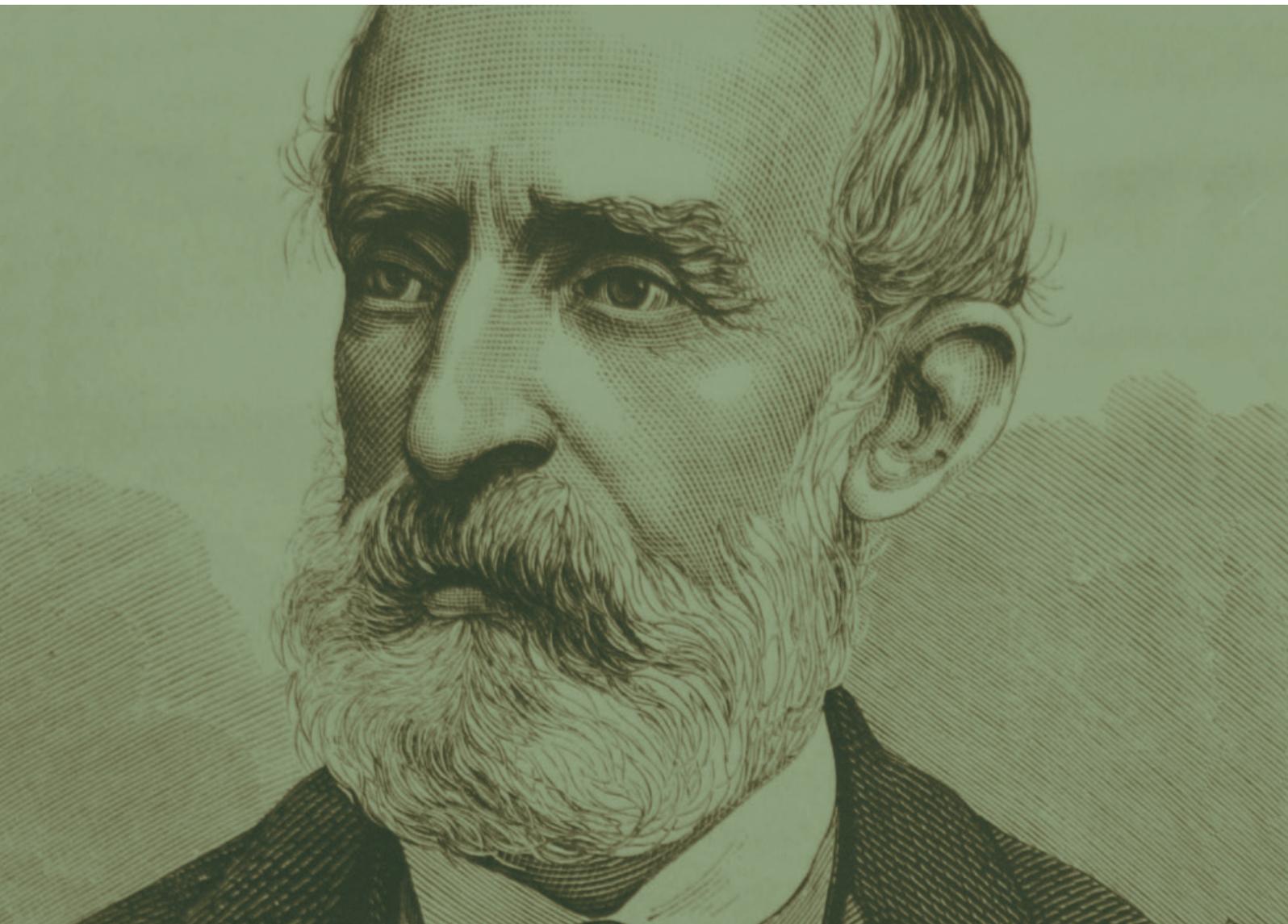




STRATEGIC REPORT



2019



“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 2019

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

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

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

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

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

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

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

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1. 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 and household savings.

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 shares and bonds, which is an efficient resource for rapidly growing companies that focus on developing new products. Additionally, it complements bank lending, which predominates in Hungary at present, as an efficient alternative. Being listed requires transparent operations which largely improves efficiency and competitiveness. 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 centered on Hungary, with independent management, thus enabling the development of new products and regional expansion with the help of stock exchange financing.

Helping enterprises—in particular small and medium-sized enterprises (SMEs)—to find funding via the capital markets is in 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.

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

Currently, the most urgent task is to increase the number of new IPOs in all asset classes by involving companies as new exchange issuers who meet the high quality requirements for strengthening investor confidence, operate transparently and apply appropriate corporate governance principles, perform steadily, have a business strategy with a considerable growth potential and could attract serious investment interest.

In addition to stimulating the stock market, developing the Hungarian corporate bond market is also key and increasing revenues not related to stock trading is also a priority goal.



2. EXECUTIVE SUMMARY

THE YEAR OF MOMENTUM

EXECUTIVE SUMMARY ON THE FOURTH YEAR OF THE IMPLEMENTATION OF THE FIVE-YEAR STRATEGY OF BSE

2019 saw us taking further steps towards the goal of making the Budapest Stock Exchange an important financing platform for companies in Hungarian ownership.

After a moderate 2018, the BUX Index increased by a middle-ranking 18 percent in 2019. The two biggest issuers of the stock exchange, OTP and Mol, also outperformed the expectations, and the latter one increased its annual profit goals as a result. 2019 saw us celebrating a special jubilee: at the end of November, we recalled the major milestones of the history of Richter Gedeon, another blue chip, on the stock exchange with a ceremony celebrating the 25th anniversary of its IPO.

Two new companies, Autowallis and 4iG made it to the Premium category. The Standard category grew also thanks to the entry of MKB Bank, one of the major players of the Hungarian financial market. BSE Xtend, the market specialised for medium-sized companies, also welcomed new issuers: CyBERG and GOPD, and the end of the year saw the registration of DM-KER shares.

The corporate bond market had an especially strong year, not only in terms of the BSE but also in terms of the entire Hungarian economy. Magyar Nemzeti Bank launched the Bond for Growth Scheme on 1 July with the main goal to improve monetary transmission and, subject to this, the access of companies in Hungarian ownership to the capital market. Accordingly, the Budapest Stock Exchange set up the BSE Xbond market for companies planning to issue bonds to let companies enter the public market with less tough conditions. We established Első Értékpapírosítási Tanácsadó Zrt. which makes bond financing more accessible not only to corporations but also to small and medium-sized enterprises. Efficiencies of scale could make securitisation more attractive to these companies to individual corporate bond issuances, and ELÉT will assist in this by acting as some kind of knowledge centre.

Small and medium-sized enterprises are the backbone of the Hungarian economy; their growth opportunities are, therefore, important. Capital market financing and listing on the exchange could offer real alternatives, because they do not only assist in securing extra capital but also support the prestige, going international of the companies involved as well as the trust of their clients and customers. The BSE50 publication is, among others, to plant this thought deeper by presenting another 50 inspiring medium-sized enterprises in its issue of this year, the fourth one. With this year's publication, we have told 200 exciting company histories so far, which clearly proves that Hungary has a lot of successful and IPO-ready companies. Every year, by tradition, the publication is first presented publicly at the BSE50 Conference, which



was a memorable and colourful one in 2019 as well, thanks not only to the talks of key Hungarian capital market players but also its international guests.

It is important that we can offer the right service package to IPO-aspiring companies. Our business development chain became more profound and new opportunities came up for the companies and investors.

19 companies, more than in 2017 and 2018 together, joined our international company development training, the ELITE Programme, in 2019. The BSE Mentoring Programme, which is for financing the going public of companies, assisted two companies in 2019, DM-KER Zrt. and Gloster Infokommunikációs Zrt. The National Stock Exchange Development Fund is still available for facilitating capital increases and the preparation for the stock exchange, and our agreement made with Hiventures Kockázati Tőkealap-kezelő last autumn adds further services to the portfolio of business development services and also sets the path for further improvement of the flow of capital.

Thanks to the big success, our analytical/market-making programme grew further, and in addition to the 11 medium-sized shares the programme has had so far, 3 new shares, AutoWallis, OPUS Global and Waberer's, will also be regularly analysed from July 2019. Experience so far shows that the programme has an extraordinarily positive effect, the turnover of these shares increased by 20% on average during the one-year test period.

We have launched BSE Xmatch, a new service, with the goal to bring together companies looking for private funding and potential investors. Relying on the experience gained at the first private event in November, we will continue the event series in 2020.

As for ownership structure, about 65% of the market belongs to foreign institutional investors. The picture is more balanced in terms of daily turnover, half of which comes from foreign investors, and the other half comes from Hungarian institutional and retail investors. The activity and financial awareness of the latter group, i.e. retail investors, is becoming increasingly apparent. The direct retail stock portfolio is about HUF 750 billion, which is an all-time high. Given the fact that the value of net financial assets exceeds HUF 50 billion, we still see a lot of growth potential in this field.

We did our best to further strengthen households' confidence in stock investments through our education activities in 2019 and held the BSE Academy event series in cooperation with the major players of the Hungarian capital market. Our subsidiary, the Budapest Institute of Banking, has become a major player on the Hungarian financial education market in terms of courses taught and the numbers of teachers and students.

We attached great importance to the involvement of younger generations: this year's BSE Stock Derby Competition, which is organised in collaboration with the Money Compass Foundation, had over 1800 participants. The stock exchange game for secondary school students, which is organised in collaboration with the Central European Training Centre, also attracted a lot of interest. University students could compete for the highly prestigious Kochmeister Prize at the Investment Research Challenge of the CFA Institute and the CFA Society Hungary. The free-of-charge stock exchange visits for school groups also continued and were still one of the most useful tools to present the world of the stock exchange.



Our international relations also became stronger. In April, we hosted the V4+CEE Capital Market Conference where the stock exchanges of the V4 countries and the stock exchange leaders of Slovenia and Bulgaria could discuss the potentials hidden in the region's capital markets, stock exchanges and its listed companies.

We visited China in June on account of the first Hungarian Investor Day. The Shanghai Conference was a great opportunity to deepen the capital market cooperation of Hungary and China started in 2017. We further strengthened this goal with the agreement concluded with the Shenzhen Stock Exchange in September to facilitate the approximation between the platforms of the two parties.

September also saw an important development that also affects the Central Eastern European region. CEEplus, the combined stock index of the V4, Croatian, Romanian and Slovenian stock indexes, was launched to open roads to regional investments for further international and Hungarian institutions and households.

2019 was the year of momentum. We advanced in all aspects and got closer to accomplishing the strategic goals for the 2016-2020 period. This publication provides a deeper insight into what happened on the Hungarian capital market in the past year and provides an outlook for the next year for capital market players, legislators and individuals interested in the stock exchange.

Dr. Mihály Patai,
Chairman of the Budapest Stock Exchange

Richárd Végh,
Chief Executive Officer of the Budapest Stock Exchange



3. SUCCESSFUL YEAR FOR THE EXCHANGE, HIGH OPERATIONAL RELIABILITY

3.1. IPOS, CAPITAL INCREASED AND ADDITIONAL ISSUES

2019 was the year of strong activities in terms of issuer activities as well. A high number of company events and reclassification requests indicated that our current issuers purposefully exploit the benefits of being listed and actively manage it. The results of the extensive market-building of our acquisition activities since 2016 are visible in the upswing of the BSE Xtend market, and the first BSE Xbond registrations are also imminent.

Undoubtedly, the biggest company event in 2019 was the acquisition of KONZUM Nyrt. by OPUS GLOBAL Nyrt., for two reasons. Firstly, this was the first stock exchange fusion in the almost 30-year history of BSE, i.e. a listed issuer was acquired by another one; secondly, because the high volume of the transaction made this event special in the life of BSE. In April, the transaction was preceded by the also record-high, HUF 127.7 billion share capital increase of OPUS GLOBAL. The transaction was completed on 1 July 2019 in an equivalence mechanism, with a swap and an exchange ratio of 2:1; i.e. KONSUM investors got two OPUS GLOBAL shares for each of their stocks. The fusion created an issuer with the fifth biggest capitalisation on BSE.

In 2019, BSE welcomed another credit institution as issuer. MKB Bank Nyrt. IPO-ed with 100 million shares with a combined nominal value of HUF 100 billion and a HUF 1,972 IPO price in the Standard category on 17 June. MKB Bank also used the opportunity available from 2019 that listing in the Standard category does not require a public transaction, companies can also join it with a technical IPO.

ALTEO Nyrt. introduced a share series of 3 million shares with different dividend rights and a combined nominal value of HUF 37.3 million in April 2019, and it then merged it into its common share series in June.

The stock-market portfolio got increased through share capital increases as well. Including the above transaction of ALTEO, seven joint-stock companies decided to increase their respective share capitals twelve times during 2019. The combined value of these share increases was the biggest in the history of the stock exchange, HUF 146.8 billion (the highest value so far was HUF 79.1 billion in 2018). In addition to the already-mentioned two equity capital increases of OPUS GLOBAL, NUTEX issued stocks from equity capital increase on BSE, SET Group did the same twice, AutoWallis, AKKO Invest and FuturAqua did it once. Three companies withdrew capital from BSE, each by reducing their nominal values: Csepel Holding Nyrt. did it in April, EHEP Nyrt. did it in May, CIG Pannónia Nyrt. did it in September.

The increasingly active management of capital market presence by issuers is also shown by the fact that—in comparison with the two or three similar company events in each previous year—five companies had stock splits in 2019: AutoWallis in February, BIF and 4iG in June, SET Group and AKKO Invest in October.



BIF became a regulated real-estate investment company (SZIT) on 31 December 2018; therefore, three SZITs' stocks were traded on BSE in 2019 (Graphisoft Park and FINEXT ended their respective transformations during 2018 already). BILK Logisztikai Nyrt. applied for an IPO with similar plans in June 2018; its stocks have, however, not become listed on BSE yet.

Every issuer managed to retain its category during the ordinary half-yearly revisions and no downgrading was necessary. During 2019, BSE reclassified two Standard and five T-category issuers into higher categories at the requests of the relevant companies. This meant that we had 20 companies in the Premium category and 16 companies in the Standard category by the end of the year. In the T category, which is not available for newcomers anymore, two issuers have remained as a result of the reclassifications applied for. And the stocks of only one issuer will remain among the separate stocks.

2019 saw the listing of several debt securities, structured products and investment units. In March 2019, BSE welcomed a new credit institution among its debt-security issuers: the International Investment Bank introduced two bond series onto the BSE.

Our issuers contributed to the development of the capital market by listing 27 new regulated market bonds, 7 new investment units, 5 new mortgage bonds and 130 turbo warrants. With the additional issues together, securities with a combined nominal value of over HUF 426 billion in total were added to our debt securities market.

Two new securities were listed on the BSE Xtend market during 2019. The stocks of CyBERG Corp. Nyrt., a company registered in October 2018, became available in January 2019. CyBERG is the owner and developer of the KAJAHU digital community restaurant chain, a system gastronomy franchise. The company continually develops its community mobile services and its own digital platform based on the restaurant chain to become a data-driven technological corporation in the future. CyBERG plans to use the capital raised by listing on the BSE Xtend to build up the company's central management, start the international sales of the franchise network and further develop the digital services of their hybrid model.



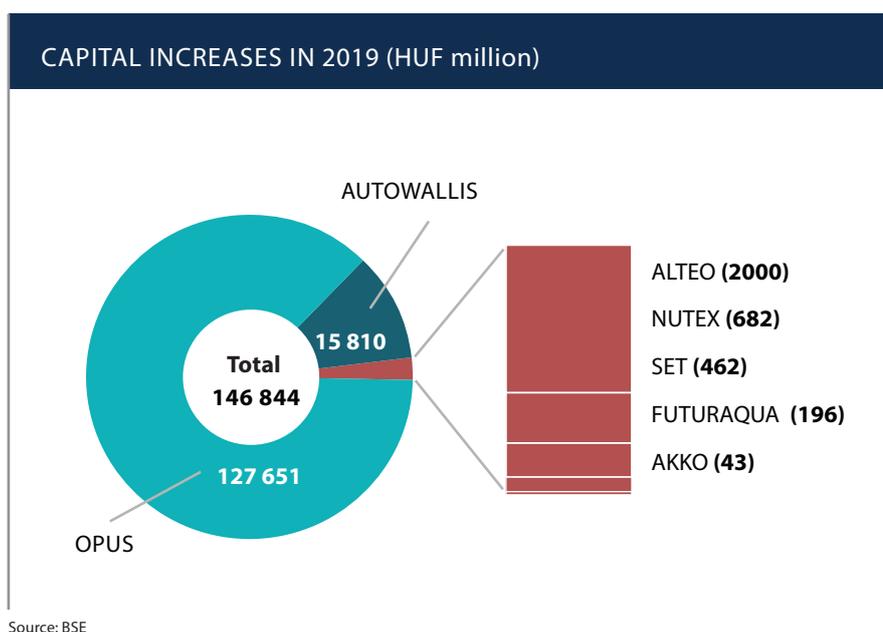


The stocks of GOPD Nyrt. were registered in June 2019 and its stocks are available on the Xtend market since August. GOPD was established in 2018 for developing, buying and selling own real estate, real estate management, organising construction projects, building residential and non-residential buildings as well as letting and operating own or leased real estate. Since mid 2019, the company has been focusing on real estate development and will organise the construction of gated communities in Budapest and in the agglomeration of Budapest and be involved in the entire process (land purchase, designing, authorisation, construction, sales).

DM-KER Zrt. was registered in December 2019 and the trading in its stocks is expected to start in January 2020. The company was established in 2008 and sells, leases and repairs agricultural and industrial machines and represents several global brands in Hungary. DM-KER had a successful private placement in December 2019. The company wishes to use the raised capital of nearly HUF 1 billion to start its international expansion and to strengthen its existing position on the market of agricultural machines.

The new bond MTF market of the stock exchange, BSE Xbond, was launched in 2019 and had its first registration in December. The new debt securities called “2029 HUF Bond” of Mol Nyrt. have been traded in on the new market segment since 19 December 2019.

