PROSPECTUS

ON THE CONDITIONS OF APPLICATION FOR JOINING THE PRIMARY DEALER SYSTEM OF HUNGARIAN GOVERNMENT SECURITIES

Date of entry into force: 1 July 2022

1. Basic objectives of the Primary Dealer system

The Primary Dealer system of Government Securities has been operating in Hungary since 3 January 1996, the basic objectives of the establishment of which were to ensure government securities issued by the Hungarian State to be easily accessible for investors, to provide solid basis for the financing of the state budget and to improve the transparency and liquidity of the secondary market. The secondary market price quotation is the task of the Primary Dealers and – from 1 July, 2022 – Non-PD Market Makers, thus ensuring that Government Bonds and Discount Treasury Bills (hereinafter as: Government Securities) to be issued publicly via auction in Hungary are available to investors at all times and that investors may sell their Government Securities at any time before maturity.

The Government Debt Management Agency Private Company Limited by Shares (hereinafter as: ÁKK) primarily intends to target the institutional investor group via the Primary Dealer system. In the course of the placement and trading to institutional and wholesale investors, the purpose is the sale of large volumes of Government Securities.

The effective operation of the Primary Dealer system requires that a stable investor base for Government Securities is established, maintained and extended. For this purpose ÁKK seeks to ensure accessibility to the widest possible range of domestic and international investors through the dealers in the course of the development of the Primary Dealer system and the acceptance of applications.

2. The main tasks of Primary Dealers

One of the basic tasks - being also an exclusive right - of Primary Dealers is to actively participate in the placement of Government Securities issued or to be issued publicly via auction, included in the Primary Dealer system, by submitting auction bids at classic and switch auctions as well as in the framework of non-competitive tenders on a regular basis.

Another basic task of Primary Dealers and joint task with Non-PD Market Makers is to quote continuously two-way prices for Government Securities allocated to each Primary Dealer and Non-PD Market Maker with a term-to-maturity of over 90 (ninety) days, through an electronic platform specified in the Primary Dealer and Non-PD Market Maker Contracts, currently on the MTS Hungary multilateral trading system operated within the so-called MTS Cash Domestic Market MTF by MTS S.p.A. The continuous price quoting obligation shall apply to the amount of Government Securities with a nominal value specified in the Primary Dealer and Non-PD Market Maker Contracts, while maintaining the price or yield spread specified therein.

A further important task of Primary Dealers is to participate in the price discovery procedure directly prior to the switch auctions, under the conditions specified in the relevant Rules of procedure. Within this framework, Primary Dealers shall quote two-way prices for the Government Bond series serving as a consideration in the course of the switch auction, through the electronic platform specified in the Rules of procedure – currently on the MTS Hungary platform – in the framework of the Compulsory quotation period to be completed between 9:15-9:30 a.m. The price of the Government Bond series serving as a consideration in the course of the switch auction shall be

H-1013 Budapest, Krisztina tér 2. | Postal address: H-1255 Budapest, PO BOX. 85.
E-mail: akk@akk.hu | Registered at the Budapest Capital City Court (Hungary), Registration No.: 01-10-044549

calculated by ÁKK on the basis of the quotations submitted in the course of the price discovery procedure.

As a related service, it is the task of Primary Dealers to provide services to investors as specified in the Primary Dealer contract.

In order to enable that Primary Dealers – and Non-PD Market Makers – continuously comply with their price quotating obligation, ÁKK lends Government Securities included in the price quoting obligation, in the framework of the so-called stand-by repo facility, within specified limits to Primary Dealers.

3. Conditions of application

An investment company or credit institution having its seat in any state of the European Economic Area, having obtained the licence from the competent supervisory authority, providing investment services under such licence and complying with the relevant regulations of MTS S.p.A. can apply for the Primary Dealership. In addition, either the company or its controlling shareholder has been pursuing business activities for at least two years on the money and capital markets of any member state of OECD or the European Economic Area, it is entitled to provide investment services in Hungary in compliance with the relevant laws and it also meets the following conditions:

1. The Primary Dealer undertakes to trade Government Securities issued or to be issued by the Hungarian State and included in the Primary Dealer system, to participate in the placement of the former and to cooperate with ÁKK related to this on a continuous basis.

2. Primary Dealers undertake to reach a specific, minimum primary market share. In every calendar half-year each Primary Dealer is obliged to purchase the total of at least 3.00 (three) percent – calculated with the weights specified in the Primary Dealer contract – of the Government Bonds and 12-month Discount Treasury to be sold at the classic auctions, switch auctions, as well as in the course of the non-competitive tenders.

3. The person responsible for the market activity of the Primary Dealer is a specialist with good business reputation and the manager appointed to control the activity meets the requirements of the laws applicable to the dealer and has at least 3 (three) years experience in securities market activities.

