

Market Profile

June 2018

Hungary

Global Securities Services

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1. OVERVIEW

1.1 Geopolitical Data

Time Zone:	GMT + 1	
Daylight Saving Time:	YES	
Currency:	Forint (HUF)	
Banking Holidays:	link	
EU Membership:	YES	
Schengen Zone:	YES	

1.2 G30 Compliance

Trade comparison by T+1 for direct market participants	YES
Trade comparison for indirect participants	YES
Central securities depository	YES
Trade netting system	YES
Delivery vs. payment	YES
Same day funds	YES
Rolling settlement T+2	YES
Securities lending and borrowing	YES
ISIN	YES

1.3 Country Ratings

Rating Agency	Issuer Default Rating Foreign Currency, LT	Outlook
Fitch	BBB-	Positive
Moody's	Baa3	Stable
Standard & Poor's	BBB-	Positive

1.4 Political Overview

Hungary is an independent, democratic and constitutional state, which has been a member of the European Union since 2004. Since the constitutional amendment of 23 October 1989, Hungary has been a parliamentary, democratic republic. Legislative power is exercised by the unicameral National Assembly that consists of 199 members. Members of the National Assembly are elected for 4 years.

The President of Hungary, elected by the National Assembly every 5 years, has a largely ceremonial role, but powers include requesting the winner of a parliamentary election to form a cabinet. That person then presents his programme to the Parliament, and is in turn ratified by that body as the Prime Minister. The Prime Minister selects cabinet ministers and has the exclusive right to dismiss them. Each cabinet nominee appears before one or more parliamentary committees in consultative open hearings and must be formally approved by the President.

National parliamentary elections are held every 4 years. A party must win at least 5% of the national vote to enter the Parliament. The latest parliamentary elections in April 2018 brought a Fidesz-KDNP coalition to power, Viktor Orban became Prime Minister. MSZP, the far-right Jobbik Party, and the Green Party Politics Can Be Different (LMP) are in opposition.

1.5 Economic Overview

The economy of Hungary is a medium-sized, structurally, politically and institutionally open economy in Central Europe and is part of the European Union's single market. The economy of Hungary experienced market liberalisation in the early 1990s as part of the transition from a socialist economy to a market economy. Hungary is a member of the OECD since 1995, a member of the WTO since 1996. Hungary joined the European Union on 1 May 2004.

The main objectives of the current Government are to continue boosting the economy, increasing the employment rate, reducing state debt and stabilising the state budget by keeping the deficit below 3% of the GDP. To achieve these goals the Government introduced several austerity measures since 2010, the major ones are the following:

- Introduction of the special banking tax in 2010 together with other structural sector taxes;
- Nationalisation of EUR 10 billion of mandatory pension fund assets;
- Launch of Széll Kálmán Reform Package (and its amendments) to control budget deficit and reduce state debt;
- Establishment of FX debt repayment scheme to reduce the amount of foreign currency loans of private individuals (losses taken partly by the State Budget and mostly by banks);
- Introduction of a Financial Transaction Tax in 2013 on certain cash transactions;
- Granting loans for small and medium-sized companies at favourable interest rates through the Central Bank's Funding for Growth Scheme.

Due to the economic reforms, the public debt of Hungary has been decreasing since 2011 while the employment rate has been increasing significantly. External vulnerability of the country has been reduced by the fact that the Hungarian economy is financed to a greater extent from domestic funds and also by settling the FX mortgage loans. The majority of the governmental measures increase the average wages and thus the income available to and spendable by the population, which strengthens the consumption intensively. The Government has been carefully managing the budget in the past years: the general government deficit was lower than the 3% Maastricht criterion.

In June 2013, the Central Bank of Hungary launched a scheme in order to support small and medium-sized enterprises (SMEs) in accessing loans. In March 2015 the scheme was upgraded by the Central Bank by extending the access to credit for SMEs that have not been able to participate in the earlier scheme.

As a result of all efforts, Hungary's credit ratings were improved by all major credit rating agencies and subsequently by November 2016 Hungary was back to investment grade again.

The Hungarian economy is currently characterised by the following indicators:

- Base rate of the Central Bank of Hungary: 0.9% (as of 25 May 2016);
- Unemployment rate: 4.1% (Q3 2017);
- Inflation: 2.5% (November 2017);
- GDP: 3.9% (Q3 2017).

2. REGULATION AND SUPERVISION

2.1 Regulatory/Supervisory Bodies

Supervision of financial markets is carried out by the following institutions:

- Ministry of Finance:
Ministry for National Economy – As key activities, it oversees the national economic development including trade, the national budget and taxation, the international economic relations and also manages Hungary's science and innovation policies and the participation in international organisations.
- Central Bank:
Central Bank of Hungary (CBH) – acting as supervisory authority has supervisory, consumer protection and market surveillance roles.

2.2 Key Market Regulations

Below you will find a list of the key market regulations. For a complete list with up to date information on the acts please refer to the GSS Website (<http://gss.unicreditgroup.eu>) or contact your local GSS Relationship Manager.

Regulation	Main Focus
Act on the Capital Market	Regulates the issuing of securities, ensures investor protection and efficient supervision of the capital market. Governs the operation of the Stock Exchange, CSD, CCP, registration of securities, nominees, securities lending and disclosure obligations.
Act on the Prevention and Combating of Money Laundering and Terrorist Financing	Full compliance with EU Directive 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorism financing. This Act contains the detailed rules of the "Know Your Customer" procedures.
Act on Credit Institutions and Financial Enterprises	Governs the foundation, organisation and operation of financial institutions.
Act on the Civil Code	Governs financial and certain personal relations of entities and persons with regards to their activities, the establishment of companies, their functioning, their rights, liabilities and responsibilities and shareholders' rights in case of Plc's.
Act on the Rules of Taxation	Governs taxation procedures consistent with the rights and obligations of taxpayers and tax authorities. A new Act came into effect as of 1 January 2018.
Act on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities	Regulates investment service providers and commodity dealers and governs the rules of their activities (implemented the MIFID rules).
Act on the Central Bank of Hungary (CBH)	Establishes the CBH's primary objectives, ruling its institutional, organisational, personal and financial independence and its operations, with a view to the definition of macro-prudential tasks and responsibilities, ensuring the possibility for effective macro-prudential intervention, strengthening international macro-prudential cooperation and reinforcing supervision of and control over the system of financial intermediation.
Government Decree on Bonds	Regulates the bonds issued on the Hungarian market.

2.3 Self-regulatory Organisations

Major market associations, influencing and promoting the capital market, include the following:

- Hungarian National Securities Market Practice Group (NSMPG);
- National Stakeholder Group (HU NSG) that has been founded on 5 December 2017 as the successor of the T2S National User Group (T2S NUG);
- Market Implementation Group (MIG);
- Custodian Forum, Clearing Forum, Issuer Forum (all managed by KELER) and
- Association of Investment Service Providers.

Furthermore, the Hungarian Banking Association (HBA) represents its members' interests vis-a-vis third parties in Hungary. To this end, working committees involving professionals from member banks are established. The HBA was founded in 1989 and currently has more than 40 members (banks and financial institutions).

