the basis of the daily average market price of equities in the BUX basket but since the BSE started to calculate the index at every five seconds on April 1, 1997, the value of BUX has been calculated using daily closing prices. An index committee appointed by the Exchange Council has the power to propose the composition of the basket and any modifications in line with the provisions of the Budapest Stock Index (BUX) Manual. The basket is reviewed twice a year (on March 1 and September 1). BUX belongs to the group of capital value type indices, i.e. the weight of equities in the index is fundamentally determined by the size (exchange capitalization) of the issuing company. A resolution by the Exchange Council in May 1999 made the system a little more sophisticated. The capitalization of the equities included in the BUX basket was adjusted with the public ownership ratio (established according to the most recent publication of verified shareholders) for the first

time when the basket was reviewed in October 1999 and the method has been in use ever since. The BSE includes all stock in the public ownership ratio other than stock held by the company, its senior officers or employees, public sector agencies, international development institutions or by investors holding a package of more than 5 per cent. In order to avoid extreme influence by a change in the market price of a single equity on the value of the index, the BSE is endeavoring to limit the weight of individual series in the basket. As of the October 1999 review, relatively simple algorithm designed to reduce the ratio of papers with extreme weight has been used to calculate the proportions of basket equities to each other using the percentage relationship of the capitalization of each equity after adjustment with the public ownership ratio.

A maximum of 25 equities may be included in the index basket on the basis of specific criteria. Since February, 1998, the exchange has examined 3 new criteria (number of suspensions, cross trades and days traded) in addition to the 5 existing ones (the face value and market value of the listed quantity of each series, turnover in terms of number of trades and market value and velocity) to check whether an equity series is suitable for inclusion. Only equity series that have been traded on the BSE for at least three weeks are eligible for inclusion in the basket.

Under an Exchange Council resolution, the BUX basket contained the following 18 stock series as of April 1999: BorsodChem, Danubius, DÉMÁSZ, Egis, Fotex, Graboplast, Inter-Európa, Matáv, Mol, NABI, OTP, Pannonplast, Pick, Prima-gáz, Rába, Richter, TVK, Zalakerámia. Inter-Európa was replaced by Synergon in October 1999.



## *Central European Stock Index (CESI)*

With foreign investors, mutual and pension funds entering the market and showing increasing interest, equities have shown tremendous expansion in terms of turnover and market price in Central European exchanges since late 1993. These changes have been reflected by the movements of the indices of individual exchanges, which have moved along very similar trends in recent years. Foreign investors started to treat the exchanges in the region as a unified regional market of Central Europe. Motivated by the above, the Budapest Stock Exchange decided that in addition to the indices published by the individual exchanges of their own markets it should calculate and publish its Central European Stock Index (CESI) based on the securities markets in the region and to reflect general movements of price there. The Budapest Stock Exchange first published CESI officially on February 1, 1996 and initially the index basket included specific equities selected – according to certain criteria – from the official equities markets of only three Central European stock exchanges (Budapest, Prague and Warsaw). On October 31, 1996 the index was expanded to include corporations selected from the Ljubljana and the Bratislava exchanges.