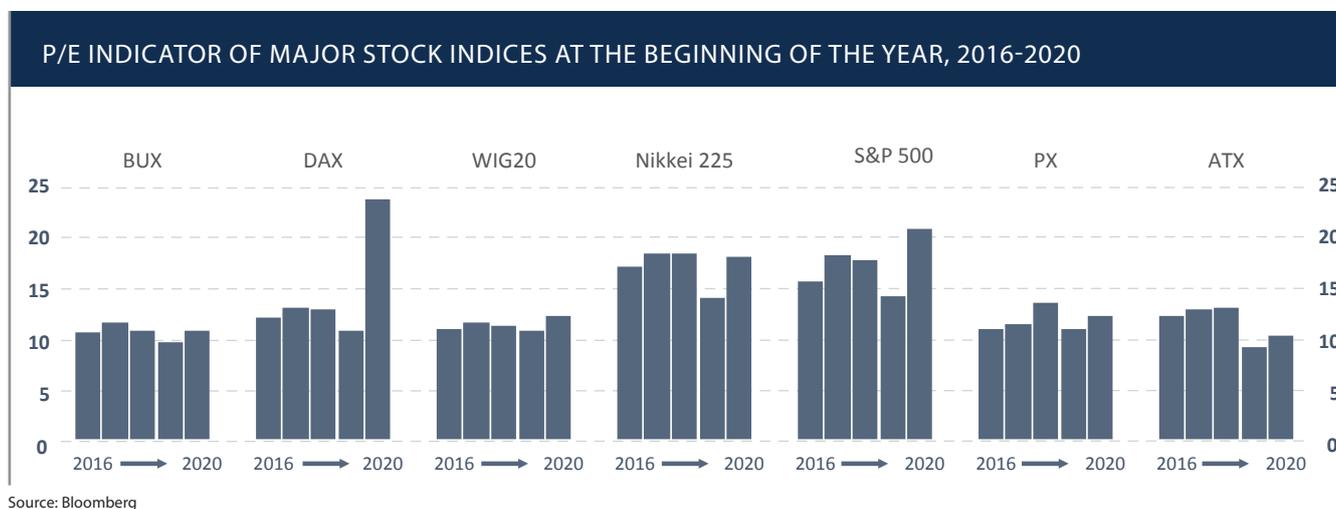
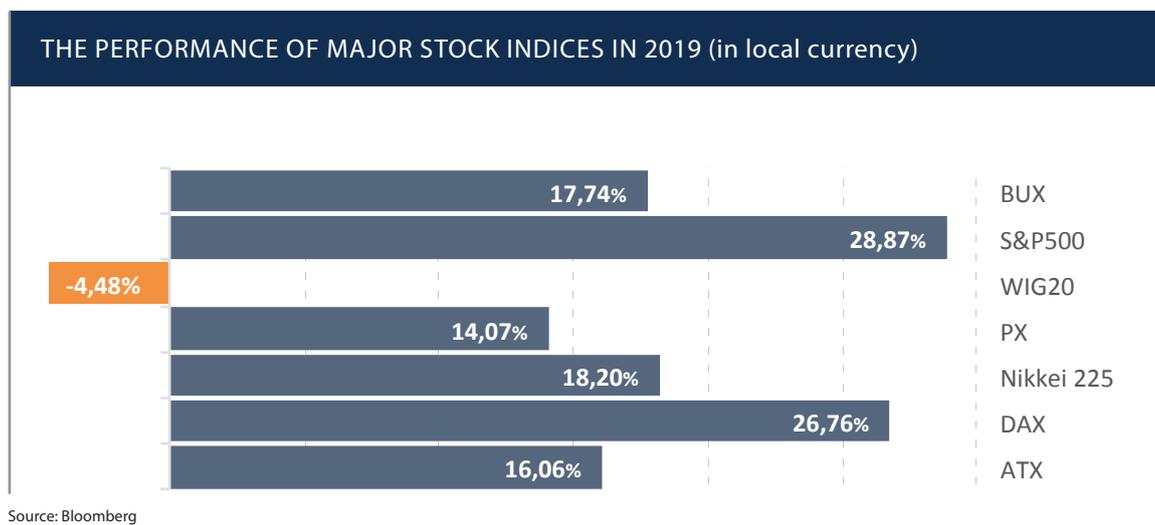
2019 was an outstanding year in terms of the fresh capital appearing on the stock exchange. The previously described record-high capital increase considerably contributed to the increasing capitalisation of the Hungarian capital market, which reached 21.65% of the estimated GDP of 2019 by the end of the year (it was 5.3 percentage points higher than at the end of 2015), contributing to the achievement of the 30% target set in the BSE strategy.





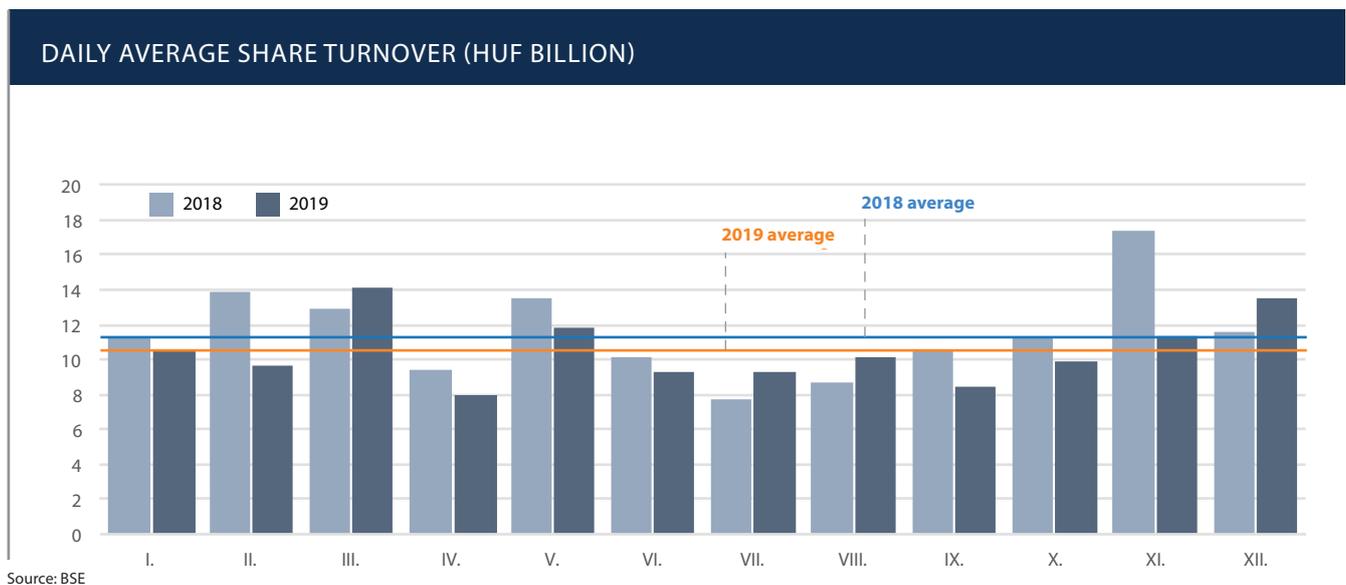
3.2. HISTORIC RECORD AND SIGNIFICANT FRESH CAPITAL ON BSE

In 2019, the BUX Index continued the increase started in 2014, and briefly halted in 2018. Over this period, it increased by nearly 18% and closed at a historic high. Interestingly, however, this was only a mid-ranking performance (expressed in the local currency) compared to international and regional indices. Although the BUX Index considerably outperformed the more than 4% drop of the Polish GPW index and outperformed the 14% increase of the Praha index; its performance was still below the nearly 27% soaring of the German DAX Index and the 29% boom of the American S&P500 Index. In a period of five years (and in the local currency) the BUX Index is still one of the favourite stock indices globally. Despite the steep increase of the past years, the BUX Index is still relatively underpriced if compared to the other stock indices.





Unlike the stock index, market turnover moved downwards in 2019. Its average daily value of HUF 10.47 billion meant an 8.5% decrease on a year-on-year basis. This modest turnover was in part because of the relatively eventless and less volatile trading, in part because truly big investor stories appeared only in some minor stocks. Although the Hungarian economy outperformed the expectations on the macroeconomic level, leading issuers had pretty profits and outlooks remained predominantly positive; it still seems that this could not counterbalance the rather low and/or stagnating turnover trend on the stock exchanges of the world.



The turnover in the shares of small and medium-sized enterprises continued to increase just like in the previous years, which meant that the turnover concentration of the Hungarian stock market considerably reduced in the recent period. The four blue chip stocks generated 87.5% of the entire turnover in this year, which meant a 1.5 percentage points decrease in comparison with last year's concentration. Just like in the previous year, seven stocks had a daily average turnover exceeding HUF 100 million in 2019 as well. Back in 2015, however, only 4 stocks could exceed this threshold. In order to make the shares of small and medium-sized companies even more visible among retail and institutional investors, BSE will continue to extend its analytical/market-making programme launched as a pilot programme in 2017 in order to continually provide up-to-date information and a basic liquidity for market players.

2019 was an outstanding year in terms of the fresh capital appearing on the stock exchange. Already-listed companies made record-high capital increases. 2019 saw HUF 146.8 billion of fresh capital, 85% more than in the previous year, to come to the Hungarian stock exchange and considerably contribute to the increasing capitalisation of the Hungarian capital market, which rose to HUF 9.711 billion by the end of 2019.



TOP 10 MOST-TRADED EQUITIES AND THEIR PERFORMANCE (2019)

Name	Turnover (HUF billion)	Share price (28.12.2018)	Share price (30.12.2019)	Share price change (%)	Capitalisation (30.12.2019, HUF billion)
OTP	1,305	11,290	15,430	37%	4,320
MOL	464	3,078	2,940	-4%	2,409
RICHTER	424	5,430	6,415	18%	1,196
4IG	82	316	662	109%	62
MTELEKOM	61	440	446	1%	465
OPUS	54	490	340	-31%	239
ESTMEDIA	37	138	127	-8%	13
AUTOWALLIS	24	113	97	-14%	26
AKKO	15	148	436	194%	15
SET	12	52	93	79%	5

Source: BSE

3.3. DEVELOPING ISSUER SERVICES, STRENGTHENING CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

Strengthening efficient corporate governance among listed companies remained a priority objective in the strategy of BSE in 2019 as well.

The Exchange's Corporate Governance Committee has been operating since 2004 with the aim of supervising the continued development of recommendations by taking domestic industry requirements, draft EU legislation and general international trends into consideration, and also to represent industry considerations in the field of the further development of corporate law. Through the work of the Committee, the Stock Exchange wishes to ensure that the representatives of the professional community are able to participate in the decision-making process related to recommendations within an organised framework, while the Exchange retains its initiating role. Issuers, regulatory authorities and the representatives of the Exchange, as well as independent market experts and attorneys are all represented in the Committee.

The Exchange's Corporate Governance Committee seeks to continuously develop and adjust recommendations, their application, processing and presentation to the changing market and legislative environment. In line with this effort, the Committee reworked the recommendations during 2017, and the issuers of BSE were required to first apply them for 2018.



Additionally, BSE created an online reporting interface in 2019 and made it available in April. In the future, issuers will use this interface to submit their Corporate Governance Reports. The reporting interface has two functions. Firstly, it facilitates a more uniform and correct filling-in of issuer reports. Secondly, it facilitates the processing by the Committee of data reported in the reports and primarily its statistical analysis to support the compilation of the annual monitoring report complying with Recommendation No. 2014/208/EU of the European Commission.

Lastly, the Committee changed the Monitoring Report for summarising and analysing the reports submitted by the issuers. The more concise and uniform texts and the visuals for easy understanding (charts and tables) make the monitoring report more informative and clearer. In December 2019, the Committee published the monitoring report summarising the 2018 issuer reports in this new format.

NEW CATEGORISATION SYSTEM

From 2019, the BSE changes the stock category system on its regulated market, the admission and the continually applicable criteria as well as the methods for changing between categories. In laying down the new rules, the Stock Exchange bore in mind that the new listing criteria should be realistic, satisfiable, clear but also sufficiently flexible to facilitate the international competitiveness of BSE. In the following we summarise the changes affecting each stock category:

- In the Equities Prime market, the BSE's highest category, admission criteria have remained unchanged: At the same time, the BSE harmonised the criteria evaluated at the semi-annual review with admission criteria. Thus, in addition to adequate capitalisation, the BSE would no longer be evaluating turnover frequency but rather the free-float criteria (free-float of at least 25% and/or a free-float capitalisation of HUF 2 billion or 500 shareholders).
- The Standard category underwent more considerable changes. This category does not require public transactions for listing (this criterion was kept only for listing in the Premium category). At the same time, the quantitative listing criteria introduced by BSE for this segment are like the Premium category but are not that strict. Listing in the Standard category requires a capitalisation of minimum HUF 250 million, a free-float of 10% (or a free-float capitalisation of HUF 100 million or 100 owners) and a one-year operation history. In parallel, BSE involved Standard category issuers in the half-yearly revision where it checks whether the listing criteria apply, similarly to the Premium category.
- Starting from 2019, BSE closed the T category from new IPOs; it, however, recategorises issuers not meeting the criteria of the Standard category to T category. If they are not able to or do not want to move to the Standard category, current T category issuers may stay in this segment indefinitely.

The new stock categorisation system introduced in January 2019 led to a strong wave of reclassification. Although the Stock Exchange granted issuers a grace period until 2020 as regards compliance with the new rules, many requested to be assessed according to the new rules during 2019 already. The discontinuation of the transaction requirement in the Standard category meant an opportunity for several T category issuers to request their reclassification into the Standard category if they meet the newly imposed and continually applicable capitalisation and free-float criteria. In 2019, five issuers took this chance and their common shares were welcomed to the Standard category: OTT-ONE Nyrt. and SET Group Nyrt. in May, FuturAqua Nyrt. in June; Örmester Nyrt. in September; Kulcs-Soft Nyrt. in December Like in the previ-



ous years, advancing to the Premium category remained an attractive objective for issuers. In June 2019, two companies, 4iG Nyrt. and AutoWallis Nyrt. managed to do this.

NEW KIBINFO

During 2019, the Stock Exchange renewed its online system for publishing issuer and stock exchange disclosures, KIBINFO. The modifications aimed at developing a faster, closed and more automated disclosure process which limits access to insider information and does not require human intervention on the part of BSE.

One of the main reasons for introducing the new system was to manage insider information in compliance with MAR requirements. BSE ensures this with the following tools.

- Although issuers have had the opportunity to upload news in advance to the publication system of the stock exchange and the news were disclosed at a later time chosen by the issuers; in the new system, all news are required to be published within maximum 15 minutes as from the time of uploading.
- The prohibition to disclose during trading ceases for news that used to have special timing for appearance (general meeting submissions and interim financial reports). Issuers can publish these news with no strings attached. If they see it fit, then they publish them after the trading time.
- BSE employees cannot influence the publication of news in any way. BSE employees cannot access news uploaded by issuers into the KIBINFO and the insider information in them before these are automatically published on the BSE website. They can see these only after the publication.

The new KIBINFO also meant several technical changes. The Stock Exchange switched from the previous JAVA version over to a thin-client-based solution, the application's compatibility with various browsers improved a lot, and logging in is made more secure with a two-factor authentication.

In addition to implementing the new KIBINFO system, the other major change announced in 2019 in relation to issuer disclosures is that the BSE does not charge any separate fees to issuers for publishing in KIBINFO as from 1 January 2020. In this comprehensive fee modernisation, this fee gets included into the fee the issuers pay for continued trading.

ISSUER EVENTS AND TRAININGS

The BSE did its best to support the operations of its issuers with quality and useful professional events in 2019 as well. Two issuer forums were organised in this year.

- On 12 February 2019, MNB experts discussed main regulatory issues concerning the obligations to provide information and extraordinary and insider information at the "Road to compliance" event. The workshop assisted issuers in developing best practices that meet all regulations. The workshop ended with a presentation by an expert from Mol Nyrt. in the same topic.
- We had the forum "Encouraging long-term shareholder engagement and ESEF reporting standards" on 26 November 2019 and our main topic was Act LXVII of 2019 (on encouraging long-term shareholder engagement) which



entered into force in July 2019. The presentations touched upon what changes this new regulation requires in the corporate governance practice of listed companies and how it connects to the existing corporate governance practice. The second part of the forum informed participants of the regulation and introduction of the uniform European reporting format.

Both events had nearly 60 attendees and induced great interest and had positive feedbacks.

The BSE had a legal forum with leading Hungarian capital market lawyers and the MNB on 11 December 2019. The forum's topic was the current amendment of the Capital Market Act and its impact on market admission processes, authorisations and regulations. The goal was to inspire thinking together and developing a uniform and generally accepted and applicable interpretation for those who most often apply the rules affected by the changes. The forum was attended by 20 professionals, mainly capital market consultants and representatives of law firms.

We also had two educational programmes during the year to increase issuer knowledge:

- IR training for beginner and advanced professionals (I-II): our programme to train investor contact persons had two levels under the auspices of BIB and with BSE's professional programme management: first in spring (16-17 April 2019) and then in autumn (20 November 2019). Our course relied on lecturers from BSE and MNB as well as practitioners and issuers to provide a programme with content for practicing IR professionals. The programme is planned to be included among regular BIB courses to offer continuous further training and knowledge maintenance for IR professionals.
- On 6 December 2019 we had a professional programme under the auspices of BIB on the conditions, operation of Bond for Growth Scheme, the relevant conditions for listing and MTF appearance, obligations associated with being listed. The workshop offered useful assistance to bond issuers joining the new programme and consultants.

