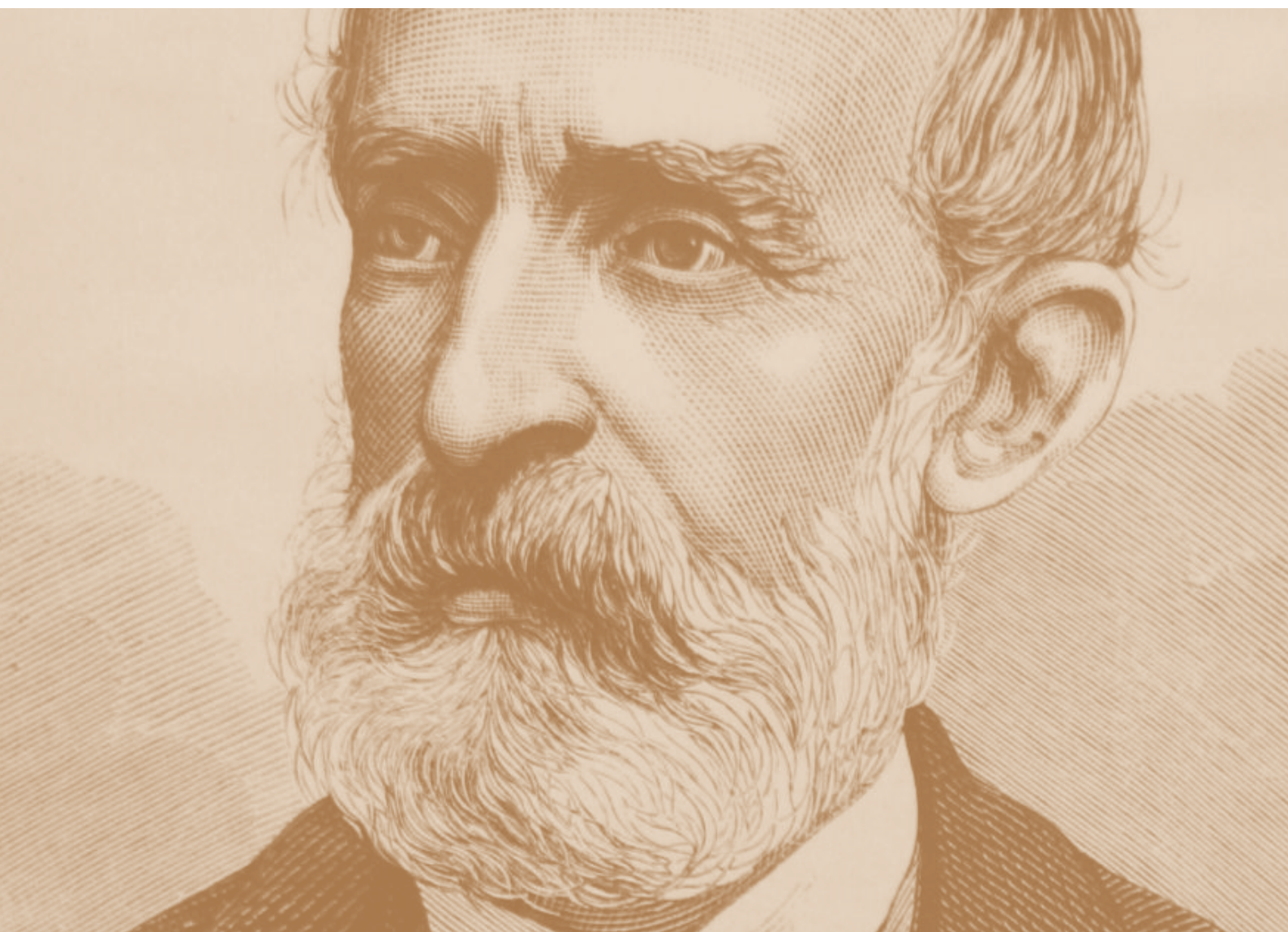




STRATEGIC REPORT



2016



“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 2016

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A key player in 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. Its derivatives market encompasses not only futures and options trading, but also a foreign currency market with the highest trading volume in Europe and a commodities market which is unique in the region.

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, NBH 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 the Strategic Report, the BSE, after adoption by the general meeting, publishes its annual report, along with the business report, which presents 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 in the period 2016-2020. 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 shift the BSE's role as a catalyst into the foreground, reverse the downward trend in stock market turnover witnessed in the last few years, 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 as well as indicating 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 arising from increased activities by 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 in regard 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 the period 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 – fifty 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 – thirty companies on the SME market within four years;
 - increasing capitalisation/GDP, objective: ~30 %;
 - increasing the liquidity of smaller securities – 20 quoted/analysed securities within four years; and
-

-
- engaging active partners for stock exchange listings – ten IPO partners (NOMAD) within two years.

Looking ahead to the coming year, in addition to the development of the Stock Exchange and the Hungarian capital market, there are other important tasks that must also be considered. For example, preparation for MiFID II, the EU-level capital market regulation effective as of January 2018, will pose a serious challenge for all capital market players, but at the same time, the year ahead will also be about the deepening and continued building of domestic and international relations: conferences, roadshows, youth courses and lectures addressed to the population.



EXECUTIVE SUMMARY

A YEAR OF CONSTRUCTION

2016 was a very busy year for the Budapest Stock Exchange. When the BSE Board of Directors adopted the new stock exchange strategy in February, the team started work with great enthusiasm and energy. This momentum has still not subsided. The accomplishment of our objectives is supported not only by the BSE's main shareholder, the National Bank of Hungary, the government and market players, but also the great performance of the Hungarian economy and the ideal investment environment. The commitment of the state to developing the capital market and the stock exchange is also reflected in our ownership structure:

National Bank of Hungary (81.35%)
KBC Securities Hungary Branch Office (5.20%)
CONCORDE Befektetési és Eszközkezelési Zrt. (4.17 %)
OTP Bank Nyrt. (2.65 %)
Erste Bank Hungary Zrt. (2.32 %)
Other (4.31 %)

Our objective, as laid down in our strategy until 2020, is to implement a comprehensive programme to develop the capital market and the stock exchange in order to ensure that the stock exchange contributes to the growth and competitiveness of the Hungarian economy. The development of Hungary's capital market is particularly timely at this moment, as EU funding is already expected to drop significantly before 2020, and the central bank will be reducing its supporting for corporate lending by phasing out the Funding for Growth Scheme (NHP). Accordingly, companies must prepare for the time when they will no longer base their growth on subsidised loans or EU grants, but on market resources. The development of the capital market and the stock exchange plays an essential role in this.

We can rightly refer to 2016 as the year of construction for the BSE. One of the most spectacular results of this construction is the interruption of a lengthy trend, namely that the year finally saw numerous new companies appear on the trading floor: six successful stock exchange launches, including two initial public offerings. After last year's launches, in order to further expand the supply side, we organised and continue to organise issue roadshows, domestic and international capital market conferences and forums in order to reach an increasing number of potential issuers and investors. At the same time, stimulating domestic retail demand is an essential prerequisite of a strong stock exchange, and consequently the BSE wishes to support the promotion of stock exchange investments through intense communication and



educational activity. The first step of this initiative saw the launching of the BSE Academy in the autumn and the revamping of the BSE website.

In addition, the Stock Exchange Advisory Board was established, a decision was made on the setting up of the National Stock Exchange Development Fund, which in the future could supply capital to small and medium-sized enterprises through the stock exchange, and the Capital Market Act was also amended. We have once again become full-fledged members of the Federation of European Securities Exchanges; market-making on the BUX futures market has begun and the free training courses of the BSE Academy have commenced in the interest of developing the capital market-related knowledge of the population.

We have concluded numerous industry and professional agreements with a view to developing the capital market; for instance, we have signed a cooperation agreement with ELITE Programme of the London Stock Exchange, as part of which we will be launching corporate financing training courses aimed primarily at Hungarian small and medium-sized enterprises.

The results achieved in 2016 are also reinforced by positive feedback from the capital market and from companies. These are especially important to us, because they allow us to receive direct support regarding our work. They confirm our belief that we are fighting for a common goal, for the development of the Hungarian capital market and the BSE.

The BSE aims to become the most important funding platform for competitive and successful enterprises in Hungary. Indeed, a well-functioning stock exchange facilitates funding for companies through equities and bonds, although being present on the stock exchange requires companies to operate transparently, which significantly contributes to “cleaning up” the economy.

We believe that having a highly developed capital market and stock exchange is a precondition for any competitive, innovative economy, which is why we are continuing construction along the lines of our five-year strategy.

Márton Nagy
Chairman of the Stock Exchange

Richárd Végh
CEO of the Stock Exchange



Cooperation with the government and the market

LEGAL AMENDMENTS

Achieving the strategic goals of the BSE will require even closer cooperation than before with the government, state institutions and market players. Closer cooperation is required in order to create a business and regulatory environment which actively supports balanced growth in the Hungarian economy through improvements to the capital market and the BSE.

The Stock Exchange has initiated consultations with the government on several topics; be it the fine-tuning of the regulatory environment to facilitate the efficient operation of capital markets or the joint support of key companies in certain industries for that matter. We have also been able to achieve shared success in areas such as the harmonisation of education programs tailored to emerging companies and the targeted channelling of opportunities afforded by capital funds. In addition, we have also envisaged such shared goals as the creation of complex systems, which would allow companies to recognise opportunities afforded by external financing, which could also lead to an increased involvement of Hungarian savings that would ultimately support the domestic real economy.

In the spring of 2016, the legislative amendment package concerning the financial intermediary system (Act LIII of 2016 on the Amendment of certain acts of legislation concerning the financial intermediary system) – among other items – aimed at the improvement of the capital market, facilitating market access, and expanding the range of the activities of the BSE. Thanks to the changes, it became possible for the BSE – in line with the initiatives already launched on other European markets – to operate platforms facilitating the access of business associations to capital market funds, which may include a closed financing interface in addition to the regulated market and the Multilateral Trading Facility (MTF).

Thanks to the legislative amendment, as a complementary activity, the BSE is now allowed to provide professional consultancy services to companies that are planning to go public in order to further motivate stock exchange launches. In the interest of market clearance, the legislative amendment also allows the BSE to require in its Business Regulations that its existing issuers have a good reputation in business. The amendments also make it possible for the tax authority to include – based on the data supplied by investment service providers – income earned on capital market transactions in the tax return forms of private individuals generated by the tax authority.

In addition, the Act on the Rules of procedure of taxation has been amended such that public limited companies no longer need to have a history of at least three years of operation in order to be granted reliable taxpayer status. This makes it possible for companies without a longer history of operation, typically holding-type publicly listed companies, to receive reliable taxpayer status and take advantage of the related benefits.



NATIONAL STOCK EXCHANGE DEVELOPMENT FUND

One of the most important elements of the strategy of the Stock Exchange is the desire to facilitate the stock exchange launch of domestic small and medium-sized enterprises, as well as large corporations, and to provide professional support to these companies on their road to that goal.

The National Stock Exchange Development Fund, to be established with equity capital of HUF 20 billion, could contribute to supplying Hungarian SMEs with capital effectively and efficiently to enable them to become mature enough to be listed on the stock exchange. The fund – that is expected to go live as early as 2017 – will make capital investments with the express purpose of ensuring that companies in the portfolio spend at least a part of the investments on financing their preparation for a stock exchange launch. This may include activities such as the financing of consultancy fees for the transformation of internal processes, the costs of the approval of the IPO document, as well as any other activities that support the drafting of the investment "story" and thereby facilitate a successful stock market launch. With this activity, the Fund wishes to indirectly contribute to the improvement of the competitiveness of the Hungarian economy, the development of innovative industries, and the attainment of the set economy development objectives as a result.