4. The Primary Dealer has good business reputation and applies business policies and organisational arrangements that allow transparent and safe operation of the company. The operation of the management in all respects complies with the prudential requirements imposed by the legislation in force and the Supervisory authorities.

5. Only individuals and companies of good business reputation may be the owners of the Primary Dealers. No more than one Primary Dealer or Non-PD Market

Maker belonging to the same ownership group[1] may be Primary Dealer and/or Non-PD Market Maker of Hungarian Government Securities at the same time. The Primary Dealer undertakes to report to ÁKK its owners with stakes higher than 10 per cent and any changes in its ownership structure without delay.

6. ÁKK itself or through its mandated agent may examine the fulfilment of the contractual obligations of the Primary Dealers both on-site and off-site.

7. The Primary Dealer undertakes to fulfil its reporting obligations to ÁKK in line with the conditions and the format specified in the Primary Dealer contract. Within this framework, it regularly reports its secondary market turnover in Hungarian Government Securities to ÁKK in the framework of the so-called HRF reports[2] (including the secondary market turnover of entities belonging to the same ownership group as the Primary Dealer and that have been reported to ÁKK Zrt. as per the HRF); and it sends a quarterly report on its regulatory capital and capital adequacy data, or makes them available to ÁKK as well.

8. The Primary Dealer undertakes to comply with its continuous price quoting obligation in accordance with the terms and conditions specified in the Primary Dealer contract.

9. The Primary Dealer undertakes to participate in the price discovery procedure directly prior to the switch auctions in accordance with the relevant Rules of procedure.

10. The Primary Dealer undertakes not to refund to its investors any amounts from the selling commission received from ÁKK as per the Primary Dealer contract under any legal title.

4. Rights of Primary Dealers[3]

The Primary Dealers – in line with the relevant rules – have the exclusive right to

- submit bids directly at the classic auctions of Government Securities;
- submit competitive bids directly at buy-back auctions organised by ÁKK;
- submit bids at the switch auctions;
- submit bids at the non-competitive tenders;
- participate in the repo transactions provided within the framework of the stand-by repo facility in line with the relevant rules and in case of the existence of the appropriate framework contract;
- participate in the consultative board transmitting market information;
- use the title „Primary Dealer”.

[1] The Primary Dealers/Non-PD Market Makers shall be considered to belong to the same ownership group, if one of them has such a direct or indirect ownership in the other that ensures a voting right of over 25 percent, or if they have a direct or indirect owner that has a voting right of over 25 percent in both Primary Dealer and/or Non-PD Market Maker.

[2] For HRF reports, see currently: https://europa.eu/efc/efc-sub-committee-eu-sovereign-debt-markets/euro-market-activity-report-emar_en

[3] The additional rights of the Primary Dealers are not hindered by the fact that ÁKK is entitled to enter into a contract with the Non-PD Market Makers as well as with the Hungarian State Treasury on the trading of government securities.

H-1013 Budapest, Krisztina tér 2. | Postal address: H-1255 Budapest, PO BOX. 85.
E-mail: akk@akk.hu | Registered at the Budapest Capital City Court (Hungary), Registration No.: 01-10-044549

Furthermore, ÁKK undertakes to pay selling commission to the Primary Dealers calculated on the basis of the nominal value of Government Securities purchased at classic auctions, switch auctions and in the framework of non-competitive tenders, according to the conditions specified in the Primary Dealer contract.

In addition, ÁKK shall give priority, where possible and under the conditions specified by it,

- to Primary Dealers (as well as to an entity belonging to the same ownership group as the Primary Dealer) – in line with the relevant rules and in case of the existence of appropriate preconditions (in particular, a suitable framework agreement) – to participate in FX spot and derivative transactions initiated by ÁKK;
- as well as when selecting the Lead Managers of international bond issues denominated in EUR and USD and buying back these international bonds, ÁKK shall primarily consider Primary Dealers as potential partners if the given Primary Dealer (or an entity belonging to the same ownership group as the Primary Dealer) is a market leader/active participant in the relevant capital market.

The investment company or credit institution entering the Primary Dealer system shall operate as a „Primary Dealer Candidate" for six months. During this period the obligations and rights specified in the Primary Dealers contract apply to the candidate, with the limitation that it may not use the Primary Dealer title.

5. Submission of the application

Primary Dealer applications may be submitted constantly at the registered office of ÁKK (address: 1013 Budapest, Krisztina tér 2.) in Hungarian or in English.

ÁKK decides on the applications within one month as from the date of the submission. The evaluation by ÁKK is based on full compliance with the conditions and requirements specified in this prospectus for applications and the Primary Dealer contract.

The concluded Primary Dealer contract enters into effect on the first day of the calendar half-year following its signature. The application must be submitted at least 30 (thirty) days prior to the first day of the given calendar half-year in order to ensure that the contract enters into effect on the first day of the upcoming calendar half-year.