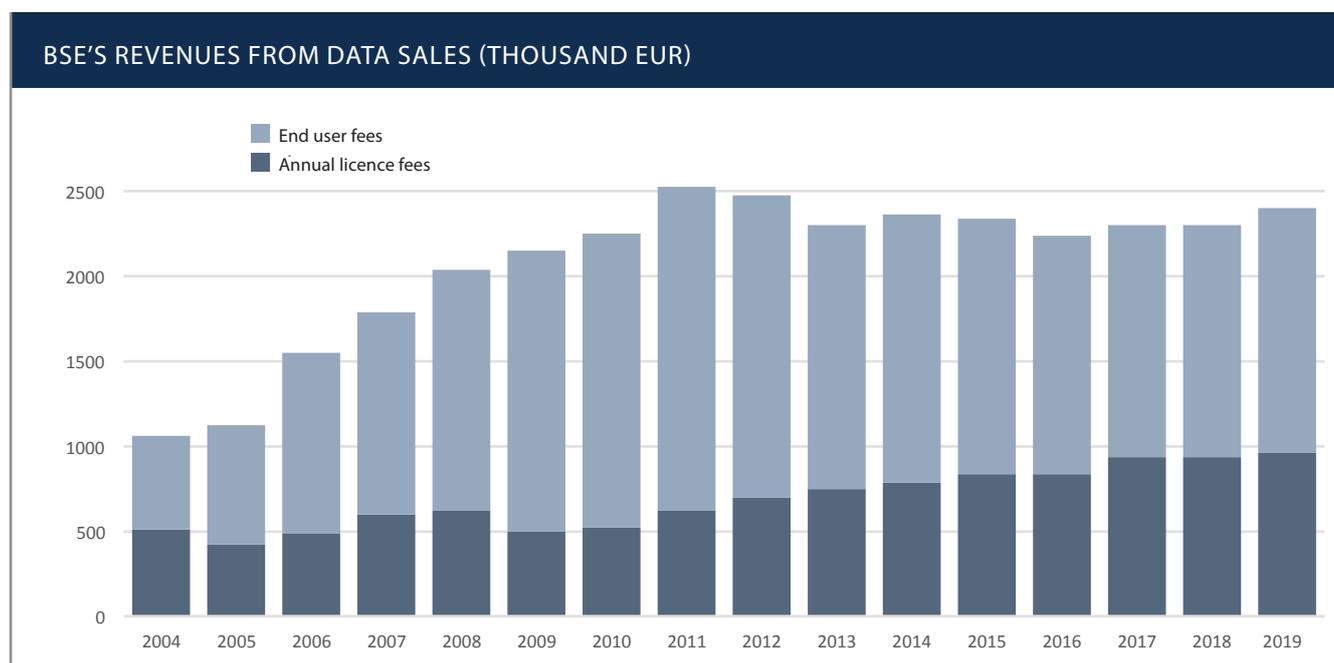




3.4. REVENUES FROM DATA SALES

Revenues from data sales represent about 30-35% of the total revenues of the BSE.

In 2019, we further increased our revenues from data sales to continue the increasing trend of the past 4 years. In historical hindsight, we did more than double our revenues from data sales in the past 14 years. Studying revenue structure, we can see that the continually increasing vendor count ensured an almost continuous increase of licence fees, but the rhapsodic trend of end user fees eroded the revenue increase.



Source: BSE

As a result of the revision of the fee structure (started in 2018), the change took place in two steps. As from 1 April 2019, we slightly increased the price of the most important data, i.e. those with depths 1 and 5, for professional end users and we reduced the price of data with depths 10 and 20 as they have less users. This approximated prices and encouraged our clients to change over to packages of higher price. As a second stem, the renewed licence structure concerning data use in the application (Non-Display Use) will enter into force on 1 January 2020 and we also expect it to increase our revenues. These two strategic steps put the data sales business unit onto the right track for the coming years.

Our auditing was much more intense in 2019 as in the previous years to secure or revenue sources. The established amount of unpaid fees contributed more than expected to the profitability of the data sales department. We will continue this activity in the coming years as well.

This year, we will collaborate with the other member stock exchanges on several topics in the Data Workgroup of the Federation of European Exchanges (FESE). We do our best to interpret and find consensual implementation solutions as well as request clarification, if necessary, of several directives and regulations of the ESMA (European Securities and Markets Authority) and the European Union.



4. DEVELOPING CAPITAL MARKET ECOSYSTEM

4.1. GROWING NETWORK OF PARTNERS

In 2019, BSE continued to build its partner network and to strengthen the existing one. We concluded cooperation agreements with several Hungarian and international organisations to further improve the visibility of the Hungarian capital market and to support the education of the Hungarian corporate sector and its supply with capital.

At the BSE50 Conference for medium-sized enterprises, the management of the Budapest Stock Exchange and the Hiventures Venture Capital Fund Management Zrt. of the MFB Group signed a cooperation agreement. According to this agreement, Hiventures and BSE will support the IPO preparation of companies that wish to raise funds via public offering. The cooperation aims at strengthening the role of the stock exchange through supporting the capital raising of companies and the investment activities of investors.

The agreement includes several initiatives to prepare mainly privately owned companies for their IPOs. The agreement gives a greater role to the BSE services—the BSE Mentoring Programme providing EU funding for the preparation for the stock exchange and the BSE ELITE Programme providing international company development training—for medium-sized enterprises, and further assistance will be available to the companies in developing transparency and corporate governance systems.

Hiventures also undertakes to select IPO-ready companies in its portfolio and to support their listing on the BSE Xtend market for medium-sized enterprises. Moreover, the venture capital investor will especially encourage the public offering of companies funded from the SME Capital Fund of MFB on the BSE.

The stock market development aims of the Budapest Stock Exchange, i.e. promoting capital financing among Hungarian companies, is becoming increasingly popular. The combined contribution of Hiventures and the BSE could make even more promising companies known to the greater public. As a first step in this process, BSE held a workshop for the most IPO-ready companies of the Hiventures portfolio on 16 October. Between 25 and 30 companies attended the event where, among others, the first two companies which got listed on the Xtend market (Megakrán Nyrt. and Cyberg Corp. Nyrt.) gave presentations and the Acquisition Department spoke about the reasons for going public and the path to it.

In addition to the above, we must also mention our cooperation with the Chamber of Industry in Győr and the Chamber of Industry in Hajdú-Bihar County, which let us contact local company leaders several times. At these events, usually a company in the ELITE Programme and the Transaction Team of the National Stock Exchange Development Fund and an international consultant gave professional presentations.

During the year, we had multiple cooperation projects with the Ministry for Innovation and Technology, including an SME strategy, enterprise policy, Multi Program or intergenerational succession. We plan to further strengthen this cooperation in terms of the Hungarian Multi Program during 2020.



Similarly to the previous years, our relations with Hungarian banks was fruitful during the ELITE Acquisition (Budapest Bank, UniCredit Bank, CIB Bank) and other organisations (MAPI, FBN-H, BCCH, MGYOSZ, MKIK) with which we could organise several business breakfasts.

We attended the Startup Week Debrecen event in collaboration with the Startup Campus organisation and gave a presentation on value creation and the opportunities offered by the stock exchange on the SME Day. We think it is important to mention the start of our collaboration with the EDC Debrecen organisation to develop local businesses.

One of our most important products, the National Stock Exchange Development Fund, supports the IPO of Hungarian SMEs as an investor. We collaborated with the Transaction Team to launch active relations with several Hungarian institutional fund managers during the autumn.

The institution of Nominated Advisors (NOMAD) is a specificity of the Xtend market. These market players mainly support issuers during the IPO and in remaining listed but also follow up the companies continuously.

The first task these Advisers are required to do still before the IPO of the issuer is issuer due diligence which is done primarily by the adviser who can also rely on the opinions and findings of other advisers (especially auditors, legal counsellors) who he/she sees reliable. After that, the Adviser is also involved in the drafting of the Information Document or the Prospectus, and then he/she supervises the issuer performing all obligations to provide information. The presence of Advisers can greatly increase market security; consequently, they also serve investor interests. In the end of 2019, BSE had contracts with 17 NOMADs and had active dialogue with them during the entire year.

The NOMADs

BDO Corporate Finance
Concorde MB Partners
Deloitte Üzletviteli és Vezetési Tanácsadó Zrt.
Equilor Befektetési Zrt.
Erste Befektetési Zrt.
EY Hungary
Grant Thornton Corporate Finance
Heal Partners
Impact Advisory Zrt.

KBC Securities Hungarian Branch Office
MKB Bank Nyrt.
OTP Bank Nyrt.
PricewaterhouseCoopers Magyarország Kft.
Raiffeisen Bank Zrt.
Random Capital Broker Zrt.
RSM Hungary
UniCredit Bank Hungary Zrt.

In addition to the foregoing, the BSE experts also attended the HVCA education and legal committee sittings, and we organised joint business breakfasts with the company with a view to conveying capital market knowledge.



4.2. BSE50—THE SUCCESS STORIES OF FIFTY HUNGARIAN COMPANIES AND THE BSE50 CLUB, A COMMUNITY OF INSPIRING COMPANIES

Several methods are available for detecting IPO-ready companies. The BSE identifies these companies by applying quantitative and qualitative methods.

The basis of the quantitative analysis is the so-called scoring methodology, developed in collaboration with the MNB in early 2016. The colleagues of BSE screened IPO-ready companies based on the above-mentioned methodology and found 450 IPO-ready SMEs. Based on the experiences of the meetings between the stock exchange and market players and potential issuers over the course of the past years, we have made two modifications in the methodology. Firstly, one difference compared to how the previous study was prepared is that when drawing up the present study, the BSE left out the requirement of at least seven years of operation from among the criteria. The reason for this is that based on our experiences, due to M&A transactions and company transformations (from Bt. to Kft., from Kft. to Zrt.), there may be IPO-ready companies that have otherwise been operating for a long time, but have only been officially registered in the past seven years. The other is that the rate of accepted foreign ownership was set at 20% by the BSE as opposed to the former maximum of 80%. The reason for this is that based on the experiences of consultations with potential issuers, listing on the Budapest Stock Exchange only represents a realistic alternative for companies that have their decision-making centres in Hungary. With the help of profitability, operating, capital structure and risk indicators generated using the data culled from balance sheets and profit and loss statements, BSE experts identified 450 IPO-ready SMEs – a number higher than previous results. In the coming years, the BSE will continue to focus on the performance of the scoring procedure and the identification of (and subsequent contact with) IPO-ready companies.

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





Having regard to the successes in the previous years, the BSE prepared its publication presenting fifty successful Hungarian companies, BSE50. BSE50 appears for the fourth time this year and has already become a true brand. Ecosystem building is a particularly important strategic objective for BSE. The BSE50 Conference and publication encompasses over 200 companies now and has attracted more interest than ever among market players. The Conference focused on economic policy trends affecting companies, specificities of the capital and bond markets and the challenges of growth. Presentations were given, among others, by Tibor Veres, the President of the Wallis Group, who holds interest in several listed companies. These companies exploit all the growth opportunities offered by the capital market, so they could be examples for the companies attending the conference and planning to step to another level. Tibor Veres gave a presentation to summit participants on company building, capital market presence. The presentations before noon were given by Levente László Szabó, the Deputy Chief Executive Officer of the Takarékbank, Zdanowski Krzysztof, Owner and Chief Executive Officer of Summa Lingue, a Polish listed company and Umerah Akram, the Business Development Head of the ELITE International Company Development Network.



The subsequent panel discussions were about innovation, company building challenges and going international, among many other topics. The audience could listen to the roundtable discussions of innovative and successful Hungarian companies such as Robot-X, PI-ER and Padthai Wokbar. The bigger ones were MasterGood, Unix Autó and Duna House. In the IPO bootcamp section, Attila Chikán Jr gave a presentation on capital markets and company building, then Márton Paulovits, Director of BSE Issuer Acquisitions, presented the currently available services of BSE. The IPO bootcamp also had two roundtable discussions. The first one was about corporate growth, organisational development and strategies to be followed on public capital markets between the leaders of SZTA, Hiventures, UniCredit Bank and Random Capital. Closing the section, two members of BSE Xtend, Megakrán and Cyberg, discussed with the experts of EY and DLA Piper about the IPO process and being on a public capital market. In conclusion of this workshop, Dr. Kata Lódi, counsellor of BSE, and the general managers of Gloster, DM-KER and Kométa 99 discussed the BSE-ELITE Programme and the experience it provided.





The history of the BSE50 publication started in 2016. Its aim is to direct the attention of the Hungarian economy towards Hungarian companies that have outstanding performance, advance successfully and continually increase their competitiveness. The fundamental selection requirement is outstanding success at its market, an effective part and a growth potential for future growth, no matter if it would be an IPO, international expansion, company development or other investment.

The publication was again preceded by a lengthy research in which the BSE was assisted not only by prepared business and economic journalists but also by EY. This year's publication focused on companies established before 2010 again, and some of them are not that known to the general public despite their achievements. This year's issue also has a different sectoral focus. While the publication focused on food industry companies in 2017, IT companies in 2018, the overwhelming majority of the companies presented in the 2019 issue are manufacturing companies.

The combined sales revenue of the 2019 companies was over HUF 605 billion and their combined EBITDA reached HUF 73.3 billion. What could demonstrate the key economic role of the year's fifty companies better than the fact that their combined headcount is nearly 11,000, i.e. 226 employees per company, on average. This means that their average 2018 revenue was HUF 12.4 billion and their average EBITDA was HUF 1.5 billion, which corresponds to an EBITDA margin of 12.1%.

The 2019 issue presented 20 manufacturing companies. Their major role is justified by their importance in the national economy. They have considerable knowledge and know-how which they can perfectly use on international markets, but we should not forget that almost all of them are suppliers of multinational companies in Hungary. The second biggest group were companies in the services industry, the 2019 issue presented 12 of them. Their range is quite wide as they include quality controllers, temporary staffing agencies and restaurant chains. 6 companies are active in commerce, 4 are in IT, 4 are in the food industry, and 3 are from the real estate business.

The geographical distribution of the companies presented in this year's issue reflected the data of the HCSO: 23 companies were from Budapest and Pest county, and the second and third counties were Győr-Moson-Sopron and Fejér. It is, however, also clear that these companies are not local players anymore but have a nationwide network of relations, customers and suppliers in most cases.

A recurring topic of this year was the continuous training of employees, recruitment rationalisation, and employee retention was also important for all interviewees.

Succession and intergenerational succession are evergreen topics. Most of the companies presented in this publication started around the political changes in 1989-1990; most of their owners and managing directors are, therefore, older than 60. Appointing a suitable successor and handing over day-to-day operations is, therefore, an everyday topic.

BSE presented these excellent 50 companies to experts and managers to the now traditional BSE50 Conference.



BSE50 COMPANIES OF 2019

Almási Kft.	Gablini Group	Padthai Wokbar
ARH Informatikai Zrt.	Gamax Group	Pauker Nyomda
Bábolna Bió Kft.	Graphisoft Park SE	PEMÜ Zrt.
Biggeorge Property Zrt.	GSV Kereskedelmi Kft.	Pensum Group
Bock Borászat Kft.	Hafner-Pneumatika	Pharma Print Kft.
CNC Rapid Kft.	HAPP Kft.	PI-ER Technical Kft.
Confactor Kft.	Herendi Porcelánmanufaktúra Zrt.	Robot-X Hungary Kft.
CoreComm SI Kft.	Kling Kft.	Rotovill Kft.
Daniella Kft.	Lipóti Pékség Kft.	Serco Informatika Kft.
Di-Care Zrt.	Masterplast Nyrt.	Simon Műanyagfeldolgozó
Digic Holding	Miell Quality Kft.	Szentkirályi-Kékkúti Ásványvíz Kft.
Duna Elektronika Kft.	Mikropakk Kft.	Textura Zrt.
ELME Automatika Kft.	Mortoff Group	Verarbeiten Pausits Kft.
EPSM Zrt.	MPF Group	VIA Bérautó Kft.
ER-FA 2000 Kft.	Nelson Flottalizing Kft.	Wing Zrt.
Észak Üvért Kft.	Optimum Solar Kft.	Zalaco Zrt.
Euronics (Vöröskő Kft.)	OXO Group	

4.3. ELITE PROGRAMME: THE NEW LEVEL OF COMPANY DEVELOPMENT

BSE still pays special attention to finding and educating IPO-ready companies as well as keeping continuous contact with them and providing them with up-to-date and useful information. Several services of the stock exchange are available for this purpose: The BSE50 publication and club, the BSE Mentoring Programme (Part 1: IPO preparation and support and Part 2: International training programme) etc. Within this, the ELITE Programme has been providing a two-year training and networking opportunity in an international environment for Hungarian companies for three years.

From 2019, however, the BSE can fund the tuition fees of SMEs that meet the specified criteria from EU funds and the general government budget (these resources are available until 2022 or until the total use of the available resources). In 2019, from the 19 starting companies, 16 Hungarian companies started the ELITE Programme in a way that the companies newly joining the programme financed the tuition fee for the two years through the BSE Mentoring Programme.

The ELITE Programme was launched in 2012 by the Milan stock exchange (ELITE Italy), and since 2014 has been functioning as a subsidiary of the London Stock Exchange Group (ELITE UK and ELITE International). The aim of the Programme is to provide corporate governance and external funding know-how to participating companies, thus supporting them in reaching more carefully considered operative and strategic decisions that can also serve as the basis for an IPO. The ELITE International group (172 companies) has 36 Hungarian companies, an outstanding number, which participate in the business development programme including more than 1,300 companies from 44 countries and 36 sectors globally to share best practices and learn about local specificities. The countries after Hungary are Bulgaria, Romania and Croatia, with 15 companies.



Not every company can, however, join the Community, only those which meet certain quantitative and qualitative criteria such as sales revenue, profit after taxation, profitability indicators, credible management, past growth and proven and promising future figures. After successful admission, every company starts the two-year training with modules on strategising and finance, then they choose elective modules according to their needs (innovation, HR, organisational development, going international, digitalisation).

Beyond the high-quality international training, the companies also benefit from becoming well-known, from exploiting business generation opportunities, the exchange of experiences with Hungarian and international companies, and consultation with ELITE partners (more than 200 consultants, banks, attorneys, etc.). By learning about international best practices, Hungarian medium-sized companies are able to become more competitive on the international stage. Going public is not mandatory after the ELITE Programme. Experience in Hungary, however, shows that the Programme is most interesting to companies which are thinking about developing an IPO-ready company in the medium/long term as an alternative to bank funding (but necessarily about listing on the exchange). A considerable number of Hungarian companies are preparing for an IPO or are already listed on a BSE market (UBM Nyrt., Megakrán Nyrt., DM-Ker Zrt., Gloster Infokommunikációs Kft.).