STOCK EXCHANGE ADVISORY BOARD

The Stock Exchange Advisory Board of the Budapest Stock Exchange was set up at the beginning of 2016. The task of the Advisory Board is to prepare, substantiate and provide an opinion on the strategic and business decisions of the institution. The Advisory Board was set up by the new Board of Directors of the BSE 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 National Bank of Hungary, as wide a range as possible of concerned industry stakeholders. The 17 members of the Advisory Board include current and former leaders, important personalities of the money and capital market, as well as of different professional chambers and administrative bodies.

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; Hannes Takacs, European Bank for Reconstruction and Development; Dr. Hardy Ilona, Aranykor Voluntary Pension Fund; Ádám Hegyi, Hungarian Branch of KBC Securities; György Jaksity, Concorde Értékpapír Zrt; Zsigmond Járai, MOL Nyrt; Kálmán Nagy, Concorde MB Partners; Dr. András Nemescsói, DLA Piper Horváth and Partners Law Office; Dr. László Parragh, Hungarian Chamber of Commerce and Industry; Dr. Norbert Szivek, Hungarian National Asset Management Inc.; Sándor Vizkeleti, Association of Hungarian Investment Fund and Asset Management Companies; Levente Zsembery, Hungarian Venture Capital and Private Equity Association;

Márton Nagy, chairman of the BSE Board and Richárd Végh, CEO of the BSE participate in the work of the Advisory Board and a consultant of capacity.



CONCLUDED COOPERATION AGREEMENTS

In the interest of the development of the capital market we have entered into a number of professional agreements and have made additional commitments to our existing agreements. For instance, the BSE's relationship with the Government Debt Management Agency is an example of such a long-standing relationship. However, 2016 was the year when we started laying the shared foundations of our cooperation with the Chamber of Hungarian Auditors, the National Association of Voluntary Funds and the Money Compass Foundation.

We are also looking for potential partners for cooperation at the international level that share the values represented by the Stock Exchange and, most importantly, support the BSE in its effort to attain its goals. We have entered into a cooperation agreement with the ELITE Programme of the London Stock Exchange Group along the lines of those expectations, and we have been working with domestic and foreign brokerage companies in the same spirit of partnership, with the goal of promoting BSE issuers primarily at the international level, but also in Hungary as well. These steps are supported by the notion that it is simply more effective to find and contact potential investors through partners. In 2016, such partners included Wood & Co., JP Morgan, Concorde, and Erste Bank.

Another example of a close cooperation on a perhaps less spectacular, but nonetheless important, area also shows our emphasis on the importance of partnerships: our IT side cooperation with the Austrian Wiener Börse, the BSE's supplier of the Xetra trading system and ADH system, which ensures that the Hungarian Stock Exchange is able to serve its brokerage partners and data vendors as efficiently as possible.

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



Successful year for the exchange – High operational reliability

SUCCESSFUL LISTINGS IN 2016

High expectations surrounded the initial public offering of **ALTEO**, which concluded on 20 October 2016. The new shares have been available for trading since 7 November 2016.

ALTEO, whose shares have been traded on the BSE since 2010, is a complex energy service provider. The company's activities include renewable energy production, energy trading, and energy management services. The company is planning several capital investments over the next two years, which the company is planning to finance from funds earned from the IPO. After the successful capital raise of nearly HUF 1.4 billion, the company was promoted from category T to the higher Standard category; a category that is reserved for issuers that have concluded an open transaction in an amount of at least HUF 100 million on the BSE.

Attila Chickán Jr., CEO of ALTEO said the following at the ringing of the ceremonial opening bell on the occasion of the company's IPO: "I trust that ALTEO will be successful listed mid-cap story, and I sincerely hope that it will encourage many other similarly sized Hungarian companies to follow in the footsteps of ALTEO and join others on the trading floor of the Budapest Stock Exchange."

The November 2016 IPO of **Duna House** brought a domestically well-established brand to the BSE's trading floor. The real estate company, which operates on a franchise basis as well as out of its own offices, has become the largest company in its sector in the country, and a leader in real estate related financial and other services, too. Doron Dymshiz, Managing Director of Duna House, listed several arguments for the IPO and raising capital by way of an IPO. Launching the company on the BSE contributes greatly to raising the public's awareness of the Company; it helps position the company, increases business confidence, contributes to the improvement of internal performance, and opens doors to further capital raising and M&A opportunities while not resulting in the loss of shareholder control.

The long-term concept of Duna House is to become a major real estate and loan brokerage firm in Central and Eastern Europe in addition to continuing to capitalise the company's already existing real estate market experience. The Company has established its own residential property fund, and is planning real estate developments. The HUF 2.6 billion capital raised (IPO and private offering) is an important step towards the accomplishment of those goals. The shares of Duna House have been available for trading under the BSE's Premium category since 10 November 2016.

In November 2016, **Eximbank** was listed as a new bond issuer. Together with Magyar Export hitel Biztosító Zrt., the Bank provides efficient financing and insurance arrangements to Hungarian exporters. Their mission is to support domestic export companies as an economic policy incentive, thereby enabling these companies to retain jobs, increase employment, and expand Hungarian export capacities.



After the previous international bond issues, the first capital market appearance of Eximbank under Hungarian law took place on 14 November 2016. This was the first bond issue in the history of the Hungarian capital markets where negative yield bonds were issued. The more than six-fold excess demand proves that the securities issued by Eximbank as a capital market issuer have piqued significant investor interest on the domestic market as well. On 16 November 2016, EXIM bonds had been issued on the BSE at a total nominal value of EUR 75 million. The term of the bond is one year, interest is earned at a fixed annual interest rate of 0.01 percent.

On 30 June 2016, **Erste Jelzálogbank Zrt.** was the first bank to receive the necessary operating permits from the NBH after the central bank introduced provisions requiring banks to finance their mortgage loans by way of mortgage bonds. After the entry into force of the new regulations, in 2015 Erste Bank Hungary was the first bank to establish its own, fully owned (100%) mortgage bank with the express purpose of becoming one of the leading players of the mortgage bond financing market.

Under a HUF 200 billion mortgage bond issue program scheduled for 2016 and 2017, Erste has issued two mortgage bonds so far, which the BSE began trading on 19 October 2016. After the successful stock exchange auction, mortgage bonds at a total nominal value of HUF 20 billion became available for trading on the trading floor.

In addition to Erste's mortgage bank, the BSE also trades the mortgage bonds of FHB Nyrt, OTP Jelzálogbank Zrt. (OTP Mortgage Bank) and UniCredit Jelzálogbank Zrt. (UniCredit Mortgage Bank) at a total value of HUF 453 billion.

In 2016, the BSE's range was further diversified with the securities of a new issuer, **WINGHOLDING Zrt.** The focus of the real estate development and investment activities of WING Group is commercial property, office real estate. Historically and overall, the largest number of new office real properties for this market segment were developed by WING Group. The other primary real estate market segment that WING Group is engaged in is the market of logistics and industrial real properties. Beyond these, WING Group also has retail (shopping centre), hotel development and operating experience.

At the successful 23 June 2016 bond auction, WINGHOLDING sold 3-year bonds with 4 percent p.a. interest at a total nominal value of EUR 18.4 million. The second package of WINGHOLDING 2019/I bonds was first traded on the stock exchange on 26 July 2016 at a total nominal value of EUR 11.35 million. The third package of WINGHOLDING bonds was issued on 21 November 2016 at a total nominal value of EUR 6.309 million. Under WINGHOLDING Zrt's EUR 40 million WINGHOLDING 2016-2017 bond program, the three bond packages so far have been issued at a total nominal value of EUR 36.04 million. The real estate development and investment company's bonds have been available for trading on the stock exchange since 27 June 2016.

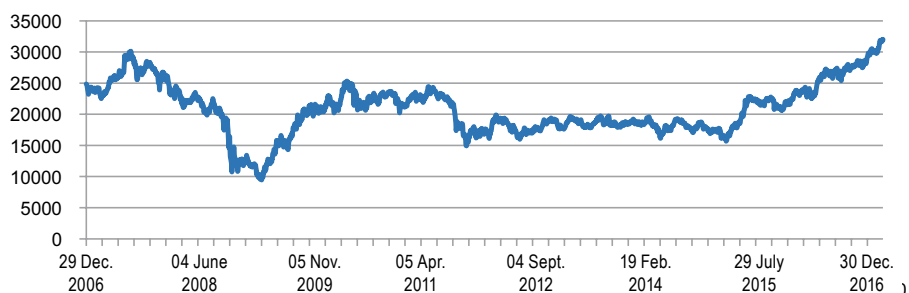
Tündérszikla Asset manager Zrt. issued bonds on the Budapest Stock Exchange at a nominal value of HUF 350 million. Ten of the bonds of Tündérszikla called 2030 were first offered privately in May 2016, followed by an IPO in October of the same year. The term of the bonds extends from 27 May 2016 until 1 December 2017.

YEAR OF RECORDS – FOCUS ON THE BUX INDEX

A new era began in 2015 on the Hungarian stock market, as after years of relative stagnation the BUX started to grow at the beginning of 2015 and the momentum carried the market throughout last year as well. The domestic index grew by 42% in 2015 and another 34% in 2016, thereby doubling its value over these two years, moreover with several record highs during 2016.

The previous 23 July 2007 record of 30,118 points was first broken on 7 November 2016 with the index closing at 30,353 points, which was followed by additional records (30,540 points on 23 November 2016, 32,025.6 points on 28 December 2016) before closing the year at a record high of 32,003 points.

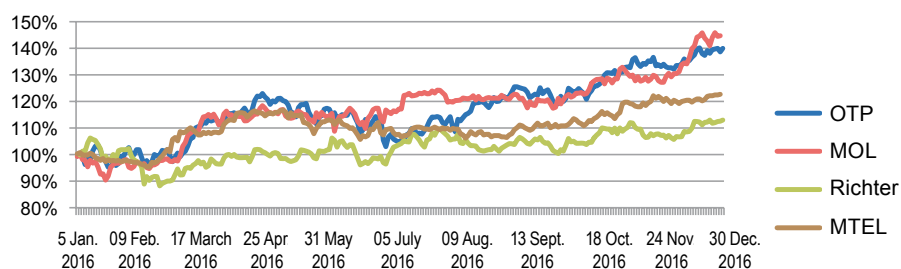
**Development of the BUX index
(29/12/2006-30/12/2016)**



Source: BSE

96 percent of the BUX index is made up of the stocks of four large domestic corporations, with each of them growing significantly during the year. However, the increase in the price of OTP and MOL stocks contributed to the outstanding performance of the BUX index in 2016 to the greatest extent.