A dealer is regarded as a successor entrant if it intends to replace a Primary Dealer terminating its Primary Dealer contract by ordinary termination or by mutual agreement, by belonging to the same ownership group[4] as the predecessor Primary Dealer. Such successor entrant also has to submit an application. As from the contract entering into effect the successor entrant is eligible for all rights of the Primary Dealers without

[4] In that regard the preceding and the Primary Dealer intending to enter into the primary dealer status are to be considered as belonging to the same ownership group if one of them has such a direct or indirect ownership in the other that ensures a voting right of over 50 percent, or if they have a direct or indirect owner that has voting rights of over 50 percent in both Primary Dealers.

H-1013 Budapest, Krisztina tér 2. | Postal address: H-1255 Budapest, PO BOX. 85.
E-mail: akk@akk.hu | Registered at the Budapest Capital City Court (Hungary), Registration No.: 01-10-044549

limitation. In case of a successor entrant the Primary Dealer contract may enter into effect not only on the first day of the half-year.

The applicant has to attach to the application the declarations and documents[5] specified in Annex 1 of these application conditions.

[5] The declarations are to be duly signed (i.e. they have to be fixed with the pre-printed or stamped company name and the signature of the person(s) authorised).

H-1013 Budapest, Krisztina tér 2. | Postal address: H-1255 Budapest, PO BOX. 85.
E-mail: akk@akk.hu | Registered at the Budapest Capital City Court (Hungary), Registration No.: 01-10-044549

Annex 1

Declarations and certificates to be submitted with the application for Primary Dealership

1. A general statement on meeting the requirements specified in this prospectus for applications and the enclosed contract.

2. Detailed declarations (by filling in the samples provided to the applicants by ÁKK):

   a) on the owners whose stake exceeds 10 per cent;
   b) on the registered persons authorised for the trading of government securities and their contact details;
   c) on the registered office, phone number, e-mail address of the applicant or where applicable, on the contact details of branch(es) or subsidiary(ies) involved in the trading;
   d) that the applicant makes no objection that ÁKK may acquire additional information in any lawful way in order to examine the good business reputation of the applicant.

   In case of a successor entrant (in addition to the above):

   a) a statement on the ownership relations between the entrant company and the company terminating the Primary Dealer status at the time of the submission of the application;
   b) a statement under which the successor entrant states that it receives all obligations of the company terminating the Primary Dealer status arising from the Primary Dealer contract and all rights of the company transferring the Primary Dealer status in the same form and with the same content as from the date of signing the relevant contract with ÁKK.

3. Documents certifying the conditions for pursuing the Primary Dealer activity:

   a) the resolution of the competent authority on licensing to pursue investment service activities;
   b) the certificate issued by the competent authority or organisation on the membership of the applicant in the investor protection or investor compensation scheme as required by the applicable laws (if this is not already a precondition to the license specified in point a);
   c) an extract of the account contract/required agreement or the declaration of one of the below entities on the existence of the account contract and the settlement preconditions between the applicant and
      (i) KELER Ltd. or
      (ii) an investment company or credit institution having a clearing house membership at KELER Ltd. or
      (iii) other European clearing house having a settlement relationship with KELER Ltd.;

H-1013 Budapest, Krisztina tér 2. | Postal address: H-1255 Budapest, PO BOX. 85.
E-mail: akk@akk.hu | Registered at the Budapest Capital City Court (Hungary), Registration No.: 01-10-044549

d) the resolution of the Budapest Stock Exchange Ltd. on granting the trading rights in the Debt Securities Section[6], or, in case of an applicant without trading rights, on granting access to the so-called Auction Trading System[7];
e) the approval of MTS S.p.A. on accepting access to the MTS Hungary multilateral trading system.[8]

4. The applicant's audited annual report for the last completed business year or providing access to that.

5. Brief description of the applicant's activities so far (in particular, its experience in the government securities market), description of its business policy (targeted investor groups, range of the provided services, market activity, targeted market share, weight of different activities, etc.) and its strategic objectives (in particular with regard to Government Securities trading).

6. Description of the organisation of the government securities business branch and presentation of the internal division of tasks (front office, middle office, back office activities).

7. Description of risk management practices (managed risk types, applied monitoring or risk management system, risk management staff, etc.) and the description or regulation on the limit system used as regards securities trading (applied counterparty-, trading-, dealer- and other limits, procedure to be applied in case of overshooting limits, etc.).

[6] A precondition to granting the trading right is the establishment of the technical conditions to join the stock exchange trading system.
[7] In both cases according to the relevant regulation(s) of the Budapest Stock Exchange Ltd.
[8] According to the relevant regulation(s) of MTS S.p.A.

H-1013 Budapest, Krisztina tér 2. | Postal address: H-1255 Budapest, PO BOX. 85.
E-mail: akk@akk.hu | Registered at the Budapest Capital City Court (Hungary), Registration No.: 01-10-044549