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INFORMATION TO CORPORATE CUSTOMERS ABOUT EMIR (EUROPEAN MARKETS INFRASTRUCTURE REGULATION) **REGULATIONS**

As I am sure you are also aware, since the eruption of the economic crisis in 2008, financial regulatory authorities world-wide have been working on formulating new regulations to ensure the more transparent and lower-risk operation of the OTC derivatives market.

One result of this process is Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties (CCPs) and trade repositories (TRs) (hereinafter: EMIR = European Markets Infrastructure Regulation), which was approved by the European Commission in July, 2012, and whose stipulations entered into force gradually in the 2013 to 2014 period.

The purpose of the present information material is to familiarise you with EMIR's key stipulations, including, in particular, those that **pertain** or may pertain, subject to compliance with certain conditions, not only to financial institutions (financial contracting parties, FC) but also **business associations (non-financial contracting parties, NFC, NFC+)**.

1. **The reporting of derivative transactions to the approved trade repository**

It is expected that from January 1, 2014, all **derivative transactions** (e.g. FX forward and option deals, interest rate swaps and interest rate options, raw material deals etc.) in force on August 16, 2012, or concluded on or after August 16, 2012, will have to be **reported** to a trade repository approved for operation by ESMA (European Securities and Markets Authority), both retrospectively (the reporting obligation for earlier contracts was repealed by the amendment of the EMIR Regulation) and for the future, by both contracting parties (i.e. both **your company and the Bank**). Parties which having registered seat in the EU concluding contracts for derivative deals, including, therefore, your company, may delegate the execution of this obligation to the other contracting partner by way of a contract. From the date of Brexit, the Bank no longer fulfils the reporting obligation for UK-seated counterparties. Should you request so, our Bank will take on your reporting obligations in respect of the deals closed with us free of charge, under an agreement to be concluded later.

Please note that in order to fulfil the reporting obligation, the Bank needs your company's LEI code, whether enter into an agreement of delegating the reporting obligation or not.

You can find our LEI code information here: https://www.kh.hu/vallalat/treasury/emir-lei-dodd-frank

2. **The obligation to settle certain derivative transactions centrally**

The obligation to settle centrally means that there is an institution between the seller and the buyer that conducts the settlement and guarantees execution, and it's compulsory to use its services. This obligation goes not only for the transactions financial contracting parties close between themselves, but also for the derivative transactions closed between financial contracting parties (such as K&H) and **non-financial contracting**

parties (such as your company) for non-hedging purposes (i.e. speculative transactions) that reach a certain amount.

Hedging transactions (i.e. which can be objectively measured to reduce the risks involved in the business and liquidity-management activities of the given business or the group it forms part of) **do not mandatorily need to be settled centrally**. Accordingly, our Bank is of the view that your derivate transactions concluded with the Bank are, by default, exempt from the obligation to be settled centrally.

If we also consider the additional condition that even if the deals closed with any other financial contracting party are of speculative nature, **they have to, in total, reach the below values to qualify for the obligation to be settled centrally**, we believe that the overwhelming majority of Hungarian businesses will not be affected by this obligation.

The value limits are as follows:

- For credit derivatives: 1 billion EUR in gross nominal value
- For equity derivatives: 1 billion EUR in gross nominal value
- For interest rate deals: 3 billion EUR in gross nominal value
- For FX derivatives (e.g. FX options): 3 billion EUR in gross nominal value
- For all transactions and commodities not listed above: 3 billion EUR in gross nominal value.

When it comes to non-hedging (i.e. speculative) transactions, it is the 30 working day, moving average of their positions that need to exceed any of the above value limits to qualify for mandatory central settlement, meaning that non-financial contracting parties have to monitor the volume of such transactions on a daily basis.

The obligation to settle centrally is not expected to come into force before mid-2014; however, form March 15, 2013 non-financial contracting parties, including your company, have to monitor if their speculative transactions exceed the above value limits. Should they exceed any of the limits, this must be reported to the Hungarian Financial Supervisory Authority.