**Change in blue-chip share prices
(05/01/2006-30/12/2016)**



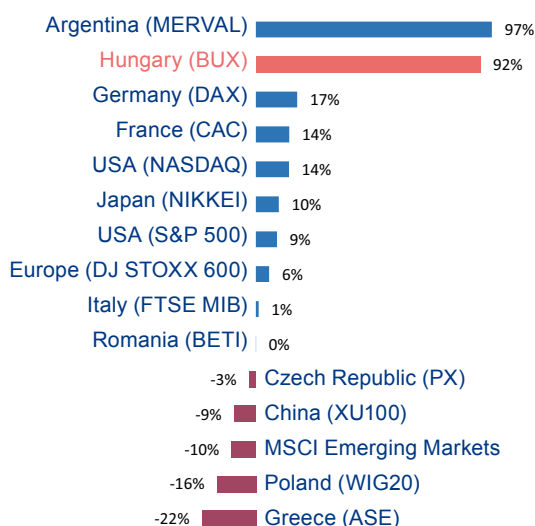
Source: BSE

The performance of the leading share price index of the Budapest Stock Exchange was outstanding, not only compared to other exchanges in the region, but also in a global comparison. The BUX index was heralded as the best European stock market index, while in a global comparison it showed the

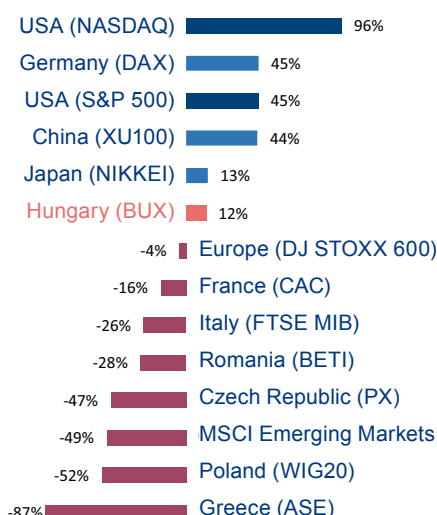
second highest level of growth, preceded only by the leading share price indices of Jamaica and Argentina in the past two years. In this period, the performance of European stock markets overall was varied, with the German (DAX) and the French (CAC) indices showing more growth; the Romanian (BETI) index showing signs of stagnation, the Czech index (PX) showing moderate growth, while the Polish (WIG20) and Greek (ASE) indices closed the period with larger drops in their performance. Overseas indices strengthened, with both the NASDAQ and the S&P breaking record highs, but it must be noted that the rally in the wake of the crisis began much earlier on the American market than in Hungary.

Although trading performance in Budapest in the last two years was exceptional, even with that in mind the value of the BUX index only marginally exceeded the predominant values before the crisis, a feat which only a few indices can claim in the region. The BUX managed to make up for the drops created by the crisis. However, if one looks at the leading indices of the world, the Hungarian index could still have room to grow.

Development of Major Share Price Indices (31/12/2014 – 30/12/2016)



Development of Major Share Price Indices (01/10/2007-30/12/2016)



Source: Bloomberg

The actual performance of the Hungarian stock market can be traced back to several factors, including positive developments in global trends, the positive perception of the Hungarian economy, while positive individual stock stories also had a significant effect on the positive development of the BUX index.

In 2016, several significant events transpired that affected global stock markets, with fears of a slowdown in China at the beginning of the year noted as a dominant factor influencing the performance of global stock markets, followed by some market turbulence in the wake of Brexit over the summer, ending with the American presidential elections as one of the most important drivers of volatility in the fall. At the end of the year, the FED's long awaited interest rate hike became a reality as well.

In general, it can be established that emerging markets performed well over the year, with the MSCI Emerging Markets Index growing by more than 11.6 percent after the -15 percent drop experienced

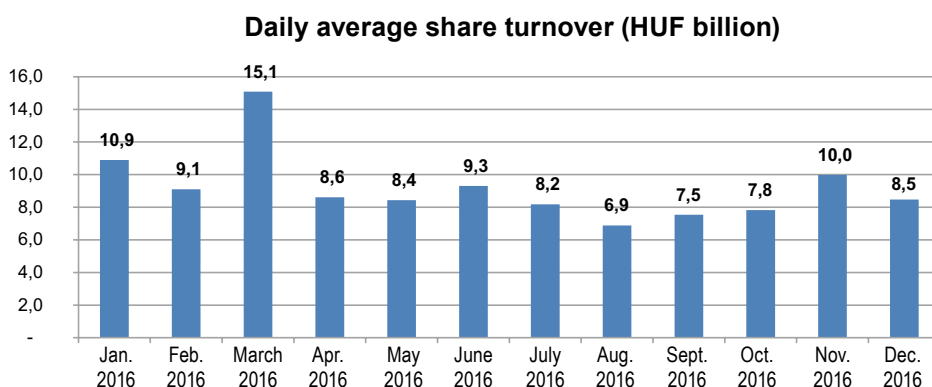
in 2015, while the MSCI World Index – gauging the performance of developed markets – grew by 8.15% during the year after near zero level growth in 2015. The most significant global events, such as Brexit and the American presidential elections, did not have a significant effect on the BUX, with the Hungarian stock exchange being able to continue on its growth path relatively undisturbed, regardless of world market events.

Over the course of the year, Hungary was upgraded by every one of the largest credit rating agencies (Fitch in May 2016, S&P in September 2016, and Moody's in November 2016), therefore, the country was upgraded from a non-investment (junk) grade to an investment grade rating category, thereby further strengthening confidence in Hungarian shares among investors. However, it is worth mentioning that there are many investors who did not consider Hungarian securities and the economy as “junk”, even before the upgrades implemented by the credit rating agencies, which was evident in the low yield levels of government securities. Although the upgrades by Fitch and S&P appeared to be unexpected, neither caused any major swings in share prices.

The BSE's average daily share turnover has grown by nearly 7% to HUF 9.2 billion compared to 2015; whereas the annual share turnover exceeded the HUF 2,138 billion recorded in 2015 by HUF 160.3 billion (+7.5%) but the turnover fell considerably short of amounts expected based on the growth experienced by the BUX index.

The daily average turnover reached 15.1 billion in March this year, which broke the record of the past two years.

The offsetting monthly results were the primary result of the re-weighting of the regional share price index of the Vienna Stock Exchange, the CECE, which had a positive effect on Hungarian shares (the weight of Hungarian securities rose from 7.19% to 16.35%), which means that investors following the CECE reallocated considerable amounts of capital to the Hungarian market.



Source: BSE



OVERVIEW OF KELER'S ACTIVITIES

In supplementing its core services, in 2016 KELER continued to develop services supporting the compulsory reporting of trading data. Having obtained the permit necessary for the Registered Reporting Mechanism – making it possible to report wholesale energy market transaction data – the company concluded contracts with over 70 energy market clients; client acquisitions were not only successful in Hungary but also on Middle Eastern and Western European markets, of which the 22 new contracts concluded in Bulgaria are especially noteworthy.

Prior to the planned accession of KELER to the Target2-Securities (T2S) system on 6 February 2017, within the framework of the fourth migration wave of the TARGET2-Securities Project, the company successfully passed market tests and began migration according to the pre-set schedule.

In 2016, KELER took the first steps towards the implementation of its Central and Eastern European strategy involving 10 markets. First of all, the company signed an agreement with Société Generale for the provision of banking services (Payment Bank) linked to securities transactions settled in T2S. Of the targeted markets, direct securities depository relationships began to be forged with the Romanian and Polish markets. The goal of ensuring the secure settlement of transactions concluded on the Budapest Stock Exchange was fulfilled in 2016 as well, as the year came to an end without a case of ultimate non-performance, with all transactions being performed with the involvement of KSZF. The KSZF supported the introduction of the market-making system of the BUX with a similarly priced discount in cooperation with the BSE.

Beyond its successes on capital markets, KSZF's other notable successes involved energy markets.

In February, the clearing banking settlement of the Serbian energy market was started, while in February the clearing banking settlement of the Benelux APX – BELPEX market began, as a result of which the number of energy clearing members served by the KSZF grew from 70 at the end of 2015 to 100 by the end of September 2016.

In September, the trading of intraday products at the settlement thereof through KSZF, as a clearinghouse, was launched together with the stock exchange on the domestic CEEGEX gas market. In July 2016, the BSE entered into memorandum of understanding, followed by a clearinghouse agreement in September with the Romanian commodities exchange regarding the development of the Romanian natural gas market. The purpose of the agreement is to begin the stock exchange trading of standardised gas products in Romania in mid-2017, where transactions would be settled by KELER KSZF as a clearinghouse service provider. With the conclusion of the agreement, KSZF took the first and most important step towards becoming a regional clearinghouse, as it acquired its first foreign stock exchange client.



HIGH-QUALITY LIAISING WITH ISSUERS

The efficient support of the entry to the stock exchange market of new issuers and the establishment of a segmented, market structure supporting SMEs is a priority of the strategy of the Exchange. In addition to market development activities, the seamless provision of high-quality stock exchange services to issuers already listed on the stock exchange also features highly in the strategy, as do the retention and continuous improvement of issuers' satisfaction.

In 2016, the Exchange supported the work of issuers by organizing professional events and issuers' forums. Within that framework, the topic of the first forum was the description of the new strategy of the BSE, along with updates on the changes in the MAD/MAR laws and the presentation of the domestic implications of the European Audit Reform Regulation. The next professional forum gave an overview to those interested on the framework applicable to the foundation and operation of regulated real estate investment companies and the opportunities inherent in that company type.

At the end of the year, the BSE organised an event for issuers and their auditors, wherein current auditing topics relevant to operating as listed companies were discussed. The BSE considers it important for issuers to be compliant with the international standards of responsible corporate governance practices and principles. In terms of responsible corporate governance, the primary obligation applicable to listed companies is the drafting and publication of a related annual report. This obligation is a requirement set out by EU law for the Member States, but several of the relevant EU rules have already been transposed into Hungarian national law (Section 3:289 of the Civil Code; Section 95/B (1) of the Accounting Act, and the BSE regulations).

The current, so-called Responsible Corporate Governments Recommendations have been in effect on the Exchange since 2012; issuers' compliance with those recommendations is ensured by way of the publication of a relevant declaration every year, where issuers declare the recommendations with which they are compliant and those with which they are not. In the latter case, issuers are required to present to investors the reasons for their non-compliance ("comply or explain").

In 2014, the European Commission published a recommendation in which it provides guidance on how companies should comply with the obligations set out in the directive, how they can raise the standard of recommendations so that they are clear, accurate and comprehensive and so that they provide a clear picture of how the company is governed. The same recommendation also mentions that it is equally important to track compliance with corporate governance codes at the national level. According to the recommendation, the individual member states prepare a so-called annual monitoring report, which processes and evaluates the responsible corporate governance reports published by the issuers.

2016 marked the first year when this monitoring report was drafted at the BSE in cooperation with the Stock Exchange and Responsible Corporate Governance Committee.

Market and product developments

RENEWED CETOP INDEX

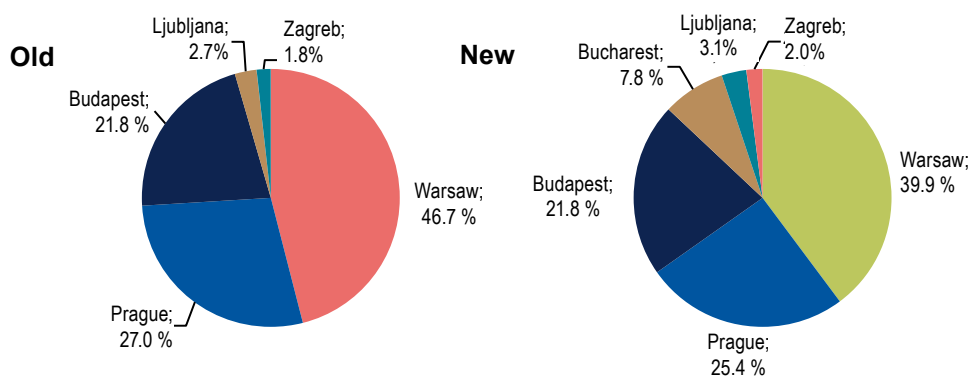
Based on the product development trends of the last few years, the role of indices has further appreciated on the market of investment services: cost-effective investment funds relying on passive index-following investment strategies are becoming increasingly popular, while appropriately designed indices remain indispensable – not the least because of their benchmark function – as well for asset managers with active investment policies. The significance of share price indices is also well illustrated by the kind of turnover spikes that are created in the turnover of concerned listed shares by the review and re-weighting of a given, widely used leading share price index, or the effect that a mere change in one of the detailed rules thereof has on the turnover of the shares featured in the index.