3. TRADING

3.1 Commonly Traded Instruments

EQUITIES	MONEY MARKET INSTRUMENTS
<input checked="" type="checkbox"/> ordinary shares	<input checked="" type="checkbox"/> certificate of deposits
<input checked="" type="checkbox"/> preferred shares	<input checked="" type="checkbox"/> Commercial papers
<input type="checkbox"/> employee shares	<input checked="" type="checkbox"/> REPO transactions
<input type="checkbox"/> interest bearing shares	
GOVERNMENT DEBT	CORPORATE DEBT
<input checked="" type="checkbox"/> government bonds	<input checked="" type="checkbox"/> corporate bonds
<input checked="" type="checkbox"/> treasury bonds	<input checked="" type="checkbox"/> mortgage bonds
<input checked="" type="checkbox"/> treasury bills	<input checked="" type="checkbox"/> convertible bonds
<input checked="" type="checkbox"/> treasury notes	<input type="checkbox"/> exchangeable bonds
<input checked="" type="checkbox"/> municipal bonds	
DERIVATIVES	OTHER INSTRUMENTS
<input checked="" type="checkbox"/> options	<input checked="" type="checkbox"/> exchange traded funds
<input checked="" type="checkbox"/> futures	<input checked="" type="checkbox"/> investment funds
<input checked="" type="checkbox"/> warrants	<input checked="" type="checkbox"/> Eurobonds funds
	<input checked="" type="checkbox"/> depositary receipts
	<input checked="" type="checkbox"/> commodities

3.2 Budapest Stock Exchange – BSE

Legal name	Budapest Stock Exchange
Website	http://www.bse.hu
Ownership structure	81.35% Central Bank of Hungary 18.65% Others
Trading members	Brokers, Investment Banks and Banks – remote membership is supported. Trading members shall apply for section membership and trading right, clearing membership is determined at KELER CCP level: General Clearing Member, Individual Clearing Member, Non-Clearing Member.
Traded instruments	<ul style="list-style-type: none"> ● Spot Market: Equities (Categories: Prime, Standard and T that stands for “technical listing”), Decategorised equities, Equities under classification, ETF, Investment Certificate, Turbo Certificate and Warrant, Investment funds, Compensation notes, Government bonds, Treasury bills, Corporate bonds, Mortgage bonds. ● Derivatives Market: Index futures, Single stock futures, Currency futures, Interest rate futures, Index options, Single stock options, Currency options. ● Commodities Market: Grain futures, Grain options, Grain spot. ● BÉTa Market: Foreign equities. <p>Although it is legally possible to trade with Hungarian government securities on the BSE, the secondary market for Hungarian government bonds and T-bills is the MTS Hungary Trading Platform.</p>
Trading method	Spot market trading takes place on XETRA trading platform. Derivatives, Commodities and BÉTa Market trading remained on BSE’s remote electronic trading system (MMTS II).

Settlement agent	KELER Central Depository Ltd. (KELER CSD)	
Clearing agent	KELER Central Counterparty Ltd. (KELER CCP)	
Trading hours	Cash Market	from 08:15 to 17:20 (Continuous trading with auctions and Several auctions) and from 08:30 to 17:20 (Continuous auction)
	Derivatives Market	from 08:30 to 17:07
	BÉTa Market	from 08:15 to 17:20 (Continuous trading with auctions)
	Commodities Market	from 10:00 to 12:01
Settlement cycle	T+2 for all types of securities	
Indices	BUX, BUMIX, CETOP, BMBX	
Number of listed instruments in the Spot Market	41	Equities
	89	Bonds
	219	Other
Annual trading turnover	EUR 9,001 million	
Annual number of transactions	1,956,250	
Domestic market capitalisation	EUR 78.9 billion	
Main index annual change	BUX: +23.04%	

3.3. MTS Hungary – MTS

Legal name	MTS Hungary
Website	http://www.mtsmarkets.com
Ownership structure	The MTS Group is majority owned by London Stock Exchange Group plc.
Trading members	Brokers, Investment Banks, Banks – remote membership is supported.
Traded instruments	Hungarian government bonds (fixed and floating rate bonds), Hungarian treasury bills, Hungarian student loan bonds, Hungarian corporate bonds and bonds issued by the Hungarian Development Bank Ltd.
Trading method	Through MTS Hungary Platform.
Settlement agent	KELER Central Depository Ltd. (KELER CSD)
Clearing agent	KELER Central Counterparty Ltd. (KELER CCP)
Trading hours	Bond market from 08:15 to 16:45
Settlement cycle	T+2
Indices	MTS Indices include the EuroMTS Index (ex-CNO Etrix), EuroMTSInflation-Linked Indices and many more.
Number of listed instruments	22 Government bonds 7 Treasury-bills 2 Student loan bonds 7 Corporate Bond
Annual trading turnover	EUR 407 million
Annual number of transactions	315

3.4 OTC Trading

OTC trading – being unregulated and not automated – is taking place over the telephone, Reuters or Bloomberg. Deals are settled on a bilateral basis, settlement details (including settlement cycle) are to be agreed by the contracting parties.

All transactions made off-exchange (e.g. by foreign investors without direct access to regulated markets) are OTC from the settlement point of view, while an underlying transaction may be a BSE/MTS trade (through a local or remote trading member) or another OTC transaction.

The Hungarian CSD, KELER, settles the OTC trades in the order of receipt (first instruction received first settled if cover is available), and there is no possibility to link a delivery to a certain receipt.

Trading of government securities takes place mostly OTC even though MTS gathers an increasing portion of bond transactions. The settlement of secondary bond market deals takes place in KELER real time and the settlement cycle mostly follows the regulated market, i.e. T+2.

4. CLEARING

4.1 KELER CCP Ltd. - KELER CCP

Legal name	KELER CCP (KELER KSZF Ltd.)
Website	https://kelerkszf.hu/
Ownership structure	<p>99.72% KELER Central Depository Ltd.</p> <p>0.15% Central Bank of Hungary</p> <p>0.13% Budapest Stock Exchange</p>
Clearing members	<p>Mainly domestic and international brokers and banks who concluded a Clearing Membership Agreement with KELER CCP for the clearing of guaranteed regulated market transactions.</p> <p>Types of clearing membership: General Clearing Member, Individual Clearing Member, Non-Clearing Member. Any Clearing Member or Non-Clearing Member may appoint a Settlement Agent to perform all clearing related services on its behalf.</p>
Scope of services	<p>With respect to the Hungarian regulated markets, KELER CCP acts as a central counterparty, which makes it possible for the regulated market transactions to settle in a risk-free environment as it guarantees the financial settlement on the cash and derivative markets of the BSE and MTS Hungary, and handles the collaterals.</p> <p>Its partners are mainly investment firms and credit institutions. KELER CCP acquired the EMIR license issued by the Central Bank of Hungary.</p> <p>In the framework of acting as a central counterparty, KELER CCP is responsible for:</p> <ul style="list-style-type: none"> ● Managing clearing memberships; ● Owning and managing collaterals and the guarantee schemes available in the market (including Exchange Settlement Fund and Collective Guarantee Fund); ● Managing non-performance on the cash/securities side; ● Perform buy-ins, if necessary.
Risk model	<p>KELER CCP guarantees settlement of transactions concluded on the cash, derivatives and BÉTa markets of the BSE as well as trades made on the MTS Hungary Trading Platform. CCP activity is supported by complex risk management mechanisms featuring individual and collective guarantee elements. The undertaking of the CCP guarantee is established by the end-of-day trade confirmations provided by BSE and MTS.</p>

5. SETTLEMENT

5.1 KELER Central Depository Ltd. - KELER CSD

Legal name KELER Central Depository Ltd.

