

MARKET PROFILE HUNGARY

2020.

OTP Bank
Global Securities Services



The OTP Bank logo, consisting of a stylized white 'O' with a dot inside, followed by the word 'otpbank' in a lowercase, sans-serif font.

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HUNGARY



MARKET INFORMATION

Key figures

Local currency	Hungarian Forint (HUF)
Market GDP (2019)	USD 161.18 bn
Market capitalisation (Dec 2019)	USD 32.89 bn
Number of listed companies (Dec 2019)	44
Stock Exchange turnover (2019)	USD 18 bn
EU membership	Yes
Euro zone	No

Local Time

In wintertime	GMT+1
In summertime	GMT+2
Daylight Saving Time	same time as in EU countries

Credit Ratings

Agency	Rating	Outlook	Date
S&P	BBB	Positive	Feb 14 2020
Fitch	BBB	Stable	Feb 22 2019
S&P	BBB	Stable	Feb 15 2019

MARKET PARTICIPANTS

Market Regulator - National Bank of Hungary

The National Bank of Hungary (NBH) is the central bank of Hungary therefore responsible for the country's monetary policy and financial stability.

The key functions of NBH are:

- Define and implement the monetary policy in the interests of maintaining price stability
- Hold and manage official reserves in foreign currency and gold
- Develop and regulate the domestic payment and settlement systems and ensure their efficient and sound operation
- Promote the stability of the financial system and development and smooth conduct of policies related to the prudential supervision of the financial system

The NBH is a member of the European System of Central Banks.

Internet website: <http://www.mnb.hu>

Stock Exchange

Budapest Stock Exchange Ltd. (BSE) is the sole securities exchange in Hungary, owned by the National Bank of Hungary (81.35%) and other shareholders (18.65%). Membership is granted to local market participants who possess a license to trade. The BSE is a fully computerized exchange with members of the exchange being able to trade and execute deals from their own premises. Remote Membership for any foreign entity is possible, once rules and regulations of BSE are accepted, and technical requirements are met.

Main stock exchange index of BSE is BUX.

BSE is a full member of the Federation of European Securities Exchanges (FESE).

Internet website: <http://www.bse.hu>

Central Depositories and Safekeeping

KELER Central Depository Ltd. (KELER) serves as the national and central securities depository of Hungary. It was founded in 1993, is owned by the National Bank of Hungary (53.3%) and the Budapest Stock Exchange (46.67%).

KELER is a member of the Central and Eastern European Central Securities Depositories and Clearing Houses Association (CEECSDA).

Internet website: <http://www.keler.hu>

KELER CCP Central Counterparty Ltd.

KELER CCP, licensed under EMIR, is the clearing house in Hungary performing clearing activity for BSE. Apart from the Hungarian capital markets, KELER CCP clients can reach all major European energy markets (EEX, EPEX, HUPX, PXE, SEEPEX, AXP/BELPEX, Powernext, CEGH) through a sole and harmonized connection.

KELER CCP is mainly owned by the KELER Central Depository Ltd. (99.81%).

Internet website: <http://www.kelerkszf.hu>

TRADING AND SETTLEMENT

Trading environment

The Budapest Stock Exchange is reachable via a XETRA link (T7 version for spot market) operated by the Wiener Börse while clearing activity is performed by KELER CCP. For derivatives and commodities market the Multi-Market Trading System (MMS II) is used.

The BSE launched a Multilateral Trading Facility (MTF) for foreign equities, named BETA Market (Budapest Stock Exchange Alternative Market), on 15 November 2011. Shares traded on the MTF are mainly German and French instruments, and trading is carried out in Hungarian Forint (HUF).

The Hungarian Government Debt Management Agency (GDMA) has implemented MTS Hungary, the MTS electronic trading platform, where the government securities of some European countries are already being exchanged. GDMA confirmed the continuation of secondary trading in government debt instruments on the Budapest Stock Exchange (BSE) in a non-guaranteed form and the MTS platform, effective from 2 January 2012 became the main trading platform for secondary government debt trading.

BSE Trading Hours

Equities Section	8:15 am - 5:20 pm (Continuous trading with auctions)
	8:30 am - 5:20 pm (Continuous auction)
Debt Section	8:15 am - 5:20 pm (Continuous trading with auctions)
Derivatives Market	8:30 am - 5:07 pm
BETA Market	8:15 am - 5:20 pm
Commodities Market	10:00 am - 1:01 pm

Settlement cycle on the BSE is T+2 for all types of securities.

OTC Market

Unregulated with no specified trading schedules. OTC deals are agreed on a bilateral basis while settlement details - incl. settlement cycle - are based on the agreement between the contracting parties. There is no settlement assurance for

OTC trades therefore this type of trades is not covered by any guarantee funds in Hungary.

Payment Systems

Payments and securities settlement systems in Hungary are supervised by the NBH.

