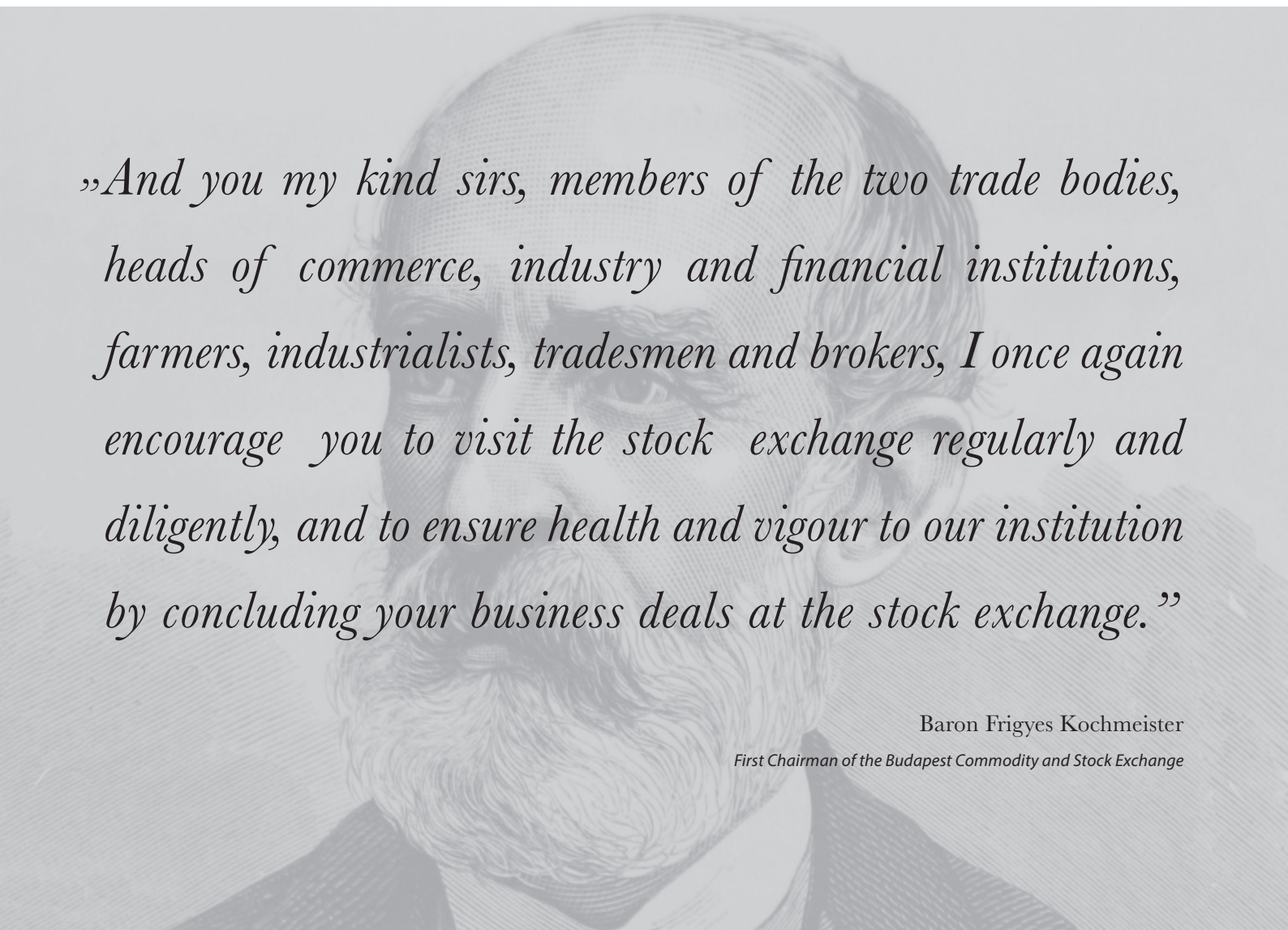




STRATEGIC REPORT

2020



A faded, grayscale portrait of Baron Frigyes Kochmeister, a man with a full, curly beard and mustache, wearing a suit and tie. The portrait is centered in the background of the page.

„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 2020

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The mission of the Budapest Stock Exchange (BSE) is to strengthen the role of capital markets in Hungary, thereby supporting the growth and competitiveness of companies and improving the prosperity of households, where – as a central market player – the BSE enjoys a high degree of trust.

As the successor to the first Hungarian stock exchange founded more than one and a half centuries ago in 1864, the Budapest Stock Exchange plays a pivotal role in the capital markets of both Hungary and the Central European region. As a result of the dynamic growth it achieved after its re-establishment in 1990, the 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 past three decades, the Budapest Stock Exchange evolved into one of the most innovative markets in the region: it was the first to introduce, among other activities, options and futures trading. In addition, the exchange pioneered the listing of exchange-traded funds in the region and was among the first to use – in collaboration with KELER – central counterparty services, an essential component of the security of settlements.

Today, the 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. In addition to equity-based futures and options, its derivatives market gives home to a foreign exchange market with one of the highest turnovers in Europe and to a commodities market, which is also one of a kind in the region.

On 20 November 2015, the National Bank of Hungary (Magyar Nemzeti Bank, MNB) concluded a sale and purchase agreement with the former owners of the Budapest Stock Exchange, the Austrian CEESAG AG and Österreichische Kontrollbank AG. As a result of this transaction, the MNB became the qualified majority shareholder in the BSE. Brought under national ownership, the 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 the coming years.

The purpose of the Strategic Report is to present, on an annual basis, what has been accomplished by the BSE of 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, the BSE will naturally also publish its annual report presenting the business management activities of the Stock Exchange.

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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY ON THE IMPLEMENTATION OF BSE STRATEGY 2016–2020

Looking back at 2020, the first thing most people will recall anywhere in the world is the pandemic triggered by the COVID-19 virus, the lockdown, and the economic downturn. Although the challenges posed by 2020 have put stock exchanges to the test as well, they passed it with flying colours. Trading went on uninterrupted, and the participants of the financial system were capable of tackling the heightened volatility. 2020 is an important milestone for the Budapest Stock Exchange for another reason as well: it marks the conclusion of the implementation of the BSE's five-year stock exchange development strategy presented in 2016 and, in parallel with this, we are set to define the strategic directions for the coming years. The year is also special for marking the 30th anniversary of the re-opening of the Budapest Stock Exchange.

We are very pleased to take account of the past five years as the Hungarian capital market demonstrated remarkable development during this period. A developed capital market is one of the main pillars of any innovative economy, as indeed, the stock exchange broadens the spectrum of companies' financing options enormously. In 2016, the goal of the Budapest Stock Exchange was to implement a comprehensive development programme in Hungary, which would increase the role of raising capital in Hungarian corporate finance while, thanks to investments in domestic stocks, the population would also benefit from the economic successes.

We strived to ensure that this would be implemented in the context of a systematically planned building process.

The Hungarian capital market has thrived in the past five years: the BSE now counts 80 issuers compared to 62 five years ago. Never before have so many companies entered the stock exchange as in the past few years. The new listings not only include dynamically growing, emerging Hungarian enterprises: a number of big names with a reputable background – such as MKB Bank, Waberer's or Duna House – have also been admitted to trading on one of the BSE's markets. The stable strengthening of the Hungarian capital market is also demonstrated by the fact that, even though the markets were ravaged by a crisis in 2020 that had been un-

precedented in several decades, the BUX Index grew by a total of 75.78 percent in the past five years (by the end of 2020, compared to the closing value on 31 December 2015).

Throughout these years, with the support of the Magyar Nemzeti Bank – the main shareholder of the BSE – we were continuously seeking to support potential issuers and SMEs by way of the broadest possible range of instruments.

From 2016, we devoted special attention to encouraging medium-sized enterprises to gain admission to the stock exchange. We launched BSE50, which is far more than just a publication: taking advantage of the community-forming power of the concept, we also facilitate professional networking between the companies and indirectly, the improvement of the economy's competitiveness. After its latest, fifth anniversary edition, the BSE50 club counts nearly 250 companies among its members.

Also in 2016, we signed a cooperation agreement with ELITE S.p.A, a subsidiary of the London Stock Exchange Group, as part of which we launched the ELITE Programme. Containing training courses, networking meetings and workshops, this international corporate development programme now involves close to 1,500 member companies from 36 sectors of 45 countries.

Composed of five issuers at present, our multilateral trading facility launched in 2017 – BSE Xtend – is also intended to support the growth plans of medium-sized enterprises. Despite the uncertainty sparked by the Coronavirus pandemic, numerous firms are preparing for market entry. In this extraordinary year we have just closed, two issuers made it to the Standard category of the BSE: Pensum Group and SunDell Estate.

In 2019 – in relation to the Bond Funding for Growth Scheme of the Magyar Nemzeti Bank and taking successful international examples as a basis – the Budapest Stock Exchange launched a new secondary market segment, BSE Xbond, in order to provide an alternative trading platform for companies planning to issue bonds. Our experiences are extremely positive: between autumn 2019 and the end of 2020, 46 companies used the facility to raise funds to the tune of HUF 868.49 billion in the framework of 53 transactions. Participants typically include large corporations but the medium-sized segment has also carved out a presence.

We have also expanded the range of services offered to medium-sized enterprises with the roll-out of our own, exclusive, private platform, BSE Xmatch, which is intended to bring together emerging Hungarian companies and potential investors. In the case of the two events we have held so far, we transitioned successfully to the digital environment necessitated by the emergency situation.

We believe that the expansion of information coverage is an important milestone from a market development standpoint, and this certainly applies to our Analytical/Market-making Programme that we launched in 2017 in an effort to facilitate decision-making and to support liquidity.

We have also taken a significant step forward in our education activity: from autumn 2017, we extended our existing education programme and established the Budapest Institute of Banking. Since then, the BIB has become a key player in the Hungarian financial education market. Its training courses – including its cutting-edge e-learning courses – attract more than 1,600 students, while more than 2,600 participants attended the official and OKJ (National Qualifications Registry) training courses offered.

The stock exchange strategy has not lost any of its relevance since its announcement in 2016; in fact, from the point of view of economic policy, helping the SME sector to access funds is more pressing now than ever before. Thus, as we have done so numerous times in the past, we will continue to put forward proposals to policymakers with a view to promoting the development of the Hungarian capital market. There is still ample room for improvement in this regard. Households' savings have grown dynamically (more than doubled) in the past ten years in Hungary. As we have seen with Hungarian government securities, a turnaround may also be in store for Hungarian companies and as a result, the savings of Hungarian households may be used to finance Hungarian companies at a far greater rate, provided that an adequate institutional system is in place. This, however, requires the development of the domestic capital market.

In the coming years, the main task of the Budapest Stock Exchange will be, besides the market developments already in progress, to accomplish its business goals and get the BSE itself listed on the stock exchange. Moreover, we will redouble our efforts to step up our role in education, to integrate the increasingly compelling environmental, social and corporate governance (ESG) aspects into the relevant segments of the BSE's operation, and to continue to strengthen and improve our digital presence.

Not only 2020, but this publication itself is also extraordinary in the sense that – after having regularly given account of the BSE's achievements in individual years and the status of the implementation of the five-year strategy – this is our very last publication that is linked to the 2016–2020 strategy. Therefore, in addition to presenting the milestones summarised above, another purpose of this publication is to provide a detailed and comprehensive overview of the past five years of the Budapest Stock Exchange and the accomplishments of that period.

Without a doubt, the coming years have numerous challenges in store for the Budapest Stock Exchange, but thanks to the systematically planned development of our organisation in the past five years, the BSE is prepared to face these challenges so as to continue its market development activity.

Dr. Mihály Patai,
Chairman of the Budapest
Stock Exchange

Richárd Végh,
Chief Executive Officer of the
Budapest Stock Exchange



SUCCESSFUL 2020 IN A CHANGED ENVIRONMENT

STOCK EXCHANGE TURNOVER OF THE PAST 5 YEARS,
SUBSTANTIAL CAPITAL INFLOWS, STOCK MARKET
PEAKS, IPOS

EQUITY MARKETS

The period of 2016–2020 saw a substantial volume of capital inflows on the BSE's regulated markets, as well as on BSE Xtend, the MTF market for small and medium-sized enterprises established in 2018, and on BSE Xbond, the MTF bond market launched in 2019. On the equity market, the capital inflows resulted partly from the entry of new issuers and partly from capital increases in already listed companies.

The most major admissions of the past five years involved the listing of Duna House Holding Nyrt. in 2016, Waberer's International Nyrt. in 2017, and MKB Bank Nyrt. in 2019. In addition, the stocks of UBM Holding Nyrt., Pensum Group Nyrt. and SunDell Estate Nyrt. were admitted to trading during the same period, which raised the BSE's equity market capitalisation by nearly HUF 240 billion.

In terms of issuer activity, the beginning of 2020 was also favourable with the listing of the abovementioned Pensum Group Nyrt. on the regulated market, while SunDell Estate Nyrt. was welcomed to the trading floor as a new, regulated real estate investment trust in June. The year was off to a good start for the SME MTF market as well with the admission of DM-KER Nyrt. and Gloster Infokommunikációs Nyrt. shares to trading on the BSE Xtend market. At the same time, this positive trend was broken by the COVID situation, and in view of falling equity prices and cautious investor sentiment, issuers opt for biding their time on entering the stock exchange.

In addition to the new admissions, significant capital increases took place at numerous listed companies including, most prominently, Opus Global Nyrt. and AutoWallis Nyrt. with a HUF 127.7 billion and a HUF 126 billion capital injection, respectively. Additional large-scale capital increases included Konzum Nyrt. (nearly HUF 38 billion), Finext Nyrt. (HUF 18.5 billion), Budapesti Ingatlan Nyrt. (HUF 5 billion), Appeninn Nyrt. (HUF 5.5 billion) and Alteo Nyrt. (HUF 1.9 billion)¹. The IPOs (Pensum, SunDell) and capital increases implemented in 2020 (AutoWallis, Nutex, Nordtelekom) raised regulated market capitalisation by HUF 14.5 billion overall. As regards the Xtend MTF market, new admissions (DM-KER, Gloster) together with capital injections (CyBERG) increased market capitalisation by HUF 8 billion at initial value.

Moreover, issuers implemented some significant corporate actions as well; the 2019 merger of Konzum Nyrt. into Opus Global Nyrt. was one of the most significant of such moves. This was the first stock exchange fusion in the three-decade history of the BSE, and the transaction resulted in the creation of the fifth most capitalised issuer of the trading floor. In addition, almost a dozen issuers implemented stock splits in the past five-year period, boosting equity market turnover even further.

Regulated real estate investment trusts (REITs) were given a tremendous momentum by the amendment of the REIT Act as from June 2016, which was carried out with the support and contribution of the BSE. As a result, the shares of four REIT issuers – Finext Nyrt., Budapesti Ingatlan Nyrt., Graphisoft Park SE and SunDell Estate Nyrt. – were traded on the Exchange by the end of 2020.

IPOs and capital increases on the BSE equity market, 2016–2020

	2016	2017	2018	2019	2020
Regulated market (HUF bn)*	5.5	46	79	348	14.5
Number of transactions	6	9	21	14	9
Issuers involved	Akko, Alteo, Appeninn, DunaHouse, FuturAqua	Appeninn, CIG, DunaHouse, Nordtelekom, Nutex, Opus, OTT-ONE, UBM, Waberer's	Appeninn, BIF, CIG, Delta, Finext, Konzum, Nutex, Opus, OTT-ONE, SET	Alteo, Akko, AutoWallis, FuturAqua, MKB, Nutex, Opus, SET	AutoWallis, Nordtelekom, Nutex, Pensum, SunDell
Xtend equity market (HUF bn)*		–	3	5	8
Number of transactions		–	1	2	3
Issuers involved		–	Megakrán	CyBERG, GOPD	DM-Ker, CyBERG, Gloster

*At transaction price

¹ At the time of the preparation of this report, the shares resulting from capital increases by Delta Technologies Nyrt. and ENEFI Vagyonkezelő Nyrt. were not yet admitted to trading of the BSE.