We wish to inform you that, based on the above information, our Bank has registered your company as a customer not bound by the obligation to settle centrally. However, if you have a different understanding of the situation, please, let your treasury dealer know without delay.

3. **For derivative transactions not settled centrally risk mitigation tools are to be applied**

As of March 15, 2013, the following **risk mitigation stipulations** entered into force, in several stages, to be applied by both financial and **non-financial contracting parties** in their contractual relationship with each other, **for transactions that are not settled centrally:**

- **The transactions closed have to be confirmed in writing, signed by both parties, in due course.** This obligation came into force as of March 15, 2013, and the treasury framework agreement concluded with you is in compliance with this requirement. All you have to do is make sure you return

the confirmations of closed deals to the Bank, signed as agreed in the framework agreement, or approved in another way agreed in advance with the Bank. **This obligation goes for all of our customers. We wish to point out that if you fail to return the confirmation, our Bank is under obligation to report it to the Hungarian Financial Supervisory Authority (HFSA).**

- Non-financial contracting parties whose hedging and speculative transactions in total reach any of the value limits set out under Section 2, have to establish the market value of open deals on a daily basis. Therefore, under this obligation, the value limit pertains not only to speculative transactions but also to hedging transactions; however, in the same way as for limits falling under the central settlement obligation, all deals closed with any of your partners, including but not limited to K&H, have to be taken into consideration for the purpose of the calculation. This rule has also been in force since March 15, 2013.

- **Portfolio reconciliation requirement** that has come into force as of September 15, 2013. In order to meet this obligation, the parties have to agree with each other how to match the details of outstanding transactions with each other. The reconciliation exercise needs to be run once a year, as long as the number of transactions outstanding with the Bank does not exceed 100 during the year, and if the number of transactions is higher than this, the reconciliation exercise needs to be performed quarterly. The Bank shall monitor the number of transactions outstanding with you, and shall send out to you the details of your outstanding transactions (portfolio) at the relevant frequency. Please, find the additional rules pertaining to the portfolio reconciliation exercise in the Bank's business regulations (hereinafter 'Business Regulations') governing its investment and supplementary investment services, attached to the treasury framework agreement.

- Portfolio compression in cases where there are at least 500 outstanding transactions, which is expected to have to be applied from September 15, 2013. This obligation means that non-financial contracting parties that have this many non-centrally settled transactions need to have a procedure in place based on which they look into the option of compressing the portfolio, with the aim of reducing partner risk, at least twice a year; and based on which they also conduct the portfolio compressing exercise, where it appears to be applicable.

- **Dispute resolution rules must be agreed** for situations where there is a disagreement between the parties concerning the details of the transactions closed or the calculation of their market value. This rule is also applicable as of September 15, 2013. Please, find attached the rules governing dispute resolution in the Business Regulations.

- **Any exposure outstanding in relation to the transactions** must be continually covered by the parties by putting forth additional collateral over and above the collateral provided at the time the **limit** was set up, but only in cases where the value of outstanding hedging and speculative transactions exceeds the value limits set out under Section 2. This requirement will also have a material impact; however, the relevant detailed regulations have not yet been formulated, and there is no clarity as to when this may take place.

Our Bank is relentlessly working to ensure compliance with EMIR regulations, and in the course of this effort it will inform you of any events that also affects your company. At the same time, we also rely on your co-operation.

Should you have any queries concerning the above points, please, turn to your treasury dealer for further information.
Please, note that you may find more detailed information about EMIR at https://www.mnb.hu/felugyelet/szabalyozas/emir as well as on the Bank's website (www.kh.hu), under treasury services/related documents.

Budapest, 2019.11.19.

Kind regards,

Market Directorate
K&H Bank Zrt.

Company registration nr.: Cg. 01-10-041043 Budapest Metropolitan Court as Court of Registration member of the KBC group