Based on the statistical survey conducted by ELITE S.p.A. among companies having been involved in the Programme for at least 5 years, i.e. predominantly Italian companies, an average increase of 39% in sales revenues can be observed as a result of the Programme. In addition to revenues, progress can also be measured in other indicators: after joining the ELITE Programme, companies have seen an average of 32% EBITDA margin increase, and an average of 36% organic growth (current staff numbers/staff numbers at the start of the Programme). ELITE, therefore, aims at companies that have a big growth potential and wish to step to the next level, develop and are open to acquiring new knowledge and incorporating it into their everyday operations. It is the companies which enroll in the Programme, which means that multiple top managers or owners can attend training days to better convey knowledge to decision-makers.

The trainings are predominantly in London and Milan; BSE, however, adds 3 whole-day professional modules to the standard ELITE International curriculum. In addition, BSE wishes to continually provide ELITE companies with content and meeting opportunities, so we organised networking events and thematic workshops in 2019 and have already completed the entire 2020 timeline.

To reach out to potential ELITE companies, BSE attended several professional events and business meetings as organiser and collaborating partner; we, therefore, estimate that the ELITE Program got to about 400 companies directly. The BSE still relies on its partner banks and consultancies (Budapest Bank, CIB Bank, UniCredit Bank, Concorde MB Partners, EY, PwC, Deloitte Private, MAPI Club, FBN-H, MGYOSZ, HVCA) and does its best to establish new partner relations. In line with the practice of the previous years, we had several client events, business breakfasts and one-on-one meetings.

The BSE strengthened its already good partner relations and also made some new ones.

- MGYOSZ (Confederation of Hungarian Employers and Industrialists)—BSE and the ELITE Programme appeared in the Confederation's magazine for its member companies, and we had a joint business breakfast in 2018 on the topics of circular economy and corporate governance.
- FBN-H—In 2019, BSE had the chance to attend a club event of this considerable Hungarian federation of family businesses and to draw the attention of first and second-generation managers to the services of BSE and the ELITE Programme.



- MAPI Klub—we work in close collaboration with this club of major Hungarian SMEs; some of their member companies are already in the ELITE community.
- We communicate regularly with the Győr and Debrecen offices of the Chamber of Commerce and Industry. This year, we presented professional content to their members twice in Győr and once in Debrecen. The BSE is working on establishing similarly good relations with other local chambers as well.
- We worked together with the professionals of DLA Piper on special topics, and they sometimes provide professional content for the Hungarian ELITE modules.
- We are in day-to-day contact with consultancies (Deloitte, EY, PwC, CMBP). They support our activities as “trainers” of the Hungarian ELITE modules and in the acquisition activities.
- The representatives of commercial banks (Budapest Bank, CIB Bank, UniCredit Bank) also contribute to our day-to-day work by presenting their clients the benefits of the ELITE Programme, and we also organise small group business meetings. For instance, Budapest Bank assisted us in a multi-stop roadshow in the country (its stops included Dabas, Somogyaszaló and Pannonhalma) where we could directly contact nearly 100 clients. The companies got complete professional programmes at these sessions to support their company development mindsets. We also had a professional morning programme with UniCredit Bank during the spring and we also had business breakfasts with CIB Bank. At these events, one of the companies participating in the ELITE Programme also presented its strategy and ideas in detail, which was very useful for the participating companies. Since banks get into close contact with the companies through their account services and credits, they know the managers/owners better beyond the figures. The cooperation with them is, therefore, especially useful for the stock exchange.

In 2019, we had 21 events with our partners, and we had the opportunity to promote the ELITE Programme in 28 events, including those organised by the BSE.

The summit of medium-sized enterprises, the BSE50 Conference, was held in autumn 2019, and the ELITE Programme had a major role in it: companies interested in it could obtain information at its dedicated stand, the regional head of ELITE, Umerah Akram, gave a presentation in the morning section about the ELITE community, their goals and current events; in the afternoon, 3 Hungarian companies and Budapest Bank, a BSE cooperating partner, shared their experience in a panel discussion.





Thanks to the active acquisition activities of BSE, the following 19 companies joined the Hungarian ELITE Community in 2019, which therefore grew to 36.

BlackBelt Technology Kft.
Carboferr Kereskedőház Zrt.
CoreComm SI Kft.
ELME Automatika Kft.
Ezüsthajó Kft.
Gamma Digital Kft.
G-Plan Építő Kft.

Gulyás Tüzép – GSV Kft.
Iniciál Autóház Kft.
Kométa 99 Zrt.
Mirelite Mirsa
MITO Communications Kft.
Mortoff Kft.
Optimum Solar Kft.

Rotovill Kft.
Serco Informatikai Kft.
Somogyi Elektronik Kft.
Verarbeiten Pausits Kft.
Via Bérautó Kft.

- **BlackBelt Technology Kft.**

BlackBelt started in 2013 and has become a big corporation through tailored software development and the development of management systems in the recent years and has several Hungarian and international clients. This dynamically developing IT company developed its own product, JUDO, in response to its clients' software demand, and JUDO is now the fundamental pillar of the custom software development unit of BlackBelt.

- **Carboferr Kereskedőház Zrt.**

This company purchases input materials, primarily unalloyed steel products, for traditional metallurgical activities and provides logistics and trading services for its collaborating partners. Being a supplier of Hungarian and multinational distributors and end users, they contribute to the supplying and financing of the value creation chain of the energy, automotive, agricultural machinery and construction industries.

- **CoreComm SI Kft.**

The Company was founded in the United States as CoreComm Solution Inc. and has had its representative office in Hungary, CoreComm SI, since 2001. The Hungarian subsidiary specialises in two business lines, protection solutions and associated equipment, and secure uninterruptible power supply.

- **ELME Automatika Kft.**

ELME Automatika Kft. has extensive experience in the designing and manufacturing of product-specific devices, special-purpose machines, assembly lines, and testing equipment. Their projects have large scopes stretching from the development of the technology required by the client to delivering turn-key systems.

- **Ezüsthajó Kereskedelmi Kft.**

Ezüsthajó Kft., a Hungarian family business, started to sell truck equipment 26 years ago and has become a countrywide network since then. Nowadays, they are present in Budapest, Debrecen, Győr, Pécs and Szeged. Through their regional shops, they can serve haulers, truck drivers, garages, agricultural companies and resellers in Hungary and abroad.



- **Gamma Digital Kft.**

Started in 1995, this company supports primarily the automotive and pharmaceutical industries through custom electrical engineering developments in the field of industrial automation, intralogistics, robotics and industrial IT. The company designs and builds entire forklift systems for high-bay warehouses, boxes and automatic operation and has implemented several important development projects in the past years in the field of intralogistics automation as well.

- **G-Plan Építő Kft.**

With its construction and road-building services, this company aims at developing the infrastructure primarily of the South Transdanubia region and of entire Hungary. In addition to building things underground and manufacturing and selling various asphalt and concrete products as well as concrete blocks, the company also provides road freight and leases road-construction machines (e.g. asphalt finishers and rod rollers) and earth-moving equipment.

- **Gulyás Tüzép – GSV Kft.**

One of the leading building material and ceramics companies in Hungary with more than 27 years of experience. They provide professional assistance for builders and renovators with high quality service packages from design to construction. They also retail and wholesale a wide range of building materials, wallpapers, paints, tiles and floorings, bathtubs, shower cabins, sanitaryware, faucets, bathroom furniture and accessories.

- **Iniciál Autóház Kft.**

The dynamically developing Iniciál Group is in 100% Hungarian ownership and sells several known car brands does their customer service and repair service. Their activities cover the area of West Hungary and they have four sites, Győr, Mosonmagyaróvár, Sopron and Szombathely.

- **Kométa 99 Zrt.**

As one of the largest companies in the Hungarian meat industry, Kométa 99 does not only increase its revenues every year but also pays special attention to the quality of its products, compliance with the guidelines on healthy nutrition, and the environment—the latter means that their production and infrastructural equipment meet the best available technology requirements in order to minimise emissions.

- **Mirelite Mirsa**

MIRELITE MIRSA started in 1981 and has been in full Hungarian ownership since 2003 and makes various quick-frozen vegetable, fruit, pastry and meat products. They make and package the products with modern technologies and machines and they can satisfy various customer needs in terms of packaging.



- **MITO Communications Kft.**

MITO started in 2008 and has become one of the major communication agencies in the more than ten years that have passed since then. They assist several big companies in solving their complex business, communication and digital problems. They have a continually renewing service portfolio and four business units (communications, development, media, new technologies) to serve Hungarian and international projects.

- **Mortoff Kft.**

An established IT consultant and provider. Their activities include a range of services from consultation through development and testing to comprehensive project management; their solutions always go beyond the defined requirements in order to explore new business opportunities for their partners.

- **Optimum Solar Kft.**

Based in Baja, Optimum Solar Kft. primarily designs and builds solar parks and provides comprehensive administration support in the credit application, authorisation and official reporting processes. Solar panel efficiency is ensured by a special technology, the development of which the company actively contributes to.

- **Rotovill Kft.**

Although this company in Pécs works as a wholesaler of household appliance parts; thanks to its wide and continually changing product range, it has also become a major player in household air conditioning. Rotovill started in 1993 and continually looks for market expansion opportunities. That is the reason for their building their private label product portfolio under the Rcool brand and it currently has 60 products, from swivel fittings to room thermostat and A/C equipment.

- **Serco Informatika Kft.**

Started in 1983, Serco Informatika Kft. is one of the longest-standing market players in IT services and system integration. This family business first repaired computers and punch-card machines that occupied entire rooms, but nowadays they repair and sell IT equipment, provide cloud services, design and operate IT systems and networks.

- **Somogyi Elektronik Kft.**

The company of the Somogyi family in Győr is one of the largest electronics wholesalers in Hungary. Their sales strategy focuses on approaching users through retailers; they, therefore, have about 2,000 partners both in Hungary and abroad.

- **Verarbeiten Pausits Kft.**

This company has been manufacturing custom and mass steel and machine products for almost thirty years in Halászi. Verarbeiten Pausits Kft. is in 100% Hungarian ownership and its equipment and staff can process 8,000 tons of steel every year thanks to their continuous development and international experience. The



company's customers are predominantly from Western Europe, but they also make custom-made structures for some companies in the Middle East.

- **Via Bérautó Kft.**

The company leases commercial vehicles and has a fleet of 1,200 vehicles, including everything from pickup trucks through conventional trucks to trailer trucks. In addition to their wide range, they also provide flexible leasing schemes, comprehensive paperwork and short servicing times.



4.4. PROMOTION OF PRIVATE TRANSACTIONS: BSE XMATCH

The new strategy of BSE, announced in 2016, defines providing access to the capital market for SMEs as a special priority. The first step in this direction was the launching of the BSE Xtend market, which successfully registered the first three issuers during 2018-2019. In the meantime, the BSE had been checking for some time how to support the market of Hungarian private capital market transactions by introducing new services or further developing their existing ones in order to increase the number of IPOs in the long run and the penetration of BSE on the Hungarian capital market.

Our consultations with international platform operators and Hungarian market players have shown that the need for a private placement platform (PPP) that assists private capital market transactions with online and offline services is not significant yet. Nevertheless, the need for offline activities bringing together investors and companies planning to raise capital, i.e. community building, networking events and education is indeed significant.

In response to this, the Board of Directors of BSE decided in autumn 2019 to introduce the BSE Xmatch service.

The primary purpose of developing and operating the BSE Xmatch service is to build a market and an ecosystem, increase the Hungarian capital market coverage and awareness and to increase the direct BSE coverage among Hungarian investors, which would ultimately increase transaction activity first on the private, then later on the public capital market.

The target group of issuers for the BSE Xmatch are private limited, smaller and younger companies, SMEs and pre-IPO companies. The target group of investors are professional financial investors (institutional investors, venture capital companies, private equity funds, angel investors and wealthy individuals) who are willing and able to invest in companies.



The new service means a long-term and continuous product development for the stock exchange based on feedbacks from the market.

The first BSE Xmatch event was in the end of November, and over 80 investors, companies and consultants attended it. The three companies that were presented in the programme and are planning to raise capital right now are DM-KER, Gloster and Post For Rent.

DM-KER has a strategy of dynamic growth on the Hungarian and regional market of construction and agricultural machineries, for which they will take the opportunity of raising funds on the capital market. Gloster is expanding its business units by acquiring small IT companies that provide quality services. The company's goal is to get listed on the BSE Xtend market and to acquire fresh capital. Post For Rent wishes to become a major player on the global market of influencer marketing and wishes to raise the capital necessary for expansion through the Hungarian stock exchange in 2020. The professional programme was closed by the panel discussion where representatives of the Allianz, Hold and OTP Fund Managers spoke about and gave an insight into the asset management market and the investment processes of fund managers. The most important part of the event was perhaps the reception which gave potential investors and the companies a chance to contact each other directly and to discuss the questions that came up during the programme.



5. MARKET AND PRODUCT DEVELOPMENTS

5.1. THE SME ANALYTICAL/MARKET-MAKING PROGRAMME OF BSE CONTINUED AND EXTENDED

THE EXTENDED PROGRAMME

The analytical/market-making programme launched as a pilot programme in the end of 2017 to support trading in the stocks of small and medium-sized enterprises listed on the BSE was extended and continued in 2019 as a result of the favourable reception and the results of its first year.

The BSE set the indicative timespan of the programme to 3 years (until the end of 2021) and, in the meantime, made joining the programme possible to other issuers as well and also made market-making optional, besides bigger market-making quantities.

PARTICIPANTS OF THE ANALYTICAL/MARKET-MAKING PROGRAMME		
INVESTMENT PROVIDER	ANALYSED STOCK	QUOTED STOCK
Concorde Értékpapír Zrt.	Appeninn, AutoWallis, CIG, Duna House, Waberer's	
MKB Bank Zrt.	Alteo, Masterplast, BIF	Alteo, Masterplast
OTP Bank Zrt.	PannErgy, Rába, Zwack	PannErgy, Rába, Zwack
Wood & Company Financial Services a.s.	ANY Biztonsági Nyomda, Graphisoft Park	
Equilor Befektetési Zrt.*	OPUS	OPUS

*Under preparation

Source: BSE

This is how Waberer's International and AutoWallis joined the programme in 2019 (the first analysis on Waberer's International was disclosed in August 2019, and the first analysis on AutoWallis is expected for January 2020). These two companies were undertaken by Concorde Értékpapír Zrt. OPUS GLOBAL is consulting with Equilor on analysis, market-making and the launching date.

EXPERIENCE OF 2019

Although 2019 was not a positive year in terms of stock turnover in the SME segment (the turnover of the stocks involved in the programme dropped by 43%, which is mostly attributable to the high base value caused by the strong speculative turnover of 2018), the analysis of the part two years (between 2017 and 2019) still shows a 50% turnover expansion for the stocks which had continuous market making that continued in the programme during 2019 as well.



The order books of quoted stocks showed a positive liquidity during 2019. The Budapest Liquidity Measure, which expresses the above with a single figure, of the quoted stocks improved on average, and the change of the past one year is positive in terms of the stocks quoted in 2019, even if compared to stocks which were not quoted in 2019 anymore.

CONTINUATION—2020

The analytical/market-making programme announced for 3 years at the end of 2018 will continue in 2020 to secure attention for the players of the SME segment of BSE.

In addition to the already-participating companies, further companies of regulated markets and the companies of the BSE Xtend market will be added to the list of potential companies in the programme, and the first analysis on OPUS GLOBAL may also be published, and the market-making of issuer stocks could also start.

5.2. THE CORPORATE BOND MARKET IS COMING TO LIFE

On 26 March 2019, Magyar Nemzeti Bank announced that it would launch a corporate bond programme called Bond for Growth Scheme (BGS) to ensure favourable financing opportunities through purchasing the bonds of the companies issuing them on the primary and secondary markets.

By increasing bond market liquidity, the MNB wishes to encourage Hungarian companies to rely on other forms of financing besides bank loans. This could contribute to a more efficient monetary policy transmission mechanism because a healthy competition of corporate funding markets could ensure a more efficient implementation of the interest rate decisions of the central bank, ensuring that more transmission channels provide an efficient support to the sustainable achievement of the inflation target. On the part of companies, it would further extend available financing opportunities, which could support, among others, the outward foreign direct investment and innovation plans of Hungarian companies, which is also a goal of the government.

The programme started on 1 July, and in it, the MNB has nearly HUF 300 billion to purchase bonds issued by non-financial companies with seats in Hungary and appropriate ratings.

In addition to diversifying the financing opportunities of companies, the announced program also offers BSE the opportunity to animate its corporate bond segment, which had existed only theoretically so far (the Hungarian corporate bond market was generally quite underdeveloped before the programme, it amounted to about 1.5% of the GDP, which is a modest figure by international standards).

The MNB programme requires that the bonds be issued in the BSE auction system; new securities be listed on one of the BSE bond market segments within maximum 6 months; and a distributor must provide quotation complying with specific requirements there.

The BSE has been supporting the success of the MNB bond scheme with several means. It created a new, MTF-like market called BSE Xbond for companies which plan to issue bonds so that they can get listed on a public market with



less strict conditions. No brochure is required to be disclosed if securities are registered on the BSE Xbond platform, it is sufficient to prepare an Information Document. As another relief, issuers entering this platform are not required to apply the IFRS. The new market targets professional bond purchasers by setting the minimum nominal value of securities eligible for registration to EUR 100,000 or its equivalent in another currency. This means that private investors can join the market primarily through investment funds, savings banks and insurers. The first issuer arrived at the end of 2019 in the form of registering the Mol 2029 bonds on the Xbond market on 19 December.

Additionally, BSE gave MNB direct membership in the standard procedures as regards the auction system, regulated secondary market trading and the Xbond market.

Additionally, we implemented developments in the auction system with the goal to ensure compliance with the criteria defined in the MNB programme; furthermore, BSE is further developing its monitoring system measuring market-maker performance with a view to measure the market-making parameters of the BGS.

For smaller companies which could difficultly appear on the capital markets on their own by issuing bonds, the BGS has a securitisation option as well. In addition to packaging already existing credits of small and medium-sized enterprises into securitised portfolios, securitisation also includes the option of issuing credit-like portfolios packed in securities. To promote securitisation in Hungary, a law amendment in spring made it possible that the BSE establishes a consultancy that plays a key role in executing securitisation transactions. This subsidiary was legally established in the middle of September and is now working very hard to develop the practical aspects of the securitisation framework.