DEBT SECURITIES MARKET

The BSE's debt securities market also exhibited dynamic growth in the past five years.

The BSE's debt securities market capitalisation 2016–2020 (HUF bn)*

	2016	2017	2018	2019	2020
Government bonds	14 895	14 792	15 587	16 090	19 993
Corporate bonds	403	379	364	568	704
Mortgage bonds	545	766	1 307	1 321	1 785
Xbond bonds	–	–	–	28	598

*At year-end closing price

The appearance of new issuers on the corporate bond market was continuous in the period of 2016–2020. Thus, among others, the bonds of Wingholding Zrt. and Eximbank Zrt. were added to the BSE's selection of bonds in 2016. In 2019, we greeted two new credit institutions among our debt security issuers: the International Investment Bank (IIB) and the Hong Kong Branch Office of Bank of China Limited.

There was a surge on the mortgage bond market as well in the past five years, thanks in part to the mandatory mortgage bond coverage (initially 15%, then 25%) of mortgage loans, and in part to the mortgage bond purchase programme launched by the MNB in 2020. At HUF 19,993 billion, the capitalisation of the government bond market grew by more than 22 percent year-on-year; the increment resulted from the issue of 13 new government bonds and from 207 secondary issues. Corporate bond market capitalisation rose once again by HUF 136 billion in 2020 after the listing of 23 new bonds on the regulated market. Partly attributable to the MNB's mortgage bond purchase programme, the capitalisation of mortgage bonds listed on the BSE grew by 35 percent to HUF 1,785 billion after 9 primary and 14 secondary issues.

The capital market volatility generated by COVID did not leave the market of certificates unscathed either: a total of 255 new certificates were introduced in 2020 compared to 130 in the previous year.

As regards the BSE Xbond market – the new bond MTF market of the stock exchange –, in December 2019 Mol Nyrt. was the first company to register its bonds issued under the MNB's Bond Funding for Growth Scheme (BGS). 31 bonds of another 28 issuers were admitted to Xbond in 2020, and preparations are in progress for the listing of yet another 21 issuers' securities; thus, the most intense issuer activity was exhibited on the Xbond market in 2020.

As it is an important objective of the Budapest Stock Exchange to provide Hungarian investors with access to cost-efficient, transparent and easy-to-understand investment products, the product range of the BETA market is continuously growing as well. By the end of the year, 20 stocks

and an additional 9 ETFs were available for trading, with quotes provided by OTP Bank Nyrt. These recently introduced products allow for diversified investments in the largest US and European corporations and accordingly, they may offer a good alternative even to retail investors.

DEVELOPING ISSUER SERVICES, STRENGTHENING CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

Strengthening efficient corporate governance among listed companies was a priority objective of the BSE's strategy in the period of 2016–2020 as well. The Exchange's Corporate Governance Committee has been operating since 2004 with the aim of supervising the continued development of the Corporate Governance Recommendations by taking domestic industry requirements, draft EU legislation and general international trends into consideration, and also to represent industry considerations in shaping 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 BSE 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, in the course of 2017 the Committee reworked corporate governance recommendations, and the issuers of the BSE were required to apply them, for the first time, for 2018. Additionally, the BSE set up an online reporting interface in 2019 and made it available in April. Issuers used this interface to submit their Corporate Governance Reports in 2020 for the first time. The reporting interface has two functions: firstly, it facilitates the more uniform and correct completion of issuer reports. Secondly, it eases the Committee's processing of the information reported in the reports, and – primarily – the statistical analysis thereof, thereby supporting the compilation of the annual monitoring report in accordance with Recommendation No. 2014/208/EU of the European Commission.

The Committee has also revamped the Monitoring Report intended to summarise and analyse the reports submitted by issuers. The report has become more informative and transparent thanks to more concise and uniform texts and visuals for easy understanding (charts and tables). Starting from 2018, the Committee publishes the Monitoring Report in the new format. Since Act LXVII of 2019 on Long-Term Shareholder Engagement regulated the issues concerning the remuneration of the directors of issuers in legislation, in 2020 the Committee decided to modify the relevant part of the Corporate Governance Recommendations; for the first time, the amended recommendations are applicable for year 2020.

NEW KIBINFO

In the recent period, the Stock Exchange has renewed KIBINFO – its online system for publishing issuer and stock exchange disclosures. The modifications are aimed at developing a closed and more automated disclosure process, which limits access to insider information. One of the main reasons for introducing the new system was to manage insider information in compliance with the requirements of the Market Abuse Regulation (MAR). BSE ensures this by way of the following tools:

- Although issuers previously were permitted to upload news on the publication system of the stock exchange in advance stipulating that the news was to be disclosed at a later date chosen by the issuer; in the new system, all news are published within 15 minutes of the time of the upload.
- The prohibition to disclose during trading is eliminated for news that previously had special timing for appearance (general meeting submissions and interim financial reports). In accordance with the MAR, issuers publish new information as soon as possible.
- BSE employees have no influence on the publication of news whatsoever. BSE employees cannot access news uploaded by issuers to the KIBINFO platform or the insider information contained in them before they are automatically published on the BSE website. Employees can only view them after the publication.

The new KIBINFO also brought about several technical changes: the Stock Exchange switched from the previous JAVA version over to a thin-client-based solution, whereby the application's compatibility with various browsers improved significantly, and login is now more secure with a two-factor authentication.

ISSUER EVENTS AND TRAININGS

It is the determined goal of the BSE to support the operations of its issuers with high-quality and useful professional events. In this context, it regularly arranges forums for issuers on topics that affect them at any given time, such as key regulatory issues related to their obligation to provide information or those concerning extraordinary and inside information. In 2020, such topics included, for example, the European Single Electronic Format (ESEF), or issues arising in connection with long-term shareholder engagement (Act LXVII of 2019). Invariably, these events spark great interest and generate positive feedback.

On 11 December 2019, with the participation of leading Hungarian capital market lawyers and the MNB, the BSE launched its legal forum event. The topic of the first forum was the 2019 amendment of the Capital Market Act necessitated by the Prospectus Regulation and its impact on market admission processes, licensing and regulations. The goal was to inspire a joint thinking process and to develop a uniform and generally accepted and applicable in-

interpretation among 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. The second legal forum was held in December 2020.

Through its BIB subsidiary, the BSE has been participating in training for years within the framework of two training programmes:

- IR training for beginner and advanced professionals (I–II): it is usually offered two times a year at two levels. The programme is aimed at the training of investor contact persons, with the BSE providing professional programme management. With the assistance of lecturers from the BSE and from the MNB, as well as practitioners and issuers, we strived to provide a programme with meaningful content for practicing IR professionals. The programme is planned to be incorporated into regular BIB courses to offer continuous further training and knowledge maintenance for IR professionals.
- Another professional programme is in progress under the auspices of BIB providing information and useful assistance to participating bond issuers and advisors on the conditions and operation of the Bond Funding for Growth Scheme, the relevant conditions for listing and MTF appearance and the obligations associated with being listed.

REVENUES FROM SALES

Revenues from data sales represent about 30–35% of the total revenues of the BSE. This percentage continued to grow in 2020 thanks to active sales activities, the introduction of the new price structure and product range, and the BSE's intensive audit activity.

As of 1 January 2020, we introduced a new licence structure concerning data use in new applications (Non-Display Use). We aligned our products and their pricing with market trends and needs. During the recontracting process, the number of drop-out clients was much smaller than expected. In fact, we managed to increase the extent of the cooperation with numerous clients thanks to the proactive management of the process. As a result, revenues from vendor licences increased almost 1.5-fold compared to the previous year.

The effect of the 2019 price increase still weighed on end-user revenues in 2020. In parallel, the number of end-user drop-outs continued to increase; the drop-out rate has ranged between 3 and 6 percent in recent years. Unexpectedly, this trend was broken during the year once the market movements prompted by the COVID-19 pandemic crisis sparked end-users' interest in trade data. As a result, end-user revenues began to increase from March, and by the middle of the year average monthly end-user revenues surpassed the pre-crisis level by almost 30 percent.

Looking back, we have increased our data sales revenues by more than 23 percent in the past five years. Studying the revenue structure, it can be stated in general that, while the continually increasing vendor count put an upward pressure on licence fees, the rhapsodic trend of end-user fees eroded. We expect this trend to continue as the effect of the crisis wears off.

In 2020, we continued the previously started, active audit work. In consideration of the impact of the COVID-19 crisis, we notified our selected targets of the upcoming audit only in June; a few months later than originally expected. That notwithstanding, we were able to commence as many audits as in previous years, and we also closed a number of pending audits successfully. These audits not only implied a one-off audit income, but also yielded new contracted clients. We observed that, in response to the news of our audit activity, several potential clients volunteered to subscribe to our data products. We believe that our audit activity has a positive effect both on our revenues and on our contractual relationships with clients. We will continue this activity in the coming years as well.

In the area of sales, in 2020 we placed special emphasis on promoting our indexes and the products that are built on them. With that in mind, we launched a series of consultations with Hungarian fund managers. During the year, a new index product was added to the index family of the BSE: the CEEplus index, which comprises the stock exchanges of the Central-European region. We have already started the promotion and sale process of the product.

Because of the unforeseen capital market and economic situation caused by the pandemic, all international conferences of the sales area were cancelled, and our networking activity had to be shifted to online platforms. We are strengthening active contacts with our most significant Hungarian and international partners; moreover, at the end of the year we were – in conjunction with the Magyar Nemzeti Bank and other partner organisations – an online exhibitor at the Singapore Fintech Festival. Our goal is to expand our international relationship network and sales channels.

Sales also play an active role in the sustainability initiatives of the BSE: at the global level, we launched a series of consultations with ESG rating agencies.

As in previous years, in 2020 we again collaborated on several topics with the other member stock exchanges in the Data Working Group of the Federation of European Exchanges (FESE). We do our best to interpret some of the directives and regulations issued by the ESMA (European Securities and Markets Authority) and the European Union, find consensual implementation solutions, and request clarification as necessary.

DEVELOPING CAPITAL MARKET ECOSYSTEM

DEVELOPING PARTNERSHIPS – DEVELOPING ECOSYSTEM

In order to achieve the goals set out in its strategy, the BSE seeks to engage in close cooperation with capital market players, whether they are market or government stakeholders. These include, for instance, listed companies, investors, future issuers, regulators, consultants, or foreign stock exchange organisations.

According to our estimate, in the past five years the BSE staff have attended nearly a thousand acquisition-purpose meetings with potential issuers and market partners. At the meetings, not only did the BSE share its ambitions with potential partners, but stock exchange professionals also received feedback on the developments and products needed by the market players.

We carried on our work in 2020 in this spirit. In the spring, we presented the BSE's programmes in seven cities and with the participation of more than 150 companies as part of a joint roadshow with the Ministry for Innovation and Technology. We organised a successful professional workshop in January in Nyíregyháza and in the autumn in Debrecen on the topics of capital raising and corporate development.

The BSE considers it particularly important to also keep in contact with a broad range of investors and to share with them all available information on the activity of the Exchange.

In the autumn of 2019, we arranged personal meetings between the National Stock Exchange Development Fund (NSEDf) and the largest and most active Hungarian investment fund managers. Besides presenting the strategy and plans of the NSEDf, the purpose of the meetings was to get acquainted with the managers of Hungarian equity funds and to reach out to them in person. The consultations were concluded with success, and in 2020 the NSEDf and some fund managers already appeared as co-investors in companies listed on BSE Xtend.

In March 2020, the BSE held a roundtable discussion to inform the heads of Hungarian private banks of the development plans of the Hungarian equity market. One of the topics raised during the discussion was the expected change in the stock portfolio of wealthiest Hungarian clients; moreover, we called the attention of bank leaders to the services provided to SMEs (BSE50, ELITE, BSE Xmatch), which are also available to their customers.

We were liaising continuously with investment fund managers investing in quoted shares. Upon the spring outbreak of the virus, we inquired about their response to the new economic/social/capital market situation, their market activity and the possible scenarios they envisaged, and also asked whether they were interested in potential IPOs in 2020.

Over the past 12 months, numerous companies have inquired about new possibilities for rais-

ing capital. The virus situation has reduced the number of physical contacts to the minimum; however we still managed to contact company executives online. We helped the companies compile their introductory presentations and connect with investors and advisors. The parties greatly appreciated the Exchange's intermediary and advisory functions.

Advisors – the NOMADs, in particular – are important elements of the ecosystem. They are the ones that help issuers in the emerging companies market segment during the stock exchange launch process and throughout their presence in the open market. We continue to cooperate with them closely; at the end of the year we had a contractual relationship with 15 NOMAD partners.

The BSE's contracted NOMAD partners

- BDO Corporate Finance
- Concorde MB Partners
- Deloitte Zrt.
- DLA Piper Business Advisory Kft.
- Equilor Befektetési Zrt.
- Ernst & Young Kft.
- Erste Befektetési Zrt.
- Impact Advisory Zrt.
- K&H Bank Zrt.
- MKB Bank Nyrt.
- OTP Bank Nyrt.
- PwC Magyarország Kft.
- Raiffeisen Bank Zrt.
- Random Capital Broker Zrt.
- UniCredit Bank Hungary Zrt.

IDENTIFYING IPO-READY COMPANIES

Building contacts with Hungarian-owned/controlled companies has been one of the priority tasks of the acquisition team set up in 2016. This can be accomplished in many different ways from the quantitative identification of companies through personal meetings to information provision.

The basis of the quantitative identification and analysis is the scoring methodology worked out in conjunction with the MNB in early 2016. The BSE has used this methodology as a basis several times for its publications, most recently in autumn 2020. Based on the experiences of the meetings between the stock exchange, market players and potential issuers in the past few years, the BSE's experts have modified the methodology on two points compared to the original (operation history, foreign holdings).

The growing number of IPO-ready companies in recent years reflects the development of the Hungarian economy. The analysis conducted by the BSE's staff in 2020 found 445 IPO-ready medium-sized companies. In comparison: In 2014, there were 331 such companies in the Hungarian economy and, according to the analysis repeated in two years' time, this number rose to 345 by 2016. With the analysis, the BSE wishes to dispel a popular misconception; namely, that only large corporations are suitable for going public. The number of IPO-ready Hungarian medium-sized enterprises – close to half a thousand according to the final result – underpins that the Hungarian capital market should continue to pay close attention to these players. 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.

Effective communication and the presentation of success stories are as important as the quantitative analysis. This is why we compile, year after year, our "BSE50 – The Success Stories of Fifty Hungarian Companies" publication, which has been published, for the fifth time, as a conclusion of the 2016–2020 strategy. Even though the last year of the period was overshadowed by the pandemic-related global crisis, we can see that well-capitalised Hungarian medium-sized enterprises rise above the obstacles. The publication presents businesses that remained stable; in fact, some of the respondents managed to turn the crisis situation to their own advantage.

Although in 2020 nearly half of the interviews were conducted online through platforms that enable simultaneous video and conference calls, most interviews were conducted in person nevertheless, which – as in previous years – implied travelling thousands of kilometres for the experts involved. At this time, the BSE50 realised a combined EBITDA (earnings before interest, taxes, depreciation and amortisation) of HUF 78.7 billion with a combined sales revenue of HUF 970.4 billion, which translates to an EBITDA margin of 8.1 percent. As regards averages, the revenue, EBITDA and EBITDA margin of the BSE50 exceeded the corresponding values of companies with sales revenues above HUF 1 billion by 121 percent, 126 percent and 18-percentage points, respectively. In an annual comparison, the last closed financial year can be considered successful for these companies. Among the BSE50 companies presented, the average sales revenue rose by more than 10 percent and average EBITDA by almost 14 percent, which also resulted in the improvement of their EBITDA margin.