17f-7 eligibility YES

Website <https://www.keler.hu>

Ownership structure 53.33% Central Bank of Hungary
46.67% Budapest Stock Exchange

Scope of services KELER serves as the national and central securities depository of Hungary and provides securities settlement as part of the clearing services for the BSE and MTS Hungary as well as settlement services for the OTC market (for eligible instruments). KELER is a securities depository operating on the basis of the Act CXX of 2001 on the Capital Market and is regulated by the Central Bank of Hungary (CBH), as the financial supervisory authority. KELER's General Business Rules and other regulations must be approved by the CBH.

KELER keeps securities accounts for both banks and brokerage companies and maintains cash accounts for brokerage companies.

KELER's main services are: issuance of securities codes (ISIN); central register of dematerialised securities; management of dematerialised securities (issue, cancellation); settlement of OTC transactions; financial and securities settlement as a part of the clearing process; lending money and securities including the operation of securities lending system; safekeeping and registration of financial instruments and related account keeping; custody services.

All securities issued to the public in Hungary are eligible for deposit at KELER. Non-publicly issued securities shall only be eligible if the data supply is guaranteed by the issuer on a continuous basis.

On 6 February 2017 Hungary joined to T2S in the fourth migration wave. The Central Bank of Hungary (CBH) and KELER decided to make all domestically issued securities available in T2S; however the Hungarian currency, HUF was not brought into the T2S platform from its start. Hungary follows the Partial Entry Model (PEM) in which the Euro settlement volume is routed through T2S and domestic settlement in HUF is settled by KELER using an omnibus account model within T2S.

Due to the postponement of the implementation of KELER's new system (called BaNCS) which will encompass the T2S functionalities as well, KELER joined T2S with its old system under a "BCP method". Under the BCP method the services and processes described by KELER in the service description document called "KELER T2S Settlement Process from planned T2S entry on 6 February 2017 until BaNCS go-live" is meant. In the frame of the "BCP method" KELER provides minimum T2S coverage with its current systems and ensures communication with T2S through manual operation using T2S' GUI platform. KELER supports participants in ICP mode only.

The following transactions are settled in T2S; all other transactions are settled locally.

- All transactions settling against EUR between two KELER participants – intra-CSD (EUR DVP);
- Cross CSD transactions (between a participant of KELER and that of another T2S CSD) – applicable only for transactions with the Austrian CSD (OeKB).

T2S matching criteria for settlement instructions will be introduced only when BaNCS is implemented. Until the BaNCS' go live date the T2S matching standards are applicable only for the cross CSD transactions with OeKB.

Accounts held	<p>KELER opens both securities settlement accounts and related cash accounts by currency for clearing members. A Settlement Agent may be appointed by the clearing member to operate these accounts on behalf of the clearing member. The account structure ensures proprietary and client asset segregation.</p> <p>Custodian banks must keep securities accounts at KELER for facilitating OTC settlements. Each custodian has a main account at KELER, under which unlimited number of sub-accounts can be opened based on the needs of the local custodian and its clientele.</p> <p>Issuers are allowed to open a securities custody account and keep their securities directly at KELER.</p>
Eligible instruments	<p>Equities, bonds (government and corporate), T-bills, investment fund notes, certificates.</p>
Level of dematerialisation	<p>In Hungary securities may be issued either in physical or in dematerialised form; however the vast majority of the market is already dematerialised.</p> <p>Listed companies had to dematerialise their shares until the end of 2004 and all government securities have been issued in dematerialised form since April 1999. As per the new Civil Code (Act V of 2013) that came into effect on 15 March 2014, public limited companies had to be listed on the Budapest Stock Exchange by 15 March 2016 or they had to change their status to private limited company.</p> <p>Only registered and, with the exception of government securities, dematerialised securities may be offered to the public.</p> <p>Currently only private limited companies may issue physical securities; if the company has already converted its shares into dematerialised form, the new Civil Code allows the conversion of dematerialised shares back to physical ones. All dematerialised securities need to be held at KELER.</p>

Stock Exchange Settlement

For regulated markets (BSE and MTS) settlements KELER manages the securities settlement accounts for all clearing members, including brokerage companies and credit institutions. Also KELER manages the exchange cash accounts (per currency) for clearing members. The financial settlement of transactions concluded by brokers and remote clearing members is done on the exchange cash accounts, while those executed by domestic credit institutions are completed on the banks' nostro accounts managed by the CBH. The direct participants in the settlement procedure are banks and brokerage houses with trading and clearing licenses.

KELER CCP is the sole provider of the trade netting service for all regulated market transactions. All stock exchange/MTS transactions are received by KELER CCP with confirmed status. KELER CCP reports the net (buying or selling) securities positions by ISIN for Settlement Day (SD) to each clearing member following multilateral netting on T+1 and one net cash position is created per clearing member for each SD.

Settlement is made on the basis of BIS Model 3: Simultaneous Net Settlement of Securities and Funds Transfers. Transfer instructions for both securities and funds settle on a net basis, with final transfers of both securities and funds occurring at the end of the processing cycle. Trades are cleared and settled on a rolling basis (T+2 for all types of securities).

Net sellers must provide securities coverage sufficient for the settlement on their securities settlement account on SD by 14:00 CET. As part of the securities cover verification procedure KELER debits the securities settlement accounts of net sellers with the securities and credits a so-called central stock exchange settlement account of KELER CCP. Simultaneously, by 14:00 CET on SD KELER initiates cash collection orders to debit cash accounts of net securities buyers. The funds are credited to the central (stock exchange settlement) account of KELER CCP.

Once all securities and cash funds are credited to the central account, KELER immediately initiates securities and cash transfers from the central account to the beneficiaries, credits buyers' securities accounts and sellers' cash accounts. The process shall be finalised by 14:00 CET the latest and can take place any time before this time on SD provided that all positions of all clearing members are available for settlement.

The securities and financial settlements are final and irrevocable. Any failure by account holders to meet obligations would immediately trigger compulsory measures (penalty, buy-in procedure, compulsory sale, etc.) against the defaulting participant.

OTC Settlement

All transactions made off-exchange (e.g. by foreign investors without direct access to regulated markets) are OTC from the settlement point of view. OTC transactions are not regulated; settlement cycle and details are fully negotiable by the partners. There are two possible methods to settle OTC DVP deals: as a true DVP settlement (according to the BIS model 1) or delivering securities and cash separately. Matching of trade details at KELER is obligatory for successful settlement. Matching is not binding, i.e. matched transactions can be cancelled before settlement even unilaterally; however settlement is final and irrevocable.

Free of payment settlement is possible, even if there is no change in the beneficial owner (NCBO).