Because of their significant market effect, it is important for indices to continuously adequately reflect the weight of certain markets and components, and at the same time to also remain balanced. The transformation of regional capital markets experienced over the past few years – primarily the dynamic development of the Romanian capital market, and the dominance of the Polish market – made the restructuring of the index that reflects the performance of Central European shares exhibiting the highest capital value and highest trading volume of the BSE – the CETOP index – necessary.

Following consultations with the relevant domestic stakeholders – mainly the fund managers using the index as a reference – the Exchange successfully implemented the changes, and introduced several content and technical changes in the regional index. The most important change was that as of September 2016, the basket has included shares from the Romanian market, the (excessive) weight allocated to the largest securities and markets has been reduced, and the number of shares in the index basket was raised as well: instead of the previous 20, the CETOP may now include up to 25 regional blue-chip shares.

The domestic market reacted to the changes positively. As a result of the changes, the index became more diversified and considerably more balanced. Thus, it can continue to satisfy the most important expectations raised in connection with it: it tracks the performance of regional markets as a reliable measure of value.

Composition of the “theoretical” old CETOP20 and the new CETOP basket on 19 September 2016 (basket change) – according to the markets



MARKET-MAKING ON THE BUX FUTURES MARKET

In December 2016, market-making in BUX index based futures contracts began on the derivatives market of the Budapest Stock Exchange. As stock exchange members committed to the development of the Hungarian capital market, OTP Bank Nyrt. and Erste Befektetési Zrt. have undertaken to ensure that investors are continuously and stably able to open and close BUX futures positions at a competitive price by quoting bid and offer prices for their own accounts under certain pre-specified conditions.

The BSE and KELER KSZF support the activities of market-makers by providing them with fee discounts.

The following requirements are applicable currently to futures BUX market-makers:

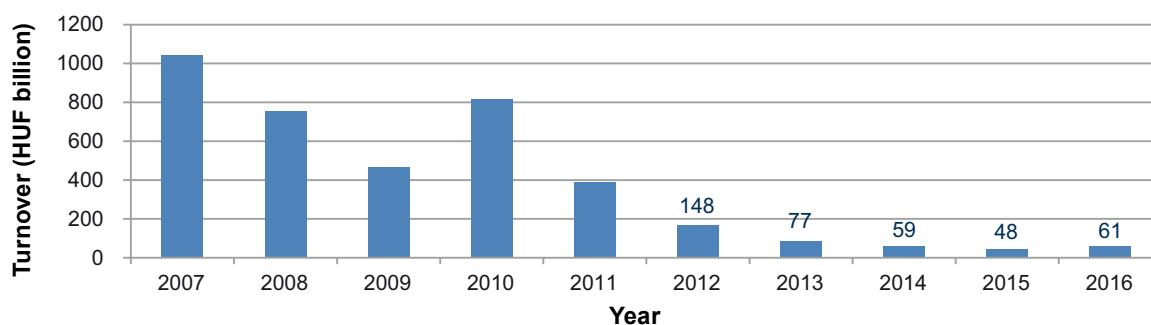
- Minimum order quantity: 50 contracts on the buy and sell side, such that the number of orders on the buy and the sell side may not differ by more than 50 percent.
- Maximum spread (the difference between buy and sell prices compared to their average): 0.75 percent.
- Settlement time: In the so-called free phase of trading, the market-maker must honour its obligation to enter orders for a minimum of 70% of the trading hours, calculated on a monthly basis, covered by the market-making obligation. Such that, of the available stock exchange days of the month, there can only be a maximum of three days when the market-maker is not able to meet its obligation to enter orders for a minimum of 70% of the trading hours (on a daily level), but without performance falling under 50% on any of these days.

The purpose of the activities of the contracted market-makers is to increase liquidity and turnover by providing investors with better conditions to trade, thereby potentially (re)piquing the interest of a larger group of market stakeholders in the product. Futures BUX market-making makes trading much easier for investors who want to benefit from the performance of the Hungarian share market by way of leverage.

The joint development with market players and KELER KSZF fits well into the BSE's strategy, one of the key priorities of which is to also enhance the relevance of the derivatives market. The market-making that has begun thanks to the cooperation of the market may be considered the first and most important step towards the development of the futures market.

Market-making is expected to drive up the trading of futures on the BUX significantly, and to curtail the downward turnover trend that was mostly caused by a lack of order book liquidity.

BUX Futures Turnover (at market value)



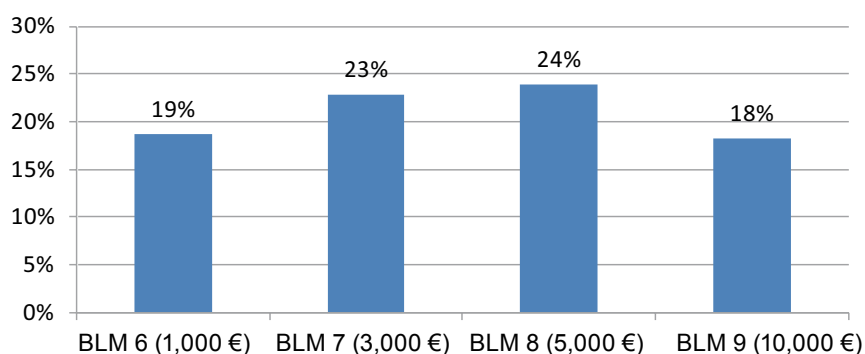
MARKET-MAKING PILOT FOR INDIVIDUAL SHARES

The BSE organised an experimental market-making for the shares of small- and mid-cap domestic publicly listed companies from August 2016 through October 2016 with the involvement of five investment service provider stock exchange members. In the course of the market-making – meaning the simultaneous submission of on account buy and sell orders at a relatively margin for most of the trading time – all participants quoted two shares.

The programme reached its goal: Hungarian stock exchange trading companies and the BSE both gained valuable practical experiences in market-making, which supports the Exchange in its efforts to introduce a well operating contracted market-making system on the Hungarian stock market at a later date, having particular regard to the SME market launch in 2017.

From the perspective of the investors, one of the most important advantages of market-making is that it results in extra liquidity on their order books, which allows market players to trade continuously and more cheaply (with a narrower margin). The pilot also showed that market-making can effectively increase the liquidity of the security, because the quality of the order book of quoted shares improved for all securities concerned, and for one of the shares, market-makers' own account contracts represented a significant portion of the share's turnover in the relevant period.

The average percentage improvement of different BLM values of quoted shares during the pilot period (August 2016 – October 2016)



The liquidity improvement is well illustrated by the changes in the liquidity index of the BSE, the BLM. The BLM approaches the concept of liquidity from the most important aspect for investors: it quantifies the implicit costs that investors may encounter during stock exchange transactions involving a less-liquid product.

A contracted market-making system has already been operating on the BSE's cash market for years: present in structured products, and international shares traded on foreign stock exchanges available for trading at the BSE. Considering that these products or the underlying product that determines the price changes are traded on several liquid markets, market-making is easier and represents lower risk, while own account based market-making of Hungarian shares that are typically only traded on one liquid market – which was also the focus of the 2016 pilot – represents a bigger challenge and requires the assumption of greater risk on the part of the market-maker.



MIFID II – DEVELOPMENT OPPORTUNITIES FOR THE STOCK EXCHANGE

The new rules set out by the EU directive regulating the sector, MiFID II, affect the entire European Union investment, services and capital market, which will become applicable according to our latest information on 3 January 2018.

Following the review of the currently effective community-level capital market regulations, a result thereof was a new European Union capital market directive adopted in 2014, the MiFID II (Directive (2014/65/EU) directive, and the MiFIR regulation (Regulation 600/2014), of which the former is applicable by way of transposition into the member state's law, while the latter is directly applicable. The two acts of legislation only serve as a framework, the secondary acts of legislation containing specific parameters are still in the process of adoption.

Preparing for compliance with these acts of legislation is a challenge for the BSE as well, as IT developments need to be implemented in the trading systems, new processes need to be created, and regulations need to be amended and modified in order to ensure compliance. As a result, the BSE has already allocated significant resources for these preparations in 2016.

From the perspective of the stock exchange, one of the most important purposes of the new legislation is to increase the transparency of the trading of financial instruments primarily by setting out more stringent requirements for less organised (e.g. over-the-counter) markets, which were previously only applicable to stock exchanges. One of the most important elements of these new requirements is that the MiFID II sets forth new obligations for investment service providers and the operators of trading locations – basically the entire sector – regarding the publication and reporting of transaction data to the supervisory institutions. Another important change is that the regulations applicable to algorithm-based trading requiring no human interaction will become more stringent, and under certain conditions the conclusion of transactions at organised trading locations will become mandatory on the derivatives markets (reducing the weight of the traditional OTC market in the interest of increasing transparency).

In practice, what these changes will also result in is that the operation of the trading systems provided by the BSE will change in many places. For example, investment service providers using the system will have to enter additional information when registering their offers, and the internal systems of stock exchange members will also have to comply with stricter requirements in the future, especially if they are also providing their clients with direct electronic access to the stock exchange.

Considering that the changes expected at the stock exchange trading companies and on the Hungarian investment services market are also important to the BSE in terms of its business, the stock exchange does not just monitor the new regulations applicable to market operators, but rather strives to analyse the preparations to be made by the entire sector and the effects thereof on the whole market. Within that framework, the BSE has been investigating the possibility of introducing new services, provided stock exchange market demand exists (e.g., it may also provide support in facilitating compliance with the new transaction data publication requirements, in cooperation with the KELER Group).



PROMOTING THE ESTABLISHMENT OF REGULATE REAL ESTATE INVESTMENT COMPANIES

The regulated real estate investment company is a relatively new business form in Hungary. Implementing real estate investments in the form of a regulated real estate investment company carries significant tax benefits, but until now no such companies have been established in Hungary, primarily due to the previously prevalent regulatory difficulties.

The legislative amendment that was passed with the active support of the BSE has been in effect since June 2016 ("Act LXVI of 2016 amending certain tax laws and related legislation and Act CXXII of 2010 on the National Tax and Customs Authority", which amends several provisions of Act CII of 2011), and has resolved most of the issues by way of introducing several clarifications and easements into the act, as a result of which the most important legal obstacles of the establishment of regulated real estate investment companies have been removed, resulting in significant market interest in the new company type.

The most important legal requirements applicable to regulated real estate investment companies:

- The company must have start-up capital of at least HUF 5 billion.
- The company can only operate publicly; may only issue ordinary shares; the company must float a part of its shares, at least 25 percent of the company's share capital, on a regulated market; and it must ensure that no one shareholder holds more than 5 percent of that series. This is the so-called free float restriction.
- The company may only engage in certain pre-specified activities, its asset portfolio and participation in subsidiaries is regulated.
- Credit institutions and insurance companies may hold voting rights equalling only 10 percent in a regulated real estate investment company.
- Dividends payable shall be equal to at least 90 percent of profits payable as dividends.

Operating as a regulated real estate investment company carries with it extremely preferential taxation conditions, while the company's participation on the stock exchange provides it with continuous funding and growth opportunities for companies with real estate investment profiles. From a demand perspective, regulated real estate investment companies can be an exciting investment opportunity in Hungary, for which the continuous growth of the real estate market provides an excellent basis.