The first bond issuance in the BGS was on 16 September with the transaction of Pannónia Bio, which was then followed by 15 other auctions during 2019, raising a combined amount of HUF 313 billion.

5.3. REGIONAL COOPERATION, JOINT INDEX DEVELOPMENT

THE THREE SEAS EXCHANGES INDEX

Indices play an increasingly important role in the world of investments. Mostly because they are essential for the cost-efficient passive investment strategy, which has become increasingly considerable in the past years (a research of Ernst & Young showed that the market share of passive investments might outgrow the market share of active investments by 2027, after having doubled its share, above 30%, by 2020 in 10 years), but also because their benchmark function makes them indispensable to asset managers with active investment policies. Professional investors think more and more in regions and not in individual countries, which has strengthened the relative role of regional indices.



Recognising this, the chief executive officers of the stock exchanges of the V4 countries (Hungary, Poland, the Czech Republic and Slovakia) and Croatia, Romania and Slovenia signed, as part of the ongoing collaboration of the capital markets of the region, a letter of intent to develop a new regional stock index at the economic summit in Krynica-Zdrój, Poland on 4 September 2019.



“Stock exchanges and capital markets of the V4 countries and the surrounding countries must closely cooperate to offer meaningful solutions for the financing and operating challenges of the companies in the region. The launching of the new index indicates the deepening of this relationship and provides a more direct access to the capital markets of Central and Eastern Europe for international and Hungarian institutional and private investors”, emphasised Richárd Végh, the chief executive officer of the Budapest Stock Exchange, the importance of the index at the conference.

The Three Seas Exchanges Index, or CEEplus index, includes over 100 of the most liquid stocks of the stock exchanges of the Central and Eastern European region (Budapest, Warsaw, Praha, Bratislava, Zagreb, Bucharest and Ljubljana). The weights of the stocks included in the index are basically determined by their free-float capitalisation, applying the 5/10/40 rule (the weight of a single stock is maximum 10%, the combined weight of stocks with a share over 5% is maximum 40%), i.e. the index is compatible with the UCITS. To facilitate diversification and to avoid that a country becomes dominant in the index, the combined weight of the stocks of a country may not be over 50%. The index is calculated by the Warsaw Stock Exchange, then, from 2020, its subsidiary, GPW Benchmark S.A. Data required for calculating it are provided by the member stock exchanges. In 2019, the calculation was done as a pilot, once a day (at the end of the day); the plan is, however, to shift to real-time calculation. Index values are calculated in the local currencies as well as in EUR and USD. The plans are to set up committees consisting of the representatives of the stock exchanges involved in this project to manage the index and to make the conceptual decisions related to it.



Accordingly, an important criterion in the creation of the CEEplus index was to ensure that the participants in the project can develop revenue-generating and tradeable products based on the index; therefore, the stock exchanges relied strongly on the opinion of Powszechny Zakład Ubezpieczeń (PZU), a leading Polish financial service provider. Not surprisingly, PZU was the first company to create a passive investment fund following the CEEplus index to create an opportunity to invest in the performance of the region.

Elaboration of the rules and clarification of still open questions will continue in 2020 as well. The final contract will be signed afterwards.

The development of this index can also be understood as the first joint development initiative of the capital markets of the CEE region, and it will be followed by further joint projects, either in indices or others. These joint projects are to make investment in the region more attractive, strengthen the capital markets, and so the economies, of the region, and encourage investments into job creation.

Characteristics of the CEEplus Index

Index base value and date

- 1000 index points on 30 August 2019

Selection criteria

- Companies listed on the regulated markets of the Bucharest Stock Exchange, the Budapest Stock Exchange, the Bratislava Stock Exchange, the Ljubljana Stock Exchange, the Prague Stock Exchange, the Warsaw Stock Exchange and the Zagreb Stock Exchange (CEE stock exchanges).
- Most liquid stocks: minimum EUR 90,000 average turnover during the 6-month revision period, min. 15% free-float.

Revision and index adjustment

- Annual revision based on end-May data.
- Basket change after the third Friday of June.
- Modification in extraordinary cases (delisting, bankruptcy, split, rev. split, etc.).

Calculation

- Price index calculated from closing prices on days when at least two CEE stock exchanges, corresponding to at least 50% of the index weight, had trading.
- The index is determined in the following currencies: EUR, USD and CZK, HRK, HUF, PLN, RON (conversion is based on the foreign exchange rates of the National Bank of Poland).

Disclosure

- On the website of the Warsaw Stock Exchange.
- At the discretion of the other CEE stock exchanges (on their websites, in their IT systems, etc.).



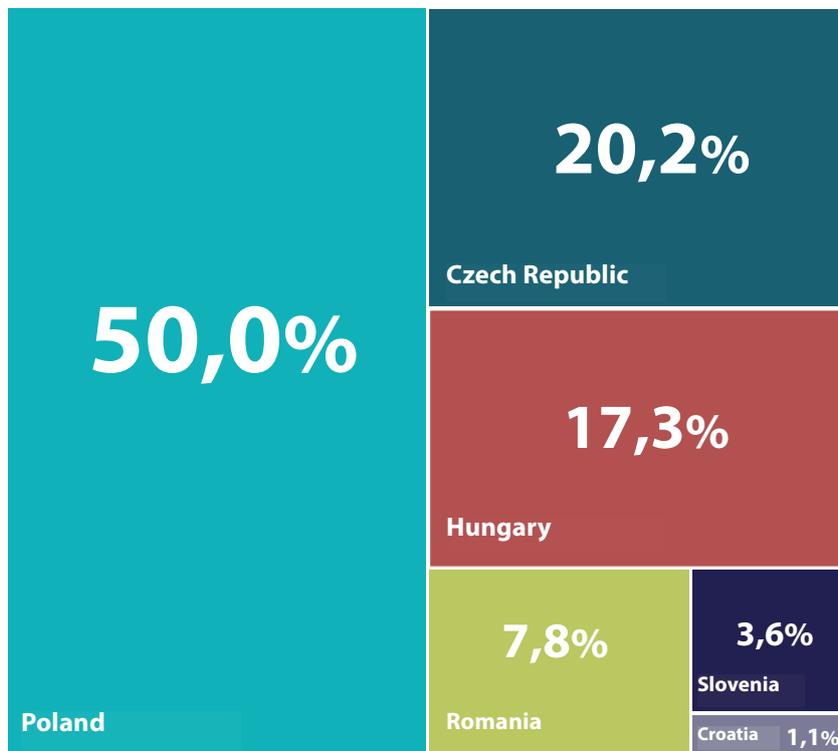
TOP 10 CEEPLUS INDEX MEMBER STOCKS

RANK	STOCK	COUNTRY	WEIGHT*
1.	ERSTE GROUP BANK	Czech Republic	10.000%
2.	OTP	Hungary	8.280%
3.	PKOBP	Poland	6.213%
4.	PKNORLEN	Poland	5.157%
5.	MOL	Hungary	4.870%
6.	PZU	Poland	4.340%
7.	CEZ	Czech Republic	3.385%
8.	PEKAO	Poland	3.133%
9.	CDPROJEKT	Poland	2.580%
10.	KGHM	Poland	2.389%

*On 4 September 2019

Source: BSE

COUNTRY WEIGHTS IN THE CEEPLUS INDEX*



*On 4 September 2019

Source: BSE



6 BRAND-BUILDING, COMMUNICATION

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

THE HUNGARIAN CAPITAL MARKET IN THE MEDIA

In 2019, investor communication focused mostly on increasing the stockholding of Hungarian households but also on emphasising the importance of funds raised on the capital market among issuers. In this context, with the BSE's support, daily articles, interviews and news reports were published on the most prestigious, most widely read and most widely listened-to economic media platforms.

The Stock Exchange makes an effort to establish and operate closer relations with those media that can reach retail investors better. Beyond statements and reports on monthly turnover data—now published on a regular basis and which mostly provide useful information to the specialised press on the Hungarian capital market—the Budapest Stock Exchange also publicises all important events and happenings related its activities as we try to be available to the representatives of the Hungarian press with press releases, interviews and industry articles.

Expressed in figures, in 2019 we released 8,000 stock exchange-related reports in the press, generating more than 925 million views. The calculated media equivalency value was more than HUF 1,500 million in this period.

The BSE has been working on reaching investors, potential and current issuers, as well as BSE partners through social media since September 2016. At the end of 2015, the Facebook page of the Budapest Stock Exchange had less than 500 followers, but by the end of 2019, we increased this to nearly 17,000, reaching the benchmark, the typical level for Hungarian investment service providers. At the same time, the number of LinkedIn followers jumped from 1,700 to above 2,300.

EVENTS

The Budapest Stock Exchange holds three priority events each year. The first is the birthday of the Exchange in June, where together with the representatives of issuers on the Hungarian trading floor, exchange members and key partners, the Budapest Stock Exchange celebrates the anniversary of its reopening on 21 June 1990 after decades of involuntary hiatus

The other is the Best of the BSE Awards Gala, which the Budapest Stock Exchange has been organising for twenty years to award the most outstanding yearly performances on the Hungarian capital market. By giving out the awards at the Best of BSE Gala to kick off the year, the BSE evaluates the preceding year and ceremonially launches the next. A professional panel of capital market experts decides on the actual year's award categories, the award recipients, determining category winners based on entries received or turnover data. While for most of the categories, winners are selected on the basis of a quantitative methodology, in the case of the category for Domestic Stock Trading Platform of the Year, a panel consisting of members of the Stock Exchange Advisory Board chose the winner after evaluating the entries received and on the basis of user ratings.



The 2018 Best of BSE Gala was on 17 January 2019 and it had four new award category. The award of the first category went to Ágnes Sütő (Hungarian Banking Federation) for building investor awareness. The award of the second category went to Róbert Réthy (Mol) for being the best investor contact person. The foreign bond issuer of the year was the Bank of China, which started to list its structured bond on the Budapest Stock Exchange in December 2018. Finally, the mortgage bond issuer of the year, OTP Jelzálogbank, also received an award.

At the 2018 Best of BSE Gala, the former CEO of Magyar Telekom, Christopher Mattheisen, received a lifetime achievement award from the Budapest Stock Exchange for developing the Hungarian capital market. The “Award for Stock Trading Company with the Highest Turnover for the Year” went to Concorde Értékpapír Zrt. which had a turnover of HUF 1,582 billion, the second highest turnover was realised by Wood & Co. and the third highest was realised by Este Befektetési Zrt. The “Award for BUX Futures Index Trading Company with the Highest Turnover for the Year” and the “Award for Futures Stock Trading Company with the Highest Turnover for the Year” went to Erste Befektetési Zrt. The title “Currency Futures Trading Company with the Highest Turnover” went to Raiffeisen Bank Zrt., the “Stock Issuer with the Highest Turnover for the Year” went to OTP Bank with a HUF 1,370 billion one-off turnover. The “Award for the Highest Equity Capital Increase of the Year” went to Konzum, which was acquired by Opus during the year; “The Stock Issuer of the Year” award went to Megakrán Nyrt., which opened the trading on BSE Xtend. The “Bond Issuer of the Year” award went to Magyar Fejlesztési Bank Zrt. The Data Service Provider of the Year award went to RND Solutions Zrt. When awarding the title of “Investment Service Provider of the Year”, in addition to turnover data, the panel also took the nominee’s work performed in the interest of the Hungarian capital market into account, meaning that this year the award went to OTP Bank. The award for Issuer Transparency went to Mol, and the Special Mid-Cap Issuer Transparency award to ANY Biztonsági Nyomda Nyrt. The winner of the “Domestic Stock Trading Platform of the Year for 2018” award could be voted for on the BSE website after prior registration, and, according to the highest number of valid votes, it went to the “Webbroker” online trading platform of KBC Equitas.

The 2018 Best of BSE award ceremony was sponsored by the KELER Group.

The SME Conference, the “BSE50—Summit of Medium-sized Enterprises”, which was on 19 September 2019 (for the fourth time since its start in 2016) is another important event of the BSE. Its over 500 participants were welcomed by Mihály Patai, the Chairman of the Budapest Stock Exchange and Vice-President of Magyar Nemzeti Bank; the keynote address was given by György Matolcsy, the President of Magyar Nemzeti Bank.



In accordance with the customs, the BSE50 2019 publication was presented at this event. Just as its previous editions, it presents the inspirational stories of 50 Hungarian businesses, from the food industry to real estate and to IT companies.

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

The BSE's event activities in terms of figures: In 2019 we participated at or organised 150 conferences, professional forums, bell-rings, visits to the exchange, press conferences, business breakfast or tea meetings. For nine thousand people, these events presented the only chance to meet with the BSE and the BSE's representatives at the domestic or international level.





7. SUBSIDIARIES

7.1. ACTIVITIES OF THE KELER GROUP

In 2019, the KELER Group continued implementing its strategic goals that aim to make KELER to a dominant, leading depository and clearing house in the Central and Eastern European (CEE) region through stable and reliable IT infrastructure and efficient organisation.

In the KELER Service Development Programme (KSZP), KELER Zrt. started to develop a modular and scalable IT system that meets today's requirements in multiple stages. The Programme's priority goal is to connect KELER to the Pan-European Settlement Platform, the Target2 Securities (T2S), via automated IT systems.

In line with the provisions of Regulation (EU) 909/2014 of the European Parliament and of the Council (Central Securities Depositories Regulation - CSDR), on 29 September 2017, KELER submitted the documents needed for re-authorisation according to the CSDR to Magyar Nemzeti Bank (MNB) as competent authority. As a result of the ongoing consultations in the authorisation procedure, KELER is expected to obtain its new authorisation to provide central securities depository and supplementary banking services under the CSDR during 2020.

To transpose the Shareholder Rights Directive II (SRD) into Hungarian law, Act LXVII of 2019 on encouraging long-term shareholder engagement entered into force in 2019. Involving the players of the Hungarian capital market, KELER started to prepare for compliance with the legal requirements.

In order to increase the efficiency of Hungarian circulation and improving the competitiveness of the Hungarian economy, Magyar Nemzeti Bank will introduce the Prompt Payment System (PPS) developed in the AZUR Project on 2 March 2020. KELER is continuing the project started in 2017, the aim of which is to ensure that KELER can perform its obligations in time.

The European regulatory authorities keep encouraging the more and more wider use and spreading of the Legal Entity Identifier (LEI). Bearing this in mind, KELER prepared for the satisfaction of the increased demand by developing the appropriate infrastructure and efficient processes in 2019, the last step of which project is obtaining the code-provider permit According to the objectives and subject to the international authorisation procedures, KELER could become an accredited LEI code provider in 2020.

KELER further develops its Trade Reporting service to support market reports in order to comply with the requirements of the EU Regulation on transparency of securities financing transactions and of reuse (Securities Financing Transaction—SFTR). In order to ensure that KELER can provide finished products for capital market clients by the deadline set by that piece of legislation, i.e. April 2020, detailed specification of the service and the IT solution supporting it started in 2019.

Within the international strategy supporting efficient securities settlement, KELER continues to establish direct links to securities depositories. Within the structural reform support programme of the European Union, KELER—in collabo-



ration with the European Bank for Reconstruction and Development (EBRD)—continues its link-building project, within which (after establishing the Polish link in 2018) it created the technical conditions for linking to the Bulgarian securities depository in 2019.

KELER CCP, the KELER Group's subsidiary providing clearing house and guarantee services, has also had a lively year. In addition to the increasing number of energy market transactions and volumes, several business development projects were implemented or started. From 1 May 2019, in addition to the appearance of new products, the range of products available on the day-ahead market of the CEEGEX Hungarian Organised Natural Gas Market also extended and these are settled centrally by KELER CCP.

In relation to the Bond for Growth Scheme (BGS) of Magyar Nemzeti Bank, the Budapest Stock Exchange launched a new secondary market segment, BSE Xbond, on 1 July 2019, to provide an alternative trading platform for companies planning to issue bonds. KELER CCP, the central counterparty of the Hungarian capital market, has prepared in time for serving and clearing the new market.

2019 also saw the continuation of the cooperation with the Kazakh AIX Group (Astana International Exchange), launched in the previous year with the aim that KELER CCP settles the securities transactions made on the Kazakh Stock Exchange by European standards, and that KELER, as central securities depository, provides the after-trading settlement-related services.

From 2020 January, the Hungarian natural gas market (CEEGEX, HUDEX, FGSZ Trading Platform) will shift to EUR-based trading; the transactions will, therefore, also be settled in EUR currency. This change also meant development requirements for KELER CCP, which clears the transactions, and these developments were completed by the end of 2019.

In line with the provisions of the CSDR, after the completion of the authorisation procedure, KELER may not provide money account maintenance services in the future in relation to the settlement of transactions made on the energy market. Having regard to the requirements, the KELER Group started the development of a business model in 2019 to hand over the money account maintenance and settlement services related only to energy market transactions to commercial banks. KELER CCP continues to provide the central clearing service for partners on the Hungarian natural gas market as well as the general clearing member services on the European energy markets.

7.2. BUDAPEST INSTITUTE OF BANKING

THE BACKGROUND OF EDUCATION ACTIVITIES

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



New financial technologies and infocommunication continued to require constantly renewed knowledge from all market players. With the spreading of the internet, retail trading ran on terminals offering home broker services in the early 2000s. From that time onwards, it was hard to tell apart pros with MMTS certificate from well-prepared small investors trading from home. That is the reason why our education programmes at the time were for the trade and retail clients with whom the contracted stock exchange clients, investment providers and banks were in a service relationship. To have a modern Hungarian capital market, making companies, the supply side, understand the capital market was also crucial. Since the stock exchange is more than capital financing only, we included ethical operation, corporate governance, sustainability, IFRS reporting obligations, communication and liaising with investors in our educational programme on the stock exchange.

As a natural supplementation of our education activities, informative and knowledge-sharing events organised in the spirit of social responsibility have also appeared and become increasingly popular in the past years. We presented the past and current operation of the BSE to thousands of secondary school and university students and gave dozens of presentations on the BSE in Hungarian secondary schools, universities and colleges.

