



Annual Report

2015





Annual Report

2015 BUSINESS REPORT AND
FINANCIAL STATEMENTS OF THE
MAGYAR NEMZETI BANK



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Part A)

**2015 Business Report
of the Magyar Nemzeti Bank**

1 The Governor's foreword

Upon assessment of the inflation and macroeconomic developments, in March 2015, the MNB's Monetary Council decided to further lower the key policy rate and re-start the easing cycle. In line with the money market environment, since March 2015, the Monetary Council reduced the central bank base rate by a total of 75 basis points, in gradual steps of 15 basis points, to 1.35 per cent, which is a historically low level. After a review of the inflation target, the Monetary Council designated a ± 1 percentage point ex ante tolerance band, while maintaining the 3 per cent inflation target, and thus created a more flexible inflation targeting framework. Along with gradual interest rate cuts, the MNB also applied other targeted, monetary policy instruments to address the monetary policy transmission difficulties caused by the crisis and to reduce Hungary's external vulnerability. According to central bank projections, loose monetary conditions are consistent with the medium-term achievement of the inflation target and a corresponding degree of support to the real economy.

The contract period of the second phase of the Funding for Growth Scheme (FGS) launched in October 2013 and the Funding for Growth Scheme Plus (FGS+) launched in spring 2015 expired on 31 December 2015. Under the two programmes, 95 per cent of the overall available amount of HUF 1,500 billion was utilised. 95 per cent of the loans concluded in the second phase of the FGS, in the total amount of HUF 1,402 billion, were new loans, including new investment loans with a share of 61 per cent. The share of micro-enterprises in the facility reached almost 40 per cent. Since the launch of the FGS nearly 31,100 enterprises obtained financing in an amount of some HUF 2,126 billion, which not only played an important role in stopping the decrease in the outstanding loan amount, but also had a material impact on economic growth.

Introduced as a temporary instrument, the FGS successfully fulfilled the market development and growth objectives established upon the announcement of the programme. Therefore, simultaneously with the Growth Supporting Programme (GSP), which was launched with the aim of ensuring a smooth return to market-based lending, the gradual phase-out of

the FGS will commence from the beginning of 2016. As part of the GSP, the third, phase-out stage of the FGS allows narrower financing sources compared with previous phases. The programme also comprises the Market-Based Lending Scheme (MLS), which is a package of instruments containing positive incentives for banks to boost their lending activities.

Pursuant to a Monetary Council decision of 2 June 2015, the central bank renewed its monetary policy instruments in order to help continue the self-financing programme. As a centrepiece of the reform, a three-month fixed-rate deposit became the MNB's main policy instrument, replacing the former two-week deposit from 23 September 2015. The two-week deposit remained part of the central bank instruments, but quantity restrictions were imposed on it using the auction method. Certain elements of the forint market monetary policy instruments – such as the mandatory reserve system, the interest rate corridor, covered credit instruments and interest rate swap tenders – were also restructured in conjunction with the self-financing concept. The transformation of the set of monetary policy instruments encourages credit institutions to use central bank credit instruments in a more intensive manner than previously, taking the overnight unsecured interbank rate closer to the base rate.

The central bank's foreign currency tenders which were launched in the autumn of 2014 in connection with the settlement of foreign currency consumer loans and the conversion of household foreign exchange mortgage loans were completed during the year. At these tenders, the MNB sold a total of EUR 9,127 million to credit institutions. Of this amount, the share of settlement and conversion was EUR 1,081 million and EUR 8,046 million, respectively. In addition, the MNB also held foreign currency tenders in connection with the conversion of foreign currency consumer loans other than mortgage loans in 2015. At these tenders, the MNB sold Swiss francs to counterparty credit institutions in exchange for forints, allocating a total of CHF 605 million.

In 2015, the vulnerability of the Hungarian financial system decreased considerably. Settlements of

mortgage loans and the conversion of FX loans into local currency loans were able to mitigate the systematic risk stemming from households' foreign currency loans, while the self-financing programme of the central bank significantly reduced the external vulnerability of the country. The shock-absorbing capacity of the domestic banking sector is solid, and the capital and liquidity position is currently adequate. However, the banking system still remains contractionary, i.e. it has a negative contribution to economic growth.

Currently, the financial system is essentially facing three major challenges which need to be addressed: restoring market-based corporate lending, reducing high NPL rates and improving the persistently weak profitability of the sector. The high ratio of the non-performing loan portfolio has a negative impact on banks' lending capacity and willingness to lend, and therefore the sector's lending activity cannot support economic growth on a sustainable basis.

The Funding for Growth Scheme (FGS) stabilised lending to non-financial corporates, but market-based lending remained remarkably subdued. Consequently, additional steps were taken to boost and remove the obstacles to the lending activity of the financial intermediary system. Introduced as a temporary instrument, the FGS successfully fulfilled the market development and growth objectives established upon the announcement of the programme. Therefore, simultaneously with the Growth Supporting Programme (GSP) which was launched with the aim of ensuring a smooth return to market-based lending, the gradual phase-out of the FGS will commence from the beginning of 2016.

In order to mitigate the impact of future systematic risk as effectively as possible, in 2015 the MNB introduced several macroprudential instruments which were developed as unified global or European standards in the international regulatory framework, with a view to strengthening the shock-absorption capacity of the Hungarian financial intermediary system (e.g. criteria regarding the countercyclical capital buffer, or rules applicable to systemically important institutions). In addition, the MNB introduced other macroprudential instruments with the aim of preventing the re-emergence of systematic risk experienced by Hungary in the past (e.g. debt brake rules).