The vast majority of the companies selected most recently represented five major sectors: manufacturing (13 companies), trade (11), the food industry (8), IT (6) and finally, health care (4). Company profiles, however, diverged significantly across each sector.

Including the companies featured in the 2020 BSE50 publication, over the past five years the BSE and its supporting partners have presented the stories of 245 businesses, and these inspiring stories demonstrate the strength of Hungarian entrepreneurs and the Hungarian economy. The 245 companies employ around 72 thousand employees in total; their combined income is HUF 3,500 billion, and their combined operating profit is above HUF 180 billion.

Since the professional conference that has been held in relation to the successful publications in recent years could not be arranged this year because of the virus situation, our staff needed to come up with a different solution for the sake of our regular audience of about 500 persons. The BSE50 Club, which offered exclusive professional content and acquaintance and networking privileges strictly to the businesses featured in the publication, was launched in 2019 (the hosts of the event were Magyar Telekom Nyrt. and AutoWallis Nyrt. that year). In 2020, in turn, an extended BSE50 Club event was arranged instead of the cancelled conference. Extended, because it was intended to replace the conference and thus, attendees included not only the businesses concerned, but also investors and sponsors. Compared to the conference, the BSE50 Club is a shorter and somewhat more restricted event. While the former offers a variety of professional programmes all day long, the Club has only two hours at most to share professional knowledge with participating companies. The two-hour long BSE50 Club event of 2020 began with the opening address of the BSE's Chief Executive Officer, Richárd Végh. The series of lectures started with the presentation of Péter Balogh, Executive Director of Large Corporates and Structured Finance at MKB Bank Nyrt., which was followed by a lecture on green company building by Attila Chikán Jr. on behalf of Alteo Nyrt. Next, at the company roundtable discussion leaders of Jász-Plasztik Csoport, Hovány Csoport and BiotechUSA discussed how they were able to preserve their growth and develop their businesses at a critical time like this.



Participants of BSE50 2020

Abonett Kft.	Keskeny és Társai 2001 Kft.
AKA Kft. (Gere Winery)	Kraftex-Kühne Csoport
Aliz Technologies Kft.	Libri-Bookline Zrt.
Autóflex-Knott Kft.	Magyarmet Kft.
Béres Gyógyszergyár Zrt.	Medicontur Kft.
BiotechUSA Kft.	Megatherm Kft.
Bonafarm csoport	Mocca Negra Zrt.
Budai Egészségközpont Kft.	Nanushka International Zrt.
Candimpex Budapest Kft.	Netlock Kft.
Capriovus Kft.	Neuzer Kft.
CER Cargo csoport	Nobilis Zrt.
Csősz-Platán Cégcsoport	Nyírlift Kft.
Doktor24 Csoport	Officium Kft.
Eurofleet Zrt.	Optiwella Kft.
Gémtech Kft.	Ostorosbor Zrt.
Gránit Bank Zrt.	Pata József Kft.
GriffSoft Zrt.	Post For Rent Zrt.
GTKB Kft.	Praktiker Kft.
Hiflylabs Zrt.	Realtherm Kft.
Hovány Kft.	Schiller Autó Család
Hunland Trans Kft.	Special Effects Zrt.
IL-PE Kft.	Supercharge Kft.
Inter-Computer Zrt.	Szafi Products Kft.
Jász-Plasztik Kft.	TritonLife Csoport
Kecskeméti Konzerv Kft.	Vinyl Kft.

ELITE PROGRAMME: A NEW LEVEL OF CORPORATE DEVELOPMENT

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 programme has been available in Hungary from 2016, and since then, numerous Hungarian companies (50) within the ELITE International group (200 companies) participate in the business development programme to share best practices and learn about local specificities with more than 1,553 companies from 45 countries and 36 sectors globally.

Members of the Community can only be companies that meet certain quantitative and qualitative criteria, such as sales revenue, profit after tax, profitability indicators, credible management, past growth. After a successful application, each company starts the two-year training with modules on strategising and finance, followed by freely chosen English-language modules (innovation, HR, organisational development, going international, digitalisation) that best suits the participants' needs. Experts of the BSE supplement the English-language training material with training sessions held in Hungarian focusing on the Hungarian market. The companies are given an opportunity to learn about corporate governance and finance issues in Hungarian; they become familiar with the IPO process and the methods of successful implementation. In addition, they can select from a variety of optional Hungarian-language modules. Popular topics of the past few years included estate planning, tax optimisation, the acquisition of communication techniques, the definition of business value or the investor presentation criteria.

Beyond the high-quality international training, the companies also benefit from gaining recognition, exploiting business acquisition opportunities, exchanging experiences with Hungarian and international companies and consulting 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. After completing the Programme, the participating company becomes IPO-ready without incurring any stock exchange obligations. For some companies, in addition to being IPO-ready, going public by relying on the knowledge acquired can be a valid alternative. Of the Hungarian team, Megakrán Nyrt., DM-KER Nyrt. and Gloster Nyrt. took advantage of the knowledge gained in the ELITE Programme to list their stocks on BSE Xtend, raising fresh capital amounting to HUF 2.7 billion in total for the implementation of their future plans. In addition, UBM has also listed its shares on the stock exchange.

To reach out to potential ELITE companies, in the past five years the BSE attended several professional events and business meetings as organiser and collaborating partner and also contacted numerous prosperous companies electronically; thus the ELITE Programme reached about a thousand companies directly. Numerous client events, business breakfast meetings and person-

al meetings have been arranged. The BSE continued to rely on its banking and consulting partners (Budapest Bank, CIB Bank, UniCredit Bank, Concorde MB Partners, EY, PwC, Deloitte Private, MAPI Club, FBN-H, MGYOSZ, HVCA, DLA Piper), and continuously seeks to establish new partner relations.

With the unfolding of the COVID-19 virus, 2020 put all participants of the economy to the challenge, and Hungarian businesses were no exception. In response to the situation, our London colleagues introduced a new training module, while the BSE staff implemented the pre-arranged professional programmes online.

Despite all the challenges of the year, 13 new Hungarian companies joined the international business development programme. Among the 2020 participants, we can find prospering SMEs engaged in a variety of fields, such as event organising, IT development, car dealership, food industry, construction



sector, building engineering and even gate technology and elevator manufacturing. Thanks to the EU funds available since 2019, 11 companies were granted financial assistance covering the cost of participation for the full programme (4 companies from the CHR region and 7 from the EDIOP region).

ELITE Programme – Companies approved in 2020*

Biotek Kft.	Kling Kft.
Candimpex Budapest Kft.	L-Soft Zrt.
ENSI Kft.	Nyírlift Kft.
Észak-Üvért Kft.	PEKI Kft.
Gablini Kft.	Special Effects Zrt.
Inter-Computer Zrt.	Vinyl Kft.
KKVJ Kft.	

*Until the end of November

2020 was an active year for the Hungarian participants of the programme. Before the outbreak of the pandemic, they attended the mandatory and optional Hungarian modules in person; afterwards attendance shifted to the online environment.

On 22 January, the companies starting out in 2018 completed their last mandatory Hungarian module within the framework of the IPO simulation module with the professional assistance of Random Capital, Front Page Communications, Széchenyi Alapok, Aegon, Accorde Alapkezelő,

Alteo Nyrt. and ANY Biztonsági Nyomda Nyrt. On 21 October, the 2020 series of mandatory Hungarian-language courses continued with the finance module. During the morning hours, participants listened to presentations by the directors of Hiventures, the experts of EY, the investment director of Széchenyi Alapok and the leaders of Random Capital/Navigator. On 10 December, the Hungarian ELITE events of the year concluded with the first Hungarian mandatory “corporate governance” module organised for companies starting out in 2020 (with lectures by Egon Zehnder, EY, DM-KER, Gloster and Deloitte).

In the framework of the optional Hungarian modules, the first lecture of the year was presented on 15 January by Zoltán Krausz on corporate structure. Next, on 19 February Vilmos Benkő, former President of the American-Hungarian Chamber of Commerce held a presentation – with glowing success – on effective communication, illustrated by practical examples. On 9 March, Lénárd Horgos, partner at Absolvo Consulting, shared useful information on the theoretical and practical aspects of investor presentation. Next, the Chief Executive Officer of EXIM Bank had a professional discussion with the BSE’s CEO under the title “Growth in times of crisis”, and subsequently in early June experts of McKinsey talked, also on an online channel, about the key to sustainable growth. On 12 November, an estate planning workshop was held by Gábor Kóka, Central European partner at Deloitte for an audience of 35 persons.

As always, this year was not without acquisition events. The first business breakfast meeting was held on 10 February with the participation of EY and Danube Capital. In February and March, we organised an introductory roadshow in conjunction with the ITM in seven towns, with a total of 150 companies in attendance. At the end of January, an almost three-hour professional workshop was held in Nyíregyháza with the involvement of professional partners. In the second half of the year, a successful acquisition event took place in Debrecen with the support of EDC Debrecen. The lecturers came from EY, DM-KER, Deloitte, Széchenyi Alapok, Gloster and GSV Kft.; attendance was close to 50.

There has been seamless cooperation between the BSE’s Acquisition Directorate and the ELITE team of the London Stock Exchange in recent years. Experts consulted regularly about the companies interested in the Programme, and worked together to assist company leaders in compiling the required documentation during the registration process. Once again, the BSE was given access to the professional presentations of the training, but – unlike in previous years – it was in online form instead of physical trips to London. Before the outbreak of the pandemic, we held a full-day meeting with our London colleagues involved in the ELITE programme, reviewing the results of years of working together and also touching upon possibilities for expanding the cooperation.

The 50 Hungarian ELITE participants

Abonett Kft.	KKVJ Kft.
Agri-Corn Kft.	Kling Kft.
Béflex Zrt.	Kométa 99 Zrt.
Biotek Kft.	Lakics Gépgyártó Kft.
BlackBelt Technology Kft.	L-Soft Zrt.
Candimpex Kft. (Astrasun)	Megakrán Nyrt.
Carboferr Kereskedőház Zrt.	Mirelite Mirsa Zrt.
CER Cargo csoport	MITO Communications Kft.
Chemark Kft.	Mortoff Kft.
CNC Rapid Kft.	Nyírlift Kft.
Columbus Klíma Cégcsoport	Optimum Solar Kft.
CoreComm SI Kft.	PEKI Kft.
DM-KER Nyrt.	Qualysoft Informatikai Zrt.
Első Pesti Malom Zrt.	Rotovill Kft.
ENSI Kft.	Serco Informatikai Kft.
Észak-Üvért Kft.	Somogyi Elektronik Kft.
Ezüsthajó Kft.	Special Effects Zrt.
Gablini Kft.	Szallas.hu Kft.
Gamma Digital Kft.	Textura Zrt.
Gloster Infokommunikációs Nyrt.	Tranzit-Food Kft.
Goodwill Pharma Kft.	UBM Trade Zrt.
G-Plan Építő Kft.	Verarbeiten Pausits Kft.
Gulyás Tüzép – GSV Kft.	Via Bérautó Kft.
Iniciál Autóház Kft.	Vinyl Kft.
Inter-Computer Zrt.	XAPT Kft.

A SHIFT TO PRIVATE MARKETS

In November 2019, the BSE launched its BSE Xmatch service, which is intended to support Hungarian private capital market transactions in order to increase the number of IPOs and the penetration of the BSE on the Hungarian capital market in the long term.

In its five-year strategy announced in 2016, the BSE's special priority was to provide small and medium-sized enterprises with access to the capital market both by creating new market segments and by delivering other services. As far as the new segments are concerned, as a first step, in 2017 the BSE launched BSE Xtend, a new multilateral trading facility (MTF) serving as a public market for medium-sized companies with large growth potential. In the next step, the BSE assessed how it could help the private capital financing of companies that are not quite ready to go public yet. To that end, during the years of 2018 and 2019 the BSE conducted extensive market research in order to review international trends and best practices, and to assess domestic market needs.

The international research showed that even in the previous, private operation lifecycle of the companies, an increasing variety of centrally-organised services and platforms assist in satisfying financing needs. Besides the gaining ground of the popular crowdfunding platforms from the 2010s, additional solutions made an appearance – generally referred to as private placement platforms –, which offer a combination of online and offline services to facilitate the capital funding of companies already past the start-up phase, bring together investors and



companies (or the holders of participations in private companies) in need of financing, and facilitate private transactions (capital increases, exits). The most important online functions include the provision of access to a searchable platform membership database, functions for the execution of financing rounds (e.g. functions facilitating controlled information flows, auction module) and tools assisting in secondary trading. Offline services include networking events, pitches, forums, consulting and training functions. Another important finding of the survey was the intensifying activity of stock exchanges in this segment, which once again confirms the trend that an increasing number of exchanges break out of the constraints of the classical, public capital market.

The BSE relied on personal interviews, forums and questionnaires for the Hungarian survey. Most of all, we were curious which segment of private capital transactions exhibits market failures; which target groups need the assistance of a neutral intermediary the most; and which types of services would generate the most added value in the Hungarian market. We tried to address all stakeholder groups: SMEs as potential issuers, various investor groups (venture capitalists, fund managers, angel investors), consulting, intermediary, mentoring groups, as well as interest groups and umbrella organisations.

Based on the above, a decision was made in 2019 that the BSE should create a service – primarily aimed at market and ecosystem building and the improvement of the coverage and recognition of the Hungarian capital market – which would help generate private capital market transactions as a value-neutral, central stakeholder with a good reputation. The resulting service was BSE Xmatch. The BSE sees its own role primarily in introducing and connecting investors and companies directly and in building confidence, and envisages to fulfill this role as a long-term product development process. Thus, initially it will focus on classical, offline activities – organising workshops and meetings – before gradually adding online tools to support the strengthening community. In the short term, by facilitating the liaison between issuers and potential investors, the BSE will be able to efficiently support the pre-IPO private transaction of issuers getting ready specifically for BSE Xtend. Lending a helping hand to more mature Hungarian medium-sized companies and family businesses is a more complex, longer-term task, but it promises significant value added even at the level of the national economy. In this target group, a central role will be given to education and confidence-building, and to the provision of a roadmap that navigates issuers from familiarising themselves with the capital market all the way to, as the case may be, going public.

The BSE's KAI team started to work on the implementation, based on a pre-defined timetable, in November 2019. Upon introduction, we put together a list of the companies, investors and advisors comprising the target group. The companies were primarily selected from the BSE ecosystem (BSE50, ELITE) and relationship network. On the list of investors, we distinguished between angel investors, representatives of the Hungarian venture capitalist circle, the portfolio managers of investment fund managers, and the leaders of private banks. The list of advi-

sors include numerous firms and law offices with expertise in corporate finance. We collected the contact details of more than 200 companies, 150 investors and 50 advisors in total.

As early as the end of November 2019, we arranged the first BSE Xmatch private event, where we introduced the service to the attendees, the three companies (DM-KER, Post For Rent, Gloster) presented their respective history and plans for raising capital. We also arranged a roundtable discussion with the participation of investment fund managers. 80 persons attended the event which, after the official programme, concluded with a reception. Based on the feedback received, attendees thought that more than one such event could be arranged each year. After the event, both Gloster and DM-KER set up meetings with fund managers with whom they met personally at the Xmatch event for the first time, and they found that encounter eased their future communication significantly. This meant the accomplishment of one of the main goals of BSE Xmatch – to bring together, in the first round, investors and companies seeking to raise capital and to help them take up contact with each other.

Due to the outbreak of the COVID-19 pandemic, in 2020 we shifted to online service elements from the offline events that had originally been a central element of the service.