OPERATION AND GOALS OF THE BUDAPEST INSTITUTE OF BANKING

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

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

The foundation of the BIB is rooted in the matching of market needs with the social responsibility objectives of the National Bank of Hungary and the Budapest Stock Exchange. Its operation is based on a comprehensive banking/money market further training concept. Complex regulatory requirements adopted in the interest of market stability, digitalisation and increasing competitiveness made the reform of financial further training extremely urgent. Up-to-date knowledge is becoming increasingly valuable in the financial institution sector. The operation of a competitive financial system requires competitive knowledge, and competitive knowledge requires high-quality, world-class training. High quality in up-to-date knowledge, ethical professionalism, efficient knowledge-sharing and modern education technology. BIB currently has active relations with 22 Hungarian and international partner organisations including Moody's Analytics, the London Centre for Finance, Technology and Entrepreneurship and the London Stock Exchange Group education institutions.

One of the pillars of the BIB's educational programme is the one- or two-day courses held for financial institutions that cover a wide educational spectrum relating to the banking system and related areas. The other pillar is the area of



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

BIB's courses feature the best Hungarian and international speakers of the trade who share their modern knowledge in a practically oriented and experience-based form to their students. Students' current questions in the topics of banking, finance and supervision are answered from first hand sources, authorities of market companies and the professional heads of MNB.



The bigger part of the BIB education portfolio is provided in Hungarian language for Hungarian operators; over 10% of the banking and finance courses of the 2018/19 academic year were, however, in English. The company's medium-term goal is to become an international education centre in the region through its special courses.

Over 1,600 students enrolled in the traditional banking and financial courses, and the satisfaction feedbacks (a score above 9, on average, on a scale of 10) confirm the original pursuits. In September 2019, BIB's broker training started with many students, but the official and NTR trainings also attract more and more employees of banking and financial insti-



tutions who meet clients directly. E-learning, which is a cutting-edge form of education that is flexibly adaptable to the students' time schedule, is especially popular, over 8,000 financial institution employees gained up-to-date knowledge in this way with the help of the Budapest Institute of Banking in the past year.

7.3. A NEW COMPANY: ELSŐ ÉRTÉKPAPÍROSÍTÁSI TANÁCSADÓ ZRT., OR ELÉT

Putting corporate credits in a securitised form on the market allows the detachment of bank credit portfolios and giving them to other banks or investors. This can be a useful tool either in normal economic circumstances or after a crisis and can further improve the financing conditions of companies in the long run.

THE BACKGROUND AND BENEFITS OF SECURITISATION

In its pre-2008 form, securitisation was a huge factor in the development of the subprime crisis. This experience led to the Securitisation Regulation (Regulation (EU) 2017/2402 of the European Parliament and the Council) which laid down a secure, transparent and standard securitisation framework. Securitisation, which previously caused a crisis, could, paradoxically and thanks to the new rules, serve as a monetary policy bailout for the financial intermediary system in a potential future crisis.

According to the April 2019 amendment of the Capital Market Act, BSE established (at the initiation of its owner) Első Értékpapírosítási Tanácsadó Zrt. (hereinafter referred to as ELÉT Zrt.) as its 100% subsidiary, and it started operations in September 2019. The purpose of ELÉT Zrt. is to actively promote the spreading of securitisation in Hungary to contribute to the development of the Hungarian money and capital markets and to exploit the relevant business opportunities, while enforcing investor aspects to the greatest extent possible as a consultancy.

The activities of ELÉT Zrt. support the implementation of BGS, a liquidity-increasing programme of MNB, contributes to the expansion of the set of monetary policy instruments of MNB through securitising SME credit portfolios of commercial banks, because securitisation reduces the stability risks of the financial intermediary system by diversifying the credit risk. For the central bank, the most important yield of securitisation is that it increases the credit offer for a given borrower segment (SMEs in this case), strengthens financial stability and improves monetary transmission efficiency. Joining the programme could offer several benefits to those Hungarian commercial banks which are active lenders to SMEs. This does not only let commercial banks intensify their lending activities but also provides them with an additional financing channel which could improve their liquidity, indicators and, with considerable risk transfer, they can reduce the risks in their balance sheets and improve their capital positions while remaining compliant with regulatory and/or accounting requirements.

THE TOTAL AND THE SECURITISABLE VOLUME OF THE SME CREDIT MARKET

The SME sector has a special role in the economy in terms of growth, employment, added value generation and social issues. Moreover, the 2008 financial crisis hit this sector hard; it is, therefore, important to avoid previous negative experience in a new, future crisis. With a view to the foregoing, the renewed EU regulatory frameworks also support the securitisation of SME loans.



In terms of SME loans, the total capital exposure of commercial banks is higher than HUF 3,000 billion. In the securitisable segment (filtered SME credit market) contains performing, non-FGS, HUF-based credits with a maturity longer than two years. In the Hungarian SME credit portfolio, the portion potentially affected by the securitisation is 28% of the total SME credit portfolio, i.e. around HUF 860 billion. The average maturity of the 20,638 loans in this category is 7.1 years, their average interest rate is 2.7%. The credit portfolio concerned amounts to 2% of the 2019 gross Hungarian GDP and 10% of the bond and bank loan portfolio of non-financial companies.

The combined SME credit portfolio of the nine biggest Hungarian commercial banks is between HUF 190 billion and HUF 600 billion, more specifically, their potentially securitisable credit portfolio is between HUF 50 billion and HUF 200 billion. The commercial bank SME portfolio meeting the filter criteria is 20-35% of the total SME credit portfolio of the individual banks.

CHARACTERISTICS OF THE SECURITISABLE SME CREDIT MARKET				
INDICATORS	VALUE (billion EUR)	VALUE (billion HUF)	WEIGHT (in the GDP)	WEIGHT (the total SME)
Gross GDP, 2019	133.12	44,000.00		
The total SME credit market,	9.35	3,089.99	7.02%	
Filtered SME credit market,	2.61	862.37	1.96%	27.91%

Source: ELÉT Zrt.

CREATION OF THE SECURITISATION MARKET

Having regard to the sensitivity and complexity of the securitisation process, the entire process builds up from phases which build upon one another.

Pilot phase

Preparation of the pilot phase has been ongoing along the regulatory and organisational issues since September 2019 and has included the presentation of the Hungarian securitisation model to the members of the banking system. The sector shows a stronger-than-anticipated interest in securitisation. Most of the first bilateral consultations between ELÉT Zrt. and the commercial banks were completed during December. The group of banks involved in the pilot phase will be defined by the beginning of 2020.

The pilot phase is a simplified securitisation process in which SME credit portfolios are securitised; the securitised portfolio, i.e. the bonds, will, however, stay in the books of the securitiser, i.e. the bank. The institutional investors and credit-rating agencies are not involved in the pilot phase yet; the potential regulatory and procedural experiences, however, could lead to process fine-tuning in the comprehensive securitisation. In the early stage of the pilot phase, portfolios to be securitised of the banks wishing to participate in the securitisation are selected. Bank data are currently not com-



pletely standardised; setting up standardisation criteria is, therefore, also necessary besides data collection (with a view to reliable data comparability). After data collection, product development for securitisation takes place and it includes not only the definition of compliance criteria but also cash-flow planning, coverage value determination and the setting up of the order of seniority of asset classes. According to the original intention of the pilot phase, the bonds resulting from the securitisation remain in the books of the commercial banks.

The above structure will have a double result. The banking system familiarises itself with the process of securitisation and creates the conditions for quick market entry by making the securitised portfolio subject to comprehensive securitisation.

Comprehensive, market securitisation

We can fine-tune the securitisation framework based on the experiences obtained in the pilot phase and can launch comprehensive, market-level securitisation including external investors and other relevant participants (credit-rating agencies, auditors, etc.) in the second half of 2020. In this phase, additional capital raising and risk transfer will potentially be available.



8. INTERNATIONAL RELATIONS

8.1. ROADSHOW EVENTS AND INTERNATIONAL CONFERENCES

In 2019, the Budapest Stock Exchange attended several international conferences and organised roadshow events for stock exchange issuers.

The Budapest Stock Exchange and PKO BP Securities, a leading Polish investment provider, held an investor day in Warsaw in June with the participation of Richter Gedeon, Magyar Telekom, Waberer's, ANY Biztonsági Nyomda, Duna House, Pannergy and Wizz Air. The event had over 40 investor meetings.

On 18-19 June, the Budapest Stock Exchange and six Hungarian issuers attended the Spring Europe MidCap Event in Paris. At this event, ANY Biztonsági Nyomda, Duna House, Opus Global, Pannergy, 4iG and Waberer's had bilateral meetings with the nearly 150 Western European (mostly French, German, Spanish, British and BENELUX) family asset managers and institutional investors focusing on mid-cap stock investments.

The Krynica-Zdrój Economic Forum, the biggest conference of the Central and Eastern European Region was held for the 29th time in Poland, between 3 and 5 September. At this meeting, the CEOs of the Warsaw Stock Exchange, the Prague Stock Exchange, the Bratislava Stock Exchange, the Budapest Stock Exchange, the Zagreb Stock Exchange, the Bucharest Stock Exchange and the Ljubljana Stock Exchange signed an agreement on the creation of a new, joint stock index, the CEEplus.

The index basket contains stocks with the highest exchange turnover in the Central and Eastern European region, i.e. over 100 stocks. The value of this index is calculated by the Warsaw Stock Exchange on a daily basis and in the local currency, EUR and USD; the stock exchanges have, however, committed themselves to calculate the index in real time in the near future. This initiative could open the road towards investing in the region for further international and Hungarian institutions as well as retail investors.

The CEO of BSE attended the Lujiazui Forum in Shanghai. At the Chinese economic summit in mid June (13-14 June), Richárd Végh attended panel discussions on supporting medium-sized companies. The discussion included top managers of global companies such as Ant Financial, Axa, Temasek Holding or the Agricultural Bank of China.

Still in June, after the Lujiazui Forum, the Budapest Stock Exchange held its first investor event in China, hosted by the Shanghai Stock Exchange.

At this event, OTP Bank, the Budapest Stock Exchange and the Hungarian Consulate in Shanghai gave presentations to Chinese investment fund managers. The aim of the Hungary Investor Day was to inform Chinese fund managers which manage portfolios investing outside China about investment opportunities in Hungary and Central and Eastern Europe.



In October, the Budapest Stock Exchange was represented at the Erste Bank Vienna Conference which offered an opportunity for exchanging ideas with the fund managers of the Central and Eastern European region regarding the Hungarian market and the hidden potentials of the new regional index.

The regional investor day in London, organised in collaboration with JP Morgan Bank, was held for the fourth time on 21 November. This year, OTP, Mol, Richter and MKB Bank attended as exchange issuers and could meet the investment fund manager clients of the Bank. At the event, Gábor Gion, state secretary of the Ministry of Finance, and Dániel Palotai, head analyst of Magyar Nemzeti Bank, gave presentations on the Hungarian economy and its fiscal and monetary policy.

The Budapest Stock Exchange closed the series of international conferences with the Praha conference of Wood & Company this year again.

8.2. COOPERATION WITH V4 COUNTRIES

The V4+CEE Capital Market Conference, organised by the Budapest Stock Exchange and hosting the stock exchanges of the Central and Eastern European region, was on 12 April, and Márton Nagy, Vice President of Magyar Nemzeti Bank, and Richárd Végh, CEO of the Budapest Stock Exchange, represented the Hungarian capital market at it.

This meeting brought together nearly 100 attendees representing the stock exchanges of the European region with the fastest growing economy and offered an opportunity for the heads of the stock exchanges of the V4 countries and of Slovenia and Bulgaria to discuss the potential of the region's capital markets, stock exchanges and listed companies. On the day before the stock exchange summit, the heads of the region's stock exchanges could meet at a closed meeting to discuss, among other things, the growth of SMEs on the capital market and the opportunities to develop brands under a single brand.

At this event of six stock exchanges, the European Federation of Stock Exchanges also presented its strategy for developing the EU's capital market in the next five years, and the event also focused on the Polish pension reform adopted in November 2018.

The aim of this initiative was to further strengthen the cooperation between stock exchanges, primarily in relation to the plans of the European Union. Joint action is useful not only because it prevents the fragmentation of stock exchange opportunities but also because it provides a single feedback representing the entire region for the European Union. The local capital markets are strategically important for the financing of the economic growth of Central and Eastern Europe; ensuring the development of local ecosystems is, therefore, key for the competitiveness of the region.



The Krynica-Zdrój Economic Forum was held for the 29th time in Poland, between 3 and 5 September and the Budapest Stock Exchange also attended it. At this meeting, the CEOs of the Warsaw Stock Exchange, the Prague Stock Exchange, the Bratislava Stock Exchange, the Budapest Stock Exchange, the Zagreb Stock Exchange, the Bucharest Stock Exchange and the Ljubljana Stock Exchange signed an agreement on the creation of a new, joint stock index, the CEEplus.

The increase of index-linked investments in the past years encourages the trust that this index initiative could also assist in improving the liquidity of stock exchanges in the region, and that the index representing 100 stocks could ensure that not only the first 3 to 5 biggest stocks are included in investment portfolios but also the smaller companies.

8.3. CHINESE NETWORKING

An especially important component of the capital market development activities of the Budapest Stock Exchange is, in line with the strategy of Magyar Nemzeti Bank, to strengthen the cooperation with the dynamically developing China whose economic growth and influence on global trends is still prominent.

The Chinese capital market shows continuous development; the Shanghai and Shenzhen stock exchanges are currently the 4th and 6th biggest ones in the world with 127 new stock issues this year, in a combined value of USD 20 billion.

Although the most dominant investors are still Chinese individuals who invest only a small portion of their total wealth on international markets; the liberalisation of the Chinese investor market is, however, increasingly conspicuous. The inclusion of Chinese stocks in global indices led to an increasing activity of foreign institutional fund managers in China. Among the investors, the most authoritative index is the MSCI index with a 4.1% Chinese weight this year. Economic growth also leads to increasing savings in China, and a large portion of Chinese savings is looking for international investment opportunities. We must also mention that the capital flight is controlled; the current amount of foreign securities investments below the so-called QDII quota, the most popular one, is USD 100 billion.



STRATEGIC PARTNERSHIP WITH THE BANK OF CHINA

The BSE laid down the fundamental pillars for a joint Chinese-Hungarian capital market cooperation in early 2017 by concluding a cooperation agreement with the Bank of China (BOC). The agreement advanced to the next level when trading in the yuan-based structured bonds of BOC, in the value of USD 15 million and EUR 8.5 million and first issued in the region, started in December 2018. The debt security subscribed by institutional investors (fund managers, banks and other companies) is backed by the yuan-based bond issued by the Hungarian State and expiring in July 2020 and providing an interest rate of 4.85%. This was followed by another bond issuance of Bank of China, this time in the value of USD 36 million and EUR 4 million, at the end of 2019.

BSE and the Bank of China will continue to take joint steps in order to encourage Chinese companies that are active in Hungary and the Central and Eastern European region to choose the Hungarian capital market for raising capital.



COOPERATION WITH CHINESE STOCK EXCHANGES

In the past three years, the BSE concluded cooperation agreements with the Shanghai Gold Exchange (May 2017), the Shanghai Stock Exchange (May 2018) and the Shenzhen Stock Exchange (September 2019).

The aim of these agreements with the stock exchanges is to promote the Hungarian market among Chinese investors, and BSE is also to promote the Chinese market among Hungarian investors. Moreover, the BSE also aims at developing and introducing joint products with the Chinese stock exchanges, and the markets will support each other in data sales to ensure that Hungarian and Chinese stock exchange data get to as many investors as possible.



THE HUNGARIAN STOCK EXCHANGE PRESENTED ITSELF TO CHINESE MARKET PLAYERS

The Budapest Stock Exchange presented itself at a conference for Chinese investment fund managers and their investment service providers in the building of the Shanghai Stock Exchange in mid June. The Hungarian Investor Day was attended by several players of the Hungarian and Chinese financial markets and was opened by Jiang Feng, the Chairman of the Shanghai Stock Exchange, Sun Yu, the Vice-president of the Bank of China, and Li Jun, the Deputy CEO of the Financial Services Office of the Shanghai Local Government.

At the investor meeting focusing on Hungary, presentations were given by Richárd Végh, the CEO of the Budapest Stock Exchange, Ni Huanjuan, the representative of the Beijing Office of OTP Bank and Szilárd Bolla, the Shanghai Consul General of Hungary. This was another step for BSE in strengthening the cooperation with a dynamically growing Chinese capital market.

8.4. FESE-RELATED WORK

2019 proved to be another active year for the cooperation between the Budapest Stock Exchange and the Federation of European Securities Exchanges (FESE).

FESE is the common interest representation organisation of European regulated capital markets and exchanges. Its main purpose is representing these markets in European Union decision-making processes, primarily in establishing the Capital Markets Union. It currently includes 35 stock, commodity and energy exchanges and over 8,000 issuers from 30 countries. It counts the Deutsche Börse in Frankfurt, Euronext, the NASDAQ (which has offices in Europe as well), along with the Warsaw, Vienna, Prague and Bucharest exchanges among its members.

The key aspect of its vision is promoting and supporting the catching up of European small and medium-sized enterprises and making them IPO-ready, because SMEs represent 98% of enterprises in the European Union and employ two thirds of the employees and generate nearly 60% of economic activity in the EU. Several stock exchanges provide specialised markets for this, such as the BSE Xtend platform of the Budapest Stock Exchange, which is to support the growth plans of medium-sized enterprises.

The Budapest Stock Exchange has been actively collaborating with the Federation of European Securities Exchanges since 1999. The BSE became a full member of the organisation in 2004, following Hungary's accession to the European Union, but afterwards—in the previous ownership structure—only had technical membership through the CEESEG Group. After the National Bank of Hungary acquired majority ownership of the BSE, the Hungarian stock exchange was again granted full membership in the FESE as of June 2016. This allows the BSE to create cooperation opportunities with other stock exchange members and to gain more experience in international capital markets, thereby ensuring that the operation of the domestic stock exchange is EU-compliant and that the BSE is able to appropriately represent the interests of the Hungarian market when assessing frequently changing acts of legislation.