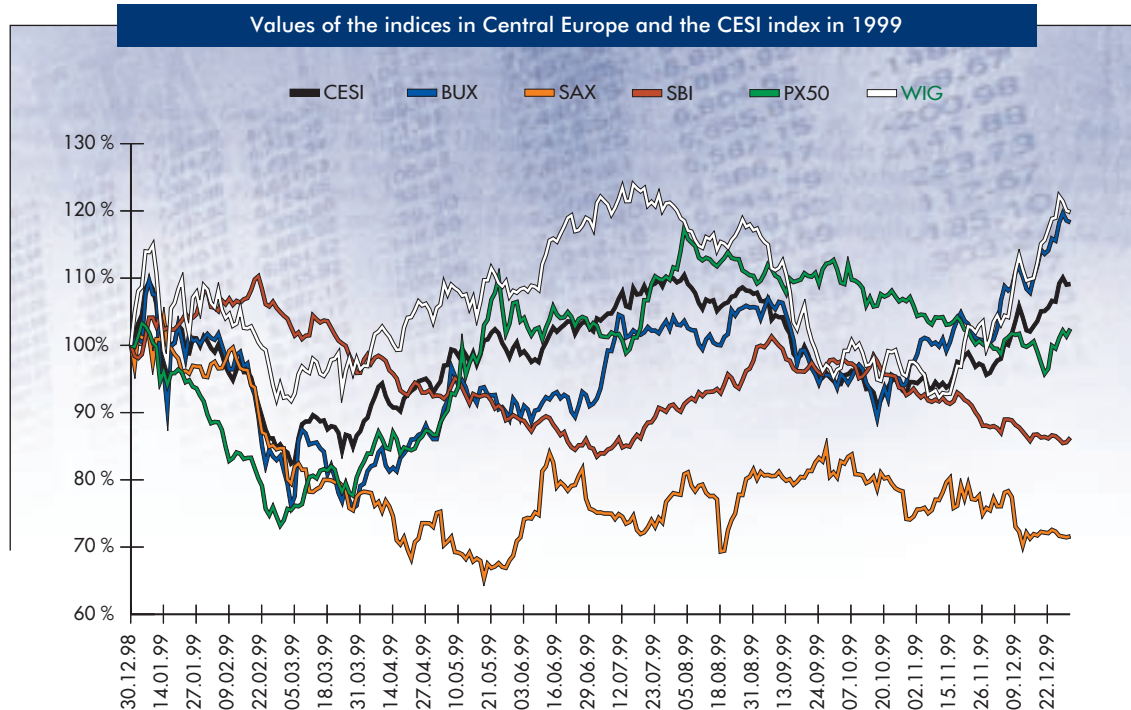
CESI is a USD based equity index weighted with capitalization, with a basis of 1000 points on June 30, 1995. (The BSE calculated the historical values of CESI to that date retrospectively.) The CESI basket may only include companies which are listed in an official category of one of the exchanges (Budapest, Ljubljana, Bratislava, Prague, Warsaw), which show the largest capitalization and liquidity and whose stock is available for purchase by foreign investors. Unlike with BUX, the effect of dividend payment is not taken into account when CESI is calculated. As CESI is a USD based index, the market prices of basket equities expressed in the currency of the participant country are converted into USD at the buying rate published by Reuters (at 4.00 p.m.) on the particular day. The calculation of the index uses daily average market prices for

Budapest, Ljubljana and Bratislava and the daily fixing rate for Warsaw. The only exception is the continuous market at the Prague exchange, which supplies closing prices for the index. The basket is modified twice a year on April 30 and October 31. If the review is automatic – i.e. it obviously follows from a provision of the manual – the modifications are approved by the Chief Executive Officer of the BSE on the basis of a recommendation by the CESI Committee made up of the representatives of the affected exchanges. In other cases, the approval of the BSE Exchange Council is required. Reviews must be performed in respect of the status as at a month before modification (March 31 and September 30). The basket weight of each national market is determined by how the total capitalization of the markets relate to each other at that date. The total share of no equities from a single country may be higher than 50% of the combined capital value of the basket but – in order to ensure the representative nature of CESI – the equities from a particular national market taken together must represent at least 60% of the capitalization of their official marketplace. All basket equities must take a share of at least one per cent from the turnover in the respective equities markets during the six month before basket review. Filling the quota of a market starts with the equities with the highest capitalization, but the weight of no equity series in the basket may exceed 12%.

The index basket includes 41 equities after the review in October 1999.

**Budapest** (10): BorsodChem, Danubius, DÉMÁSZ, Egis, Matáv, Mol, OTP, Rába, Richter Gedeon, TVK. **Ljubljana** (6): Intereuropa Koper, Krka Novo Mesto, LEK Ljubljana, Luka Koper, Mercator Ljubljana, Petrol Ljubljana. **Bratislava** (3): NAFTA, Slovakofarma, Slovnaft. **Prague** (7): CEZ, CESKA Sporitelna, C. Radiokomunikace, IPS Praha, Komerčni Banka, SPT Telekom, Unipetrol. **Warsaw** (15): BIG-BG, BPH, BRE, BSK, Elektrim, Handlowy, KGHM, Kredyt Bank, Orbis, PBK, Prokom, Pekao, TPSA, Zywiec, WBK.