Settlement Protection	<p>No guarantee mechanism exists for OTC deals. KELER CCP provides a guarantee system for regulated markets (BSE spot and derivatives, BÉTa Market and MTS Hungary) with the following elements:</p> <ul style="list-style-type: none"> ● Individual guarantee elements: collateral provided by clearing members (basic financial collateral, initial margin, variation margin, supplementary collateral, additional financial collateral); ● Collective guarantee elements: default fund contribution by clearing members (Exchange Settlement Fund for cash market – TEA, and Collective Guarantee Fund for derivatives market – KGA); ● KELER CCP's assets; ● Default procedures in case of securities/financial default. <p>Default procedures:</p> <ul style="list-style-type: none"> ● If the necessary securities or cash is not available for settlement on the accounts of a clearing member by 14:00 CET on SD KELER CCP declares default event and initiates non-performance procedures; ● For securities side default KELER CCP may initiate a buy-in procedure as a last resort on SD+2 at 11:00 CET against the defaulting member; ● Depending on the type and length of default the defaulting clearing member shall pay different types of penalties.
Investor Protection	<p>Investor Protection Fund (BEVA) is a legal entity established by investment service providers pursuant to the Act on the Capital Market to protect the interests of investors. All investment service providers must join the fund. Membership fees constitute the bulk of the Fund's revenue (affiliation fees, annual membership dues, extraordinary dues based on the Board's order).</p> <p>With certain limitations, upon a court order for the liquidation of a fund member, the Fund compensates investors whose claims are blocked in an investment firm. Some investor groups are excluded from compensation, e.g. the state, institutional investors, financial institutions, investment firms. The maximum amount of compensation per person and investment firm is EUR 100,000 (above HUF 1 million only 90% of the claim amount is honoured).</p>
Identified Risk	None

6. PAYMENT SYSTEM

6.1 General Information

The cash clearing in Hungary takes place in the following two clearing systems: VIBER and InterGIRO2 (widely referred to as IG2). VIBER is the RTGS system operated by the Central Bank of Hungary which works real-time and it is typically used for high value commercial payments and bank-to-bank payments.

IG2 is an automated clearing platform performing typically the processing of low value and high volume payments in Hungary. It is operated by GIRO Ltd., which is fully owned by the CBH. IG2 works in batches, clearing takes place in ten intra-day clearing cycles.

Direct clearing members are Hungarian commercial banks, the Central Bank of Hungary, KELER (CSD), Hungarian State Treasury and the OFSZ (a specialized payment service provider).

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

6.2 Limitations, Deadlines, Cut-off times

The timeframe of real-time VIBER settlement is between 07:00 and 18:00 CET on each value date. Customer payments (i.e. payment instructions – both MT103 and MT202 – of the customers of direct VIBER participants) can be initiated until 17:00 CET, settlement of securities transactions against payment (DVP) until 17:30 CET, and payments of direct VIBER participants (managing their own positions) until 18:00 CET.

The operation principle of the IG2 intraday clearing is the “4-hour execution rule” which is supposed to ensure that transfer orders are executed and funds are made available for the beneficiary within four hours of receipt of the order by the remitting bank. For instructions covered by the “4-hour execution rule” ten clearing phases are completed each day starting from 07:30 until 17:00 CET.

6.3 Continuous Linked Settlement – CLS

The Hungarian Forint is a CLS settlement currency as of 16 November 2015.

7. SECURITIES LENDING

7.1 Securities Lending

The Capital Market Act regulates the securities lending and borrowing in Hungary, stipulating the following main characteristics:

- Securities lending agreements (with mandatory elements) must be concluded for specific terms and cannot be incorporated into any other contract.
- The parties shall agree how the voting rights can be exercised in connection with the lent shares.
- The borrower becomes the owner of the securities so it is eligible to exercise the shareholders rights.
- As a precondition for lending, the lender must have unrestricted control over the securities.
- Firms (e.g. investment fund managers, insurance companies) stipulated by the Capital Market Act shall advise the Authority about their intention to engage in securities lending operations in advance.

There is a relatively active informal bilateral lending market among local brokers.

Currently KELER provides securities lending (i) for the purpose of facilitating XETRA settlements, (ii) in order to facilitate market making on the Budapest Stock Exchange. A “General Agreement for Lending Securities”, i.e. a framework agreement which contains the detailed rules relating to the securities lending has to be signed with KELER for using the above services.

In addition to the above two lending types, KELER's Treasury and the Government Debt Management Agency provide overnight and weekly repo services to foster the smooth settlement of MTS Hungary transactions. Securities lending is permitted for foreign investors. There are no restrictions on the activities that foreign investors can conduct.

7.2 Short Selling

Short selling is regulated by EU Regulation No. 236/2012 on short selling (SSR) that prescribes the following requirements:

- All those entering into short sales of shares must be covered by either having borrowed the instruments concerned, have arranged to borrow them; or have an arrangement with a third party who has confirmed that the share has been located i.e. naked short selling in shares is banned;
- All those entering into short sales of sovereign debt instruments must have borrowed the instruments concerned, have an agreement to borrow them, or have an arrangement with a third party who has confirmed that the securities have been located or expects that the trade can be settled when due i.e. naked short selling in sovereign debt is banned;
- All those entering into credit default swaps (CDS) positions related to a sovereign issuer must have an underlying exposure to the risk of default of that sovereign issuer or of a decline in the value of the sovereign debt of that issuer i.e. naked sovereign CDS are banned.
- Central counterparties providing clearing services must ensure that there are adequate arrangements in place for buy-in of shares as well as fines where there is a settlement failure. KELER CCP complies with this requirement.

Mandatory transparency of net short positions:

- Significant net short positions in shares must be reported to the CBH when they at least equal to 0.2% of company issued share capital and every 0.1% above that;
- Disclosed to the public when they at least equal to 0.5% of company issued share capital and every 0.1% above that;
- Significant net short positions in sovereign debt should be reported to the CBH when reaching or crossing one of the thresholds published by ESMA for sovereign issuers – notification thresholds.

Notifications by private or institutional investors on short selling positions are sent to the CBH through a dedicated SSR-application. The deadline for such reporting is 15:30 CET the next working day, following the day when the short position has been taken. In addition to this, investors make public announcements via <http://kozzetetelek.mnb.hu> operated by the CBH.

Reporting in relation to sovereign debt is completed based on the duration adjusted figure of the outstanding amount of sovereign debt of Hungary. Such figures are published by ESMA each quarter for all EU member states, including Hungary.

The SSR provides exemptions for market making activities and authorised primary dealers, prescribing the notification of intent to make use of the exemption to be made to the home authority of the notifying entity (in Hungary the CBH), while the exempted activities might also take place in other jurisdictions outside the supervision of the home authority.

8. CORPORATE ACTIONS

8.1 Common Corporate Action Events

MANDATORY EVENTS	VOLUNTARY EVENTS
<input checked="" type="checkbox"/> dividend, cash	<input type="checkbox"/> exercise of rights
<input type="checkbox"/> dividend, option	<input checked="" type="checkbox"/> issue, priority
<input type="checkbox"/> dividend, stock	<input checked="" type="checkbox"/> exchange offer
<input checked="" type="checkbox"/> interest payment	<input checked="" type="checkbox"/> tender offer
<input checked="" type="checkbox"/> issue, bonus	<input checked="" type="checkbox"/> repurchase offer
<input type="checkbox"/> issue, rights	<input checked="" type="checkbox"/> shareholders meeting
<input checked="" type="checkbox"/> maturity	
<input checked="" type="checkbox"/> maturity final	
<input checked="" type="checkbox"/> merger	
<input checked="" type="checkbox"/> pari-passu	
<input type="checkbox"/> redemption, early	
<input checked="" type="checkbox"/> redemption, partial	
<input type="checkbox"/> spin-off	
<input checked="" type="checkbox"/> split	
<input checked="" type="checkbox"/> split, reverse	

8.2 Dating Conventions

No straightforward standards exist in the market for corporate actions processing, issuer companies set dating conventions, documentation requirements and other conditions in their announcement of the event on a case-by-case basis. For KELER eligible securities issuer companies however usually liaise with KELER and order data collection for the purpose of an update in the book of shares if they deem necessary for the processing of the event.