The role of the region's capital market strengthened further in December 2018. In addition to Petr Kobic's, the CEO of the Praha Stock Exchange and member of the Board of Directors of the Vienna Stock Exchange, becoming the new president of this advocacy organisation, he appointed Richárd Végh, the CEO of the Budapest Stock Exchange, member of his board of directors at the FESE General Meeting. The FESE membership facilitates the establishment of collaboration with other member exchanges and provides useful international experience for BSE, ensuring that the Hungarian stock market develops in line with the European guidelines.

The role of the European Commission and the FESE working closely together with it in solving the toughest challenges of European capital markets in 2019 (the global competitiveness of market infrastructure and the maintenance of transparency, security, integrity and fairness) is indisputable. The organisation provides opinions on the new directives and draft regulations of the Commission relating to capital markets. FESE's key lobby topics currently include the regulation related to MiFID II/MiFIR, the Securities Financing Transactions Regulation (SFTR), making data sales pricing unified and more transparent, the tick size regime, but the organisation also focuses on the impact of Brexit on the capital market sector.



9. COOPERATION WITH THE GOVERNMENT AND THE MARKET

9.1. CHANGES IN THE LEGAL ENVIRONMENT

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

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

All capital markets of the EU are required to apply the entire Prospectus Regulation adopted in 2017 (Regulation (EU) 2017/1129) from 21 July 2019. This means that the Regulation is directly applicable in the issues regulated by it, Member State laws, the Capital Market Act in Hungary (Act CXX of 2001 on the Capital Market) are required to be amended accordingly. The relevant project started already in 2018 in Hungary, and the BSE and Magyar Nemzeti Bank have been actively involved in it from the beginning. Consultations continued in 2019 as well. The amended text of the Capital Market Act was finalised and then adopted by Parliament in December 2019, and Hungarian market operators are expected to apply it from January 2020. The amendments allow issuers to enter the BSE markets working as multilateral trading platforms, i.e. Xtend and Xbond, with a simplified documentation in some cases, i.e. with an exchange-approved information document instead of a prospectus.

Regulation (EU) 2017/2402 of the European Parliament and of the Council laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012 (Securitisation Regulation) entered into force on 1 January 2019. In parallel, Part Eight on the special rules of securitisation was added to the Capital Market Act with the effective date of 1 January 2019. The provisions of the Capital Market Act supplement the Regulation and are applicable to securitisations not defined by the Regulation and not qualifying as STS securitisations or synthetic securitisations, and these securitisations are subject to both the Capital Market Act and the Regulation.



Securitisation is designed to enable a lender or a creditor—typically a credit institution or a corporation—to refinance a set of loans, exposures or receivables by transforming them into tradable securities by transferring the credit portfolio concerned as well as the receivables from it to a special purpose entity (SPE), pooling them, and the SPE issues securities covered by these, and these securities can be sold to various investors as organised into various risk categories. This gives investors access to investments in loans and other exposures to which they normally would not have direct access. Returns to investors are generated from the cash flows of the underlying loans. But originators can place further credits by derecognising these credits from its balance sheet.

The Bond for Growth Scheme (BSG) launched by Magyar Nemzeti Bank on 1 July 2019 purchases, within the MNB's set of monetary policy instruments, not only bonds issued by non-financial companies but also securities made by securitising credit claims from companies. This is hoped to give considerable momentum to the introduction of securitisation in Hungary and widen the scope of securities available to investors on the BSE, because participation in the BSG requires that the securities are listed on a regulated market of BSE or MTF.

The amendment of the Capital Market Act, having entered into force on 13 April 2019, also allowed the Stock Exchange to establish and operate, with the authorisation and control of the Supervisory Authority, a business company providing consultancy services to facilitate securitisation. This business company would lay down detailed operational and procedural rules and pay special attention to protecting the interests of investors involved in securitisation. Using the statutory authorisation, the BSE established Első Értékpapírosítási Tanácsadó Zrt. (First Securitisation Consultancy) which the Court of Company Registration registered on 23 August 2019. The mission of this company is to actively promote the spreading of securitisation in Hungary to contribute to the development of the Hungarian money and capital markets and to exploit the relevant business opportunities, while enforcing investor aspects to the greatest extent possible as a consultancy.

In 2019, the Hungarian legislator performed its obligation to transpose Directive (EU) 2017/828 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement. The Hungarian Parliament adopted Act LXVII of 2019 on the encouragement of long-term shareholder engagement and the amendment of certain acts with a view to legislative harmonisation, and its provisions entered into force on 17 July 2019. Issuers are required to apply certain provisions of this Act in preparing their 2019 corporate governance reports already. The Act lays down, among other things, rules for identifying shareholders, rules for informing shareholders of company events, and it specifies the procedures of electronic voting. The Act also clarifies the rules pertaining to institutional investors, asset managers, consultants representing shareholders and the transparency of transactions with affiliated parties and makes the remuneration of directors and managers more transparent than before.

The European Union announced its Capital Markets Union (CMU) initiative in 2015 to offer a comprehensive, long-term strategy for making EU capital markets more prominent, robust, efficient and uniform. The first five years of this initiative focused on strengthening the EU's capital market ecosystem coming out of the 2008 financial crisis and achieved considerable results, although it was less effective in reaching out to EU citizens and regain their lost trust in the capital market. The Finnish presidency of the EU, therefore, announced the second phase of the CMU in October 2019 and recommended that the CMU focus on savers' needs, sustainable investments and the challenges of digitalisation. To this end, the Next CMU Group which was mandated to elaborate the second phase of the Capital Markets Union, identified four priorities and assigned a total of twenty action proposals to them:



- Generating more long-term savings and investment opportunities in order to passivate more passive savers into more active investors;
- Massively develop equity markets by focusing primarily on providing more financing opportunities for SMEs;
- Increase financial flow fluidity between EU financial market places;
- Develop Debt, Credit and Forex financing tools in a manner that increases the international funding currency role of the Euro.

9.2. NATIONAL STOCK EXCHANGE DEVELOPMENT FUND

Supporting IPO-ready companies and strengthening the supply and demand sides were priorities for the Stock Exchange in 2019 as well. Accordingly, the cooperation started in 2018 with the National Stock Exchange Development Fund (hereinafter referred to as NSEDF) continued. The NSEDF is primarily designed to support and strengthen medium-sized companies and to make capital investments facilitating their introduction to the capital markets. The Fund is also involved in the large-scale stock market development programme designed to intensify capital fundraising among Hungarian companies to provide an alternative to the currently dominant bank lending.

The Fund was set up with an initial capital of HUF 13 billion from the reinvested resources of the financial programmes financed in the EU budgetary cycle between 2007 and 2013 and supervised by the Ministry of Finance, and it is managed by Széchenyi Tőkealap-kezelő Zrt. Through its 4 capital programmes (the NSEDF, the Széchenyi Capital Investment Fund, the Irinyi Venture Capital Funds and the Carpathian Basin Business Development Venture Capital Fund), the Széchenyi Capital Fund Management Zrt. manages nearly HUF 71 billion. The company's goal with the NSEDF is to list as many as possible small and medium-sized enterprises (which meet the conditions of the call for applications) on the BSE Xtend market, and that the suitable ones have public transactions in a higher trading category of the stock exchange. The capital fund typically invests in transactions amounting to nearly HUF 1 billion for the typical period of 2-3 years, and the involvement of a co-investor from the market is always mandatory.

The NSEDF invests, regardless of industry, in private limited companies (LLCs or PLCs) with seats in Hungary or seats in the European Economic Area and a branch in Hungary or public limited companies listed on multilateral trading platforms (MTFs) through public and private transactions. Investment utilisation is not subject to sector or geographical location; the target company is, however, required to undertake remaining at least on the BSE Xtend market for 2 years as from the capital injection.

Characteristics of target companies:

- considerable business growth potential with a forecasted growth in company value;
- balanced development with long-term outlooks;
- fully transparent operations or operations that can be made transparent and meet the BSE compliance criteria;



- owners' commitment towards the planned listing on the exchange, receiving the capital and cooperation with the investors;
- realistic strategy for the transfer of the Fund's share;
- commitment towards meeting the conditions and requirements for EU and Hungarian aids.

The capital fund may make two types of investments: the "pre-IPO" investment funds the development of companies that could get IPO-ed on the BSE Xtend market or the main BSE market in the medium run. This enables the NSEDF to contribute to expansion towards new markets, investments, product line broadening, and the implementation of business development solutions for more efficient operations and increasing the client base. "IPO" investments cover stock subscription during an IPO, including IPO on the main BSE market or the BSE Xtend market as well as public and private offerings.

In case of public offerings, the fund's decision-making is supported by prospectuses prepared by appointed consultants and complying with the stock exchange's requirements. This applies if the company's shares are offered on a market of the stock exchange after the private capital raising. In case of pre-IPO investments, the Fund examines the company's business plan according to the criteria of its own transparent rules by applying classic venture capital investment processes. The average term of IPO investments is between 3 and 5 years, that of pre-IPOs is between 0 to 2 years; neither of the planned terms may, however, be longer than the current term of the fund. Also importantly, the Fund may not invest in companies that are already listed on a regulated market (BSE Premium or Standard categories). It may, however, invest in companies listed on the BSE Xtend market, because it is not a regulated market, but a multilateral trading platform (MTF), and may also inject capital into bond-issuing companies.

The Capital Fund's first investment was in October 2018 when Megakrán Nyrt. was admitted to the BSE Xtend market. The transaction was a milestone in the history of BSE and the NSEDF, because the growth history of Megakrán has become a textbook example for Hungarian medium-sized enterprises. In 2019, as a result of the equipment investments and developments made with the help of the capital investment, the company could further strengthen its position in its segment and the BSE Standard category also got closer.

The transaction forecasted the Stock Exchange Fund's work in 2019 as well. It continued to look for, channel in potential portfolio companies; therefore, the number of companies with which the Fund is negotiating or has ever negotiated has passed 30 since its start in 2018. These companies are either ready to go public or will get close to go public through a potential collaboration within 12 to 24 months. The fund also networked at events such as the BSE50 Conference or the end October business meeting organised in collaboration of the Budapest Stock Exchange, the NSEDF, the Deloitte Private and the Hajdú-Bihar County Chamber of Commerce and Industry.

The continuous work had another fruit in the form of an end 2019 transaction involving the NSEDF. After more than a year of preparation, DM-KER Kft., a company specialising in construction and agricultural machinery, listed its stocks in a private offering worth HUF 1 billion in total to the BSE Xtend market. The company was previously involved in the busi-



ness development training of BSE, the ELITE Programme, and won an assistance to cover the costs of its going public in a call for applications implemented from EDIOP, the Mentoring Programme, which is the preparatory stage of the NSEDF.

In addition to supporting the Fund's decision-making with background analyses and research, employees of the BSE also play an important role in searching active projects, screening and investment process management. Moreover, they are in constant contact with the representatives of the NSEDF as regards the utilisation of programmes and services supporting the listing on the exchange and specifying the tasks and requirements concerning public offerings.

Similarly to the ELITE Programme, the National Stock Exchange Development Fund is included in the service package of the Budapest Stock Exchange, the ultimate element of which is the BSE Xtend market. In addition to generating direct benefits from its investments, the Fund's operations contribute (either by improving the quality and size of the target company and stimulating trading on the stock exchange or by subscribing own shares during listings) to the accomplishment of goals defined in the BSE's strategy such as developing the capital market infrastructure and strengthening the culture, increasing the market liquidity of medium-sized enterprises and the number of high-level stock-exchange offerings and/or MTF listings.

In 2020, the collaboration between the BSE and the NSEDF continues through finding potential companies and organising joint events with a view to getting between 4 and 8 new medium-sized enterprises to go public.

9.3. MENTORING PROGRAMME: SUMMARY OF THE EDIOP AND CHR PROJECT

In 2017, the Ministry for National Economy announced a call for applications under the subject heading "Increasing the efficiency of the SME sector, primarily through measures designed to facilitate public listing". The Budapest Stock Exchange submitted an application, which the NGM accepted and deemed to be worthy of support. Subsequently, the Budapest Stock Exchange submitted an application with a similar title and content for the Central Hungary region to the Deputy State Secretariat Responsible for Implementing Economic Development Programs of the Ministry for National Economy in November 2017.

As a result, the BSE Mentoring Programme has been offering SMEs a non-refundable aid which they can use for acquiring the knowledge necessary for capital market financing and financing the costs of their listing on the exchange within the scope the EDIOP (Economic Development and Innovation Operational Programme) since 6 February 2018 as well as in the Central Hungary Region since 3 January 2019.

In practical terms, this means that the BSE assists companies in two ways as an aid intermediary. Firstly, it funds 100% of the participation of eligible companies in the international ELITE Programme; secondly, it contributes to consultancy costs, up to 50%, which directly serve the company's stock market launch.

The EDIOP and CHR mentoring projects of BSE especially focus on companies which can be eligible to listing after their preparation and could be an attractive investment opportunity for Hungarian institutional or individual capital investors.



The BSE Mentoring Project consists, therefore, of two parts. The first project part is about supporting SMEs participating in the training programme implemented by an international collaboration, the second project part is about setting up a programme supporting the preparation of SMEs for the stock exchange and their launch.

The BSE conducted a public procurement procedure in 2019 for the first project part, and its winner was the ELITE Programme. The BSE wants to use the ELITE Programme to launch a European training and mentoring collaboration and conveying it to the target companies. Participants of the international collaboration take part in a complex training/mentoring programme in which they can learn from the most prepared consultants and expand their network. The Programme also lets companies find the best form of financing—credit or capital financing or capital raising via the BSE.

In the ELITE Programme 10 EDIOP companies and 6 companies from Central Hungary started their trainings in London during 2019, and another 1 company submitted its application for the course next spring.

COMPANIES THAT STARTED THE ELITE TRAINING IN LONDON		
No.	COMPANY NAME	START
EDIOP region		
1	CoreComm SI Kft.	April 2019
2	Somogyi Elektronik Kft.	April 2019
3	GSV Kereskedelmi Kft.	April 2019
4	Ezüsthajó Kereskedelmi Kft.	November 2019
5	Mirelite Mirsa Zrt.	November 2019
6	G-Plan Építő Kft.	November 2019
7	Iniciál Autóház Kft.	November 2019
8	Gamma Digital Kft.	November 2019
9	Rotovill Kft.	November 2019
10	Verarbeiten Pausits Kft.	November 2019
11	Észak Üvért Kereskedelmi Kft.*	March 2020
Central Hungary region		
1	VIA Bérautó Kft.	April 2019
2	Mortoff Kft.	April 2019
3	Serco Informatika Kft.	November 2019
4	Carboferr Kereskedőház Zrt.	November 2019
5	Mito Communications Zrt.	November 2019
6	BlackBelt Technology Kft.	November 2019

*Application already submitted

Source: BSE

The second project part aims at supporting medium-sized enterprises in preparing for the stock exchange as well as encouraging capital raising on the capital market if the medium-sized enterprises cannot get funding at all or enough on the financial markets. Here, the target group is more mature medium-sized enterprises that are open to being transparent listed companies but have not started their preparation for the stock exchange because of insufficient funds or knowledge.



In 2019, the opportunity offered by the second project phase was utilised by DM-KER Zrt. in the EDIOP region and Gloster Infokommunikációs Kft. in the Central Hungary region, and after the submission of the applications, the assistance agreements of these companies were concluded in summer 2019. The two companies in the mentoring programme are progressing according to schedule and are meeting the required milestones in time. This means that, on the whole, 3 companies use or have used the assistance offered in the stock exchange preparation part.

9.4. STOCK EXCHANGE ADVISORY BOARD

The Stock Exchange Advisory Board (TTT) of the Budapest Stock Exchange was set up at the beginning of 2016 by the new Board of Directors of the BSE elected at the end of 2015 with the purpose of including in the development and implementation of the new strategy of the Stock Exchange (now owned by the Central Bank of Hungary) as wide a range as possible of concerned industry stakeholders. The task of the Advisory Board is to prepare, substantiate and provide an opinion on the strategic and business decisions of the institution. The 17 members of the Advisory Board include current and former leaders and major figures of the money and capital markets, as well as the leaders of various professional chambers and administrative bodies. The Stock Exchange Advisory Board was convened three times this year. In January, it gave out awards for the best performances of 2018 on the Hungarian capital market. The Best of BSE Awards, which have a history spanning 20 years, was presented in 18 categories on the basis of market performance and the decision of the Stock Exchange Advisory Board. At its June meeting, the TTT reviewed the current issues of implementing the stock exchange strategy, with special regard to the upcoming Xetra T7 changeover, the tasks for the capital market in the 330-point competitiveness programme of MNB and the opportunities of the Bond for Growth Scheme. In addition to reviewing and evaluating the main events and developments of the year, the December meeting also focused on the expected directions for development in 2020 as well as on presenting the categories for the 2019 Best of BSE Awards.

Its chair is dr. Ilona Hardy, the first managing director of BSE and the Chairwoman of the Aranykor Önkéntes Nyugdíjpénztár.

Its members are: Dr. Zoltán Bánfi, MKB Bank Nyrt.; Dr. Tamás Bánfi, Budapesti Corvinus Egyetem; György Barcza, European Bank for Reconstruction and Development (EBRD); Ádám Hegyi, K&H Bank Zrt.; György Jaksity, Concorde Értékpapír Zrt.; Zsigmond Járai, Mol Nyrt.; Kálmán Nagy, Concorde MB Partners; Dr. András Nemescsói, DLA Piper Posztl, Nemescsói, Györfi-Tóth és Társai Ügyvédi Iroda; Gábor Orbán, Richter Gedeon Nyrt.; Dr. László Parragh, Hungarian Chamber of Commerce and Industry; Dr. Mihály Patai, Magyar Nemzeti Bank; Dr. Norbert Szivek, Cretum Vagyonkezelő Kft.; Hannes Takacs, European Bank for Reconstruction and Development; Sándor Vízkeleti, Hungarian Federation of Investment Fund Managers and Asset Managers; Levente Zsembery, X-Ventures Zrt.