For foreign investors' cash clearing business, the so-called VIBER system is used. VIBER is a SWIFT based RTGS cash settlement system, where money is transferred in seconds - if cover is available -to the counterparties.

Giro Ltd. operates the interbank clearing system, called InterGIRO2. IG2 is an automated clearing platform processing the low-value and high-volume payments in Hungary. IG2 works in batches, clearing takes place in ten intra-day clearing cycles. Giro Ltd. is owned by the NBH.

The NBH has introduced InterGiro3 (IG3), an Instant Payment System on 2 March, 2020. This system allows the clearing and settlement of payment transactions below HUF 10 million on a continuous 24-hour basis every calendar day of the year. The instant payment shall reach the beneficiary within 5 seconds. This payment method is not available for institutional investors incl. foreign investors for outgoing payments.

Hungary adopted the EU's Payment Services Directive in 2009 and also the PSD2 EU Directive that came into force in Hungary on 13 January, 2018.

Settlement

Settlement of BSE trades for listed securities and of MTS trades for government bonds is mandatory through KELER. BSE trades settle in the real time system of CSD, on a simultaneous DVP basis with multilateral netting of securities and funds between KELER and the VIBER RTGS payment system. The net securities positions are calculated by KELER CCP once netted at the end of each trade date and then advised to participants.

DVP settlement of net positions starts at 7:00 am on SD in the following method: KELER debits the securities accounts of participants and takes the cash from the broker's accounts/clearing member bank's account held at the NBH. If this process is completed successfully then CSD credits the related securities and cash accounts within a few minutes. The settlement of BSE trades is possible until 2:00 pm on SD although it might be closed earlier if all transactions are settled.

Over-the-counter (OTC) trades - prompt and repo - and the transactions of custodians settle real-time, in a gross manner, on the basis of the delivery versus payment principle.

Client side settlements between the broker and the custodian are treated as OTC transactions and may settle on a gross DVP or FOP basis.

All OTC securities transactions settle between 7:00 am – 5:30 pm, FOP settlements are possible until 6:00 pm on a real-time basis within the CSD.

The pre-matching process of deals starts immediately after the input of the instructions into the CSD system. The matching and settlement of deals takes place on the basis of the settlement amount tolerance established by KELER, always against the purchase price included in the buyer's order. In addition to information concerning the status of deals, KELER sends the customers also allegation notifications.

Partial settlement is not allowed in Hungary in the current HUF system infrastructure.

CCP Guarantee

KELER CCP as the central counterparty, guarantees the settlement of stock exchange transactions. The primary purpose of the guarantee funds is to reduce the risks related to the delayed performance or non-performance of the transactions concluded by the members of the BSE. Based on agreements concluded with the CCP, the CSD is in charge of registering collateral provided and assessing coverage.

The CCP accepts securities, cash and bank guarantees as financial collateral. KELER CCP does not accept from its Clearing Members those securities as financial collateral which are issued by Clearing Members or by enterprises connected to the Clearing Members by direct or indirect ownership. Exceptions to the rule are securities issued by central banks or sovereign state.

List of guarantee funds:

Exchange Settlement Fund	for transactions with multinet settlement - transactions made in the cash market, BETa market, Xtend, XBond and MTS market)
Collective Guarantee Fund	for the derivative and commodity sections of BSE
TP Collective Guarantee Fund	for Imbalance Clearing and Trading Platform

Buy-Ins

In all default cases it is KELER CCP who makes decisions in relation to the compulsory measures according to KELER CCP rules. Based on the consideration of risks, in line with the provisions of the general business rules of KELER CCP, it is entitled to give individual instructions deviating from the general ones. The defaulting, the 'innocent' party and KELER CCP even can deviate from the detailed rules of default based on mutual agreement that is to be documented by the parties involved. KELER CCP shall inform without delay the defaulting clearing member, the BSE and MTS on the compulsory provisions. KELER CCP informs also the National Bank of Hungary (NBH) and provides all required data to the NBH.

Default procedures:

SD 2:00 pm	KELER CCP declares default event and initiates non-performance procedures - incl. penalties, extra margin requirement - in case the necessary securities or cash is not available for settlement on the accounts of a clearing member;
SD+2 at 11:00 am	KELER CCP may initiate a buy-in procedure against the defaulting member in case of securities side default;

Penalty late fee is immediately imposed and for every day that the transaction does not settle. The clearing right of the defaulting clearing member may also be suspended.

MARKET INSTRUMENTS

The Hungarian stock market is open to both foreign and local investors. All BSE listed equity shares and bonds that were held in physical form were to be dematerialized by December 31, 2004. Foreign investors can also hold bearer form securities in addition to registered ones as of June 16, 1998. Only private companies can have physical securities, which can be safe kept by KELER, certain custodians or by companies in their proprietary vaults.