Generally speaking shareholders are entitled to participate in corporate actions with the closing settled position on their account as of record date, while the record date (if exists) may be flexibly set by the issuer on a case by case basis.

8.3 Sources of C/A Information

As of 15 March 2016 all public companies in Hungary must get listed on the BSE. Public limited companies must publish their announcements on their website and on the website of the BSE as well. In addition public limited companies are also obliged to publish their announcements on <https://kozzetetelek.mnb.hu>, a website operated by the Central Bank of Hungary.

Corporate actions related announcements are usually made only once, generally 30 days prior to a corporate action date in case of public limited companies.

Companies being in the Premium Equity Category of BSE publish their corporate governance report at the time of listing and a corporate actions calendar at the beginning of each business year.

Private companies are not obliged to make public announcements - instead, they have to inform their shareholders directly in writing 15 days prior to the meeting.

As of 1 January 2016, the Capital Market Act requires issuers of dematerialized securities to publish their announcements as specified in the General Business Rules of the CSD. Nevertheless the implementation is still in progress.

8.4 Local C/A Specifics

Registration of securities:

In Hungary, as a general market practice registration takes place in the following cases:

- When a corporate action occurs;
- When it is requested by the issuer or by the Central Bank of Hungary;
- The custodian has to request the registration of shares (both physical and dematerialised) within two business days after receipt of the securities, unless
 - (i) the shareholder explicitly prohibits the registration or
 - (ii) the safekeeping account holder is not authorised to register the shares by the shareholder

(these latter two options are applicable only in the case of dematerialised securities of public limited companies).

There is no central registrar in Hungary. Issuer companies have the right to choose a registrar or they can set up their own registrar within the company. KELER acts as registrar for most equities listed on the BSE based on an agreement with the issuer.

Re-registration does not mean physical re-registration, only an update in the issuer's book of shares through KELER. The securities of public limited companies are tradable during the registration period while private limited companies may request for blocking of their shares between the record date and event date.

The registration can be performed in the name of the customer of the local custodian's client, in the name of the client of the local custodian or in any other name disclosed by the client of the local custodian taking into consideration that according to the Capital Market Act unless evidenced to the contrary, the holder of a (dematerialised) security shall be the person on whose account it is registered (maintained). The Civil Code explicitly states that the lack of registration in the book of shareholders does not have an impact on the ownership rights of the shareholder. However registration of shareholders is a pre-condition for entitlement / exercise of shareholders' rights.

A special case is when the shares are registered in the name of a nominee, who is typically the client of the local custodian.

In case of debt securities, there is no separate registration procedure in place, these securities are registered simply by being credited on the securities accounts, the account holder is considered as the holder of the security (unless evidenced otherwise by the account holder).

Documentation requirements

In case of voluntary events usually a Power of Attorney is required from the registered shareholder, and additional documentation may be necessary on a case by case basis as per the issuer's conditions.

Representation can be exercised by a fully legalized Proxy Power of Attorney (PoA) that shall be valid until revocation, but maximum for five years. However, it is the sole discretion of the issuers to define what type of Proxy PoA they accept for proxy representation at the general meetings. In practice either an event specific PoA or a PoA valid for 12 months is used.

Market claim, transformation and buyer protection

As of the T2S accession (6 February 2017) until the go live date of BaNCS (under "T2S BCP method") KELER offers and handles market claim, transformation process and buyer protection only if the underlying securities transaction is EUR DVP and in case of market claims for fixed income instruments only.

In case of fixed income instruments reverse market claim is not possible, so the cum/ex indicators are currently not applicable.

As the opt-out indicators cannot be submitted to KELER along with the settlement instruction, additional instruction has to be sent to KELER if an investor would like to take part in the market claim process. Upon receipt of these free format instructions from both parties with matching opt-out indicators KELER calculates the compensation (i.e. the amount of the market claim). In case the currency of the corporate action is HUF, the place for compensation is in KELER, and in case of EUR, it is in T2S.

Transformation is applicable to matched EUR DVP instructions and cross-CSD transactions that are pending at close of business on event date-1 (PD-1). KELER applies transformation for all eligible transactions automatically, without separate instruction.

KELER offers a manual buyer protection process for elective corporate actions from which the buyer can benefit even in case of having pending transactions around market deadline. So the buyer can practice the rights related to the securities purchased even though the securities have not been credited to its account (due to a pending transaction). Applicable only if the underlying securities transaction is EUR DVP.

9. PROXY VOTING

9.1 General Characteristics

Voting entitlement is based on the closing settled position on record date, which is usually E-5 (E being the event date). In case of general meetings though, the issuer can determine a different record date in its announcement.

Registration is made on the basis of the Record Date closing settled position on Record Date+1 between 08:00 and 15:00 CET.

Sub-custodians provide details of shareholders to KELER and KELER then either forwards the information to the issuer (if the issuer holds itself the book of shareholders) or updates the book of shareholders itself if it acts as an agent of the issuer. The book of shareholders must be closed by the close of business on E-2, i.e. two days before the event takes place.

In the Hungarian market corporate and government bond holders are not entitled to participate in any GM as these securities do not represent shareholder rights. The same applies to investment fund notes.

In case of general meetings, the representative shall carry a proxy Power of Attorney (POA) to be able to vote in the name and on behalf of the registered shareholder. According to the new Civil Code representation can be exercised by a fully legalized Proxy Power of Attorney (PoA) that shall be valid until revocation, but maximum for five years. However, it is the sole discretion of the issuers to define what type of Proxy PoA they accept for proxy representation at the general meetings.

The Proxy PoA has to be issued and signed by the registered shareholder (either the ultimate beneficial owner or the nominee). There may be some special issuer requirements or limitations (e.g. proxy POA valid for one meeting only) on a case-by-case basis, and companies may request some additional documentation to be completed by the shareholders.

In case the general meeting has no quorum and a second meeting is conveyed with an unchanged agenda, the reconvened meeting must be held between the 10th and 21st day following the first meeting date.

Hungary adopted the EU Shareholders Directive 2007/36/EC in November 2009.

9.2 Announcement

Private limited companies are not obliged to make public announcements - instead, they have to inform their shareholders directly in writing 15 days prior to the meeting.

As of 15 March 2016 all public limited companies in Hungary must get listed on the BSE. Public limited companies must publish their announcements on their website and on the website of the BSE as well. In addition public limited companies are also obliged to publish their announcements on <https://kozzetetelek.mnb.hu>, a website operated by the Central Bank of Hungary.

Corporate actions related announcements are usually made only once, generally 30 days prior to a corporate action date in case of public limited companies.

Companies being in the Premium Equity Category of BSE publish their corporate governance report at the time of listing and a corporate actions calendar at the beginning of each business year.

As of 1 January 2016, the Capital Market Act requires issuers of dematerialized securities to publish their announcements as specified in the General Business Rules of the CSD; in practice however the implementation has not been completed yet.

9.3 Voting Process

According to the Civil Code (that is harmonised with the EU's Shareholders Directive 2007/36/EC) blocking of shares prior to general meetings is not allowed for public limited companies, while private limited companies may impose such requirement based on their articles of association.