On the one hand, these can provide alternatives to direct purchases of real estate for investment purposes for private investors (which would also allow for smaller amounts to be invested, therefore resulting in more easily accessible investments); while on the other hand part of the retail investments currently tied up in open-ended funds can be channelled into this new form of investment. At the same time, institutional investors could also find the new regulated real estate company form to be attractive.

In the autumn of 2016, the Budapest Stock Exchange, together with Deloitte and Vámosi-Nagy Ernst&Young Law Office, organised a highly popular professional forum on the regulations applicable to regulated real estate investment companies.

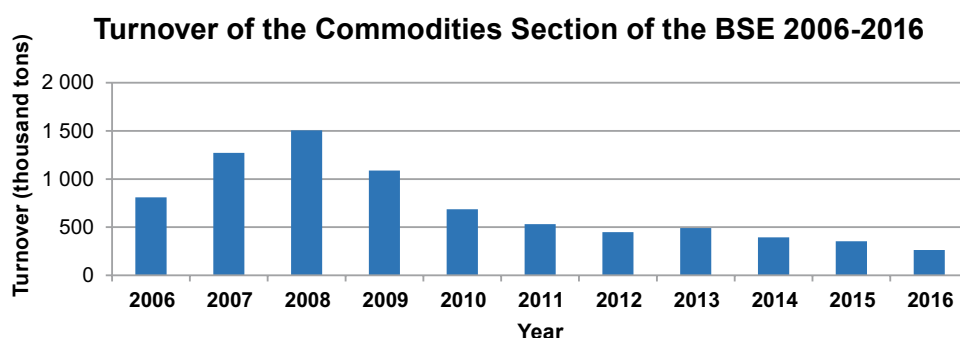
WAIT-AND-SEE STANCE IN THE COMMODITIES MARKET

The turnover of the commodity section of the BSE has been undergoing a significant and continuous drop, and the number of stock exchange service providers has been in decline in the past few years as well. The BSE strove to gauge the reasons behind the deteriorating levels of stock exchange activity, as well as the development opportunities that existed in the commodity section, through wide-scale market consultations. The Exchange came to the conclusion that, due to the structure of the domestic agricultural sector, currently agricultural stakeholders did not find it convenient to trade in agricultural produce (wheat, corn, sunflower seeds, etc.) on the Stock Exchange. Therefore, the related turnover is almost entirely conducted over-the-counter (on non-regulated or unorganised markets).

With the accession of Hungary to the EU, the domestic agricultural sector became part of the international market that is dominated by multinational companies, as a result of which the market and use of agricultural produce has been transformed as well. Products intended for export are decreasingly standardised, which makes it more difficult to contain demand and supply in one order book. There has also been a decline in the use of hedging techniques to stabilise sales revenue (e.g. forward transactions) by producers. Meanwhile, the remaining market demands are being met by international trading companies active on several markets, which take on the role of market operator within their group of partners by also managing counterparty risk.

Although the Hungarian stock exchange forward and options grains market remains to be regarded as one-of-a-kind in the region, only a few truly liquid commodities markets remain in the EU: with practically only the Paris-based Euronext prospering. It is clear, that forward grain trading would only be a breakthrough opportunity for the BSE if the financial culture in agriculture improves, the role of an independent market operator appreciates in value, and if the regulatory environment changes in a direction that is beneficial to the operators of transparent, regulated markets.

Despite the unfavourable trends, the BSE continues to regard the development of the domestic derivatives market for agricultural products as important. The only thing the exchange can do right now is to keep the commodities section alive and wait, prepared for it to reassume its role of a reliable trading location that concentrates commodities market supply and demand as a measure of value.





Future issuers on the trading floor

IPO ECOSYSTEM UNDER CONSTRUCTION

According to its internationally recognised definition, an ecosystem is a community of organisms taken together with their habitat. An ecosystem also encompasses the entire network of relationships of that community of organisms with their environment, and operates as an open system. In the same vein, the BSE's own system also includes the organisations that it directly or indirectly cooperates with.

In the interest of the attainment of the goals set out in its strategy, the BSE endeavours to engage in close cooperation with capital market stakeholders, be they market or government stakeholders. These include, for instance, listed companies, investors, future issuers, regulators, consultants, foreign stock exchange organisations and KELER and KELER KSZF for that matter. This chapter will describe what is meant on the part of the BSE by a Stock Exchange related ecosystem that is developing.

In 2016, the employees of the BSE have conducted over 150 meetings for the purpose of acquisition with potential issuers and market partners. During these meetings, potential partners learned about the new strategy of the Stock Exchange in person, as well as about the way of thinking and ambitions of the different stakeholders.

The reason why the BSE considers this important is twofold. On the one hand, the BSE believes that the boosting of the Hungarian capital market is only possible by way of cooperation, together with market stakeholders. On the other hand, the BSE also believes that market stakeholders have already been fostering relationships of confidence with many companies. They are thoroughly familiar with many companies and therefore are best suited to have the kind of information that is of primary importance to judge whether a given company's stock exchange launch would be successful.

In the course of its consultations with market stakeholders (corporate financial advisors, auditors, legal counsels, venture capital and private equity investors, private bankers, and banks), the BSE continuously collected information on which companies respondents considered to be IPO ready based on their quantifiable characteristics and certain qualitative criteria (primarily shareholder and management attitudes).

The BSE has also used the information collected during the consultations for the purpose of the development of its services and products as well as the wording of its recommendations for the creation of a market friendly legal environment.

IDENTIFYING IPO-READY COMPANIES

The BSE has developed a special qualification, a scoring methodology to identify IPO-ready companies. Based on the quantitative criteria (size, employee headcount, age, etc.) Over 300 companies have been identified whose stock exchange launch could be successful, according to international literature. The results show that medium-sized companies with IPO potential are typically from the processing industry. Their export ratios are higher, and they grow at a faster rate than the majority of SMEs. These companies have been further examined based on quantitative criteria, which resulted in a short list of approximately 70 companies. The BSE has been placing special attention on these 70 companies and is looking for meaningful consultation opportunities with them through its partners.

Over the past year, the BSE conducted over 70 meetings with partners, consultants, and other intermediaries and we have now gained considerable experience on how to conduct such meetings. What we see is that companies are clearly looking for new ways to finance. They are aware that it is necessary to open up to the different forms of stock exchange financing. They are absolutely looking for external investors – and the good news is that their overall perception of the stock exchange is very positive. Our experiences show that there is a great need for information on the part of market stakeholders on stock exchange opportunities. We can clearly say that, in terms of positive attitudes and openness, we have met with the executives and managers of several IPO-ready companies in 2016.

It is important to note that the BSE does not just liaise with actual potential issuers, but is also continuously improving the necessary capital market framework.

We can present companies interested in IPOs with several success stories that can even help them in their decision to launch their companies on the stock exchange.





The BSE has published a publication entitled “BSE50 – 50 domestic company success stories”, which relay the stories of fifty successful Hungarian companies. The inspiring stories of the companies featured in the publication show that there are an increasing number of competitive, growing companies in the Hungarian economy that have also made it on the international markets. Moreover, there are quite a few who have used or are planning to use external financing – loans, venture capital, private equity, or even stock exchange funding – to finance growth.

The list of 50 successful domestic companies authored by KPMG, Figyelő and the BSE.

“AXIÁL” Javító Kereskedelmi és Szolgáltató Kft.	Extreme Digital Zrt.	Prime Rate Kft.
77 Elektronika	Femtonics Kft.	Quantislab Kft.
Accelsiors Kft.	Ferzol Kft.	Révész Trans
ADASWorks Informatikai Kft.	Goodwill Pharma Kft.	Sanatmetal Kft.
Agrosprint Kft.	Gravity Research & Development Zrt.	Secret Control Gps Kft.
Alteo Nyrt.	Hidrofilt Kft.	ShiwaForce.com Zrt.
Attrecto Zrt.	Ivanka Factory Zrt.	SZABADICS Zrt.
BalaBit-Europe Kft.	IVM Zrt.	Szallas.hu Kft.
BHE Bonn Hungary	Kókai Kft.	Sziget Kft.
BI-KA Kft.	Kőröstej kft.	Tekinvest Holding Kft.
Biofilter Zrt.	LAVET Kft.	Tranzit-Food Kft.
BIO-FUNGI Kft.	Magnetbank Zrt.	Tresorit Kft.
BioTechUSA Kft.	Márka Üdítőgyártó Kft.	Unix
Commsignia	Naturtex Kft.	Waberer’s International Zrt.
Csaba Metál	Neumann Kft.	Xanga Group (XID)
Duna House Nyrt.	Oncompass Medicine Hungary Kft.	ZIP technologies
Evopro Systems Engineering Kft.	POLI-FARBE Kft.	



ROLE OF NOMADS

Issuers in the emerging companies market segment are supported by so-called NOMADs (Nominated Advisors) during the stock exchange launch process and in their participation on the open market.

The advisors are thoroughly familiar with capital markets, the stock exchange, market stakeholders and the way investors think, and they not only support issuers during their preparation for stock exchange launch, but they continue to support them as long as their securities are listed on the stock exchange.

The appointed advisors improve investors' confidence in the shares of the given company with their reputation, authenticity and activities. Although the domestic regulations are still in the process of development, international examples show that nominated advisors systems are operated by stock exchanges. Nominated advisor's licences are handed out by the stock exchange to market players. The companies must hire one of them before listing.

The nominated advisor assesses whether the company is ready for the stock market and, in cooperation with external consultants and the company itself, the designated consultant compiles the listing documentation. The listing documentation is, in fact, a stock exchange prospectus, which is approved by the local regulatory authority. However, on the SME market it is possible to create stock exchange launch arrangements that do not require the issuer to compile the official prospectus; rather, it is sufficient to draft a lighter version of the stock exchange prospectus, which is then approved by the Stock Exchange itself. The document contains information on the activities, financial status, risk status, managers, shareholders, future investment and growth objectives and the parameters of the offering of the company.

If the nominated advisor finds shortcomings during the assessment of the IPO readiness of the issuer, they withdraw from the cooperation with the issuer and the stock exchange launch falls through.

Nominated advisors operating on the market usually have direct access to investors and are also involved in the stock exchange launch as sellers. Therefore, in many cases they also have an investment service provider licence.

It is a key role of the nominated advisor that they continue to support the company after listing, as long as they are present on the stock exchange in connection with operation in compliance with market rules and, if they identify shortcomings, they are required to report them to the operator of the market, that is to the stock exchange, which has a range of penalties at its disposal.

The Stock Exchange has consulted several domestic market stakeholders and practicing foreign NOMADs in order to gauge identify the conditions under which the nominated advisor system could be introduced in Hungary. These meetings played an important role in the preparations for the new market segment, and helped outline the regulatory content that could be beneficial for issuers, investors, and advisors alike.



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

The BSE, in partnership with the ELITE Programme of the London Stock Exchange, is bringing Europe's most successful corporate capital market training to Hungarian company executives. By launching this program in 2017, the objective of the BSE is to implement a comprehensive programme to develop the capital market and the stock exchange, which contributes to the growth and competitiveness of the Hungarian economy in both the medium and long terms.

The corporate financing programme will prepare companies on how to use venture capital and private equity, help them prepare for a successful stock exchange launch, or it can also speed up the process. In addition to providing a theoretical overview, the programme will also present the Hungarian specificities. In addition, the participants will also have the opportunity to become part of a large network that includes all the players on the market (e.g. venture capital and private equity investors, banks, consultants, companies in a similar situation, and stock exchange issuers already on the market). The regular meetings with the stakeholders present great opportunities for networking and business development. Given company executives' busy schedules, ELITE is primarily conducted online, but there are several different in-person events that can be attended in London and Budapest.