## Central European Stock Index (CESI)



### The CESI basket

MARKET as of 30 September 1999	No. of Co. in*		Capitalization		Market/	CESI/	CESI/
	CESI basket	Total	Total (USD)*	CESI (USD)	Market Total %	CESI Total %	Total %
BUDAPEST	10	65	13 810 156 016	9 249 803 648	29.92%	29.79%	66.98%
BRATISLAVA	3	9	495 370 874	370 601 058	1.07%	1.19%	74.81%
LJUBLJANA	6	27	2 433 821 189	1 677 160 513	5.27%	5.40%	68.91%
PRAGUE	7	80	11 221 541 099	7 538 191 413	24.31%	24.28%	67.18%
WARSAW	15	201	18 195 049 213	12 213 171 092	39.42%	39.34%	67.12%
<b>TOTAL:</b>	<b>41</b>	<b>382</b>	<b>46 155 938 391</b>	<b>31 048 927 724</b>	<b>100%</b>	<b>100%</b>	<b>67.27%</b>

\*only companies listed in official exchange categories.

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## BAMOSZ Equity Investment Fund Portfolio Index (RAX)

The objective in setting up the BAMOSZ Equity Investment Fund Portfolio Index (RAX), which was developed by the Hungarian Association of Investment Fund Managers and has been officially calculated by the BSE since February 15, 1999 was to create a 'benchmark' for measuring the performance of investment funds as the existing indices of the equity market ignored the statutory restrictions investment funds are subject to and failed therefore to satisfy this objective. The basis of the index, reflecting the status as at January 7, 1998, is a 1000 points.

RAX allows investment funds to copy the structure of an index. The index behaves in line with the indices that measure the changes in the market price of equities traded on the Budapest Stock Exchange (BUX, NX-10), as they measure the performance of one and the same market, but the different methods of measurement will obviously lead to different proportions in movements. The 'operation' of this index deviates substantially from that of BUX: the conditions of inclusion in the basket, basket composition, the frequency of reviews, the treatment of dividends and other corporate actions, etc. will be different. All that was motivated by the need to have an index which is easy to reproduce and is structured and 'operated' similarly to the operation of investment funds.

The index basket is a model of a portfolio worth HUF 1 billion and developed through utilizing to the maximum extent the rules governing in-

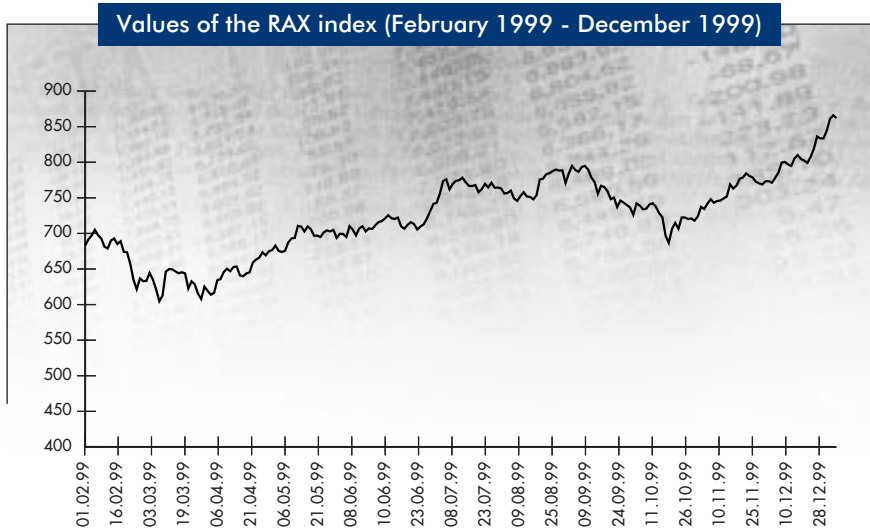
vestments by equity investment funds. Accordingly, 17 exchange-listed equities are included with the weight of a single equity series corresponding to 5% of the portfolio (HUF 50 million) at basket review date, and fund holds approximately HUF 150 million worth of liquid assets at each review. In practical terms, the value of the index is calculated the same way as the net asset value per unit of an equity investment fund would be calculated. Any change in the value of the index basket therefore reflects the change in the net asset value per investment note held in this notional equity investment fund with basis date serving as a reference.