Three professional articles were published in the spring, among others, on the bet.hu, portfolio.hu and novekedes.hu portals. Interest in the service grew noticeably after the publication of the articles, with several companies and law offices contacting us to indicate their intention to attend future events.

In March and April, we took up direct contact and communicated via video conference calls with several companies that were seeking to raise capital. We offered our advisory service with regard to the investor presentation (content, length, drawing attention) to those interested. We connected specific companies with investors and advisors.

Although we were forced to cancel physical events indefinitely, in early June 2020 we posted the BSE Xmatch LIVE event, in the context of which investors, advisors and interested companies could watch a live streaming of the introductory presentations of four companies (OXO Technologies, Heatventures, Sylphina Angel, Aperus Pharma). Each 10-minute lecture was followed by a 5-minute Q&A session. The majority of the feedback provided by investment fund managers was positive. In December 2020, three companies (Facekom, NAP Zrt., Predictive Supple) introduced themselves to investors on a similar online occasion.

Feedbacks and experiences show that there is a need for the BSE Xmatch service among all target groups concerned, and the recognition of the service has increased since its introduction. We still believe that it is important to hold online and offline professional events every three or four months, but we can also see that we need to develop an IT solution (online, closed database and platform) supporting the ecosystem. With such an assistance, members of the community would be able to contact each other by electronic means and share with each other their accomplishments on a regular basis, which may lead to future transactions.

The IT development is aimed at the creation of a valuable business database and platform, which moves the traditional medium-sized company and capital market community to the digital space, easing the BSE's work and helping to transmit its messages to the target groups. The compilation of the specification of the planned system and the selection of the developer took place in autumn 2020. The development is expected to be completed in spring 2021, which will be followed by migration to the target group.

NATIONAL STOCK EXCHANGE DEVELOPMENT FUND

Supporting IPO-ready companies and strengthening the supply and demand sides were priorities for the Stock Exchange in 2020 as well. Accordingly, the cooperation started in 2018 with the National Stock Exchange Development Fund (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 current overreliance on bank lending.

The Fund was set up from the reinvested resources of the financial programmes financed from the 2007–2013 EU programming period – which are controlled by the Ministry of Finance –, and its capital now amounts to HUF 20 billion with management rights granted to Széchenyi Tőkealap-kezelő Zrt. The company's goal with the NSEDF is to list as many small and medium-sized enterprises (which meet the conditions of the call for applications) as possible on the BSE Xtend market, and to enable suitable companies to conduct public transactions on the stock exchange in a higher trading category. The capital fund typically invests in transactions amounting to nearly HUF 1 billion typically for a period of two to three years, and the involvement of a co-investor from the market is always mandatory. Investment utilisation is independent of sector or geographical location; the target company, however, is required to commit to appearing at least on the BSE Xtend market within two years of the capital injection.

The capital fund may make two types of investments: “pre-IPO” investments fund the development of companies that could get IPO-ed on the BSE Xtend market or on the main BSE market in the medium run. “IPO” investments mean stock subscription during an IPO, including IPO on the main BSE market or on the BSE Xtend market, as well as public and private offerings.

The first investment of the Capital Fund took place 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. The continuous work also came to fruition in the form of an end-of-2019 transaction involving the NSEDF: after more than a year of preparations, DM-KER Kft., a company specialising in construction and agricultural machinery, listed its stocks on BSE Xtend in a private offering worth HUF 1 billion in total. The company had been previously involved in the ELITE Programme – the business development training of the Exchange –, and

won a grant to cover the costs of its listing in a call for applications implemented from EDIOP, the Mentoring Programme, which is the preparatory stage of the NSEDF. Gloster completed the most significant transaction of the year: after a capital increase of HUF 1.1 billion, the company entered the BSE Xtend market (the NSEDF undertook 70 percent of the transaction). Moreover, CER Cargo has received a pre-IPO investment of over HUF 2 billion, and subsequently intends to enter one of the BSE markets.

In addition to supporting the NSEDF'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 Fund with regard to taking recourse to supporting programmes and services in preparation for admission to the stock exchange and specifying the tasks and requirements concerning public offerings.

In 2020, it continued to seek and channel in potential portfolio companies; therefore, the number of companies with which the Fund is negotiating or has negotiated since its start in 2018 is over 50. These companies are either ready to go public or are close to going public through a potential collaboration within 12 to 24 months. Other venues of networking were, for example, the BSE50 publication and online conference, the company building workshop in Nyíregyháza, or the acquisition event in Debrecen.

MENTORING PROGRAMME: SUMMARY OF THE EDIOP AND CHR PROJECT

Besides education, another identified component of a successful capital market is the reduction of the costs associated with going public. With that in mind, in 2016 we started to work together with the State in several areas.

In 2017, the Ministry for National Economy (NGM) announced a call for applications under the subject heading “Increasing the efficiency of the SME sector, primarily through measures designed to facilitate public listing” for the EDIOP (Economic Development and Innovation Operational Programme). The Budapest Stock Exchange submitted an application, which the NGM accepted and deemed to be worthy of support. Subsequently, in November 2017 the Budapest Stock Exchange submitted a grant application to the Deputy State Secretariat Responsible for Implementing Economic Development Programmes of the Ministry for National Economy with a similar title and content for the Central Hungary region. 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 since 6 February 2018 and in the Central Hungary Region (CHR) since 3 January 2019.

In practical terms, this means that the BSE assists companies in two ways as a grant 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 serves the company’s stock market launch. The EDIOP and CHR mentoring projects of the BSE specifically 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.

Accordingly, the BSE Mentoring Project consists of two parts. The first project part is dedicated to supporting SMEs participating in the training programme implemented by an international collaboration, while a programme supporting the preparation of SMEs for the stock exchange and for their listing is carried out in the second project part.

The BSE conducted a public procurement procedure in 2019 for the first project part, and the winner of the procedure was the ELITE Programme. The BSE seeks to use this programme to launch a European training and mentoring collaboration and to convey it to the target companies. Participants of the international collaboration take part in a complex programme, in which they can learn from the most competent consultants and expand their network. The ELITE Programme also enables companies to find the best form of financing: whether it is credit or capital financing or capital raising via the BSE.

The interest sparked by the grant offered for the ELITE training was higher than expected; therefore, after the budget has been exhausted in the Central Hungary region, the BSE submitted

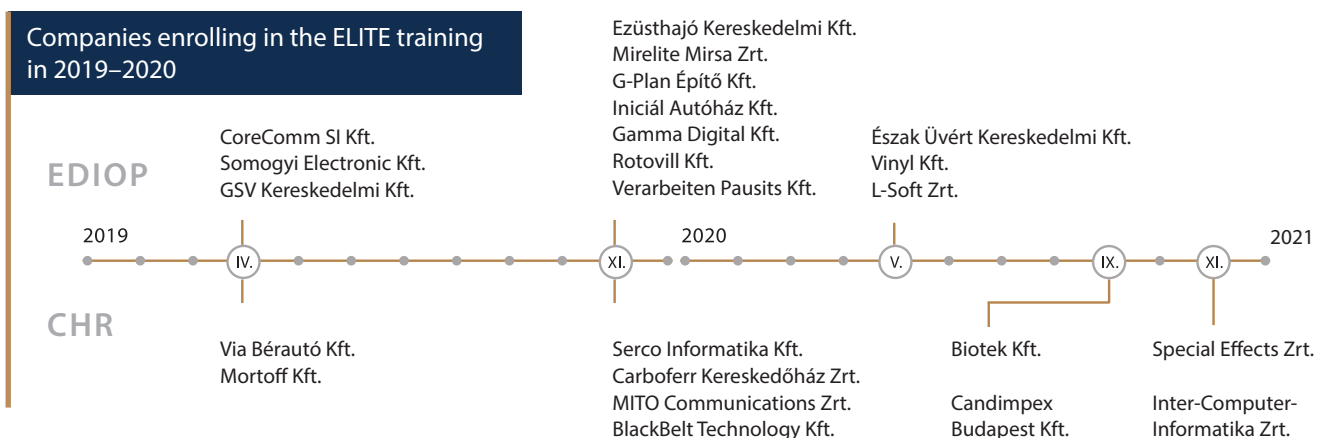
an application for additional funds, which was approved by the NGM in autumn 2020. That enabled additional companies to join the programme.

In response to the difficulties arising in 2020, the ELITE courses are conducted online instead of personal attendance in London, and training materials relevant to crisis management were added to the list of mandatory and optional courses. They are supplemented with further modules and courses arranged by the BSE.

Due to the pandemic, some of the companies applying in 2020 will only start the programme in January 2021; thus their EDIOP and CHR application process will be also completed in 2021.

The second project part is intended to support medium-sized enterprises in preparing for the stock exchange and to encourage the raising of capital on the capital market if the medium-sized enterprises cannot get sufficient – or any – funding on the financial markets. Here, the target group comprises 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 2018, Megakrán Nyrt. (EDIOP) and in 2020, DM-KER Nyrt. (EDIOP) and Gloster Infokommunikációs Nyrt. (CHR) completed the preparations for the stock exchange and their IPOs within the framework of the Mentoring Programme. All three companies listed their stocks on the BSE Xtend market, and raised funds successfully from external investors. In December 2020, OXO Technologies Holding Zrt. and ViVeTech Zrt. signed the Grant Agreement, and NAP Zrt. submitted its application for grant for the IPO project element.



MARKET AND PRODUCT DEVELOPMENTS

LAUNCH OF THE ANALYTICAL/MARKET-MAKING PROGRAMME

The need to achieve sufficient turnover for small and medium-sized enterprises poses a continuous challenge for issuers and exchanges. One of the main reasons for this is that it is not worthwhile for analyst firms to analyse these companies on a market basis due to the low liquidity, but the lack of an analysis perpetualises the moderate investor interest in the company. The MiFID II regime's entry into force in early 2018 aggravated this situation further, as it required the separation of the fees paid for analysis services and for order execution services; it was therefore expected that the analysis service would erode further particularly in this segment.

In order to address this potential market failure, at the end of 2017 the BSE launched a programme with a view to improving information coverage and supporting liquidity – the programme was started as a one-year pilot initially, and subsequently it was announced officially for a period of three years. Under the programme, professional workshops of the Exchange's investment service providers posted free analyses on the stocks of small and medium-sized enterprises on the BSE's website; moreover, the investment service providers support the liquidity of the order book by market-making services. The costs of the programme are undertaken by the BSE: the Exchange pays both for the analysis and for the market-making services.

In addition to the BSE's website, the analyses are also made available through the authoring service providers and – at the discretion of the service provider – at other data suppliers.

On the developed European capital markets, it is not unusual that exchanges play an increas-

ingly active role – sometimes under cooperation agreements concluded with various analyst firms directly – in supporting the analysis of small and medium-sized (capitalised) enterprises, and they do not refrain from contracting market-makers who undertake to maintain buy and sell quotes on own account to help the operation of the market, thereby reducing investors' implicit costs of opening and closing positions.

The BSE was the first in the Central Eastern European region to apply the above analytical/market-making sponsorship model, which was later also introduced by other exchanges of the region.

PHASES AND MILESTONES OF THE PROGRAMME

2018 – Pilot phase

The first, pilot phase of the market development programme launched by the BSE lasted until the end of 2018. Companies were admitted to the programme based on quantitative criteria (size, turnover, free-float and liquidity). It was in the framework of a public tender that the BSE announced the availability of analysis and market-making services among investment service provider members active in the equity section.

Therefore, the investment firms participating in the programme were selected from among the members of the BSE, while the group of issuers admitted to the programme was finalised in accordance with the investment firms' undertaking. Market-making services were provided by the service provider in charge of the analysis. A specific stock was under the charge of a single investment service provider.

At the end of 2018, the BSE requested the opinion of all participants: investment firms, institutional and retail investors and issuers participating in the programme. The feedback of the survey made it clear that the market had a positive assessment of the pilot phase of the Analytical/Market-making Programme.

Both components – i.e. the analysis and market-making service like – were considered to be a significant assistance for the participants. Investors perceived – primarily small investors; institutional investors to a lesser degree – an improvement in liquidity as a result of the market-making service, but all stakeholders agreed that the greater value added was generated by the analysis component: before the programme, there had not been such in-depth information available on most companies participating in the programme.

In addition to market opinion, the success of the programme was also confirmed by figures: 2018 brought increasing turnover and improving liquidity. The turnover of the stocks participating in the programme grew to a greater degree than the BSE equity market as a whole, which clearly underpinned – beyond the general market expansion – the beneficial effect of the programme.

2019 – extension, enlargement and streamlining of the programme

Based on quantitative data and market feedback, the BSE's Board of Directors concluded and decided that the programme should be continued with a number of changes:

- For better predictability, we announced the programme for a three-year period until the end of 2021 with the proviso that, even during that period, the BSE would evaluate current year developments at the end of each year, thereby keeping its theoretical option open to modify or suspend the programme.
- In 2019 and 2020, additional issuers were admitted to the programme; service providers were permitted to apply throughout the year for the analysis and market-making of the shares of the participants of the tender announced at the beginning of the year. For this, we also needed to fine-tune the filter criteria:
 - in order to facilitate constancy and thus, efficiency, the analysis and market-making of the stocks already included in the programme were primarily continued by the given investment service provider, while the full membership was allowed to apply for new stocks;
 - in addition to the analysis part, market making has become optional – with stricter conditions;
 - it became possible to analyse the stocks of the Xtend market as well – with easier conditions.

With respect to its main features and with the increased weight of the analysis component, the programme has been running under the same terms and conditions since 2019.

Participants of the BSE's Analytical/Market-making Programme

INVESTMENT SERVICE PROVIDER	ISSUER/STOCK	SERVICE
MKB Bank Zrt.	Alteo	Analysis + Market-making
	Masterplast	Analysis + Market-making
	BIF	Analysis
	OTT-ONE	Analysis
Wood & Company Financial Services, a.s.	ANY Biztonsági Nyomda	Analysis
	Graphisoft Park SE	Analysis
Concorde Értékpapír Zrt.	Appeninn	Analysis
	AutoWallis	Analysis
	CIG Pannónia	Analysis
	Duna House	Analysis
	Waberer's	Analysis
OTP Bank Nyrt.	PannErgy	Analysis + Market-making
	Rába	Analysis + Market-making
	Zwack	Analysis + Market-making
Equilor Befektetési Zrt.	Opus Global Nyrt.	Analysis

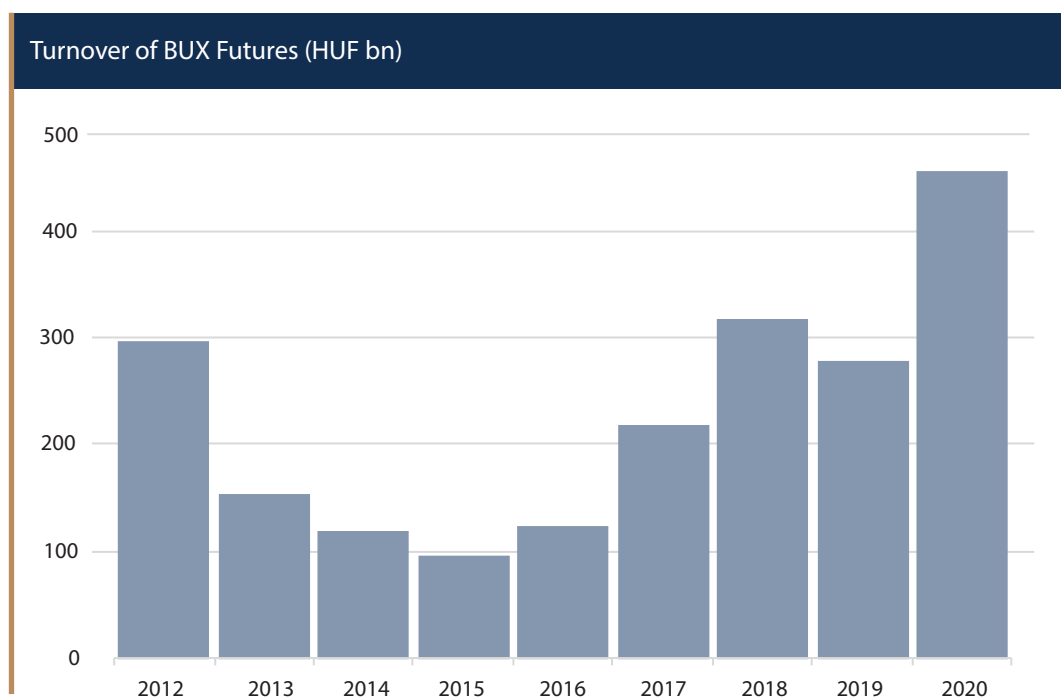
Latest developments in the Analytical/Market-making Programme

In 2020, Equilor Befektetési Zrt. was added to the original four participating investment service providers, while on the issuer side Opus Global Nyrt. (Equilor) and OTT-ONE Nyrt. (MKB Bank) joined the Programme. This is how the current list of the participants of the BSE's Analytical/Market-making Programme came into being. Investment service providers have analysed the results and main events of issuers on more than 250 occasions in total, assisting investors in making informed decisions in their Hungarian equity investments.