The SME sector is not characterised by a shortage of capital, but rather an inability to access capital, which can be remedied by more complex and knowledge-based programmes. Among other items, this was a point that the chairmen of both the BSE and the London Stock Exchange agreed on at the conference organized by the BSE, held on 16 November 2016 in Budapest, with over 200 corporate executives and corporate financing experts in attendance. The event was organised for the occasion of the announcement and description of the ELITE Programme. The most important and unanimous message of the representatives of the government, the EU and banking sector stakeholders that spoke at the event was that opening up the capital market to the SME sector was a particularly good direction to take.

Niall Bohan, Head of Unit, Capital Markets of the European Commission, who attended the event, highlighted the macroeconomic importance of capital markets, in that companies in countries with larger and more mature capital markets have more opportunities to access funds, and these economies are more crisis-resistant and less fragile, which underscores the importance of strengthening capital markets at both the EU and member state level.

Balázs Rákossy, State Secretary of the Ministry for National Economy, mentioned that the demand for strengthening capital markets supports the economic policy objectives related to the improvement of competitiveness and productivity and that the government's decision to establish the National Stock Exchange Development Fund was made with the attainment of those objectives in mind. Luca Peyrano, CEO of the ELITE programme created by the London Stock Exchange, said that the two-year programme may provide participating company executives with the basics that can contribute both at the strategic and financial levels to making the leap forward they envisioned. 442 companies have participated in the programme so far, many of which have accessed external capital since then.



International relations

BSE EMBARKS ON INTERNATIONAL ROADSHOW ONCE AGAIN

The BSE considers it a key priority to be in regular contact with foreign investors with a presence on the Hungarian market and to attract new investors to the Hungarian stock exchange. Ensuring more geographical diversification of foreign investors in order to improve the liquidity and competitiveness of the market is also a focus of the BSE.

In the summer of 2016, the new management of the BSE held its first road show in Paris, with the participation of the six issuers [ALTEO, Állami Nyomda (ANY Security Printing Company PLC), CIG Pannónia, Duna House, Graphisoft Park, Magyar Telekom]. The purpose of the Midcap Event was for the BSE to present companies other than blue-chip companies to interested foreign (French, Benelux) institutional investors that are also interested in companies with lower market capitalisation.

The French capital was followed by London at the end of autumn of 2016, where the BSE organised a “Hungary Investor Day” together with J.P. Morgan. The event provided a venue where international institutional fund managers could meet with four blue-chip issuers, two aspiring large companies, and the senior managers of the NBH and the Ministry for National Economy.

In 2016, representatives of the stock exchange raised the public’s awareness of the Hungarian capital market and demonstrated the expertise of the Budapest Stock Exchange at the following forums:

- “World Exchange Congress”, London, 22 March 2016
- “Rising to Central European Opportunities and Challenges”, London, 24 May 2016
- “CEE Capital Market Awards”, Warsaw, 15 September 2016
- “AFM Conference”, Budapest, 30 September 2016
- “Upgrade in Belgrade”, Belgrade, 3 November 2016
- CFA Society – V. CEE Investment Conference, Warsaw, 18 November 2016.

Over the past year, the stock exchange attended two regional capital market events organised in cooperation with investment service providers, taking on an active role in the planning of the event.

The BSE focused on meetings with institutional investors and presented the Hungarian capital market to attendees at the Austrian (Stegersbach, 12-14 October 2016) and Czech (Prague, 30 November – 2 December 2016) events.



FEDERATION OF EUROPEAN EXCHANGES: BSE AGAIN A FULL-FLEDGED MEMBER

In June 2016, the BSE has once again become a full member of the Federation of European Securities Exchanges (FESE).

The organisation currently has 36 stock exchange members from 30 different countries. Through the FESE, the BSE is able to represent the interests of the Hungarian capital market and brings to the BSE new information and knowledge on international, primarily EU legislation and new market trends (e.g. on the topics of the Capital Market Union, MiFID II and Blockchain).

Membership in the organisation affords a wide range of opportunities in connection with the development of the market. Full membership allows the BSE to create cooperation opportunities with other stock exchange members and to gain more experience in international capital markets, thereby ensuring, among other things, 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 in the course of the assessment of dynamically changing acts of legislation.

The Budapest Stock Exchange trusts that as a full member it will be able to more actively contribute to the work of the Federation of European Securities Exchanges, support the efforts of the European Commission to create a single capital market, and provide other countries with support in the areas of regulation or business development.

FESE (Federation of European Securities Exchanges)

The Federation of European Securities Exchanges (FESE) was founded in 1975 and is headquartered in Brussels. The federation represents 36 exchanges in equities, bonds, futures and commodities through 20 full members from 30 countries. In addition, the Federation also has 1 Affiliate Member and 1 Observer Member from a non-EU country.

At the end of 2015, a total of 9,201 companies were quoted on the exchanges of the European federation. Numerous exchanges in the federation operate markets specialising in small and medium-sized enterprises, with a total of 1,299 companies active on these markets, increasing the opportunities available to investors and issuers.

Cooperation between FESE and the BSE

The cooperation between FESE and the BSE has been ongoing for a long time. The Budapest Stock Exchange has been actively participating in the work of the various professional committees of 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. However, in recent years only had technical membership through the CEESEG stock exchange group, as ensured by the BSE's previous owner. After the National Bank of Hungary acquired majority ownership of the BSE at the end of 2015, the Hungarian stock exchange was again granted full membership in FESE, starting from June 2016.



AT THE GATES OF ASIA

Taking the increasingly important role of Asian markets and investors into consideration, the BSE has started expanding its network of relationships on multiple fronts, examining the opportunities for future product development and promoting the capital market to new investors.

The initiative is part of Hungary's tighter economic and capital market cooperation with China, along the lines of China's 'One Belt, One Road' concept.

Making foreign investors investing into Hungarian listed companies geographically diversified and seeking out new investors is a fundamental mission for the BSE, performed in order to assist stock exchange issuers. In addition to primarily European and North American foreign investors, having Chinese investors also become aware of the opportunities presented by Hungarian companies and gradually increasing investor activity by such investors is an important objective.

Of course, we also pay attention and encourage that Chinese companies active in Eastern Europe opt for the Hungarian capital market for purposes of fundraising, thereby expanding the product range offered by the BSE.

In the autumn of 2016, the BSE hosted a joint event with the Bank of China, where representatives of Hungarian fund managers and banks were introduced to the opportunities presented by China's RQFII (Renminbi Qualified Foreign Institutional Investors) quota. Thanks to the Hungarian quota, totalling HUF 2,000 billion, we are in a unique position in the region and among other European countries to gain access to the Chinese capital market through direct investments.

The common objective of the NBH and the BSE is to establish Budapest as a Central European Renminbi centre, promoting the international use of the Renminbi in commercial and financial settlements, offering an attractive investment opportunity for both domestic and foreign investors.

RQFII

The abbreviation RQFII refers to foreign financial institutional investors that are given access – with the offshore Renminbi funds at their disposal – to China's onshore securities market with the approval of the Chinese authorities. Once RQFII status is obtained, investments in China's stock market and interbank bond market become available to investors.



BEYOND THE TRADING FLOOR: CORPORATE SOCIAL RESPONSIBILITY

The market status and role of the BSE demands that it also conduct activities that carry social importance, but which at the same time also fit into its strategy, through which it can lead by example for other players in the capital market. We firmly believe that we must pay attention to the community in which we are active.

Beyond our core activities, our social responsibility focuses on education and supporting critically ill children.

In the autumn of 2016, BSE launched the BSE Academy, its free courses aimed at retail investors. Close to 2,000 people attended the lectures of the BSE Academy. The objective of the Academy is for those interested in the stock exchange to further deepen their financial knowledge with the help of key players in the capital market. The BSE has managed to enlist major service providers of the capital market to become involved in the programme, which means that participants were able to gain first-hand information from recognised market players about the operation of the capital market and the stock exchange. During the lectures, participants learned about current capital market processes as well as terms and concepts essential to stock exchange trading. In 2016, the BSE partnered with Concorde Alapkezelő Zrt., Concorde Értékpapír Zrt., Equilor Befektetési Zrt., Erste Alapkezelő Zrt., Erste Befektetési Zrt., Ipopema, MKB Zrt., OTP Nyrt. and Random Capital Zrt.

In addition to this initiative, signalling its firm commitment to disseminating financial literacy, the BSE concluded a cooperation agreement with Pénziránytű Alapítvány (Money Compass Foundation) in order to launch joint programmes to enhance the basic knowledge of finances and the stock exchange and to develop investor awareness among youth aged 14-18.

In addition to secondary school population, the BSE also focuses on students in higher education. The Kochmeister Award was founded by the Budapest Stock Exchange in 2004. The award is named after Baron Frigyes Kochmeister, who played a leading role in establishing the Budapest Commodity and Stock Exchange in 1864, and, as the first Chairman of the Exchange, managed the institution for more than 30 years. The scholarship competition is aimed at Hungarian and foreign students of Hungarian universities and colleges offering degree programmes in economics and finance who are under the age of 35, and who take part in Hungarian higher education as full-time, part-time and correspondence university or college students or who are PhD, MBA students or studying for a second degree. The competition is also open to Hungarian students studying at foreign universities and colleges, individually or in groups (groups of 1-3 persons). The aim of the scholarship is to provide financial support for the academic studies of students who are focused on the long-term and healthily sustainable development of the capital market. Winners of the competition are presented with a one-time financial grant, scholarship.

In 2016, the BSE decided to support the Csodalámpa Alapítvány (Magic Lamp Foundation), which grants wishes to critically ill children.

Outlook on 2017

After the successful laying of foundations in 2016, the second phase of the implementation of the five-year strategy is set to begin in 2017. The primary objective of the BSE is still to increase the number of stock market issuers and to make the benefits accompanying stock exchange fundraising and public operation available to as many companies as possible.

The joint work performed in cooperation with the government will continue in the future as well, and will become an important pillar of market development. In the interest of increasing the competitiveness of the Hungarian capital market, the BSE is closely cooperating with state decision-makers regarding numerous measures –of both regulatory and supporting natures – on which no decisions have been made over the past year due to their complexity.

The strengthening of the capital market presence of the Hungarian SMEs segment is given priority attention by the BSE, and the company financing project launched in cooperation with ELITE, a programme of the London Stock Exchange, could substantially contribute to the development of the sector's development from 2017, as it will provide practical know-how and a valuable relationship network to owners and managers of companies that are in a rapid growth phase and might consider the use of external financing.

The National Stock Exchange Development Fund, which is set to start operations in 2017, will provide effective support to reinforce the capital market presence and capital financing of SMEs; more mature medium-sized enterprises in particular. A private capital investment of roughly HUF 30 billion will also be added to the assets of the capital fund, which the Hungarian Government plans to set up with an equity capital of HUF 20 billion. The objective of the programme is, on the one hand, to increase the competitiveness and efficiency of Hungarian businesses and on the other, to increase the number of companies present in the capital market, thereby facilitating the diversification of financing instruments available to companies.

The BSE is also planning to launch a completely new trading platform in 2017, specifically for shares issued by Hungarian SMEs. This differs from the currently functioning 'classical' share market in numerous aspects. The new market will, amongst other things, be characterised by different branding, lower fees and a few administrative easings, and will be recommended to small and medium-sized companies that wish to take advantage, already in this particular growth phase, of the opportunities presented by the capital market in the interest of company growth and which also plan to enter the main stock exchange market down the line after having made the jump in size.

In addition to the building of the primary market, the development of the secondary market is also very important: in order to improve trading liquidity, based on the positive experiences of the 2016 trial period of the futures BUX market-making system, the BSE is likely to also extend official market-making to other product groups.