The index is calculated once every day after trading closes on each trading day and is published next day in the official paper of the exchange by the BSE Secretariat.

The composition of the index is reviewed after trading closes on the last trading day of each month.

The basket valid for the next month will contain 17 equities, each of which had reached the highest turnover during the preceding three months not counting the two days when turnover was the highest. Inclusion into the basket is not limited to equity shares, preference shares are also eligible, but may only hold a single series from one and the same issuer.

The following stock were included in the basket at the review in December 1999: BorsodChem, Cofinex, Danubius, DÉDÁSZ, DÉMÁSZ, Egis, Elmű, Graboplast, Matáv, Mezőgép, Mol, OTP, Pick, Rába, Richter, Synergon, TVK.



## A Daiwa-MKB Treasury Yield Index (DWIX)

It was in November 1992 that Daiwa-MKB Securities and Investment Co. first published an index of the yield on short term government securities based initially on the average yields set by primary auctions of the Government Debt Management Agency for 1, 3 and 6 month discount T-bills.

The DWIX basket changed on July 9, 1998. The Government Debt Management Agency stopped auctioning 1 month T-bills in response to the shift in market trends, i.e. the increasing role of longer term T-bills in funding government debt. Hence the Exchange Council decided to remove the 1-month bill and have the 12- month variant gradually replace it in the index basket.

DWIX, the first published yield index in Hungary, is designed to model actual market movements in short term interest rates. The principle adopted for determining the composition and the weighting of the underlying T-bill basket was to allow portfolio managers, financial analysts and liquidity managers of banks to use DWIX as a reference. The DWIX basket contains turn-over weighted average yields on T-bills as such yields developed at primary auctions of DWIX basket T-bills during a period of three

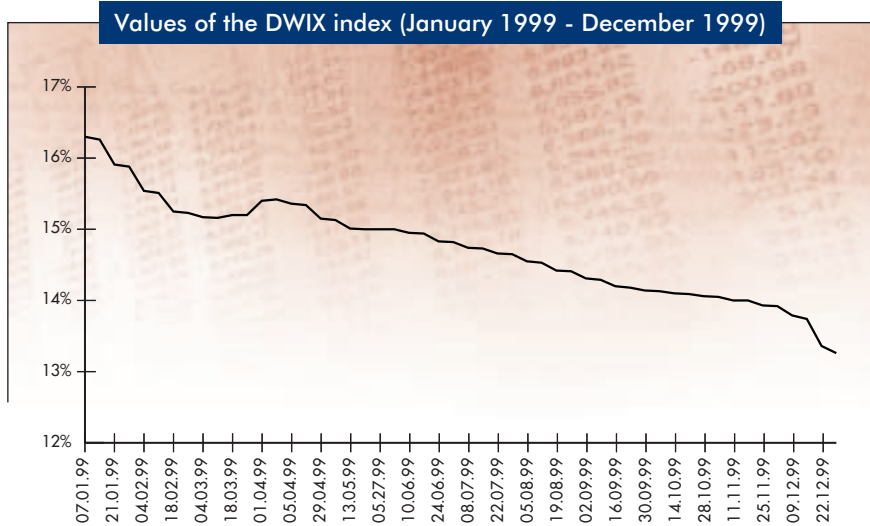
months before the publication of the index.