RESUMPTION OF BUX FUTURES QUOTES

Besides the support provided to SME markets, it is also important to briefly refer to the successes achieved on the BUX Futures market – the BSE's former flagship product in terms of turnover. Among the first market development measures taken after the change in ownership at the end of 2015, we also introduced an incentivised market-maker system for BUX Futures, which exhibited steadily decreasing trading interest at the time.

In the years to follow, our contracted market-makers (Erste Befektetési Zrt. and OTP Bank Nyrt.) supplied the market with ample liquidity, and the downward trend turned around.



FIRST THREE YEARS OF THE BSE XTEND PLATFORM, DEVELOPING THE CRITERIA SYSTEM OF THE SME MARKET

The development of the capital market ecosystem among medium-sized enterprises was one of the key elements of the BSE's 2016–2020 strategy. To that end, in 2016 the BSE decided to set up a new market in support of medium-sized enterprises – Xtend –, and in 2017 it established an infrastructural and regulatory background for the new market.

During the establishment of the regulatory framework, we were engaged in continuous consultations with market participants and with the Supervisory Authority to ensure that the rules to be created would be transparent and supported by all stakeholders. In setting up the platform for medium-sized enterprises, the BSE's task was to create a marketplace of new investment opportunities for investors, to ensure prudent operation in compliance with the surveillance framework of the MNB, and to implement a market-friendly ecosystem that would benefit potential Nominated Advisors (NOMADs) and issuers alike. With the introduction of Xtend, the BSE's goal was to expand the circle of potential issuers and investors. It intends to achieve this goal, on the one hand, by offering simpler conditions to issuers compared to the regulated market and, on the other hand, by making sure that investor protection considerations are not only enforced by the authorities – as prescribed by law – but also by the Nominated Advisor system. In other words, with the Xtend market the BSE wishes to open up opportunities for the medium-sized enterprise issuer group and for the investor segment looking for medium-sized enterprise exposure, and supports the development of the required ecosystem in cooperation with the market.

International examples, the experiences of small and medium-sized enterprises listed in the BSE's Standard and T categories and consultations with issuers all made it clear that the primary consideration for medium-sized issuers is the funding function of the Exchange, while the trading function, for now, is relegated to the background (and may only strengthen if the company's number of owners increases). Accordingly, the BSE Xtend strongly focuses on the primary market and companies' access to financing. Typically, raising funds in the MTF market takes a different form than the IPOs generally used in the case of regulated market admissions. According to the original ideas and experiences so far, the participants of these transactions comprise a pre-defined institutional circle and a limited private investor circle.

Typical issuers of the BSE Xtend market may be dynamically developing medium-sized enterprises, which are willing to undertake the obligations entailed by going public, but – based on their level of development and financial background – they are not quite ready to launch a large-scale IPO. In the period following their admission without an IPO, issuers are given an opportunity to familiarise themselves with the operation of the Exchange, while issuers can also get acquainted with the company, which increases the chances of a successful subsequent public offering. Meanwhile, the company can take advantage of the reputation value of its presence

on the stock exchange, which may also be reflected in improving business activity (e.g. more favourable price and other conditions with suppliers and buyers) and thus, P&L figures.

Traditional and new investor circles can both participate in financing:

- There might be professional investors similar to venture capital companies that may take an interest, as part of their business activity, in the stocks of smaller stock exchange issuers as well, and/or are also willing to support the raising of capital raising and admission to trading as “lead investor”.
- Among private investors, the issuances may typically attract wealthier households with a strong risk-taking capacity, or premium and private bank customers who may wish to include SME exposures in their portfolios for diversification or return maximising purposes.
- As regards the most liquid stocks of the secondary market, classical institutional investors – such as pension funds or insurers – may also join in; they may take on medium-sized exposures typically for diversification purposes.

The BSE officially announced the launch of the BSE Xtend platform at the BSE50 – Medium-sized Enterprises’ Summit held on 20 September 2017, and also published the list of Nominated Advisors operating in the market. The website of the Xtend market went live at the same time, offering comprehensive professional information and contents to potential issuers and investors.

The first entrant, Megakrán Nyrt. decided on the private capital increase at its General Meeting in November 2018, as part of which it registered newly issued shares on the BSE Xtend market. The total value of the transaction was HUF 678 million; the National Stock Exchange Development Fund managed by Széchenyi Tőkealap-kezelő Zrt. contributed with 40 percent, while the involvement of other institutional and private investors amounted to 30 percent each. The company’s nominated advisor during the offering and trading was MKB Bank Zrt.; and EY participated as Megakrán’s partner in the transaction.

For Megakrán, the listing also required raising intellectual capital in addition to financial capital. It was for this specific reason that the ambitious company joined the first round of the ELITE Programme organised by the BSE and the London Stock Exchange Group, which offered corporate finance knowledge, corporate governance methods and networking opportunities. Megakrán was also the first company to be awarded a grant under the BSE’s Mentoring Programme at the Economic Development and Innovation Operational Programme (EDIOP) tender announced in June for the financing of the public listing of IPO-ready SMEs. The company plans to use the fresh capital raised to implement further developments, capacity building and market expansion.

Two new securities were listed on the BSE Xtend market in the course of 2019. The stocks of Cy-BERG Corp. Nyrt., a company registered in October 2018, became available in January 2019. Cy-BERG 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. The company plans to use the capital raised by listing on BSE Xtend to build up its 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 were admitted to trading on the Xtend market two months later. The company was established in 2018 for developing, buying and selling own real estate, real estate management, organising construction projects, building residential and other buildings, as well as letting and operating own or leased real estate. Since mid-2019, the company has been focusing on real estate development, as part of which it will organise the construction of gated communities in Budapest and in the agglomeration of the capital city, and participate in the entire implementation process (land purchase, design, licensing, construction, sales).

DM-KER Zrt. was registered in December 2019 and the trading of its stocks began in January 2020. Established in 2008, the Company sells, leases and repairs agricultural and industrial machines, and it is the official representative of 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.

In June 2020, the shares of a new investor, Gloster Infokommunikációs Nyrt. were also added to BSE Xtend SME market. The issuer offers complex IT solutions; its product range includes network infrastructure, network security, monitoring and collaboration solutions, and the company also has an intelligent building business line. In spring 2020, the company raised around HUF 1.1 billion, 70 percent of which was subscribed by the National Stock Exchange Development Fund.



CORPORATE BOND MARKET DEVELOPMENTS, DEVELOPING THE CRITERIA SYSTEM OF THE BSE XBOND MARKET

In recent years – indeed, decades – the Hungarian corporate bond market as a form of financing has had a very subdued presence. Issues were scarce, even though there are numerous international capital markets where corporate bond issues perform a significant financing function.

The Magyar Nemzeti Bank recognised this, and in June 2019 it launched the Bond Funding for Growth Scheme (BGS) – its bond programme for non-financial enterprises –, the total amount of which was raised from the initial HUF 300 billion to HUF 450 billion at first, then to HUF 750 billion by the last quarter of 2020, and to HUF 1,150 billion from 13 January 2021. Under the programme, by which the MNB intends to create a favourable financing opportunity, the central bank may obtain up to 70% of the bonds of issuer companies through primary and secondary market purchases, capping its exposure to any corporate group at HUF 70 billion. Through the BGS, the MNB wishes to improve and diversify the currently bank lending-focused fund raising options of the companies concerned while strengthening monetary policy transmission.

Companies, which need to have adequate rating in order to participate in the programme, may access HUF-denominated funds for a period of 3–30 years. In accordance with the requirements listed among the conditions of the programme, issues under the BGS are conducted in the BSE's auction system, and the bonds are listed in one of the BSE's bond market segments – supported by adequate two-way quotes – within three months of the issue.

By the end of 2020, 53 transactions were conducted under the programme at a total face value of almost HUF 900 billion, often with durations exceeding five years by far. Of the instruments concerned, 31 have been also listed in the BSE Xbond secondary market segment at a total face value of HUF 600 billion, and one bond is traded on the regulated market.

It is a priority objective of the BSE to get potential issuers acquainted with the BGS; therefore, it promotes the programme directly at BSE50 and ELITE events and client acquisition meetings and online on its own website, while also trying to educate capital market intermediaries – NOMADs, investment service providers and consultants – in relation to the BGS.

Thanks to the BGS, by the end of 2020 the non-financial enterprise corporate bond portfolio had surpassed the HUF 1,300 billion level; i.e. it now represents more than 2.7 percent of 2019 GDP. Although this value is still fairly low compared to the 13 percent and 4 percent values recorded in the EU and in Poland, respectively, it implies a significant step forward compared to the 1.5 percent recorded in the previous year.

The BSE itself has supported – and still supports – the success of the MNB's bond scheme in several ways. Concurrently with the launch of the scheme (as of 1 July 2019), it created a new,

MTF market called BSE Xbond for companies preparing for issuing bonds, which enables them to get listed on a public market under less strict conditions. If the instruments are registered on the Xbond platform, issuers do not need to publish a prospectus to be approved by the Supervisory Authority; they only have to prepare (and publish, after approval by the BSE) an Information Document based on the conditions defined by the BSE. It is also an important consideration that, as opposed to the regulated market, issuers entering this platform are not required to apply the IFRS standards in performing their accounting reporting obligations. Moreover, in the case of the Xbond MTF market, the regular and extraordinary disclosure obligations of bond issuers are defined and controlled by the BSE. The new market targets professional investors by setting the minimum face value of securities eligible for registration at EUR 100 thousand or its equivalent in another currency. This means that private investors can join the BSE Xbond market primarily through investment funds, savings banks and insurers. The first instrument listed on the platform was the MOL2029 senior HUF bond registered in December 2019.

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

Also, we implemented developments in the auction system specifically for ensuring compliance with the criteria defined in the MNB programme (display of data on the workstation, no market participant is allowed to take more than half of the accepted volume). With a view to measuring the market-making parameters of the BGS, the BSE has partly developed – and continues to enhance – its monitoring system that is intended to measure market-maker performance.

Among corporate bonds, in the corporate bond asset class of financial institutions the mortgage bond market is a strategically important segment for the BSE. On this market, the MNB seeks to minimise the asset-liability mismatches of financial institutions by prescribing the Mortgage Funding Adequacy Ratio on the one hand and, on the other, in two recent periods it has supported the process by purchases under favourable conditions for mortgage bond issuers. In several steps, the MNB raised the Mortgage Funding Adequacy Ratio – which was introduced at 15 percent in 2017 – to 25 percent by 2019, and in the same year, it increased its secondary market purchases well above HUF 300 billion compared to only about HUF 10 billion in 2018. As a result of these measures, mortgage bond issues multiplied: in 2018, the number of transactions rose to 35 from 9 in 2017, and the amount issued jumped to HUF 548 billion from HUF 61 billion. And even though the pace slowed to 23 transactions and HUF 128 billion in the following year, the market was given a new impetus in 2020: the number of bonds issued reached 20, and the total face value exceeded HUF 350 billion. In consideration of the MNB's provisions, in the mortgage bond issuance market mortgage banks auction their instruments on the MMTS 1 platform operated by the BSE, and subsequently list the series issued on the BSE.

Some banks in the mortgage bond market have even created their own mortgage bond curves in HUF.

INDEX DEVELOPMENTS

Indices play an increasingly central role in investments: because of their benchmark function, they are important for asset managers with active investment policies, but they are indispensable for the increasingly prominent, cost-efficient, passive investment strategies as well.

The past five years have seen a significant improvement both in the BSE's offer of indices and in the quality of the indices. Recognising investors' current needs regarding indices and in compliance with the requirements set by the regulatory environment, the BSE has implemented the following main index developments in the recent period:

- Introduction of the CEEplus index in the framework of regional cooperation
- Construction of the mortgage bond index family
- Developments concerning the BSE's existing indices (BUX and CETOP)
- Compliance with the provisions of the Benchmarks Regulation

THE CEEPLUS INDEX

At the economic summit in Krynica-Zdrój, Poland on 4 September 2019, the Chief Executive Officers of the stock exchanges of the V4 (the Czech Republic, Hungary, Poland, and Slovakia) and Croatia, Romania and Slovenia announced their intention to develop – as part of the ongoing collaboration of the capital markets of the region and after lengthy preparations – a new regional stock index, which was committed to an agreement signed in 2020. The BSE undertook the lion's share in constructing the index and in drawing up the cooperation contract to be concluded by the participating stock exchanges.



The CEEplus Index includes the most liquid stocks of the stock exchanges of the Central-Eastern European region (Budapest, Bucharest, Ljubljana, Bratislava, Prague, Warsaw and Zagreb). The index is calculated by GPW Benchmark, a subsidiary of the Warsaw Stock Exchange engaged in index calculation; data required for the calculation are provided by the member stock exchanges. At present, the index calculation is run once a day (at the end of the day), but shifting to real-time calculation – which results in an even better utilisation – is a future goal. Committees consisting of the representatives of the participating stock exchanges are responsible for the management of the index and index-related conceptual decisions.

The primary purpose of constructing the regional index calculated by GPWB was to facilitate the development of income-generating, tradable products based on the index. With that in mind, one of the leading Polish financial service providers – Powszechny Zakład Ubezpieczeń – was the first to set up a passive investment fund following the CEEplus index to create an opportunity to invest in the performance of the region.

The construction of the index points beyond profitability in the strict sense. The CEEplus can also be interpreted as the first joint development initiative of the capital markets of the region, which may be followed by cooperation in future projects to make investments in the region even more attractive, and to strengthen the capital markets – and hence, the economies – of the region.

CONSTRUCTION OF THE MORTGAGE BOND INDEX FAMILY

It also took years of work to create a new index family type to supplement the existing BSE equity indices. It was an incentive, on the one hand, that the MNB considers mortgage bond-based financing important; on the other hand, the construction of the index was justified by the absence of a transparent indicator that adequately reflects the status of the HUF mortgage bond market and assists investors in pricing and in assessing the performance of mortgage bond portfolios. Thus, in collaboration with the MNB, the BSE developed, launched as a pilot at the end of 2017 and – after a successful observation period – officially introduced its mortgage bond index family calculation at the end of 2018.

The index baskets contain fixed-interest, HUF-denominated mortgage bonds currently traded on the BSE, which must also comply with requirements specified in the relevant manuals. The calculation of the mortgage bond indices is based on the stock exchange quotes of the mortgage bonds comprising the basket.