Voting via proxy cards and correspondence (e.g. post) is allowed by law, however it is not a general market practice, a vast majority of companies still require personal attendance.

Partial voting is possible, however split voting is allowed for nominees only. Should a shareholder keep shares of a public limited company on more than one securities accounts, the shareholder may appoint more representatives (unless the issuer stipulates otherwise), but these representatives shall not vote differently. Should different votes be cast by the representatives of the same shareholder, all votes are considered null and void.

10. INCOME COLLECTION

10.1 Dividend payments

Hungarian companies pay dividend on an annual basis, usually one month after their general meeting, which is held mostly around April-May each year. Dates and any special procedures are set at the Annual General Meeting of the issuer.

In case of a corporate event involving payment (payment of dividend, payment of interim dividend and share dividend) the issuers of all public shares are obliged to require shareholder registration from KELER and at least ten business days must pass between the date of the general meeting and the initial date of payment of dividend.

As per the new Civil Code, those shareholders will be entitled for dividend who are registered in the shareholders' register for the general meeting that defines the dividend payment. However, deviation from this section of the Civil Code is allowed for the issuers. They can set different rules in their Articles of Associations (e.g., KELER rules are followed).

In case of dividend payments, Hungarian regulations do not force the issuer or its paying agent to pay the dividend on the earliest payment date of the announced dividend payment period. Shareholder accounts are credited with the dividend amount after actual receipt from the issuer or its paying agent unless the local custodian provides contractual income services.

Announcements Announcements are made by the issuer company on the official places where the given issuer shall publish all corporate actions related news. For further details please refer to Section 8.3. Issuers announce a dividend payment period with an earliest payment date (which is the starting date of the dividend payment period).

Dating Conventions Shareholders are entitled to receive dividends according to the closing, settled position on record date, which position is registered through KELER. Dating conventions in case of equities are generally as follows:

CUM DATE: E-7 working days
 EX DATE: E-6 working days
 RECORD DATE: E-5 working days

Registration of shareholders is a pre-condition for dividend payment. Private limited companies usually set special procedures for registration and dividend collection.

Payment Execution Payment on actual basis, shareholder accounts are credited with the dividend amount upon actual receipt from the issuer or from its paying agent.

Pending entitlements due to late settlements are not automatically adjusted in the payment process according to market practices, but there is a valid legal ground for claims based on the Hungarian Civil Code.

10.2 Interest & Maturity Payments

In case of government bonds and treasury bills the Government Debt Management Agency (GDMA) pays interest and redemptions to investors through KELER Ltd. as principal paying agent. GDMA transfers the total amount in one lump sum to KELER Ltd. and KELER executes the payments to the custodians or to the securities account keepers on the basis of the data collected by KELER as of the record date. Custodians and securities account keepers distribute the interest and redemption amount and credit the accounts of the government securities' holders.

The amounts are credited on the announced payment date (contractual payment).

The issuer (GDMA) may repurchase the government bonds before maturity in the course of reverse auctions. Primary dealers are authorised to participate in reverse auctions that are held one to four months before redemption date, so investors may participate in these events through primary dealers.

In case of corporate bonds, the CSD reports the position of the custodian banks as per their securities accounts held with the CSD to the issuer or to its paying agent. Then the issuer or its paying agent pays the interest or redemption amount in one lump sum directly to the custodian banks who will distribute the due interest or redemption amount to their clients.

Issuers' are committed to pay interest and other returns on the date stipulated in the Prospectus of the given securities.

Announcements The issuer of government debt makes announcements on income and redemptions on its website <http://www.akk.hu>. The pay-dates of interest and redemption for bonds are announced upon issue, so these events are known for the whole lifecycle of these securities in advance. Similarly to government bonds and treasury bills the prospectuses of the corporate bonds are publicly available upon issue so the schedules of all income events are announced in advance.

Dating Conventions Securities holders are entitled to receive interest and principal payments according to the closing, settled position on record date.

CUM DATE: E-4 working days

EX DATE: E-3 working days

RECORD DATE: E-2 working days

KELER reports record date positions to the issuer/paying agent before pay date and all tax related documentation, and information on final beneficiaries are reported by custodians and other investment service providers.

Payment Execution Issuers' are committed to pay interest and other returns on the date stipulated in the Prospectus of the given securities in advance.

Pending entitlements due to late settlements are not automatically adjusted in the payment process according to market practices, but there is a valid legal ground for claims based on the Hungarian Civil Code.

Market claim As of the T2S accession (6 February 2017) until the go live date of BaNCS (i.e. under "T2S BCP method") KELER offers and handles market claim if the underlying securities transaction was EUR DVP and for fixed income instruments only.

In case of fixed income instruments reverse market claim is not possible, so the Cum/Ex indicators are currently not applicable.

As the opt-out indicators cannot be submitted to KELER along with the settlement instruction, additional instruction has to be sent to KELER if an investor would like to take part in the market claim process. Upon receipt of these free format instructions from both parties with matching opt-out indicators KELER calculates the compensation (i.e. the amount of the market claim). In case the currency of the corporate action is HUF, the place for compensation is in KELER, and in case of EUR, it is in T2S.

11. TAXATION

11.1 Withholding Tax

In Hungary, among others, the Act LXXXI of 1996 on Corporate Tax and Dividend Tax, Act CXVII of 1995 on Personal Income Tax and Act CL of 2017 on the Rules of Taxation govern the taxation matters of domestic and foreign investors. In addition the relevant Double Tax Treaty (DTT) is to be examined to determine any tax exemption or tax relief opportunities. Since the dividend and interest withholding tax form an integral part of the personal income tax regime, based on the above rules, interest and dividend income of private individuals is subject to 15% withholding tax in Hungary, while legal entities, including foreign institutional investors, are generally exempt from withholding tax. Relief at source is available.

Additional 14% health care contribution (with a maximum of HUF 450,000) for resident private individuals is applicable in case the dividend derives from instruments that are not listed in any regulated market within the European Economic Area.

As of 1 September 2016, the European Union Savings Directive (Council Directive 2003/48/EC) was repealed. As a consequence, the withholding tax is also deducted from interest income paid to private investors previously subject to the European Savings Directive according to the existing Double Tax Treaty (DTT) similarly to all other private investors.

As of 1 January 2017, income from investment units of alternative investment funds is treated in Hungary as dividend and thus the rate of the applicable withholding tax in such cases will be 15%, payable only by private investors. The rate of the additionally applicable healthcare contribution tax will be 14%, with a maximum of HUF 450,000. Income from investment units of other types of investment funds is still treated as interest.

Tax Rates	Type of Income	Tax Rate
	Interest income (for legal entities)	0%
	Interest income (for individuals)	15%
	Dividend income (for legal entities)	0%
	Dividend income (for individuals)	15%

Relief at Source Relief at source (RAS) is available for foreign private individual investors when the DTT between Hungary and the country of tax residence of the beneficial owner provides for a lower tax rate. Act CXVII of 1995 on Personal Income Tax recognises the RAS method, which is obligatory for issuers and paying agents, if the necessary documents are in good order and received by the issuer or paying agent in a timely manner. For achieving RAS, Certificate of Tax Residency and Declaration of Tax Beneficial Ownership (if required by DTT) shall be provided prior to payment by the recipient of the income.

Tax Reliefs Based on relevant DTT at the time of payment or via tax reclaims.