Type of instruments

- Government bonds
- Corporate bonds
- Equities
- Money Markets
- Derivative instruments
- Other instruments – funds, depositary receipts, commodities

Securities Identification

ISIN is the standard code for identification of securities in Hungary. The Central Clearing House and Depository (KELER) is responsible for allocating the ISIN numbers and they are member of the ANNA (Association of National Numbering Agencies).

TARGET2-SECURITIES IN HUNGARY

The Hungarian market migrated to T2S on February 6, 2017 (Wave 4) with HUF not being a settlement currency at T2S, therefore the cash leg of HUF denominated securities transactions continues to be settled by the NBH.

ANTI-MONEY LAUNDERING REQUIREMENTS

As an EU member state, Hungary has implemented the EU AML directives (incl.2015/849) and is fully compliant on the prevention of the use of the financial system for the purposes of money laundering or terrorism financing.

The Act on the Prevention and Combating of Money Laundering and Terrorist Financing contains the detailed rules of the “Know Your Customer” procedures. Prior to establishing a business relationship, service providers shall apply due diligence measures for identifying the customer, the customer’s agent, proxy or other authorized representative and verifying their identity.

Counter - Terrorism Financing Measures

In line with the provisions of Act LII of 2017 on the implementation of the financial and asset restrictive measures imposed by the European Union and the UN Security Council, as well as the requirements of the EU, UN and OFAC, all clients, transactions and SWIFT messages are subject of embargo screening against the applicable lists.

DISCLOSURE REQUIREMENTS FOR INVESTORS

Foreign investors are free to invest on the Hungarian market and are treated equally as the local investors and the same market entry and investment regulations apply for them.

Investors (i.e. shareholders or the holder of the voting right attached to the shares) must disclose to the issuing company and to the NBH both the direct (shares) and indirect holdings (voting rights) in a public company immediately but within two calendar days of the acquisition.

Disclosure thresholds:

-
- 2% if Issuer has special provisions in their Article of Association

 - reaching or exceeding 5%

 - every additional multiple of 5% up to 50%

 - after 50% at 75%, 80%, 85% and 90%

 - above 90%, disclosure is compulsory after every single 1% increase
-

The obligation for notification also applies if an investor's holding in the company is reduced by falling below the same percentages.

The NBH's permission is required for the acquisition of a qualifying holding in a financial institution or insurance company by reaching the 20, 30 or 50 per cent threshold limits. This applies both to increasing and decreasing ownership **attaining** the above percentage levels.

Any acquisition of shares in an exchange, whereby the direct or indirect holding of a single shareholder reaches 33, 50, 66, 75 or 100 per cent shall be subject to the NBS's prior authorisation and shall also be reported to the NBH by the exchange.

The acquisition of a qualifying holding (75% or more of the voting rights) in private limited companies shall be reported to the competent court of registry within 15 days after the holding is in fact acquired.

If an investor's ownership reaches or exceeds 33% of the issued shares in a company, the investor is required to make a public tender offer to buy the remaining voting shares. In the event, that there is no other owner having more than a 10% holding, the public purchase offer must be made after exceeding the 25% ownership limit. In general, any shareholder may make a voluntary public offer at any time, irrespective of ownership limits.

Investors failing to meet the reporting requirements cannot exercise voting right vis-a-vis the issuer, furthermore in case of violating this regulation the shareholder is subject to a fine imposed by the NBH.

Nominee concept

The nominee concept has been introduced in Hungary in 2001, while later changes to the legal framework - including correct DTT dividend withholding tax application in cases of nominee registration -, resulted in the current legislation of the nominee structure.

Any foreign and local entity can be a nominee who by its law could deliver such a service but must have direct contractual liaison to the beneficial shareholder. The nominee agreement must be a separate document and must not be a part of any other agreement.

As nominee in Hungary means 'shareholder representative' it applies only to shareholders of equities. The nominee will be registered in the book of shareholders as a nominee and not as a shareholder.

In accordance with the Capital Market Act, nominees are obliged to disclose underlying beneficial owners they represent in case of a request submitted by a shareholder, the company or by the National Bank of Hungary (NBH) and should produce any evidence in support of their capacity as nominees when duly requested by the company or by the NBH. If such evidence is not provided, shareholder rights cannot be exercised.

Shareholder Rights Directive II (SRD II)

SRD II has been transposed into Hungarian law in 2019 and KELER expects to meet all mandatory elements by 3 September 2020. These relate to:

- Corporate event disclosure for shares listed on the Stock Exchange
- Shareholder identification via ISO 20022 messaging
- Confirmation of right to participate in general meetings
- Electronic confirmation of recording and counting votes

PROXY VOTING

The peak season for general meetings (GM) is during springtime (from March till May). It is a legal requirement that ordinary shareholder meetings shall be held at least once a year. Extraordinary meetings can be held any time during the year. According to the Civil Code public limited companies have to publish their announcements on their website at least 30 days prior to the meeting date. Additionally, public companies listed on the Budapest Stock Exchange (BSE), have to initiate publication on the website of the BSE as well.