In addition to the development of the Stock Exchange and the Hungarian capital market, there are other important tasks that must also be considered in 2017. Preparation for MiFID II, the EU-level capital market regulation effective as of January 2018, poses a serious challenge. The overview of business processes and operation and the identification of key focal areas impacted by the changing regulation was carried out in 2016, but the implementation of the detailed action plan will be performed in 2017. The change will have a major impact on all players in the investment service provision market, and as such, close cooperation with market players is essential in the interest of efficient preparation for the new rules.



The year ahead will also be about the continued building of international relations. The approximately 300 participants of the so-called World Exchange Congress, the large-scale capital market conference hosted in Budapest by the BSE in March 2017, will be made up primarily of the representatives of global stock exchanges and clearing houses, heads of IT and technology divisions, and other domestic and international organisations linked to stock markets. The addressing of foreign market players as a part of roadshows will continue to remain in focus: planned venues for 2017 are Warsaw, London and Frankfurt. Last year, the BSE's communication jumped to a new level through the image makeover and the renewed website. There will, however, be further web developments in 2017 that we hope will also contribute to strengthening the image of the capital market.

As a result of months of developer work, old functions will again become available in new form, but other newer solutions will also serve to make the website more user-friendly and will allow users to reach and manage products that are interesting and important to them more easily and quickly. In addition, starting from 2017, the BSE will also be accessible on mobiles and tablets. The free of charge mobile application for the Stock Exchange, optimised for Android and iOS, will provide immediate access and swift browsing to users for, amongst other things, gaining an overview of the market.

The Budapest Stock Exchange wishes to place great emphasis on corporate social responsibility in 2017 as well, in order to support members of society through our community role in addition to the quality services we already provide to our partners.

Perhaps the most important pillar of our sustainability strategy is the financial education of young people. It is along the lines of this strategic principle that we wish to further strengthen our cooperation with the Money Compass Foundation, which started in 2016. Moreover, we are also planning to make the presentations and lectures of our free educational course, the BSE Academy, available to even more interested parties.

As part of the cooperation of the Stock Exchange with various organisations, we nurture a close relationship with professional communities, such as the Hungarian Economic Association (HEA) for example, with which the BSE and the NBH has hosted prestigious international forums in 2016. The HEA will offer numerous professional programmes in 2017 as well, and the Budapest Stock Exchange is set to be present at many of these events.

We believe that the expertise and know-how accumulated at a stock exchange is a value that must be shared with colleagues, financial-economic experts and economists alike. Our close cooperation with professional communities also aims at accomplishing this objective. At the same time, we also believe that we must be open to other professional areas as well in order to continuously widen our scope of vision and to gain new knowledge. We continuously seek new professional challenges in order to represent the Hungarian capital market, as represented by the BSE, with the highest possible expertise at all times.

As a major player in the Hungarian capital market, in 2017 the BSE will continue to serve the needs of investors, stock exchange members as well as issuers reliably and with the best possible quality, while also adapting to constantly changing market needs. We hope that 2017 will be another year of success and, once the year ends, we will have gotten one step closer to accomplishing our objectives.

Special topics

EVERYTHING THAT SHOULD BE KNOWN ABOUT EUROPEAN TRADING SYSTEMS. THE SYSTEMS OF THE FUTURE.

In the past two decades, there have been major changes on the global market as far as the listing and trading of stock exchange securities are concerned, changes which were induced by technical development (Internet, mobile market or in the broader sense digitalisation), globalisation and the appearance of new market players. As a result of the increasing popularity and use of so-called MTF's (Multilateral Trading Facilities) or alternative trading platforms (dark pool, crossing network, high-frequency trading), traditional stock exchanges suffered a drop in market share.

European stock markets were also unable to avoid this process as they were also forced to adapt to new challenges. These processes facilitated stock exchange acquisitions, mergers as well as the establishment of strategic alliances. In the case of service providers active on classical markets (Deutsche Börse, Euronext, Nasdaq OMX), what we have been seeing for quite some years now is that they have been providing cross-border trading services to allies and strategic partners, which can be considered significant progress compared to earlier business models.

At the moment, there are two areas seeing technological innovations that will substantially reshape stock exchange trading: cloud-based solutions that have already been tried and tested and are used at larger corporations with increasing frequency, and blockchain technology that is still in its infancy.

CLOUD-BASED SOLUTIONS

Cloud-based solutions can be referred to in two aspects: as a service and as a technology. From a service perspective, a cloud-based solution means that the user (as the recipient of the service) does not need any special tools or devices in order to take advantage of the service. All that is required to use the service is typically a simple computer or a (smart) mobile device that allows the user to connect to the platform operated by the service provider.

In contrast, the technology-based approach, although frequently moving in line with the service, represents progress from an entirely different perspective. In this particular case, it means that the calculation capacity underlying the given solution can be changed flexibly and in real time, or even automatically. The information technology tools supporting the solution may be expanded or narrowed down depending on current utilisation in respect of key parameters (such as memory, data storage and processors).¹

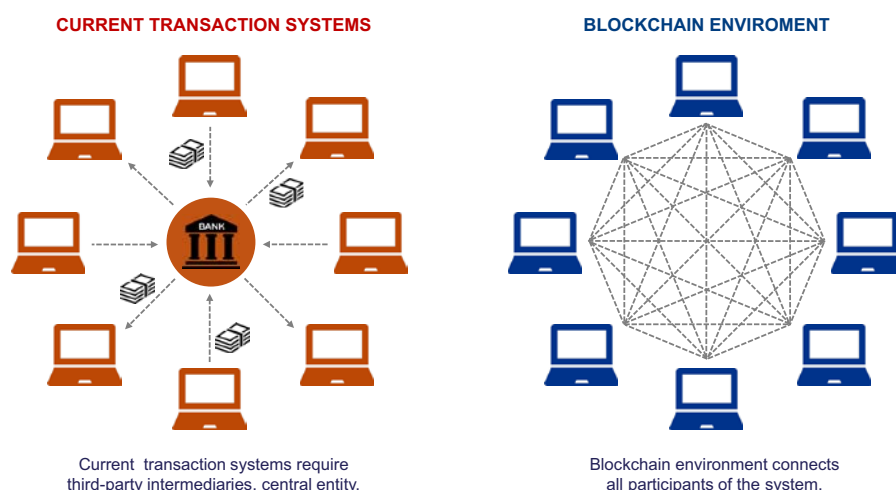
In regards to trading platforms, it is typically the latter, i.e. the technology-based approach, that embodies innovation. Similarly to financial intermediaries (banks, insurance companies, investment funds, etc.), stock exchanges could also very well be regarded as classical cloud-based service providers from the very start, as they offer platforms to accompany their services. At the same time, exploiting the benefits of cloud-based solutions has not been typical from a technology perspective.

¹ In addition to separation on a technology and service basis, cloud-based solutions can also be distinguished according to accessibility: any user can join a public cloud, while private clouds are only accessible within the organisation. These two classifications are, in essence, independent of one another. This means that both private and public clouds can be purely technology or service based (or both together). At this point, it should be mentioned that the Hungarian supervisory authority is at the forefront in this area, as the NBH was the first among EU Member States to issue a supervisory recommendation pertaining to public cloud services.

To put it simply, the reason for this can be traced back to heightened competition. Technology-based cloud solutions failed to add much to the quality of service, instead having much more significant impact on service pricing. Beyond a certain trading volume, for reasons of economies of scale, it is considerably cheaper providing the same service level through a cloud-base than without. An excellent example of this is the T7 system currently developed by the Deutsche Börse, which maximises its reliance on cloud-based technology. Xetra, along with its successor, the T7, is a trading platform developed and operated by Deutsche Börse, the Frankfurt exchange. The system does not just service the Frankfurt exchange, but also trading in Budapest and numerous other European stock exchanges (Dublin, Prague, Vienna, Sofia, etc.). The infrastructure behind Xetra was given and fixed: trading was serviced by tools of a given capacity, which could only be expanded after significant maintenance, which involved substantial manual labour. Consequently, the hardware behind the various trading units (typically markets) had to be oversized individually in order for them to have secure reserves to manage any potential temporary trading peaks. In contrast, in the T7 system the capacity of the various components can be modified automatically and in real-time, thanks to cloud-based solutions. In this system, it is no longer the markets but the traded instruments within the markets themselves that have their own calculation capacity; in other words, the size of the hardware assigned to the various instruments can be changed dynamically, in accordance with specific interest. As a result, the total capacity of the system does not need to be adapted to the maximum capacity of the various components, and can be kept considerably lower than the sum thereof. In addition, capacity expansion (or reduction) is not executed through manual intervention which is costly and time-consuming, but is instead fully automatic.

BLOCKCHAIN TECHNOLOGY

The essence of blockchain technology is allowing the exchange of the various values in a substantially simpler and faster fashion than before. Transactions – along with transaction parameters – are maintained and further expanded by computers of equal rank that are independent from one another, to which clients can connect. Blockchain, therefore, is a decentralised technology that functions on a peer-to-peer basis, which may in fact even bypass the financial intermediary, i.e. third-party, in the transaction and users can settle among themselves directly, after which a user-specific address summarises the balance determined by incoming and outgoing transactions. These transactions are packaged into blocks every 10 minutes (on average) and are inserted into the blockchain.





The blockchain itself is a database – physically distributed but logically unified – which maintains a constantly growing list made up of data blocks, in a fashion that is resistant to falsification and modification. Initially, blocks were only capable of storing data. However, modern solutions are also suitable to store executable codes.

A given block contains the list of transactions as well as the results of the operations carried out by the programmes stored within, as well as metadata that link it not just to a specific time but also to the previous block. The blockchain is made up of blocks, where each block contains information from the preceding block, which in turn contains data from the preceding block and so on. This is what lends security to the system. The underlying database cannot be falsified while still remaining public. Security is guaranteed by the algorithm, as changing a block already inserted into the chain, in other words modifying a calculation capacity of this size, falls into the impossible category as this would impact the entire chain.

The advantage of the technology, and at the same time its key feature, is that it is decentralised, as the exchange of values is carried out directly without third-party involvement, which in turn eliminates the partner risk of intermediators. Users can be certain that transactions are carried out, there is no need to entrust a third party with the execution that would increase risks or costs. Transactions and their parameters are stored in a public database that is accessible to clients. These data are accurate, consistent, are swiftly integrated and are widely accessible to clients. As there is no central point of vulnerability in the network, it is able to effectively repel malicious access and attacks. Furthermore, the technology is transparent and permanent. Data inserted into the blockchain cannot be removed or changed, as the underlying algorithm is so secure that no computer can modify it.

The history of blockchain is intertwined with that of Bitcoin and virtual currencies in general. Bitcoin owes its creation as well as its spreading to the above presented benefits of the blockchain technology: payment transactions executed with Bitcoin require no physical identifiers (such as addresses, card numbers), can be executed at minimal cost, and settlement is carried out very swiftly. Even though the technology and the virtual currency is at the moment practically inseparable among laymen, these are actually two very different concepts: one is a method of management while the other is a subject of management.

At the same time, the greatest drawback of the technology arises precisely due to this benefit. Due to the encryption method used, transactions are organised into blocks approximately every 10 minutes, which could pose great challenges in a system managing large turnover, such as a stock exchange trading system. The first step of development could be trading securities that are not liquid, or to target a narrower market segment, such as start-ups, which do not generate high turnover. The Korea Exchange launched a blockchain-based market last autumn with 37 start-up firms, of which 23 are part of the crowdfunding division; while the Tallinn Stock Exchange is also looking to introduce blockchain technology specialising in start-ups.