For the purposes of calculating the index, yields are weighted in line with the time that elapses after each auction, and hence the weight of the yields of the most recent month is eight-fold, that of the preceding three month is three-fold, whilst the three months prior thereto are given a single weight in the formula. As a result DWIX is considered to be a very stable benchmark that cannot be manipulated.

The first day of calculating the index was June 26, 1992, as the first primary auction of 6 month T-bills was held on April 30, 1992. The value of the index changes week after week after the primary auctions of T-bills are evaluated. (The auctions of 3 month T-bills are held weekly, whilst 6 and 12 month T-bills are auctioned off once every fortnight.)

Since May 19, 1994, the BSE has calculated and published DWIX under the terms of an agreement between Daiwa-MKB and the Budapest Stock Exchange. New index values are published by 4.00 p.m. every Thursday. Effective as of May 11, 1998,

D A I W A transferred all its rights and obligations associated with DWIX to the BSE, which has become the sole proprietor of the index.









Issuers

## *Listing Requirements*

The Budapest Stock Exchange Regulations on Listing, Continuous trading and Disclosure (the 'Regulations') classifies the terms of listing securities into two categories: general and specific, with the latter depending on the type of securities series to be listed. In addition, different categories of equity series are subject to different listing requirements.

The first requirement the securities to be floated on the exchange must fulfill is that such a transaction shall always follow a public offering (whilst a license by the Hungarian Financial Supervisory Authority granting the right to offer the paper in Hungary will suffice when foreign securities are listed. Companies eligible for having their securities listed on the exchange shall not be under liquidation or bankruptcy at the time they apply for listing and will have met all the payment obligations in the two years prior to listing.

Before listing, the charter of an eligible company must be brought into compliance with Hungarian laws and the regulations of the BSE. The charter must contain guarantees stipulating that the securities are freely transferable, marketable and must not contain provisions that prohibit sale altogether. A listed company must also specify clearly its major lines of business and the rights associated with the securities to be floated on the exchange must also be unambiguously defined.

The BSE listing requirements relate to the size of the series (market value), scope of owners (public holding ratio, number of shareholders) and the term of operation of the company. Category 'A' contains the most

stringent conditions of listing from among the exchange categories and poses the additional requirement that the company floated must show profit in the year before listing. In general, Category 'A' contains the largest and most liquid equity series, whilst Category 'B' includes securities issued by large and medium size companies and Category 'C' lists stock issued by small and medium size enterprises and those representing higher risks. Venture capital companies may only seek listing in Category 'C'.

It is the Chief Executive Officer of the Budapest Stock Exchange that has the authority to decide on having securities listed within thirty days of receipt of the related application. In doing so, the CEO may seek professional advice from the Issuers' Committee regarding the decision. If a contradiction exists between the positions of the Issuers' Committee and the Exchange, the Chief Executive Officer of the Exchange shall submit the application for listing to the Exchange Council for a decision.

Before securities are listed, the issuer must, as part of the listing procedure, appear at a hearing if it is considered necessary by at least 10 per cent of exchange members. The representatives of the press may also be present at the hearing if the issuer agrees. The participants of the hearing may address questions to the representative of the issuer and the exchange member managing the issue regarding the flotation, and the questions must be answered within three days. The Chief Executive Officer of the

## *Listing Requirements*

Exchange sets the date of listing and the first day of trading the securities provided that the first day of trading must not be any earlier than the exchange day following the publication of the decision on listing. No more than a period of 45 days may elapse between the date of listing and the first day of trading.

The regulations of the BSE also provide a special procedure for listing where the issuer submits an application for listing and a prospectus to the Exchange. As the information available at that time is incomplete, the Exchange will only decide on eligibility and will allow the issuer to supply any missing information (the scope of which is specified in the Regulations) in a maximum of 60 days.

Flotation on the exchange is also subject to the payment of the fee for listing and maintenance the issuer to the BSE. The listing fee and the maintenance fee, respectively, are set on the basis of the market value and the face value of the series listed. The issuer may pay to the BSE what is known as a procedural charge before submitting the application, which will not be reimbursed even if the securities fail to get listed.