11.2 Capital Gains Tax

Non-resident institutional investors are fully exempt from capital gains tax. According to the Act CXVII of 1995 on Personal Income Tax, the place of gainful activity in respect of capital gains is the state in which the private individual is a resident, thus no capital gains tax is deducted from non-resident private individuals in Hungary.

Tax Rates	15%
Relief at Source	N/A
Tax Reliefs	N/A

11.3 Stamp Duty

There is no stamp duty on securities transactions.

Tax Rates	N/A
Tax Reliefs	N/A

11.4 Other Taxes

- VAT

Management and safekeeping services with respect to physical securities are subject to 27% VAT in Hungary.

- Financial Transaction Tax (FTT)

In Hungary FTT applies to all institutions resident in Hungary or having branch offices in Hungary and that are engaged in payment services or money exchange, including but not limited to financial institutions.

FTT rate on cash payments is 0.6%, while the FTT rate on transfers between accounts is 0.3%, with the upper limit of HUF 6,000.

The scope of the FTT covers money transfers, collections, direct debits, cash withdrawals, money remittance (paid through cashier), letters of credit, cheque collections, foreign exchange, amortisation of loans and fees and commissions. As of 1 January 2017, loan repayments in cash made to financial institutions providing credit and financial loans, which do not qualify as payment services providers, is also subject to financial transactions tax.

Transactions not subject to FTT are as follows:

- payments effected between own accounts held with the same provider;
- payments on special client accounts or accounts related to investment services;
- securities related cash movements;
- group financing within the books of the same provider;
- transactions carried out against current accounts maintained for domestic and foreign payment service providers, fund managers, investment funds, including amortisation of loans;
- certain transactions of the State Treasury;
- all payments conducted on limited usage accounts;
- incorrectly executed payments including the payment executed to restore the payment account to its original state.

11.5 Tax Reclamation Process

The statutory deadline for reclaiming withholding tax in Hungary is five years following the end of the year, in which the relevant payment of the interest or dividend occurred. If the tax relief is not possible at source due to missing or incomplete documentation tax reclamation procedure can be launched. 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.

Tax reclaim can be submitted by the beneficial owner itself, or through an authorised representative, who can be a tax advisor, a legal advisor or the local custodian.

Documentation requirements:

- Certificate of Tax Residency,
- Declaration of Tax Beneficial Ownership,
- Certificate of Payment issued by the issuer or paying agent,
- Free format tax reclaim letter,
- Power of Attorney signed by the beneficial owner when the reclaim is submitted through a representative.

Tax reclaims are not standardised, payment dates cannot be projected. The tax authority is bound by a 30-day limit to pay the funds following the legally binding resolution of the refund.

If a private individual investor had been registered for the dividend payment behind a nominee (thus the standard Hungarian dividend withholding tax had been applied by the issuer) and the investor would like to reclaim the difference of the deducted tax and the tax applicable according to the relevant DTT, then they should request the nominee (via its Hungarian custodian) to request for re-registration at the issuer latest by the end of the calendar year when the dividend was paid. The nominee will be 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 will issue 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. As soon as the issuer's declaration is received, the investor may start the tax reclaim process by representing the documents mentioned above.

11.6 Double Taxation Treaties

For the most up to date DTTs please refer to our website: <http://qss.unicreditgroup.eu> DTTs are listed in the /MARKET/DOCUMENTS section.

12. DISCLOSURE REQUIREMENTS

12.1 Obligations for Issuers

Issuers of securities admitted to the Budapest Stock Exchange (BSE) shall provide reports, documents and notices to the BSE in accordance with the BSE's Regulations.

- Issuers shall invite the BSE to their press conferences or discussions and shall simultaneously deliver to it any materials released to the press.
- Issuers of equities have to give advance notice to the BSE of their general meetings and have to invite it to participate.
- Issuers must report to the BSE any change in connection with the person or representative responsible for the relations with the BSE within one trading day.
- The issuer has to publish, inter alia, (i) any amendment to its Deed of Foundation within one trading day after receipt of the court order verifying registration and has to ensure that a copy is delivered to BSE which is a complete version with all amendments inserted; and (ii) the name and address of the party responsible for keeping its register of shares and any changes thereto within one trading day.
- The issuer has to publish, inter alia, the same information to be disclosed under the laws regulating the respective issuer (i.e. the Capital Market Act in the case of issuers of shares).

According to the Capital Market Act issuers of securities that have been offered to the public shall make their semi-annual report, annual report and interim management report public (except for issuers which publish quarterly financial reports in accordance with the requirements prescribed for semi-annual reports). Issuers also have to publish the number of voting rights attached to their shares separately for each series, indicating also the portfolios of own shares and the amount of the capital on the next business day at the latest and with respect to the last day of each calendar month.

Companies being in the Premium Equity Category of BSE shall publish their corporate governance report at the time of listing and a corporate actions calendar at the beginning of each business year.

Issuers of securities that have been offered to the public must disclose without delay or within the following business day any information that concerns, directly or indirectly, the value or yield of their securities issue or the reputation of the issuer. Issuers shall, at the same time, file that information with the CBH and the BSE, too.

Any public company limited by shares that is listed on a regular market (including the BSE) shall post information on its website each calendar year, at the time of convocation of the annual general meeting concerning (i) the names of the members of the management board or the board of directors, and the members of the supervisory board and (ii) their remuneration or any kind of benefits (if any) provided under any legal title for their services. The company shall provide continuous access to these data on its website.

Besides the above disclosure requirements, the issuer of securities that have been offered to the public have to report to the CBH, inter alia, on ownership structure, voting rights, amount of treasury shares, management of the company, strategic employees and main financial data.

12.2 Obligations for Investors

- In accordance with the Capital Market Act, nominees are obliged to disclose the underlying beneficial owners in case of a request submitted by a shareholder, the company or by the CBH and should produce any evidence in support of their capacity as nominees when duly requested by the company or by the CBH. In addition any person who is able to substantiate his valid concern shall be entitled to request the CBH as Supervisory Authority to reveal the identity of the shareholders represented by a particular nominee. In lack of such evidence, shareholder rights cannot be exercised.
- Investors (i.e. shareholders or the holder of the voting right attached to the shares) must disclose to the CBH and to the issuing company both direct and indirect holdings (shares or voting rights) in a public company limited by shares when reaching or exceeding 5% and every additional multiple of 5%, immediately but within two calendar days of the acquisition at latest. This disclosure requirement extends up to 50%, after which the thresholds are 75%, 80%, 85% and 90%. Above 90%, the disclosure is compulsory after every single 1% increase. The obligation for notification stipulated above also applies if an investor's holding in the company is reduced by falling below the same percentages.
- The Transparency Directive Amending Directive (2013/50/EU) was implemented in Hungary through changes made to the Capital Market Act. Accordingly, disclosure obligation described in the previous section applies to any person who, directly or indirectly, is in possession of any financial instruments (such as transferable securities, options, futures, swaps, forward rate agreements, financial contracts for differences; or any other contracts with economic effects similar to these financial instruments) that on maturity provide the holder, under a formal agreement, either with the unconditional right to acquire or with the discretion as to his right to acquire such shares to which voting rights are attached. If the shares are in fact acquired on the basis of the financial instrument repeated disclosure obligation exists in case reaching/exceeding thresholds percentages set forth in the law. Holdings of shares, voting rights and financial instruments shall be aggregated when considering the disclosure requirements.
- 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 CBH's prior authorisation and shall also be reported to the CBH by the exchange. The exchange may additionally define the maximum ownership level that can be acquired by one shareholder in its Articles of Association.
- The prior permission of the CBH must be obtained (i) for the acquisition of a qualifying holding in a financial institution, or (ii) for the acquisition of additional qualifying holding in a financial institution by which to reach the 20, 30 or 50 per cent limit. This applies both to increasing and decreasing ownership attaining the above percentage levels.
- Also the CBH's permission is required for the acquisition of majority interest in an enterprise that has a qualifying holding in a financial institution. "Qualifying holding" shall have the same meaning as defined in Regulation (EU) No. 575/2013 of the European Parliament and of the Council.
- Based on the Act V of 2013 on the Civil Code 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. In case of non-compliance the court of registry has powers to impose judicial supervisory sanctions (a warning and a fine) against the person acquiring the holding.
- Any shareholder acquiring more than 33% of the voting shares of a company is obliged to make a takeover bid. However, should an investor acquire a 25% holding, at a time when no other investor has more than a 10% holding, the investor is obliged to make a takeover bid at that time. Acquisition in excess of the percentages specified above shall be reported to the competent court of registry within 15 days after the holding is in fact acquired. In case of non-compliance, the court of registry has the power to impose legal (supervisory) sanctions (a warning and a fine).