The mortgage bond index family is composed of a total return index, and two yield indices calculated for two different maturities:

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

For the time being, there are no other indices in the region that follow the mortgage bonds issued in the local market; thus the BSE's instruments are considered a curiosity in this regard.

DEVELOPMENTS CONCERNING THE BSE'S EXISTING INDICES (BUX AND CETOP)

CETOP

In response to the alignment observed in regional capital markets – i.e. the dynamic development of the Romanian capital market and the dominance of the Polish market –, redesigned its Central and Eastern European regional index significantly after consultations with the fund managers using the index as a benchmark. From September 2016, stocks from the Romanian market were also included in the basket and, in accordance with the new rules, the weight of the most major instruments and markets was reduced. The number of members of the index basket increased: renamed CETOP (CETOP20), the index basket may well contain 25 regional blue chip shares instead of the former 20 fix members. The domestic market reception of the change was positive, as the transformation rendered the BSE's regional index far more diversified.

BUX

The Hungarian blue chip index, the BUX, has been subject to a significant facelift as well. Previously, the shares included in the index basket had been selected based on a complex criteria system, the relevance of which significantly eroded over time. After the methodological update pre-agreed with relevant Hungarian stakeholders, the BUX now operates in a simpler pattern more aligned with international practice, where the selection is based on two criteria (size and turnover). The BUX Index became far more transparent after the recast.

COMPLIANCE WITH THE PROVISIONS OF THE BENCHMARKS REGULATION

Although it is not an index development per se, compliance with the provisions of the Benchmarks Regulation (BR) should also be added to the list of important milestones.

The project has weighed on the BSE in the past half decade, as the lower-level detailed rules and their interpretation required continuous responses and kept all stakeholders on their toes (including the stock exchange). The BR requires constant compliance, but the first chapter of the story ended in December 2019: the Budapest Stock Exchange was registered by the MNB as benchmark administrator.

CURRENT INDEX DEVELOPMENT TASKS

ESG indices

The social and environmental approach has become an increasingly important issue of our times and accordingly, ESG investments have become more and more popular; institutional

investors, as well, started to compile their stock portfolio along the lines of these principles. The upsurge in ESG products is expected to continue in future.

Although the regulation on benchmark indices is still evolving, in view of this trend the BSE is planning to make its BUX (Hungarian blue chip) and CETOP (CEE blue chip) indices ESG-compatible. It has started the relevant work by surveying fund managers' needs.

Bond index

The success of the central bank's BGS scheme resulted in a significant increase in the BSE's corporate bond segment; in 2020 numerous non-financial enterprises listed their bonds on the stock exchange. This positive process paved the way for the construction of two corporate bond indices, which the BSE began during 2020 following the example of the already operating mortgage bond index family, essentially using the same methodology as the one used for mortgage bonds, but adjusted for the specificities of the corporate bond market.

The planned BSE Corporate Bond index family will be composed of a total return index and a yield index calculated for a long maturity (index value expressed in yield).

EXPANSION OF THE BETA MARKET

BACKGROUND

The BSE launched its alternative trading platform, the BETa market, in 2011, and continued to develop it dynamically over the time horizon of its recently executed strategy. With a view to serving mainly retail investor needs at the highest possible level, on the BETa market the BSE provides access in HUF to products quoted on international stock exchanges within the framework of a type of dual listing.

The continuous trading opportunity is currently supported by OTP Bank Nyrt., which ensures buy and sell opportunities in the given instruments based on a pre-defined minimum quantity and maximum price range.

EXPANSION OF PRODUCT SELECTION IN THE RECENT PERIOD

The BSE addressed the temporary loss of interest in equities and the decline in turnover caused by the discontinuation of the activity of a former market-maker by a well-timed market development at the end of 2018: the BSE expanded the range of the BETa market – which had been limited to foreign stocks until then – to include a new type of instrument, exchange-traded investment funds (ETFs) in addition to six leading European stocks. Through the relevant indices, these instruments enable investors trading on the BSE to purchase, in a single transaction, a highly diversified portfolio that reflects the performance of the entire market represented by

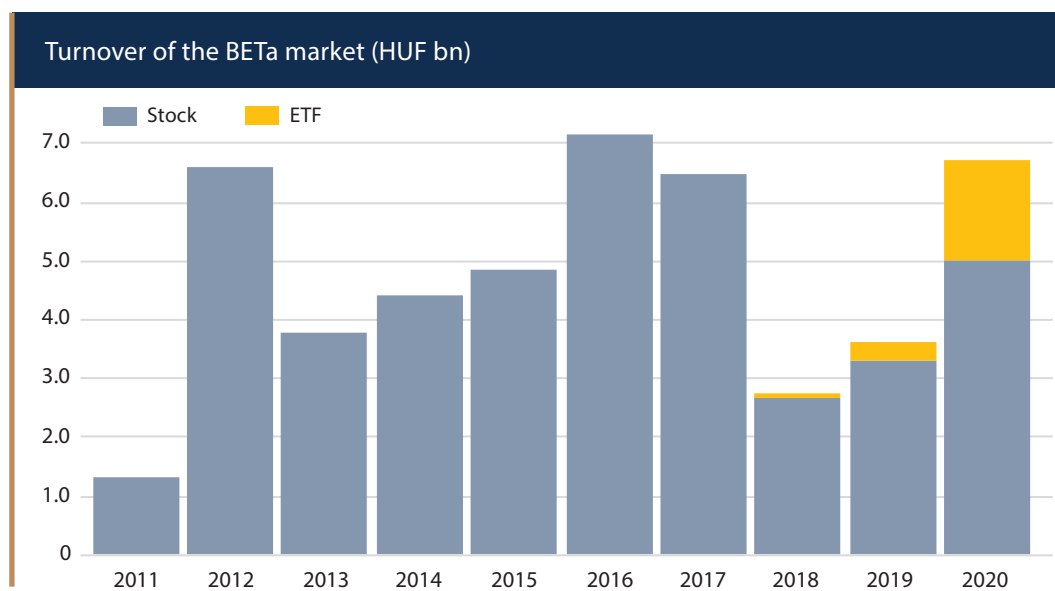
the given ETF (in the case of BETA, typically European – in particular, German – and US markets). In addition to instruments profiting from price increases (long ETFs), the new ETFs also include instruments that generate profits when markets drop (short ETFs). It can be partly attributed to the impact of the developments that the BETA market was given a new momentum.

Recognising the growing popularity of the social and environmental approach manifested in ESG products, at the end of 2020 the BSE made available, much to the delight of domestic investors, a number of new ETFs for trading. The two new ESG ETFs open up the opportunity for the new type of investment through indices that contain limited companies which consistently apply the sustainability approach in their operation.

At the end of 2020, we also arrived at one of the most important milestones in the life of the BETA market: in addition to the stocks of purely foreign companies, the instruments of Wizz Air Holdings – whose business activity has close ties to the Hungarian economy – were also added to the list of instruments. As a result, investors were given access to the most prominent domestic actor of civil aviation.



Given the success of BETA products, the future plans of the Exchange continue to include the enlargement of the product range in accordance with investor needs.



BRAND BUILDING, COMMUNICATION AND DIGITAL PRESENCE IN AN ONLINE ENVIRONMENT

DIGITALISING CAPITAL MARKET PRESENCE

Strengthening the BSE's image and embedding it in domestic media and public awareness played an important role in the capital market development activity performed by the Budapest Stock Exchange in the past five years. We achieved this goal by relying on a diverse marketing communication and PR toolset and as a result, by now the Exchange has regular appearances in the most prestigious economic/financial media platforms, it has a growing presence in social media platforms, and has become a dominant actor in professional and retail events relevant to the capital market.

Digitalisation has been given key priority in the communication work of recent years: this is reflected in our appearances on digital and social media platforms, the consistent strengthening of our presence, and the growing online access to our events. The Coronavirus pandemic has accelerated the process significantly: the BSE satisfied the skyrocketing demand for digital content in this extraordinary situation by developing communication tools and by relocating physical events to online channels.

BROADENING INVESTOR COMMUNICATION

Increasing the stockholdings of households and encouraging the listing of corporations on the stock exchange were at the centre of investor communication in the 2016–2020 period. Thanks to the activity of the Sales and Marketing Directorate of the BSE, analyses, articles, interviews and news on the Hungarian equity market are published on a daily basis, with the professional support of the Exchange, on leading economic media platforms of the domestic media market.

As a result of our press communication work, the thematic spectrum covered by the press releases has also expanded over the years. Besides announcements on daily turnover data, communications have become regular on BSE-related events, collaborations and other relevant economic events; moreover, the BSE strived to build new press relations and improve the flexibility of existing ones as much as possible. In this spirit, leaders and experts of the BSE regularly made themselves available to the press in the form of interviews, professional articles and analyses.

We consider it another important achievement that, in addition to blue chip companies (OTP Bank, Mol, Richter Gedeon and Magyar Telekom), actors with smaller market capitalisation and dynamically growing medium-sized IPO-aspiring companies were also given increasing media attention, in many cases through their joint appearances with the Exchange.

The strengthening media presence observed in recent years is also spectacular in numbers: while in 2018 we recorded 4,000 press appearances in relation to the Exchange, by 2019 this number doubled, and in 2020 we were able to maintain this level with nearly 8,000 appearances even in the context of a significantly optimised and more efficient cost structure.

The reach achieved through these appearances and the calculated equivalent advertising value has also increased sharply in recent years. The combined reach of 270 million recorded in 2018 rose to 900 million a year later and to 1,100 million in 2020, and the equivalent advertising value increased from HUF 800 million in 2018 to HUF 1.5 billion in both 2019 and 2020.

THE BSE IN SOCIAL MEDIA

Moving in tandem with global market trends, increasing the number of followers on social media sites and the design and development of digital contents have played an increasing important role in the BSE's communication in recent years.

The BSE's Facebook page has a key significance in addressing the population: At the end of 2015, our Facebook page had less than 500 followers, but by the end of 2020, we increased this number to nearly 20 thousand, outperforming the typical level for Hungarian investment

service providers significantly. Simultaneously, our followers on LinkedIn – a paramount platform for professional and corporate circles – rose to more than 3,000 by the end of 2020 from less than 300 at end-of-2017, which is another outstanding result, especially in light of the fully organic nature of the growth. In response to the growing prominence of video contents in recent years, activity on the BSE's YouTube channel rose sharply as well: at present, there are more than a hundred uploaded videos on the platform. The topics covered by these videos are extremely diverse, including live streams, interviews with issuers or educational videos, only to name a few.

EVENTS AND EDUCATION ON A BROADER SPECTRUM

Events play a key role both in investor and retail communication. In the past five years, three large-scale, annual events have been inserted into the BSE's event calendar. With a history of more than twenty years, the Best of BSE Awards are intended to recognise the most outstanding annual performances of the Hungarian capital market. The second such event is the anniversary of the foundation of the BSE, and the third is the SME conference entitled "BSE50 – Medium-sized Enterprises' Summit", which has been arranged each year since 2016 in relation to our "BSE50 – The Success Stories of Fifty Hungarian Companies" publication that presents inspiring corporate stories.

In addition, there is a continuously growing list of events organised by the BSE primarily to address potential issuers and IPO-ready medium-sized enterprises. 2019 was particularly memorable in this regard with the launch of the BSE50 Club – an exclusive SME meeting for the BSE50 community – and BSE Xmatch, which aims to connect potential investors with emerging companies. Starting from 2018, we organise regular business breakfasts under the ELITE Programme established in conjunction with the London Stock Exchange. We should also highlight our educational events: the BSE Academy, Stock Exchange visits, professional forums, and the regular lectures given by experts of the Exchange at conferences, colleges and universities.

The Coronavirus pandemic resulted in significant changes in the area of events as well: in order to comply with health protection measures and social distancing requirements, we have moved numerous regular events to the digital domain. Thanks to streaming solutions, the iconic opening bell at the start of the trading day can be heard by a broader public; we replaced the events linked to the BSE50 publication – the BSE50 SME Summit conference and the BSE50 Clubs – by online forms, and representatives of investors and companies hold virtual meetings in the framework of BSE Xmatch as well.

In this context, after the BSE Academy we now have the BSE e-Academy, which regularly attracts record audience numbers. Attendance grows continuously at our regular stock ex-



change game, the BSE Stock Derby Competition, which we organise annually also in the spirit of digitalisation. As part of the game, Hungarian secondary school students can trade on the stock exchange in a virtual form that mirrors real-life price developments.

DIGITAL FUTURE

The media presence built up in recent years and our event package have put in place a strong marketing communication foundation for designating the path to follow in our next strategy. At the same time, global forecasts indicate that the lifestyle changes brought about by the extraordinary situation in 2020 will stay with us over the long term. Accordingly, the BSE intends to support its marketing communication and the achievement of its market development and business goals with an even stronger digital presence than before. In the coming years, the BSE will focus on transmitting high-quality and relevant contents and expertise aligned with digital media consumption habits, so that an even broader group of audience can rely on the BSE's communication platforms as sources of stock-exchange news and capital market intelligence.

TRAINING ACTIVITY OF THE BSE IN THE PAST FIVE YEARS

The corporate social responsibility of the Budapest Stock Exchange is reflected in its efforts to enhance financial literacy and investor awareness. In its past 30 years, the BSE has had a continuous presence in this area. In addition, it believes that the training of capital market experts is a cardinal issue. In this chapter, we present the results of the five-year period of 2016–2020.

You can never start the development of financial literacy too early, but stock exchange trading is not the easiest training material for students. We need the methodological assistance of BSE experts to be able to present the world of the stock exchange to the youngest generation in an easy-to-understand form. The goal is to improve investor awareness and to share entrepreneurship knowledge.

The Exchange generates value for the primary school and secondary school generation primarily in conjunction with its cooperating partners. We are engaged in the deepest cooperation with the Money Compass Foundation. Every spring in the past five years, we organised the BSE Stock Derby Competition, a digital stock exchange game played with virtual money. Participants follow the developments in their equity investments for a whole month, while they are competing with each other in respect of the yields. What is even more important, however, is that they learn about the correct stock exchange investment strategy by answering a series of quiz questions every day. The goal of the Exchange is to demonstrate that portfolios containing long-term, diversified investments can be a useful investment for households with savings, and hence, for the students as well.

Our partners' competitions and training programmes are equally important for us. Year after year, we participate in the competition of the Central European Training Centre for Brokers (KEBA), in the Money Star competition and in the Money Masters competition of the National Association of Voluntary Funds (ÖPOSZ). The Exchange supported the Fintelligence labs opened at universities, which can be visited by groups of secondary schools from the region. The BSE has written a whole chapter on stock exchange trading in the Fintelligence – Scientific Financial Literacy Review publication, and attended the Financial Literacy Conference several times.

The BSE is open to cooperation with any Hungarian university. Primarily, finance departments send requests for lectures, but we are also in contact with numerous independent university organisations, and collaborate with several specialised colleges. The BSE's experts offer a variety of lectures to university audiences both in Hungarian and in English. Most of the lectures were held at university venues, but the Exchange also received visitor groups in the Bank Center building. However, in 2020 video conferencing became the new training platform, and the fact that these recorded materials are accessible to all is a great advantage. The BSE works in close collaboration with the University of Debrecen, where BSE expert offer courses on the operation and regulation of the Stock Exchange under the training module entitled "Modern Corporate Finance". We are also engaged in close cooperation with the ELTE Institute for Post-graduate Legal Studies. The Institute provides an opportunity for acquiring a specialised post-graduate law degree in the context of Investment and Stock Market Law training.

As part of the cooperation with higher education institutions, the BSE employs interns on a continuous basis. The most interested students have always had an option to improve their skills in capital market work.

The BSE has received increasingly positive ratings in the past five years at the institutions organising the visits of foreign MBA programmes. About twenty foreign student groups visited us at the Bank Center in this way every year. The visits had to be discontinued because of the Coronavirus, and the demand for virtual lectures is also fairly subdued.