In case of private limited companies, the requirement for the companies is to directly inform their shareholders on the agenda points at least 15 days prior to the meeting.

Voting restrictions are specified by the Articles of Association of each issuing company. In order to vote, usually physical attendance is required by the companies. In case of proxy representation a Power of Attorney (PoA) has to be issued and signed by the registered shareholder, either the ultimate beneficial owner or the nominee.

The names of shareholders and nominees wishing to participate in the general meeting must be entered into the register of shareholders at least two business days prior to the meeting.

Partial voting on a company event is possible, if only a proportion of the stock is registered, however split voting – still one share represents one vote - is allowed for nominees only.

All corporate action entitlements – including GM participation/voting – are based on the end of day settled position on record date. Record date in case of equities is usually E-5 (where E =event date) while for all debt related securities it is E-2. In case of general meetings, the issuer can determine different record date in its announcement – practically an earlier record date in order to leave longer time for registration and pre-arrangements.

In the Hungarian market corporate bonds and mutual funds owners are not entitled to participate, vote on the company's general meetings as these securities do not represent shareholder rights.

TAXATION

Withholding Tax

Interest and dividend payments to all private individual shareholders are subject to 15% withholding tax liability while institutional investors have full tax exemption. Issuing companies can deduct the favorable tax rate stated in the double taxation treaty (DTT) agreement if they have received permission from the tax authority to do so. If they have not obtained this license, then a 15% tax must be deducted from private investors and a tax refund can be claimed from the Hungarian Tax Authority.

Interest income earned on government securities issued after June 1, 2019 have been declared exempt from tax for retail investors. Dividend paid to private individuals is subject to 17.5% social contribution tax up to HUF 3 864 000 yearly income in case the dividend derives from instruments that are not listed in any regulated market within the European Economic Area.

The standard tax rates applied for Hungarian instruments are:

Interest income*	
- Legal entities	not subject to withholding tax over interest payments.
- Private Individual	15% (may be reduced by double taxation agreement)
Dividend income	
- Legal entities	not subject to withholding tax over dividend payments
- Private Individual	15% (may be reduced by double taxation agreement)
Capital Gains	
- Private Individual	15% of the net income realized in the tax year over stock exchange transactions
Stamp Duty	no

*Shall be applied for interest payments over debt securities and interest payment on bank-account/deposit account credit balance

Tax Reclaim

If tax is withheld at the non-treaty rate either due to refusal or late application for Relief at Source, the client may reclaim the difference from the Hungarian Tax Authority. Only those final beneficiaries can benefit from tax reclaim who are either directly registered in the registrar or have disclosed their identity latest by the year end in which the dividend was paid in case of nominee registration.

Process of re-registration at the issuer: the nominee is required to disclose the personal details of the private individual together with their settled, closing position of shares on the record date. On the basis of the disclosure the issuer issues a confirmation for the re-registered investor within 30 calendar days from receipt of the disclosure request about the dividend amount paid and the dividend tax withheld. When the issuer's declaration is received, the investor may start the tax reclaim process by representing the following documents:

- Certificate of Tax Residency (CoTR)
- Declaration of Tax Beneficiary (DoTB) or Beneficiary Owners Certificate (BOC) – may vary according to related DTT agreements
- Power of Attorney issued for the entity reclaiming the tax on behalf of the beneficial owner
- Certificate of Payment issued by the issuer or paying agent
- Tax reclaim request letter

As tax reclaims are not standardized in Hungary the payment dates cannot be projected.

According to the current tax rules, legal entities are not subject to withholding tax in Hungary. Tax reclaim process might be applicable for foreign private individual investors only.

GLOSSARY OF ABBREVIATIONS

AML	Anti-Money Laundering
ANNA	Association of National Numbering Agencies
BETa	Budapest Stock Exchange Alternative Market
BOC	Beneficial Ownership Certificate
BSE	Budapest Stock Exchange
CCP	Central Counterparty
CEECSDA	Central and Eastern European Central Securities Depositories and Clearing Houses Association
CoTR	Certificate of Tax Residency
DoTB	Declaration of Tax Beneficiary
DTT	Double Taxation Treaty
FESE	European Securities Exchanges
GDMA	Hungarian Government Debt Management Agency
GM	General Meeting
KELER	Central Depository Ltd.
MMTS	The Multi-Market Trading System
MTF	Multilateral Trading Facility
NBH	National Bank of Hungary
OTC	Over-the-counter
POA	Power of Attorney
SRD II	Shareholder Rights Directive II
VIBER	Real Time Gross Settlement System

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