The shareholder shall not be required to comply with the obligation of notification if

- the notification requirement is satisfied by its parent company, or if the parent company is a controlled company itself, by that parent company,
- the voting rights are attached to shares acquired for stabilization purposes in accordance with the regulation for transactions conducted under a buy-back program or to transactions conducted for the stabilization of financial instruments, if performed in compliance with Commission Regulation (EC) No. 2273/2003, provided that the issuer ensures that the voting rights attached to those shares (i) are not exercised, and (ii) they are not otherwise used to intervene in the decisions relating to the appointment and removal of members for the issuer's decision-making, management bodies, supervisory board and their bodies.

Credit institutions and investment firms shall not be required to comply with the obligation of notification in connection with shares registered in the trading book if

- voting rights cannot be exercised and
- they are not involved in the decisions relating to the appointment and removal of members for the issuer's decision-making, management bodies, supervisory board and their bodies, and
- the voting rights held in the trading book do not exceed five per cent.

Market makers shall not be required to comply with the obligation of notification if

- they ensure that the voting rights attaching to their shares are not exercised,
- they notify the Supervision in advance of the commencement and termination of market making activities,
- they keep separate accounts on the shares and financial instruments required for market making activities.

12.3 Violation Consequences

Depending on the nature of the violation the CBH acting as Supervisory Authority may

- suspend the shareholder rights in the given company;
- name the person or entity responsible for the disclosure of obligatory information and indicate the nature of the infringement in an announcement published on its website;
- prohibit the person or entity responsible for the disclosure of obligatory information to continue or to repeat the injurious behaviour;
- impose fines
 - in the case of a legal person maximum HUF 2,984,800,000 (app EUR 9.6 million) or maximum 5% of the annual revenue as stated in the last annual report;
 - in the case of a natural person maximum HUF 596,960,000 (app EUR 1.9 million) or the profit arising from the infringement of rights or double of the amount of loss that has been avoided by the infringement of rights.

From the amounts defined above, in all cases the higher amount should be applied.

The CBH may also mention the name of the natural person committing the infringement of rights in its legally binding resolution. The CBH makes its resolutions about certain measurements or exceptional measurements or fines available on its website at least for 5 years and maximum for 10 years.

13. ACCOUNT MANAGEMENT

13.1 Common Account Structures

The following types of securities accounts are supported in the market:

- Segregated accounts;
- Omnibus accounts (that can also be opened under the name of a nominee);
- Any mixture of the above.

In line with the Capital Market Act, unless evidenced to the contrary, the holder of a (dematerialised) security shall be the person on whose account it is registered (maintained). The level of segregation in the books of the local custodian and KELER is usually different. Local custodians keep more detailed records than it is reflected in the CSD.

Segregated Accounts

In case of segregated accounts the account holder is considered to be the beneficial owner of the dematerialised assets held on the account. One separate account is opened for each underlying investor who will be registered as the shareholder/ultimate beneficial owner and will receive the income and can participate in corporate actions in its own name. Any tax or other documentation shall be submitted to the market in the name of the investor in whose name the segregated account is maintained. For private individuals it is highly recommended to open segregated securities account.

Omnibus Accounts

Hungarian regulations do not contain precise rules for omnibus accounts. However their use is a market practice taking into account that in case the account holder provides data on the underlying investors they will be considered as the ultimate beneficial owners instead of the account holder. It is the decision and responsibility of the omnibus account holder to what extent the underlying investors are disclosed.

Omnibus accounts may be setup in accordance with the preference of the local custodian's client, e.g.:

- Omnibus account by residency of the underlying investors;
- One omnibus account for all underlying clients;
- Omnibus account(s) for legal entities;
- Any other combinations.

The nominee concept in Hungary

According to the Hungarian legal regulations the nominee means “shareholder representative”, thus the nominee concept is interpreted in case of equities only. There are several specialities to be considered:

- A foreign investor can act as a nominee if it is allowed to operate as a nominee according to the legislation of its own country.
- By default, the nominee will be registered in the book of shareholders as a nominee and not as a shareholder.
- According to the Capital Market Act a nominee might be appointed only by the shareholder itself. Thus, there might not be an intermediary between the shareholder and the nominee.
- The nominee shall reveal the identity of the shareholders represented when demanded by any other shareholder, by the issuing company or by the market supervision. In addition any person who is able to substantiate his valid concern shall be entitled to request the CBH as Supervisory Authority to reveal the identity of the shareholders represented by a particular nominee.
- The nominee agreement must be a separate document and must not be a part of any other agreement.
- The nominee must be able to prove its nominee status however the format/wording of such document is not defined. Since the timeframe for such a disclosure on the shareholders or the submission of the nominee documentation is not defined by law, these could be demanded any time, even at the time and the premises of a general meeting. If the above documentation is not provided in due course, the voting right may be suspended.

13.2 KYC/AML Requirements

- There are strict KYC rules in force in Hungary regulated by the Act LIII of 2017 on the Prevention and Combating of Money Laundering and Terrorism Financing (“Anti-Money Laundering Act”) – which is in compliance with the EU Directive 2015/849 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing. Its major characteristics are as follows:
 - The legal scope of the Act includes service providers engaged in client transactions of at least HUF 3.6 million.
 - Identification of clients is obligatory before the business relationship is established.
 - Lawyers and public notaries must also process the identification and the reporting obligations, if they safe keep any cash or valuables or when they would process the following activities for their clients: a) purchase or sale of assets/ownership in a corporation, b) purchase or sale of real estate, c) establishment, running or cancellation of a corporation.
 - A bank is obliged to suspend the processing of any suspicious transaction:
 - a) if the transaction is to be reported, until the report is sent to the competent authority or
 - b) in case it deems a Financial Intelligence Unit (FIU) examination necessary.
 - All banks are also obliged to keep records on the data of all of those clients which processed transactions with a value of HUF 3.6 million or more.
 - Customer payment instructions (e.g. MT103): in the case of international payments Hungarian financial institutions are required to ask their clients to identify their ordering customers with their name, address and account number.
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 1054 Budapest
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Szabadság tér 5-6
1054 Budapest
Hungary