One of the most important traditions of the Exchange is the call for applications for the Kochmeister Award, which we announced together with CFA Society Hungary in the past three years. We organise the Hungarian round of the international Investment Research Challenge together. The BSE Prize goes to the team submitting the best written analysis.

All Hungarian universities are given an opportunity to display real time BSE prices. In the FinLab room of Corvinus University of Budapest, a ticker shows current prices from the Hungarian trading floor and, even more importantly, no subscription fees need to be paid to the Exchange for viewing real-time data on the Bloomberg terminals operating in the room. Ad hoc data requests are another option for students and university researchers so that they can prepare research papers using the BSE's historic data. Several BSE staff members act as regular external consultants for theses, and they are often invited for thesis defence.

We organise a series of lectures for retail investors in the form the BSE Academy or, from 2020, the BSE e-Academy. At these events, we present – together with prominent representatives of the Hungarian investment service provider and asset manager profession – scientific knowledge on stock exchange trading, and explore possible rational, long-term investor approaches in the current market environment.

For Hungarian financial and capital market professionals, the most important initiative of the Exchange is the educational subsidiary of the BSE – the Budapest Institute of Banking (BIB) –, which was set up with the support of the Magyar Nemzeti Bank in 2017. The institution currently has active relations with more than 20 Hungarian and international partner organisations including Moody's Analytics, the London Centre for Finance, Technology and Entrepreneurship and the education institutions of the London Stock Exchange Group.

An important pillar 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 "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. The programme also includes preparatory courses for qualifying examinations in the stock market; i.e. broker training, options and futures training and securities administrator training. The third pillar is the area of individual corporate training courses, where the BIB offers training customised for the given company or bank – even with on-site training as needed. Cashier and foreign currency cashier trainings are also a part of this pillar.

BIB's courses feature the best Hungarian and international speakers of the trade who share with students their cutting-edge knowledge in a practice-oriented and experience-based form. Students' current questions in the topics of banking, finance and supervision are answered first-hand by the experts of listed companies and the professional leaders of the MNB.

Some of the BIB courses are specifically designed to provide professional support to stock exchange issuers and advisors surrounding the exchange, thereby assisting in the implementation of the BSE's strategy. An example is the IR course aimed at the training of investment contact persons, which is announced twice a year (at the beginner and advanced level). At these courses, issuers acquire the most important and most current information concerning them with the assistance of not only stock exchange experts, but also other important institutions of the capital market (MNB, KELER) and practicing experts. The training aimed at the expansion of bond market knowledge is based on a similar concept; it is intended to support companies aspiring to the Xbond market and their advisors.

The bigger part of the BIB education portfolio is provided in Hungarian language for Hungarian

operators; nonetheless, over 10 percent of the banking and finance courses of the 2018/2019 academic year were held in English. The company's medium-term goal is to become an international education centre in the region through its special courses. (Additional information on the BIB is included in the chapter presenting the BSE's subsidiaries.)

The BSE organises professional events and trainings for its issuer companies and stock exchange members on its own right; it is called BSE Forum. These programmes are free of charge and often held with the participation of Hungarian economic journalists.

In another part of our strategic report we have referred to the ELITE Programme already, but we should also mention it in relation to our trainings. ELITE is an MBA-type programme available for businesses, in the framework of which medium-sized enterprises receive answers to their growth challenges. Almost 500 Hungarian companies have joined the ELITE Programme by now, which means that Hungary is in first place on the list of the countries sending the most success companies to the international programme.

SUBSIDIARIES

KELER GROUP

Securities depositories, i.e. clearing and settlement infrastructures, play an important role in the secure operation of capital markets: they guarantee that investments made on stock exchanges or on any other markets reach their destinations securely, and that the securities purchased are available on the next day – and remain available even in ten years' time – in the account manager banks. In addition to account management and securities settlement, depositories perform a number of other important activities for market participants, such as the issue (generation) of dematerialised securities, or the management of various corporate events (e.g. dividend payouts, general meetings). According to McKinsey's estimate², these securities services generate a total revenue of USD 90 billion per year for depositories, clearing houses and custodian banks globally, which significantly surpasses the income of other capital market segments, such as equity trade or the classical investment bank activity.

KELER has been performing the central securities depository function and the central clearing activity in Hungary since its establishment in 1993. It manages the accounts of the entire Hungarian capital market sector – mainly domestic banks, investment service providers and other actors (more than a hundred institutions –), and ensures continuous securities turnover. In line with international trends, in 2009 the depository set up a separate subsidiary for the clearing activity under the name KELER CCP.

In recent years, KELER CCP has placed great emphasis on serving the energy markets: it provides clearing services to 11 European gas and electricity markets. While this activity is dynamically growing, the business line requires continuous developments in the area of risk management.

KELER decided in 2013 to renew its account management system and the IT infrastructure built around it; the development is expected to be completed and made available to market participants, albeit with some delay, by the end of 2021.

² McKinsey & Company 2018, March 27, A calm surface belies transformation in securities services.

KELER generates sales revenues of almost HUF 8 billion annually, and since besides the Magyar Nemzeti Bank as majority owner, the Budapest Stock Exchange holds a significant, 46.7 per cent stake in the depository, the BSE pays particular attention to the efficient operation of this subsidiary.

For a period of more than ten years after the 2008 financial crisis, depositories and clearing houses allocated a substantial part of their resources to compliance with regulatory provisions. Such European regulations include, for example, the CSDR and the EMIR regulations, the Shareholder Rights Directive, the PFMI recommendations or the T2S changeover. All of these regulatory provisions affected KELER significantly, and by receiving its CSDR licence it closed an important chapter in the work.

Although further regulatory compliances can be expected, in 2020 technology-based innovations gained special significance in the operation of depositories as well: cybersecurity, automation, data-driven business developments, blockchain technologies or digital asset securities issuance have been given a role in the strategic plans of all depositories.

As economies of scale and operational efficiency are still important factors in the profitable operation of securities depositories, it is an exciting question for KELER, as well, as to how to satisfy the growing need of market participants for technology and services; i.e. how to compete with the quality of larger capital markets with investments that exert a positive impact on the profitability of the company.

BUDAPEST INSTITUTE OF BANKING

Ever since its reopening in 1990, 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 latest know-how and innovation are the keys to the successful operation of the BSE. When the BSE re-opened, 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 Exchange focused on at the time.

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

All activities that qualify as professional training and are subject to the payment of tuition fees



are conducted by the BIB. In addition to capital market topics, they cover the entire financial/economic spectrum, and even extend to the teaching of “soft skills” that are essential for anyone working in the financial arena today. For issuers and exchange members directly, we now only arrange 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 offer free stock exchange courses for the public.

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 which, in turn, requires



high-quality, world-class training. High quality in up-to-date knowledge, ethical professionalism, efficient knowledge-sharing and modern education technology.

Since its foundation, the BIB has provided 402 courses with 245 trainers and signed cooperation agreements with 27 Hungarian and international partners. It has trained 2,887 participants in banking and finance, issued 4,507 OKJ certificates, and enrolled 8,717 e-learning users.

In July 2020, the BIB received funding from the Public Benefit Non-profit Limited Company for the Development of the Industry (IFKA) of the Ministry for Innovation and Technology for developing an online training material for SMEs. It was completed and made available free of charge on the ekkv.hu website during the same year. The training material may prepare for other courses relevant to the Exchange that supplement the financing knowledge of SMEs.

The BIB's revenues have increased continuously since its start, but the pandemic situation transformed the range of services offered. Since the lesser costs of online courses were able to

make up for most of the waning demand, profitability did not decline drastically. A comparison of the first quarter of 2019 and 2020 reveals a moderate decline of HUF 16.8 million (from HUF 137.4 to 120.6 million year-on-year).

The BIB requests feedback on all of its courses. The resulting statistics indicate an extremely favourable result with 8.4 being the lowest score given, and the combined score of the seven key areas is higher than 9.

ELSŐ ÉRTÉKPAPÍROSÍTÁSI TANÁCSADÓ ZRT. – ELÉT

Based on the April 2019 amendment of the Capital Market Act, the BSE established (at the owner's initiative) Első Értékpapírosítási Tanácsadó Zrt. (ELÉT Zrt.) as its 100% subsidiary, which started its operations in September 2019.

The purpose of ELÉT Zrt. is to actively promote the proliferation of securitisation in Hungary, thereby contributing to the development of the Hungarian money and capital markets, and to exploit – as part of its consulting activity – the relevant business opportunities while enforcing investor protection considerations to the greatest possible extent.

In addition to designing and optimising its own organisational operation, the following work-flows were given special focus in the activity of ELÉT Zrt. in 2020:

- Due diligence of the legal – or other relevant regulatory environment – of the securitisation activity of Hungarian credit institutions, proposing modifications – as required – to ensure that the subsequent practical implementation is carried out as smoothly as possible.
- Designing a standard securitisation process or framework (know-how, best practice, standard procedures, central services supporting banks) that takes into account practical international experiences yet its implementation can be carried out efficiently in the domestic environment, upon request with the support of ELÉT Zrt. as advisor.
- Preparatory work for pilot projects with banks open to cooperation, resulting in the execution of specific transactions. This also helps to promote securitisation as an option among banks, the professional preparation of the market, the acquisition of practical experience and, based on the experiences, the fine-tuning of the framework.

As a result of the processes described above, ELÉT (and the partners included in the consultations) have amassed significant business know-how that is unparalleled in the Hungarian market. The Banking Association and the Supervisory Authority also participated actively in the professional work, contributing considerably to achieving the objectives. In addition, several banks expressed their intention to participate in the pilot projects; however, because of

the unfolding of the pandemic crisis, these projects had to be cancelled and the focus of the banking sector temporarily shifted to other tasks.

Having weighed all information available, the Board of Directors of the BSE came to the conclusion that the operation of ELÉT Zrt. would be more efficient if it was more embedded in the Hungarian banking sector and thus, the BSE believes that the company should be moved out of the direct sphere of interest of the Exchange as a central capital market infrastructure. Accordingly, the BSE has commenced consultations about the sale of ELÉT Zrt., and the transaction may be completed as early as 2021.

INTERNATIONAL RELATIONS

ROADSHOW EVENTS AND INTERNATIONAL CONFERENCES

In order to make investment decisions, institutional fund and asset managers must be able to have an adequate view and understanding of the companies traded on the Exchange. This requires – in addition to reading and analysing the companies' written reports – a personal dialogue between the companies and the institutional investors. These meetings often take place in the framework of non-deal roadshow events, where the contact persons of companies liaising with investors or the management visit a country or a region and meet the portfolio managers of local asset managers or the analysts on whom they rely in making their investment decisions. For the most part, these events are organised by investment service providers or brokerages that maintain active client relationships with fund managers.

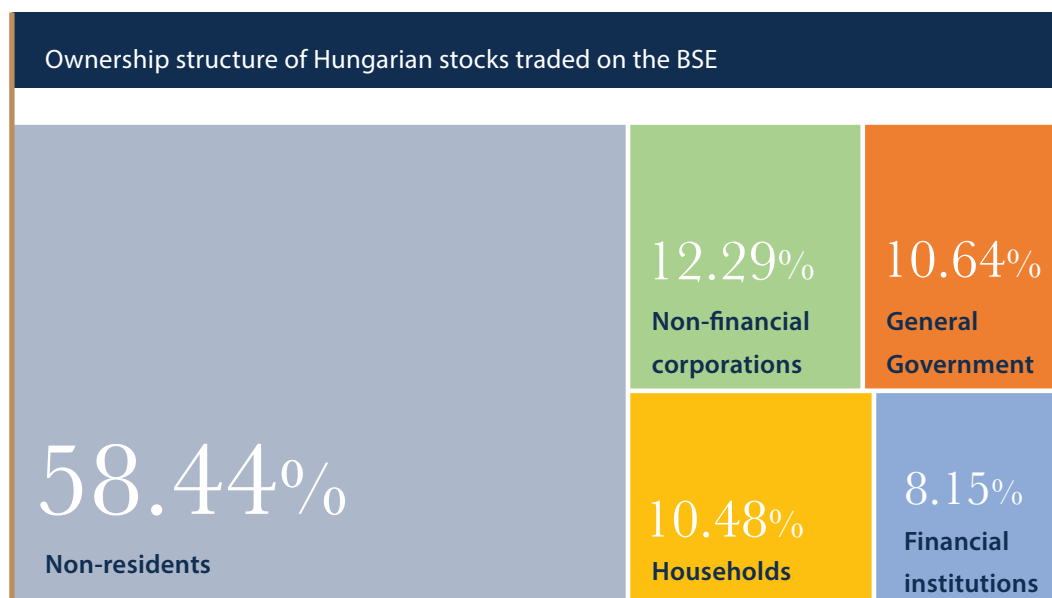
Since almost 60 percent of the stocks traded on the Budapest Stock Exchange are held by international investors, it is also important for the Exchange to facilitate these meetings in order to help improve the recognition of BSE companies among the fund managers. This is especially important for businesses with medium capitalisation (non-blue chip), which are less known among investment service providers and may well fall through the cracks when the meetings are organised.

In the past five years the BSE organised meetings proactively – either independently or in conjunction with investment service providers – for Hungarian issuers. These companies visited London and Paris four times, went to Warsaw on three occasions and took one trip each to Bucharest and Shanghai. Moreover, the BSE supported and participated in several region-wide events to promote the Hungarian capital market in Prague, Vienna, Zagreb and Sofia.

Participants of the BSE roadshows

4iG Nyrt.	Mol Nyrt.
Alteo Nyrt.	Opus Global Nyrt.
ANY Biztonsági Nyomda Nyrt.	OTP Bank Nyrt.
CIG Pannónia Életbiztosító Nyrt.	PannErgy Nyrt.
Duna House Holding Nyrt.	Richter Gedeon Nyrt.
Graphisoft Park SE	Waberer's International Nyrt.
Magyar Telekom Nyrt.	Wizz Air Holdings Plc.
MKB Bank Nyrt.	

COVID-19 has essentially made these events impossible. In response to these circumstances, in June 2020 the Budapest Stock Exchange successfully organised its first online roadshow event, with the simultaneous participation of Asian, US and European investors. The benefits of the online arrangement – saving the time and cost of travel, reaching a broad range of geographically distant investor segments at a single event – presage the continued presence of the virtual event even in the future.



Note: The data of Households also include the 0.02% share of non-profit institutions serving households

THE BSE'S FESE MEMBERSHIP – STRATEGIC TASKS, 2021–2025

Cooperation between the Budapest Stock Exchange and the Federation of European Securities Exchanges (FESE) has been successful since 2016. The FESE is the common interest representation organisation of European regulated capital markets and exchanges. Its main purpose is to represent the institutions concerned in European Union decision-making processes, primarily in establishing the Capital Markets Union. It currently includes 36 institutions, stock, commodity and energy exchanges from 30 countries. It counts the Deutsche Börse in Frankfurt, Euronext, the NASDAQ (which also has offices in Europe), along with the Warsaw, Vienna, Prague and Bucharest exchanges among its members. The Budapest Stock Exchange has been an active participant in the collaboration with the Federation of European Securities Exchanges since 1999. The BSE became a fully-fledged 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 Magyar Nemzeti Bank acquired majority ownership in the BSE, the Hungarian stock exchange was once again granted full membership in the FESE from 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 dynamically changing legislation.

The BSE's FESE membership provides the best opportunity for learning about EU regulatory news. The organisation enables the BSE to pursue cost-efficient lobbying activities across the EU. It is also advantageous that the FESE enforces the interests of smaller exchanges as well: their topics receive far more attention than would be expected based on their membership fee contribution.