### **Disclosure Requirement**

Issuers of securities listed on the BSE are subject to regular and extraordinary disclosure requirements as such are set forth in the Securities Act and the rules of the exchange.

The regular disclosure requirement obliges issuers to submit to the BSE an annual stock exchange

report based on their audited annual report by April 30 each year and a consolidated annual report by no later than September 30 each year.

Regular disclosures also include quick reports, which are submitted quarterly by issuers of Category 'A' and semiannually by Category 'B' and 'C' issuers. Quick reports must reach the BSE by no later than 45 days after the end of the period covered. The data-sheets of the quick report and the site at which any supplementary explanation is accessible must be published in the official paper of the BSE.

The extraordinary disclosure requirement obliges issuers to report to the Exchange any information they learn about past or current changes in their operations or management such that affect the value of or yield on their securities by 10.00 a.m. on the day after they come to hold information in case no data were offered regarding such changes in the most recent report. The scope of extraordinary disclosures cannot be set exactly (but will include, for instance, any change in the rights associated with the securities, any action to initiate liquidation or bankruptcy, submission of an acquisition bid, etc.).

Furthermore, issuers must report all events of significance to the company (even if they have no direct impact upon the price of securities) such as the convocation of general meetings, press conferences, charter amendments, any changes in the person responsible for managing relations with the exchange and investors.

## Securities 1999

### The equity market:

in 1999, three companies (DÉDÁSZ Rt., ÉDÁSZ Rt., TITÁSZ Rt.) engaged in the same line of business were listed in addition to the three power utilities (DÉMÁSZ Rt., ÉMÁSZ Rt., ELMŰ Rt.) which were quoted on the Budapest Stock Exchange in 1998. The shares of two food processing companies, MIZO-Baranyatej Rt. and a Székesfehérvári Hűtőipari Rt. (FEVITA) were also offered. Two companies, Virginia Rt. and HB Westminster Rt., engaged in the utilization of compensation notes were also listed. In 1999, the preference shares of Antenna Hungária Rt., Arago Befektetési Holding Rt., ÉPTEK Rt., Konzumbank Rt., Kartonpack Dobozipari Rt., Eravis Szálloda és Vendég-látóipari Rt. and OTP Bank Rt. preferred shares by dividend were added to the BSE Trading List.

After due consideration, the Exchange Council rejected the application of four companies seeking to have their stock listed on the Budapest Stock Exchange in 1999.

In addition to the above, eight companies took steps to get listed, but failed to comply with the Regulations on Listing, Continued Trading and Disclosure, hence their applications could not be evaluated in merit.

### The bond market:

The bond program of the European Investment Bank (EIB03B in March and EIB04A in June) was listed in 1999. New offerings included the AXON 'H' and 'J' series of AXON Rt. bonds in April and the CIB Classic bonds of CIB Central European International Bank Ltd. in mid-August.

### The government securities market:

In 1999, the Government Debt Management Agency continued its practice to request the exchange listing of discount treasury bills and government bonds using the simplified procedure.

Dematerialized government bonds, floated in the same way as physical securities, were listed on June 14, 1999.

### Securities 1999

New listings		Qty	Face value
			(HUF million)
Equities	New listing	16	137 731
	Capital increase	23	5 977
	<b>Total</b>	<b>39</b>	<b>143 708</b>
Bonds		5	32 159
Investment notes	Securities	0	0
	Real property	0	0
	<b>Total</b>	<b>0</b>	<b>0</b>
Foreign securities		0	0
Government securities	Government bonds	9	935 425
	(Listed quantity includes tap sales of the same security in addition to new listings)		
	Interest earning T-bills	0	0
	Discount T-bills	44	1 662 443
	(Listed quantity includes tap sales of the same security in addition to new listings)		
<b>Total</b>	<b>53</b>	<b>2 597 868</b>	
Compensation notes		0	0

Delistings	Qty
Equities	2
Bonds	1
Investment funds	2
Foreign securities	0
Government securities	76
Compensation notes	-

### Securities at 12/ 31/1999

Equities	69
Bonds	10
Investment funds	8
Foreign securities	2
Government securities	54
Compensation notes	0
<b>Total</b>	<b>143</b>

The rate as of 29.12.1999. was: 252.52 HUF/USD

## Securities 1999

### Regulations on Listing, Continued Trading and Disclosure:

In 1999, the Regulations were modified twice. The changes included the method of listing government securities, which does not require a separate decision any longer. Another change, with beneficial consequences for issuers reduced the listing fees by 10 per cent on average.