Despite its relative slowness, the technology could already be used in the area of post-trade services, since this solution could shorten 1-2 day settlements to within a day. The Australian Stock Exchange (ASX) has developed the prototype for a blockchain-based clearing and settlement system, which in the near future will replace the currently used post-trade system based on classical (non-blockchain) technology.



IPOS AROUND THE WORLD IN 2016

There were six successful stock exchange launches, including two IPOs, on the Budapest Stock Exchange in 2016, but let us now look slightly farther outward and examine what happened in terms of IPOs in other countries and continents. Firstly, we should take account of the equity issues of 2016, and secondly we should examine circumstances as far as 2017 is concerned.

2016: A YEAR OF UNCERTAINTIES

Rarely do company executives have to take so many and such complex external geopolitical factors into account as they did in 2016. From the very beginning of the year, the outcome of the Brexit vote, the migrant crisis in Europe, the tension in the Middle East and the US presidential elections have all resulted in continuous uncertainty for the old continent. These were accompanied by economic factors such as the uncertainty surrounding the Fed rate hike, fears of Chinese deceleration, oil prices or even the volatility of stock markets.

Overall, it comes as no surprise then that the balance dipped into negative territory all around the world compared to 2015, in terms of both the number of IPOs and the size thereof. According to calculations made by Ernst & Young, 1,055 transactions were executed, which is a drop of 16% compared to one year before, and the total value of these transactions amounted to only USD 132 billion, which is 33% less than in 2015.

This was a uniform trend in most places, with a few exceptions such as African countries, New Zealand or India. As far as the latter is concerned, the economic reforms of Narendra Modi's government, along with the investor confidence placed in the improving economy, resulted in an 80% growth in new capital raised, the number of IPOs increased by 83, with new stocks subscribed in Bombay at a value of nearly USD 4 billion. In Africa, the Tanzanian stock exchange floated its own stocks, which were oversubscribed five-fold and the price doubled in under a day.

In addition, we are also seeing the continuation of the trend where company lifecycles become prolonged and, for instance, the time when they attempt an initial public offering is delayed (11 years on average), as venture capital investments are having an increasingly important role in financing and – thanks to aggressively high valuations – companies opt to delay public offerings.

In addition to general phenomena that can be observed everywhere, 'local factors' also played a role, such as legal amendments in the United States (the JOBS Act allows a higher number of investors prior to companies having to disclose their figures than before), or the weak growth performances by 2015 IPOs, which also impacted 2016 figures. Based on statistics compiled during the year, transactions in the US generated a negative yield of 19% and more than 70% of issues were traded below the IPO price. In China, weaker IPO-related results in 2016 owed much to the efforts of the CSRC (China Securities Regulatory Commission) to slow the rate of new issues in order to be able to control the negative market wave observed in the summer of 2015.



ASIA STILL AHEAD

The Chinese stock markets, Shanghai and Shenzhen, the Tokyo exchange – and of course Hong Kong – again functioned as 'IPO factories' this year as well, making up 60% of total global turnover. Hong Kong topped this year's list with 115 IPOs, with Shenzhen producing just one less. The year's largest transaction was also executed in Hong Kong, thanks to the Postal Savings Bank IPO, at a value of USD 7.6 billion.

In Japan, the IPO of the state railway company (JR Kyushu Railway, which also operates the Shinkansen high-speed railway) was last year's biggest transaction at a value of USD 4 billion, through which the government wishes some pension savings to be shifted from deposits to stock investments. This transaction was globally the third largest of the year.

The Asian continent, however, was also impacted by the decline as the number of transactions saw a 6% drop in 2016 compared to figures from one year before, the effects of which were mostly felt in China and Hong Kong, with Japan stagnating.

NYSE HITS LOW-POINT UNSEEN IN YEARS

Only in the years following the 2009 crisis was the number of IPOs lower in the United States than in 2016. In addition to local factors, the uncertainties related to the aforementioned political and economic aspects had an especially strong impact. With 112 IPOs and a transaction value totalling USD 21 billion, the decline exceeded 35% compared to one year before. Asian companies ZTO Express (China) and Line (Japan) were responsible for the two largest transactions. One of the very clear trends observed was that technology companies stayed away from the stock market, thanks to venture capital investors. This trend is particularly apparent if we take a look at unicorn companies such as Uber or Airbnb, which decided on delaying their IPOs despite extremely high valuation and company values in the billions.

EUROPE FALLS BEHIND

Due to Brexit, numerous companies delayed their public offerings in London in the second half of the year on account of unfavourable pricing and general business uncertainty, and there was also a perceivable decline in many places in other countries of the continent.

Two of the few positive events were the IPO of Nets A/X (specialising in digital payment solutions) in Copenhagen, worth USD 2.4 billion, and that of Frankfurt-based Innogy SE, worth in excess of USD 5 billion.

The Nets A/X transaction refutes the frequently quoted pessimistic diagnosis, which states that there are very few interesting and innovative companies floated on stock exchanges. At the same time, there was heated debate on pricing as a mere few weeks after the issue, share prices were 4% lower, while the Danish index was performing better.



Finally, the Central Eastern European region is also worth taking a look at, because although the Moneta transaction in the Czech Republic, the Medlife transaction in Romania or the XTb in Warsaw were considered to be successful, overall the region still fell behind, primarily due to the Polish decline.

2017 TO POTENTIALLY BRING ABOUT GROWTH

There is cause for optimism on the basis of 2016 valuations as stock markets and new issues both performed well. According to calculations by Renaissance Capital, the price of new securities increased by 22.5%.

The business strategy generally observed in accompaniment to digitalisation, where more mature, larger companies acquire smaller, innovative competitors in order to protect themselves and adapt to the transform market environment, continues to provide a good reason for such companies to raise funding through public stock offerings. It can also be observed that larger companies, when entering a new foreign market, build their brand name through cross-border IPOs with increasing frequency, ranking financing as a secondary aspect.

The fact that, by the end of 2016, the Chinese Regulatory Commission had also changed its strategy and is now giving greater support and paying increased attention to the acceleration of IPOs could also have a beneficial effect on 2017. The Shenzhen-Hong Kong stock connect launched in December is strengthening the market on the demand side by facilitating foreign investors in reaching the Chinese stock exchange. This is also beneficial for issuers. At the same time, increasing tensions regarding the US and China's structural economic problems could add multiple additional layers to the overall picture.

Practically all analysts polled regarding the US are predicting increasing IPO figures, which is also supported by the number of transactions disclosed and reported to date, as well as the high valuation of the S&P. Private and venture capital investors have now achieved such a large-scale investment level that they are also expected to produce numerous exits and public transactions.

Despite high valuations, everyone in Europe is still cautious with their optimism, as the foreign trade strategy of the US or the Fed's rate-setting decisions could very well complicate the continent's growth.

Just as the Alteo SPO and DH IPO drove statistics upward in 2016, the BSE also wishes to contribute to higher issuer activity by increasing the number of stock exchange launches in 2017 as well.





GLOSSARY

ADH	(Alliance Data Highway) A system that provides access to direct stock exchange data.
Arbitrage	A transaction or group of transactions that exploits the operating/pricing disturbances on the market, resulting in extra profit without having to take on additional risk.
Average price	The average of the given daily transaction price weighted in line with the quantity specified in the transaction.
Bear market	A prolonged period of falling stock prices.
BÉTa	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 with stocks quoted on foreign stock exchanges.
BEVA	Investor Protection Fund.
Bid-Ask spread	The difference between the best buy and sell price in the order book at a given point in time.
BLM	Budapest Liquidity Measure.
Blockchain	A type of technology that makes the exchange of various values possible in a substantially simpler and faster way than before.
Blue-Chip stocks	The most liquid and most highly traded stocks on a given market.
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.



Book or Cancel:	A limit order that is rejected if it is matched with the counter order in the order book when the order is placed.
BSE	Budapest Stock Exchange.
Bullish market	A prolonged period of rising stock prices.
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.
Cash market	Market of financial instruments on which futures and options markets are based.
Capitalisation	The total value of stocks listed on the stock exchange – the listed quantity multiplied by the price of the securities.
CCP	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).
CEEGEX	Central Eastern European Gas Exchange.
CETOP Index	The stock market index reflecting the performance of Central European stocks.
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.
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.
Crossing network	An alternative trading system.
CSCR	China Securities Regulatory Commission.



Dark pool	An alternative trading system.
Day trading	Intraday buying and selling – the buying and selling of a stocks within the same trading day.
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.
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.
ETF	(Exchange Traded Fund) an investment fund traded on the stock exchange.
Exceptional procedure	When all of the stocks of a listed limited company end up in the hands of one shareholder.
FESE	(Federation of European Securities Exchanges) European stock exchange alliance.
Fill-or-Kill	An order that can only be executed if it can be executed immediately in its entirety, otherwise the entire order is cancelled.
Free float	The entirety of stocks held by shareholders that do not qualify as strategic investors, and whose participation does not exceed 5 percent.
Hedging transaction	A transaction concluded to reduce risks originating from open positions.
High-frequency trading	An alternative trading system.



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.
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.
Intermediate-or-Cancel	An order where partial fulfilments are allowed but only at the time of the placement of the order. Unfulfilled parts of the order are cancelled.
Investment Service Provider	A company with BSE trading rights (a bank or a brokerage firm), which accepts orders for the conclusion of stock exchange transactions
KELER	Központi Elszámolóház és Értéktár Zrt. (Central Clearing House and Depository)
KELER KSZF	Central Counterparty; fulfils the function of a CCP in Hungary.
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.
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. With the exception set out by law, shareholders are not liable for the commitments of the limited company.
Lombard loan	Buying of securities against a loan, where the securities purchased are the loan collateral.
London Stock Exchange	The Stock Exchange in London.



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.
Market-maker	A broker that assumes continuous buy and sell quotations for a given security, typically with a narrow bid-ask spread.
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.
Market to Limit order	An order placed without actual price specification that can only be matched with the best priced counter order in the order book.
MiFID	European Union directive regulating capital markets.
MiFIR	European Union regulation regulating capital markets.
Money Market funds	Liquidity funds that invest in bank deposits and short-term government securities, and traditional investment funds that typically have one-year government securities in their portfolios.
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
NBH	National Bank of Hungary.
NHP	Funding for Growth Scheme (Növekedési Hitelprogram).
NOMAD	(Nominated Advisor) Nominated Advisor
Order book	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.
Ordinary share	A share representing general ownership rights, with the word ‘ordinary’ frequently dropped from the term.
OTC market	Over-the-counter market Off-floor trading market (including the MTF and OTF platforms).
OTF	(Organised Trading Facility) Organised Trading Facility
Portfolio	The totality of the investment assets held by the investor is referred to as the investor’s portfolio.
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.



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.
RQFII	Renminbi Qualified Foreign Institutional Investors.
SEAB	Stock Exchange Advisory Board.
Securities account	A record maintained for the benefit of the owner of the securities of dematerialised securities and the associated rights.
Securities deposit account	An account held on behalf of the client designed to record securities deposited by the client.
Settlement cycle	The time between the transaction and the actual execution of the transaction. For stock transactions, this means 3 settlement days.
Share	A security embodying equity participation rights.
Share price index	An indicator reflecting the weighted average price of shares listed on a given stock exchange.
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.
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.
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.
Stop	The order becomes active when the price reaches a certain predetermined level (activation price).
SZIT	Regulated Real Estate Investment Company.
T7	A trading platform developed and operated by Deutsche Börse, the Frankfurt exchange.
Transfer	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.
Vendors	Professional data providers. Real-time stock exchange trading data is available only through so-called vendors (distributors, data providers).
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.





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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