Inside the organisation, Richárd Végh has represented the interests of smaller exchanges as a Board member since the 4 December 2018 FESE General Meeting. The joint vision of the BSE and FESE is to give a boost to European small and medium-sized enterprises and facilitate their convergence and IPO-readiness.

PARTNERSHIP

CHANGES IN THE LEGAL ENVIRONMENT

Stock exchanges operate in a strongly regulated environment both in Hungary and abroad; consequently, the regulatory exposure of operation is particularly high. It is not only the operation of the BSE that is affected by this high degree of regulation, but also the entire value chain, 'supplier and customer base' (settlement, trading firms, issuers, etc.). This is why the Exchange aims – as expressed in its strategy year after year – to play an active role in shaping the capital market regulatory environment. In order to ensure that the Hungarian legal environment supports the development of the Hungarian capital market as much as possible, and to be able to adapt flexibly to the continuously changing market environment, the BSE 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 places additional emphasis on this aspect of its activities. The 2016 strategy itself contained a number of regulatory steps already 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 Exchange monitors the implementation of these regulatory objectives continuously, identifies new tasks, and channels towards legislators the initiatives offered by market players who are deemed to be worthy of support.

During the implementation of the strategy for the past five years, we addressed numerous regulatory challenges. The review below is limited to the most important ones.

CAPITAL MARKETS UNION

In recent years, a number of EU initiatives have taken shape with a specific focus on supporting capital markets. Examples include the Investment Plan for Europe and the Capital Markets Union (CMU) initiatives, the primary objective of which is to increase the role and competitiveness of the European capital market, to reduce overreliance on bank financing, to strengthen market confidence, and to lessen the barriers to market entry (especially for the SME sector). The first five years of the CMU initiative announced in 2015 concentrated on strengthening the EU's capital market ecosystem recovering from the 2008 financial crisis, while its second phase was announced by the Finnish presidency of the EU in October 2019, putting savers'

needs, sustainable investments and the challenges of digitalisation into focus. In the second half of 2020, focus once again shifted to the efficient implementation of the CMU action plan alongside the previously defined four priority axes:

- Generating more long-term savings and investment opportunities to encourage more and more private individual passive savers across the EU to become more active investors.
- Vigorously developing equity markets by focusing primarily on providing SMEs with more financing opportunities.
- Improving financial flow fluidity between EU capital market venues.
- Promoting the international role of the euro as a financing currency through the development of Credit and Forex financing instruments.

PROSPECTUS REGULATION

Another important milestone was the entry into force of the Prospectus Regulation³ and its transposition into Hungarian law – i.e. the Capital Market Act⁴ – at the end of 2019. This was reviewed in the context of the CMU, and the amendments introduced numerous reliefs, primarily with a view to facilitating the market entry of companies within the SME sector. For example, the amendments enabled issuers to enter the BSE markets working as multilateral trading platforms – i.e. BSE Xtend and BSE Xbond – irrespective of any value limit, with a simplified documentation, i.e. with an exchange-approved information document instead of a prospectus.

The resultant wording of the legislation introduced numerous reliefs and clarifications compared to the former market practice; however, it also contained some provisions that hampered the interpretation of MTF markets by the intended definition. Both the MNB and the BSE contributed actively to facilitating the clarification of the provisions concerned. The clarifying provisions were adopted during the 2020 autumn session of the National Assembly, and entered into force on 26 December 2020.

MIFID II

In the first phase of the 2016–2020 period, the greatest challenge in international regulation was posed by the 2014 adoption and implementation of the MIFID II and MIFIR⁵ rules not only for the Exchange, but also for the financial market infrastructure as a whole. The implementation affected several areas significantly with the need to carry out IT developments, internal and external policy and process-level changes, which were taking place continuously in parallel with the publication of the secondary legal materials.

The provisions of MIFID II required the Exchange to have in place flexible trading systems and sufficient capacities to handle peak volumes, and to ensure business continuity. Even more

stringent rules apply to the providers of direct electronic access, to investment firms that engage in algorithmic trading and to trading venues that are potentially accessed by firms engaged in algorithmic trading. Besides stricter information provision obligations, the new regulation entering into force on 3 January 2018 affected numerous other areas of the operation of the Exchange as well, but its implementation has been completed successfully nevertheless.

DIRECTIVE ON SHAREHOLDER RIGHTS

The operation of the BSE has been (is) strongly affected by the amendment of the Shareholder Rights Directive (SRD II)⁶. The Directive was transposed into national legislation by Act LXVII of 2019 on the Encouragement of Long-Term Shareholder Engagement, which brought about significant tightening both on the side of the issuer and of the settlement agent (remuneration statement and policy, tightening of the rules related to affiliated companies, shareholder identification, etc.). Issuers are required to already apply certain provisions of this Act as they are preparing their 2019 corporate governance reports. The Act lays down, among other things, rules on identifying shareholders and on how to inform shareholders of company events, and it specifies the procedures for electronic voting. The Act also clarifies the rules pertaining to institutional investors, fund managers, consultants representing shareholders and the transparency of transactions with affiliated parties, and improves the transparency of the remuneration of directors and managers.

The implementation of the Directive also necessitated the modification of the BSE's Corporate Governance Recommendations, effective from January 2021 after their adoption in December 2020.

REGULATED REAL ESTATE INVESTMENT TRUSTS

In its strategy launched in 2016, the BSE strongly emphasised the need to establish a market-friendly regulatory environment. An important step in this regard was the clarification of the legislative background of regulated real estate investment trusts (REITs). As a result of the professional preparatory work of market players, the ministry and the BSE, numerous provi-

³ Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC.

⁴ Act CXX of 2001 on the Capital Market.

⁵ MIFID II: Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU. MIFIR: Regulation (EU) 2016/1033 of the European Parliament and of the Council of 23 June 2016 amending Regulation (EU) No 600/2014 on markets in financial instruments, Regulation (EU) No 596/2014 on market abuse and Regulation (EU) No 909/2014 on improving securities settlement in the European Union and on central securities depositories.

⁶ Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement.

sions of Act CII of 2011 have been modified in several rounds, and the regulatory environment of REITs have been resolved reassuringly. In addition, the amendment of Government Decree No. 78/2014 (III. 14.) on the investment and borrowing policies of collective investment trusts enabled investment funds to hold REIT stocks in their liquid asset portfolios.

STOCK EXCHANGE ADVISORY BOARD

The Stock Exchange Advisory Board of the Budapest Stock Exchange (TTT) 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 as wide a range of the industry stakeholders concerned as possible in the development and implementation of the new strategy of the BSE (now owned by the National Bank of Hungary). The task of the Advisory Board is to prepare, substantiate and provide an opinion on the strategic and business decisions of the institution. The 16 members of the Advisory Board include representatives of the money and capital markets, as well as current and former leaders and major figures of various professional chambers and administrative bodies. Due to the pandemic situation, the Stock Exchange Advisory Board was convened only once in 2020, and it recognised the best 2019 performances of the domestic capital market by way of written votes. After a history of exactly 20 years, the Best of BSE Awards were given out in 22 categories this time, based on market performance and on the decision of the Stock Exchange Advisory Board. At its September session – which was held in a hybrid form partly online and partly with personal attendance –, in addition to presenting the successful Scandinavian exchange development, the Board provided an overview of the implementation of the five-year BSE strategy, and discussed the principal objectives of the next five-year strategy. The prize categories of the 2020 Best of BSE Awards were defined, once again, based on the votes submitted by the members of the Advisory Board. Richárd Végh, CEO of the BSE, takes part in the work of the Advisory Board in a consultative capacity.

Members of the Advisory Board

CHAIR

Dr. Ilona Hardy, *the first managing director of the BSE,
Chair of Aranykor Önkéntes Nyugdíjpénztár*

MEMBERS

Dr. Zoltán Bánfi, *MKB Bank Nyrt.*

Dr. Tamás Bánfi, *Corvinus University of Budapest*

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 Nemescsóti, *DLA Piper Posztl, Nemescsóti, Györfi-Tóth and Partners*

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.*

Sándor Vízkeleti, *Hungarian Federation of Investment Fund Managers and Asset Managers*

Levente Zsembery, *X-Ventures Zrt.*

WORK BY COMMITTEES

The work of the BSE is supported by a number of committees in which the BSE also takes on a major operative role. Stock exchange committees can be classified 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, 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 and rules of procedure applicable to trading and for the suspension of trading, the Board must offer exchange traders an opportunity to express their opinions. Likewise, before approving provisions on the conditions and rules of procedure applicable to the listing or delisting of securities, the issuers of the securities listed on the exchange or their trade associations must be also given a chance to comment. 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 committees detailed above that the BSE coordinates their work, including, among other things, managing the amendments of the regulations applicable to them, refreshing their composition, organising committee meetings, proposing agenda items and preparing the related submissions, and ensuring that minutes are drawn up of the meetings. The BSE delegates one member to all committees: these members have no voting rights but they are actively involved in the work.

CORPORATE SOCIAL RESPONSIBILITY (CSR), SUSTAINABILITY

The market position and role of the BSE demands that it also pursues an activity that is socially important – while being in line with its strategy – and may serve as an example for other participants of the capital market. Over the past five years, the corporate social responsibility of the BSE focused on financial education and on supporting children suffering from chronic diseases.

The free stock exchange courses offered to the public each year since 2016 under the BSE Academy initiative are intended to improve investor awareness. The BSE holds the view that, in the long run, diversified investment into domestic stocks yields the best risk-proportionate return on households' savings while also being capable of overcoming inflation.

It is never too early to start promoting financial literacy; therefore, the BSE has been working in conjunction with the Money Compass Foundation for Financial Awareness established by the MNB to improve the views and information on stock exchange trading primarily among secondary school students. One of the most important elements of this endeavour was to organise the BSE Stock Derby Competition in parallel with the Money7 programme. Students are given an opportunity to try their hand at stock exchange trading on the real market, with real price information. The most important lesson of the game is that the value of equity investments may fluctuate in the short run.

The BSE and higher education institutions have always nurtured a good relationship, but in the past five years numerous ongoing programmes have been renewed. We advanced to the next



level of the Kochmeister Award by harmonising it with the Investment Research Challenge of CFA Society Hungary. The BSE held about 20 lectures for students in higher education on exchange development and investor awareness.

Since 2016, the BSE has been supporting the Magic Lamp Wish Granting Foundation whose mission is to grant the wishes of children with life-threatening diseases. Beyond financial support, the staff of the Exchange also joined in making the wishes come true.

The BSE is committed to the environmental protection issues of sustainability, and with that in mind, going green was an important consideration in its office selection and operation. The BSE has been collecting office waste selectively and supporting PET-free water consumption since 2017.

ESG DEVELOPMENTS OF THE BSE

JOINING THE SSE

The Budapest Stock Exchange recognised in time the importance of ESG risks in investor decisions; therefore, it is the responsibility of stock exchanges to convince their issuers to increase their transparency by disclosing non-financial data. Well-informed investors are likely to face lower risks or, as the case may be, may achieve a higher rate of return on their investments. The BSE interprets sustainable finances along the lines of the 'ESG risks and opportunities' approach.

The Sustainable Stock Exchanges Initiative operates under the auspices of the United Nations. Its purpose is for member exchanges to share the best practices developed while maintaining sustainable finances. The recommendations and studies available to the members promote the increasingly widespread use of the ESG approach. The BSE has been a member of the organisation since 2019.

ISSUER CONSULTATION

The BSE started the work of disseminating the ESG approach by arranging an Issuer Forum in early 2020, where the topic was discussed by issuers in the vanguard of the publication of ESG data. The objective was to demonstrate, for the benefit of issuers who have not introduced ESG reporting as yet, how long it takes to draw up a complex report in order to receive a realistic ESG rating. Representatives of Hungarian consulting firms with special ESG expertise also introduced themselves at the event.

COOPERATION WITH CONSULTING FIRMS

The BSE is engaged in continuous cooperation with BIG4 consulting firms in the field of ESG. It has been liaising with Deloitte since 2017, but KPMG, PwC and EY also supported the BSE's objective through the – typically pro-bono – work of their numerous Hungarian and international experts.

BCSDH MEMBERSHIP

Following in the footsteps of the MNB, in 2020 the BSE joined the Business Council for Sustainable Development in Hungary (BCSDH). We would like to communicate the Exchange's objectives to other BCSDH members and – in support of the BSE's work – to disseminate the ESG approach also among companies that are not quite ready for an IPO, in order to ensure that the ESG approach is also applied by companies other than those listed on the Exchange. The Hungarian subsidiaries of international members of the BCSDH show a good example to Hungarian medium-sized enterprises as well, which also yields useful information to the BSE; for example, we have an opportunity to find out about the experiences of the green bond programmes launched at parent companies.

ESG REPORTING GUIDE CONSULTATION

In the summer of 2020, the BSE put forward its recommendation for issuers regarding the reporting of ESG data to a restricted professional circle. We received positive feedback on the initiative, with valuable suggestions on how to develop the material further. With the participation of the experts of Deloitte, the BSE closed the ESG Reporting Guide, and in autumn 2020 submitted the document for public consultation to be concluded in January 2021. The purpose of the recommendation is to demonstrate to issuers currently not participating in the reporting that the practice of reporting has a positive effect. The additional administrative burden translates to improvised operational efficiency, lower operating risk and ultimately, better stock valuations or cheaper bond financing. The BSE's recommendations are deliberately not mandatory. The first material is meant to provide guidance at the start, to help stakeholders navigate EU regulations, and to present the reporting frameworks available for ESG compliance audits. The BSE will close the ESG material in 2021 Q1, and develop it further in conjunction with issuers. The forum for this effort will be the ESG working group set up under the Corporate Governance Committee.

SUPPORTING THE MNB'S GREEN FINANCE PROGRAMME

The MNB is in the vanguard of global central banks in green finance development. In addition to regulatory tasks, the central bank participates both in education and in raising awareness. The BSE's educational subsidiary, the BIB, offered three green finance and ESG courses in 2020 and, in view of their popularity, the list may be expanded further.

POTENTIAL CONSTRUCTION OF AN ESG INDEX, DISPLAY OF ESG RATING

Because of the SFDR regulation of the European Union, it is important for the BSE's issuers to obtain an ESG rating. A condition for this is to improve transparency and for issuers to disclose their non-financial data on ESG risks. If they do not report voluntarily, they will still have a rating, but in the absence of data disclosure, their rating may be worse than it could be if the relevant information was publicly available. Improving the ESG rating can be accomplished with the engagement of institutional investors. The 2021 objective of the BSE is to work together with an ESG rating provider that offers a cost-efficient solution to the rating of Hungarian issuers. This information will be crucially important for Hungarian institutional investors as well, as they need to prepare a report on the ESG effect of Hungarian equity portfolios.

While the ESG ratings of the Hungarian and regional indices of the BSE will be an important piece of information for all investors, the issuer ratings will also enable the Exchange to construct additional ESG indices. This possibility should be explored in the course of 2021. The goal is to take advantage of the new investor attitude, namely, investors' preference for portfolios that have been realigned during the COVID pandemic with a focus on ESG.

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.

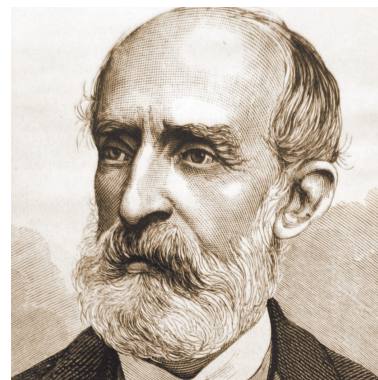
Frigyes Kochmeister was born in Sopron in 1816, and after finishing his studies at local schools, he went on to study as a pharmacist in keeping with family traditions. He served as an intern at the pharmacy of his father Ede Kochmeister, and in 1833 graduated from the Vienna University of Sciences with 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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