The Exchange Council brought its resolution on the amendment of the regulations in January, 2000 following preparations started in the second half of 1999.

The amendments in January added electronic (e-mail) reporting as a new form in addition to printed reports and, in theory, the Exchange allows issuers to identify an electronic site (web page) as the means of publishing disclosures. Quick reports will have to be submitted and published using datasheets. In addition

and against bearer shares, provided the series to be listed fulfills the requirements of Category 'A'. In the event, an issuer seeks to have its securities reclassified as Category 'A', the Exchange Secretariat will not examine compliance with the provisions in the Regulations regarding the number of owners and public ownership ratio as it can perform liquidity tests without that.

### Issuer relations:

One of the major responsibilities of the Budapest Stock Exchange includes the maintenance of relations with issuing companies. The Exchange complies by holding regular meetings, annual conferences and events. As part of road shows abroad (New York, London), the BSE gave presentations to potential newcomers to the exchange with its current issuers participating.

### Listing requirements

	Rules governing Category A	Rules governing Category B	Rules governing Category C
Equity series to be listed	Only complete series may be listed; A minimum of HUF 10 billion at market value	Only complete series may be listed; A minimum of HUF 1 billion at market value	Only complete series may be listed; A minimum of HUF 100 million at market value
Public holding ratio	Either a min. of 25% and at least HUF 4 bn at market value; Or a min. of HUF 10 bn at market value	Either a min. of 10% and at least HUF 500 M at market value; Or a min. of HUF 2 bn at market value; Or at least 500 shareholders	---
Shareholders	Minimum 1000	Minimum 100	Minimum 25
Business year	3 full completed and audited years	3 full completed and audited years	1 full completed and audited years
Other	The most recent audited business year must show profits	---	---
Series	May only include registered shares	May include registered and bearer shares	May include registered and bearer shares

tion to the Accounting Act and/or the International Accounting Standards (IAS) reports may now also be drawn up under US GAAP.


In February, 2000, the Exchange Council resolved to modify the Regulations once more.

Category 'A' is now open for listing the depository receipts made out against dematerialized bearer stock

Two conferences – one in Kazincbarcika and one in Budapest – were organized for issuers in 1999. In addition to fostering personal relations, both were designed to discuss ongoing tasks and to deliver information about queries. The Budapest Stock Exchange is pleased to serve issuers, both potential and actual.

\*the part of the series of equities outstanding to owners holding less than 5% interest.



A conceptual graphic featuring a globe, a calculator, and a document. The globe is the central focus, with a calculator positioned in front of its base and a document partially visible behind it. A sunburst of thin, light-colored lines radiates from the globe, creating a sense of global connectivity and data flow. The entire composition is set against a plain white background.