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

9.5. WORK BY COMMITTEES

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

One group comprises the committees whose key function is to represent the interests of stakeholder partners (the Committee of Issuers and the Trading Committee). Pursuant to the provisions of the Capital Market Act—although the



Board of Directors has the right to approve stock exchange regulations—prior to adopting or amending certain regulations, the Board of Directors must request the opinions of stakeholders. Thus, prior to the approval of the exchange’s rules for trading and for the suspension of trading, the Board must offer exchange traders an opportunity to express their opinions thereupon. Likewise, before approving regulations on the listing, withdrawal or rules of procedure of securities, the issuers of the securities listed on the exchange or their trade associations must also have a chance to comment on the regulations. In addition to this interest representation function, committees also provide support to the BSE in order to increase the efficiency of its work.

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

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





TRADING COMMITTEE

The Trading Committee held two meetings in 2019, discussing the following topics:

- current issues of the T7 implementation project, new schedule;
- information on the BSE Xbond market;
- revision of the stock exchange fee structure;
- amendment of the BSE General Business Regulations owing to the T7.

The committee also decided in two other topics via electronic voting: on the introduction of the AKKO Invest equity futures contracts to BSE and on the revision of certain trading parameters.

INDEX COMMITTEE

The Index Committee had four meetings in 2019, on the following topics:

- overview of the results of the regular index review (twice);
- potential amendment of BUX and CETOP rules:
 - inclusion of well-traded share series in the BUX index;
 - CETOP – fine-tuning the discretionary rule for country limit 7;
 - CETOP – financial sector weight limit;
- BUX criteria – international outlook
 - + review of scenarios.

Moreover, committee decisions were made by written votes on five occasions, four times on the necessity of the extraordinary transfer of company events in the indices, and once on minor amendments of the Manual of Hungarian Indices.

COMMITTEE OF ISSUERS

The Committee of Issuers had four meetings in 2019. The Committee focused on the following issues:

- Current issues of BSE, launch of the Xbond market;
- Tasks and information in relation to the changeover to the T7 trading system;
- Requirements of and preparation for the ESEF (European Single Electronic Format);
- Discussion on the changes in the BSE fee structure;
- Review of the practice of suspension requested by issuers.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee had three regular meetings and one vote in writing in 2019 and dealt mostly with the following topics:

- Familiarisation with and interpretation of the new rules of Act LXVII of 2019 on the encouragement of long-term shareholder engagement and the amendment of certain acts with a view to legislative harmonisation, assessment of related further tasks, familiarisation with and commenting upon the new system for uploading reports;
- Developing a new format for monitoring reports;
- Preparation and acceptance of the monitoring report on the 2018 issuer FT reports.

SETTLEMENT COMMITTEE

The Settlement Committee did not have any meetings and did not require any voting in writing either in 2019.



10. BEYOND THE TRADING FLOOR: SUSTAINABILITY

10.1. THE IMPORTANCE OF FINANCIAL AWARENESS

Today, financial skills and know-how are essential for purposeful life planning. Conveying basic financial knowledge as well as information on how the stock exchange works and its features to younger and older generations and thus contributing to the sustainable growth of the country are, therefore, of special importance to the Budapest Stock Exchange.

In addition to its core activities, this objective is expressed in BSE's major role in (financial) education and organising in stock exchange games and competitions. These initiatives attract outstanding interest which clearly shows that the population is recognising the importance of financial knowledge.

The Budapest Institute of Banking (BIB), a subsidiary of the Exchange, is responsible for vocational training courses, while the BSE organises free programmes for the general public, in particular for secondary school and university students. These include the BSE Academy's exchange courses for retail investors, visits by school groups and the Kochmeister Award. In 2019, we decided to give it to the student submitting the best written equity research analysis in the competition organised by the CFA Institute and CFA Society Hungary.

10.2. BIB (BUDAPEST INSTITUTE OF BANKING)

The 2017 foundation of BIB is rooted in the matching of market needs with the social responsibility objectives of the National Bank of Hungary and the Budapest Stock Exchange. Modernisation of the financial education system and the existence of the BIB are justified by several factors including the complex regulatory requirements to ensure market stability as well as the pursuits to increase digitalisation and competitiveness.

The BIB offers up-to-date knowledge covering the entire Hungarian banking, financial and insurance sector in three pillars. The first pillar is the one- or two-day courses held for financial institutions that cover a wide educational spectrum. The other pillar is the area of so-called official trainings, which includes insurance brokerage or financial intermediary activities. The third pillar is the area of individual corporate training courses, where the BIB offers training customised for the given company or bank—with on-site training if needed.

2019 meant a strong year in the number of courses, lecturers and students for BIB, which has become a major player on the Hungarian financial education market.

10.3. STOCK DERBY COMPETITION

In close collaboration with the Money Compass Foundation, the Budapest Stock Exchange organises a regular competition for secondary school students that aims to increase investor awareness and knowledge about the stock market.



Through this online contest, organised with huge success every year, players (secondary schools students and teachers) have the chance to discover the world of stock market trading without having to risk their own money. They can obtain useful capital market and business experience from this playful competition.

Over 1,800 students participated in the five-week competition in spring 2019. Each player had a virtual capital of HUF 2 million to create their own portfolio using real-time stock price data and to buy and sell securities traded on the BSE. The competition did not only focus on making the highest possible yield, as participants could increase their available capital by responding to quizzes about the stock exchange. In making their decisions and responding to the questions, players could rely on the Stock Exchange ABC, the investor awareness materials of the Money Compass Foundation, the textbook Compass to Finance and the BSE glossary. During the five weeks long Stock Derby Competition, players gave a total of 17,000 orders in a combined value of HUF 3.77 billion.

The best players were awarded by considering several criteria during the game. The most effective quiz players and those who had the highest portfolio increase per week were given weekly prizes; the student, teacher and parent whose portfolios had the highest value at the end of the competition were given valuable prizes, and the most active school was also awarded.

10.4. KEBA STOCK EXCHANGE GAME

Nearly 1,000 students in 300 teams from 180 secondary schools measured their skills with one another in one of Hungary's oldest financial and securities market competition, the Stock Exchange Game for Secondary School Students of the Central European Training Centre for Brokers (KEBA). 35 teams from regions beyond Hungary's borders, from 4 countries in total, also applied for the qualification round. There were teams with members from two cities, who did not know each other from earlier. The competition's flexibility made it, however, possible for them to get to the finals by keeping contact online. The winning team was the "Árpád Fund" team of the Szilágyi Erzsébet Secondary Grammar School in Budapest.

After the qualification round, the teams were required to submit essays for the semi-finals, and a professional panel of judges decided which teams can continue to the final. During the finals, students had to demonstrate their aptitude both in writing and orally. They first presented their previously written essays in 10 minutes, then they had the chance to demonstrate their knowledge in writing and oral assignments, then they were tested in topics related to the Budapest Stock Exchange and the Hungarian companies traded on the BSE. The panel of judges consisted of the representatives of Erste Befektetési Zrt., Keler CCP Zrt., Concorde Értékpapír Zrt., MKB Bank Nyrt., KEBA Alumni and BSE.

The organisers rewarded this year's best with professional awards and prizes. Prizes for the teams that qualified to the semi-finals were provided by the BSE; the professional grand prize was offered by the Budapest Institute of Banking (BIB): free 100-hour preparatory course for the special stock exchange examination for the best team. In addition, Erste Befektetési Zrt. offered a valuable internship at the company for the first team.

The panel of judges emphasised that the entries were again of extraordinarily high quality and the number of teams with outstanding performance in all fields of the competition is increasing every year. The competition is also a strong



community builder, which is demonstrated by the KEBA Alumni, the organisation of the finalists of the previous years. In addition to contributing to the organisation and conduction of the competition, the association also organises professional events and continuously increases the professional network in order to keep up this 19 years old competition.

10.5. CFA-KOCHMEISTER INVESTMENT RESEARCH CHALLENGE

This is the 10th year that the CFA Institute and the CFA Society Hungary has hosted the CFA Institute Research Challenge, their stock analysis competition for university students. This year, students were required to prepare an 8-10 pages long fundamental analysis in English about Duna House Nyrt., a company listed on the Budapest Stock Exchange. Four of the teams submitting the best written entries were given the chance to demonstrate their skills and knowledge orally as well at the final organised for the BSE Jubilee Ceremony.

The contestants received valuable prizes thanks to the CFA Society Hungary, and the main event sponsor, the Aegon Alapkezelő (Aegon Fund Manager) gave further prizes and internship opportunities to several contestants. The winners, the “Wave Partners” team of the Corvinus University of Budapest, also got the prestigious Kochmeister Prize established by the Budapest Stock Exchange in 2004. Winning in Hungary did not mean the end of the competition for the best team, because they got into the regional finals for teams from Europe, the Middle East and Africa.

The entries submitted for the 2018-2019 competition were assessed by a panel of renowned experts of the capital and financial markets: István Máté-Tóth, the BSE’s Deputy CEO for Business Development, György Pálfi, Portfolio Manager of Aegon Alapkezelő, Dániel Schilling, Director of Finance at Duna House and Dániel Tunkli, Portfolio Manager at Accorde Alapkezelő.

10.6. BSE ACADEMIES

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

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





The Budapest Stock Exchange held two BSE Academies in 2019, one on 5 November and one on 4 December. Both were at the Corvinus University of Budapest. This year's lectures focused on active and passive forms of investments, current trends, mission and platforms of the investor market, the nature of savings and the investment opportunities offered by BSE Xtend. The lecturers included heads of financial companies such as Random Capital, KBC Equitas, MKB Bank, Erse Befektetési Zrt. or Generali Alapkezelő. The two Academies attracted strong interest and demonstrated that the BSE Academies are still one of the most efficient tools to improve general financial literacy.

10.7. CSODALÁMPA ALAPÍTVÁNY (MAGIC LAMP FOUNDATION)

In addition to educational initiatives, the BSE has been supporting the Magic Lamp Foundation for years, which seeks to make the wishes of sick children come true, bringing them unexpected joy and encouragement to persevere with lengthy treatments. Besides the financial support, BSE staff are also involved in the wish-granting process, and this trend will continue in 2020 as well.



10.8. FINTELLIGENCE LABORATORIES

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

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

Students in the finance-accounting undergraduate training of the University's Faculty of Economics will have the opportunity to use the 36 computers in a specially equipped classroom of the FINTELLIGENCE laboratory to learn about



the latest technologies and applications used in the financial arena today. In the future, the University will also announce courses providing basic level practical financial training, open to any student of the University, while secondary school groups also get the opportunity to take part in interactive classes on finance.

10.9. CORPORATE GOVERNANCE

BSE started to elaborate its corporate governance code as early as in 2002 and it has also had a Corporate Governance Committee since 2004 with the aim of supervising the continued development of recommendations by taking domestic industry requirements, draft EU legislation and general international trends into consideration, and also to represent industry considerations in the field of the further development of corporate law.

With support from the stock exchange, the Corporate Governance Committee has completely revised and updated its code, the Corporate Governance Recommendations, which provides guidance and explanation for issuer corporate governance. The new recommendations will be easier to use by the issuers and easier to process by investors. The goal was to provide exactly the relevant information that provide a correct picture of issuer management systems and their compliance with the laws and investor requirements.

The new issuer recommendations of the Budapest Stock Exchange are to harmonise the interests of the company, the shareholders and the broader environment of the company in order to ensure that the issuers operate with the aim of lasting value creation. Efficient corporate governance serves the increase of company value and the effective representation of shareholder interests and other stakeholders' rights.

BSE thinks that business ethics begin where laws end; the corporate governance recommendations assist the compliance with these requirements. The recommendations support the decision-making process. Importantly, practice adopted with a view to compliance with the recommendations later also support the management; a newly created compliance function for example can provide useful feedback to the company management.



11. OUTLOOK FOR 2020

The next year will also be a special one in the history of the Budapest Stock Exchange. The five-year programme of this institution (which is in Hungarian hands again) comes to its end, and the newly formed, modern stock exchange will celebrate its 30th anniversary.

2019 was the year of momentum with new records: the BUX Index reached an unprecedented height, 46,000 points. In light of its starting value of 1,000 points in 1990, this 46-fold increase tells more than anything about the effectiveness of the 30 years old Hungarian stock exchange. Investors could realise 30 to 150 times the profit on the biggest companies listed on the stock exchange, and this value is without the dividend paid in the meantime.

2020 will bring lots of challenges for the stock exchange. Developing and integrating the comprehensive stock exchange development project into public awareness as much as possible remain a special priority for the BSE.

Companies must prepare for the period when they base their expansion less onto subsidised loans or EU assistance but on funds raised on the market. The stock exchange detects more and more IPO-ready companies, and raising funds on the stock exchange plays an increasing role in the funding of Hungarian companies. Just like in the previous years, 2020 will also see several initial offerings in every instrument class. The BSE is also planning to go public on the BSE.

In 2020, the BSE will play an important role in the Bond for Growth Scheme which was launched in 2019, because the bonds issued in this scheme will get listed on the dedicated BSE Xbond market. MNB increased the starting budget of HUF 300 billion to HUF 450 billion on 1 January 2020, which proved to be a gap filler in the first months already: while in the initial phase, it were the corporations which started to use the stock exchange for a new form of financing, the second phase focused on SMEs.

According to Richárd Végh, CEO of the BSE, this does not necessarily mean, because of efficiencies of scale, individual issuing, but could take the form of securitisation, which practically means that corporate credit portfolios are packed together and get securitised with the involvement of a bank in order to resell these packed-together loans to capital market investors. As securitisation transactions are a new thing in Hungary, there is a lack of knowledge and established practice on the market. In order to eliminate this lack of knowledge, BSE established a new subsidiary, Első Értékpapírosítási Tanácsadó Zrt., or ELÉT. ELÉT will participate in the preparation of transactions, and its contribution and knowledge will mean some kind of quality assurance in future securitisation transactions.

2020 will of course also see the continuation of the highly successful programmes of BSE, such as the ELITE Programme and the business meetings around it, the BSE50 Conference and the BSE50 Clubs. And we have already started to prepare the 2020 BSE50 publication.

We will also organise the BSE CEO60 event where the top managers of Hungarian listed companies will give an insight into their companies' plans, business performance and innovative projects to professional investors. We will also have BSE Xmatch events where emerging Hungarian companies and potential investors can meet one another and lay the foundations for their future business cooperation.



2020 will see the returning of the V4 Capital Market Conference to Budapest where the number one leaders of the stock exchanges of the V4 countries will discuss the hidden potentials of the region's capital markets, stock exchanges and listed companies. The Federation of European Stock Exchanges will also attend the stock exchange summit of the regional stock exchanges.

Moving away a bit from the capital markets, the BSE will organise a Fintech Conference in spring 2020, but not only the events will make the next year interesting: the Budapest Stock Exchange will celebrate the 30th anniversary of its modern history. Magyar Nemzeti Bank will issue a jubilee coin for the anniversary and a Stock Exchange Book compiled especially for this occasion will also be published.

The above-listed events, however, do not cover the entire service portfolio which BSE dreamed in 2016 to make the capital market vibrant. Retail and professional investors and the many business and financial players can meet the Hungarian stock exchange at a host of other Hungarian and international conferences, workshops, roadshows, BSE Academies and professional publications.



12. SPECIAL TOPICS

12.1. IMPLEMENTATION OF XETRA'S SUCCESSOR SYSTEM (XETRA-T7)

DBAG, the developer of the Xetra "Classic" trading platform previously used by BSE, decided to considerably further develop the central trading system in several steps, and to implement the Xetra-T7 system on DBAG and the related stock exchanges while abandoning the previous system. BSE uses the system as an outsourced service provided by WBAG; system implementation is, therefore, coordinated by DBAG/WBAG. WBAG and DBAG and the market operators involved decided that the changeover of the Partner Exchanges served by WBAG should take place in 2019.

The changeover to the new system was basically a change in the "backend" IT infrastructure; the implementation of the Xetra-T7, however, implied functional changes that meant the narrowing of functions in certain respects and the appearance of new functions in other respects.

The most important change was giving up the daily bidding limit function. Xetra (and its successor, T7) offers volatility mechanisms to manage extreme price fluctuations, and the daily bidding limit function of Xetra Classic was integrated into the software at the special request of BSE, as a result of a 2-year implementation. Having regard to the fact that volatility limits ensure a more intelligent management of price variations, and no other stock exchange used this function (and the use of fixed absolute price limits was also not typical in international practice), BSE considered the consultations with other market players and did not request the development of this function for the T7 system. The implementation of T7, therefore, resulted in the abandonment of the daily bidding limit mechanism, which meant that prices could not change more than a set extent in the same day.

The system has new intelligent bidding types such as "one-cancel the other" or the trailing stop bid, which BSE also plans to implement in the long run. The ESMA plans to use these new bids only after releasing the relevant waiver. The ESMA authorisation is still in progress; the new bids can be used only after T7 is implemented.

The so-called random peak setting appeared as a new option in the ICEBERG bid, and the player using it can hide its intention to deliver a relatively bigger bid better.

Another novelty in comparison with the previous standard mechanisms on the BSE was that the T7 allows not only the spot (even partial) application or cancellation of a market bid but also its inclusion in the bid book. This affects, of course, the bid-pairing mechanisms as well.

After the preparatory steps above, the new system was successfully implemented on 2 December 2019.



12.2. IDENTIFICATION OF THE MEDIUM-TERM FUTURE OF THE TRADING SYSTEM

BSE outsourced the operation of the spot market trading system to Wiener Börse AG and uses the trading system developed by DBAG. The outsourcing contract in force with WBAG will terminate on 31 December 2021. In order to prepare ourselves for the expiry of the contract, BSE launched a project at the end of 2018 to identify the long-term future opportunities of the trading system.

We started negotiations with WBAG so that the BSE can get as favourable conditions as possible for the period following the expiry of the current trading system contract. In parallel, the BSE prepared a detailed Request for Indication to get quotations of professional companies that have the knowledge and development capacity to provide a service like this in the required quality. BSE received quotations from 5 major player in the industry. In parallel, the BSE checked whether developing a system in-house in a regional cooperation would be an option, but it concluded that this is not an option for the time being.

The detailed consultations revealed that the Xetra-T7 provided by WBAG is the optimum solution; the Board of Directors, therefore, adopted the decision in autumn 2019 that the BSE would contract WBAG and extend the existing contract according to the conditions agreed-upon.

Preparations for extending the contract will end in January 2020 and we will be able to sign the contract.

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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