# Financial Statements

## Balance Sheet and Financial Report

Assets		Prior year (HUF thousand)	Current year (HUF thousand)
1.	<b>A. Fixed assets (lines 2, 4 and 6)</b>	2 042 256	1 679 124
2.	I. INTANGIBLE ASSETS	1 150 867	1 020 856
3.	(of line 2: Revaluation of intangible assets)		
4.	II. TANGIBLE FIXED ASSETS	714 238	522 253
5.	(of line 4: Revaluation of tangible fixed assets)		
6.	III. FINANCIAL INVESTMENTS	177 151	136 015
7.	(of line 6: Revaluation of financial investments)		
8.	<b>B. Current assets (lines 9-12)</b>	182 290	723 819
9.	I. INVENTORY	45 428	12 457
10.	II. RECEIVABLES	81 808	162 291
11.	III. SECURITIES		369 213
12.	IV. CASH	55 054	179 858
13.	<b>C. Prepayments and accrued income</b>	3 370	18 158
14.	<b>TOTAL ASSETS (sum of lines 1, 8 and 13)</b>	2 227 916	2 421 101
Liabilities			
15.	<b>D. Equity (lines 16-21)</b>	1 829 541	2 071 140
16.	I. SHARE CAPITAL	519 600	524 600
17.	II. CAPITAL RESERVE	323 104	323 104
18.	III. RETAINED EARNINGS	983 476	986 837
19.	IV. REVALUATION RESERVE		
20.	V. LOSSES CARRIED FORWARD		
21.	VI. RESULT FOR THE YEAR	3 361	236 599
22.	<b>E. Provisions</b>	14 823	13 093
23.	<b>F. Liabilities (lines 24-25)</b>	367 970	140 786
24.	I. LONG TERM LIABILITIES		
25.	II. CURRENT LIABILITIES	367 970	140 786
26.	<b>G. Accrued expenses and deferred income</b>	15 582	196 082
27.	<b>TOTAL LIABILITIES AND EQUITY (sum of lines 15, 22, 23 and 26)</b>	2 227 916	2 421 101

Profit & Loss Statement		Prior year (HUF thousand)	Current year (HUF thousand)
I.	Revenue from stock exchange operations	1 301 472	1 761 864
II.	Other revenue	114 039	124 853
III.	Capitalised costs of own performance		
IV.	Expenses of material nature	274 543	159 061
V.	Personnel expenses	476 430	728 202
VI.	Depreciation	437 437	475 088
VII.	Other costs	184 307	307 173
VIII.	Other expenditure	74 162	66 597
A.	<b>RESULT OF STOCK EXCHANGE OPERATIONS (I+II+-III-IV-V-VI-VII-VIII)</b>	-31 368	150 596
IX.	Financial income	120 791	44 923
X.	Financial expenses	58 274	2 820
B.	<b>FINANCIAL RESULT (IX-X)</b>	62 517	42 103
C.	<b>RESULT OF THE EXCHANGE (+-A+-B)</b>	31 149	192 699
XI.	Exceptional income		94 827
XII.	Exceptional expenses	27 788	50 927
D.	<b>EXCEPTIONAL RESULT (XI-XII)</b>	-27 788	43 900
E.	<b>RESULT BEFORE TAXATION (+-C+-D)</b>	3 361	236 599
XIII.	Taxation		
F.	<b>RESULT AFTER TAXATION (+-E-XIII)</b>	3 361	236 599
G.	<b>RESULT FOR THE YEAR</b>	3 361	236 599

The rate as of 29.12.1999. was: 252.52 HUF/USD



## *Auditor's Report*



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**This is a translation of the Hungarian Report  
Independent Auditors' Report**

To the members of the  
Budapest Stock Exchange

We have audited the accompanying balance sheet of the Budapest Stock Exchange as at 31 December, 1999, which shows total assets of THUF 2,421,101 and a profit for the year of THUF 236,599, the related profit and loss account for the year then ended and the supplement included in the 1999 abbreviated financial statements of the stock exchange. The abbreviated annual financial statements are the responsibility of management. These abbreviated annual financial statements have been prepared for the consideration of members at the forthcoming Members' Meeting and do not reflect the effects, if any, of resolutions that might be adopted at that meeting. Our responsibility is to express an opinion on the abbreviated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing and with applicable laws and regulations in Hungary. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the abbreviated annual financial statements have been prepared in accordance with the provisions of the Act on Accounting and with accounting principles generally accepted in Hungary and give a true and fair view of the financial position of the Budapest Stock Exchange as at 31 December, 1999 and of the results of its operations for the year then ended.

Budapest, 3 April, 2000

Partner  
Ernst & Young Kft.  
Registration No. 001165

Fekete Imréné  
Registered Auditor  
Registration No. 003201





**C o n t a c t s**

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