At the end of 2015, the MNB exercised prudential supervision over 1,744 institutions. During the year, the bank initiated 121 prudential inspections and

45 market surveillance procedures, completed 80 prudential inspections and 25 market surveillance procedures, and thus fulfilled its obligations prescribed by law and specified in the annual supervisory plan.

In 2015, microprudential supervision of the financial sector was characterised by a shift towards a more proactive, process-oriented operation based on wider-scale, structured information. In this respect, it was a highlighted aspect to comply with legislative provisions and to react quickly to the sector's risks. In order to align supervisory activities to the risk profile of credit institutions, the MNB placed its surveillance strategy on new foundations, broken down by type of institution. Thanks to the introduction of business model analyses, the MNB can obtain a forward-looking, more complete picture of the sustainability of the profitability, strategy and business model of the supervised institutions. Apart from assisting comprehensive supervisory inspections, the results can also be used efficiently for the purpose of supporting the determination of capital requirement. With regard to the supervision of insurance companies, it is worth highlighting the MNB's publication of its decrees related to the Ethical life insurance concept aiming at improving defective insurance products, limiting costs and enhancing cost transparency, and a recommendation offering guidance regarding the sale of insurance products on electronic platforms. In the wake of the cases of severe fraud revealed at three brokerage firms at the beginning of the year, the MNB focused its supervisory activities on the examination of procedures and record-keeping systems applied by investment firms, attaching a distinctive priority to the protection of customer claims and legal compliance audits.

In 2015, the MNB's consumer protection activity was marked by particular duties linked to the settlement of foreign currency loans and contract modification. The MNB contributed to the smooth implementation of the settlement through the preliminary control of regulatory compliance in respect of the calculation methodology of the settlement, consultations with the institutions concerned and continuous monitoring. In order to provide consumers with information about tasks and possibilities of enforcement of their rights precisely and in due course, a continuous and intensive communications programme was deployed. In relation to *actio popularis* claims, the MNB fully performed its tasks stipulated in the Settlement Act.

Acting in its scope of authority for resolution, in 2015 the MNB was the first in the European Union

to establish a resolution college affecting the banking group under its supervision. Exhibiting a high level of professional commitment, the MNB played an active role in creating a regulatory environment for the resolution framework both in Europe and in Hungary. In September 2015, for the second time, the MNB consulted the market participants on the regulatory developments. Acting in its scope of authority for resolution, in 2015, the MNB continued its resolution procedure ordered in relation to MKB Bank Zrt. in the last quarter of 2014. During the procedure, MKB Bank successfully reformed its operation, and restructured its organisation by applying the sales of business and asset separation resolution tools. After MKB Bank's bad portfolio elements had been cleaned up and it had achieved efficiency in its operations as a result of restructuring, the sale process of MKB Bank commenced. The MNB implemented the measures that became necessary during the resolution procedure in such a way as to ensure the protection of customers throughout the procedure. Clients' funds were not used while managing the situation of the credit institution.

Also in the course of 2015, one of the priorities of the MNB was to guarantee the security of the payment system. With regard to internet payments, the MNB elaborated the national guideline on the security of internet payments taking into account international recommendations and guidelines for communications with customers and means of communication, issued several statements and professional opinions in respect of payment transactions, and scrutinised 22 payment service providers in the framework of its payment inspections. In the course of the inspections, it found violations in 176 cases and imposed fines on infringing credit institution in a total amount of HUF 62.7 million, including post controls and controls carried over from last year.

The development of domestic financial infrastructure was shaped by several important events in 2015. Starting from 7 September 2015 – as a result of the cooperation between the MNB and the GIRO Zrt. – the number of the settlement cycles of credit transfers increased to ten from five, which further accelerated the execution of credit transfers. On 27 June 2015, the MNB and the central bank of the People's Republic of China (PBC) concluded an agreement on establishing the renminbi settlement mechanism in Hungary. Furthermore, on 16 November 2015, the Hungarian forint successfully joined the CLS system that mitigates foreign currency settlement risk.

Within the scope of its oversight responsibilities, in 2015, the MNB commenced the comprehensive oversight assessment of the financial infrastructure on the basis of the renewed framework. Based on the findings of the assessments, it can be concluded that financial systems in Hungary functioned safely, efficiently and transparently in the period under review. In view of the fact that in November 2015 the forint became part of the CLS mechanism, the MNB, as the 18th central bank, received an invitation to participate in the international CLS Oversight Committee which carries out cooperative oversight duties.

After a decline of EUR 4.26 billion during the year, official foreign exchange reserves amounted to EUR 30.3 billion at the end of 2015. The decline in foreign exchange reserves during the year can be mainly attributed to debt repayments and transfers in connection with the conversion of household foreign currency loans, which was partly offset by euro inflows from the European Commission.

On 31 December 2015, the total value of currency in circulation amounted to HUF 4,305 billion, representing a 15 per cent year-on-year increase of HUF 569 billion. The increase in the stock of currency in circulation was observed across all denominations, but mainly involved the two largest 10,000-forint and 20,000-forint denominations.

In 2015, the MNB performed cash transactions for its customers, credit institutions and the Hungarian Post Office with a value of HUF 4,132 billion.

Despite a slight increase, the counterfeiting of forint banknotes remains insignificant; the 2,149 counterfeit notes identified and withdrawn from circulation suggest that the counterfeiting situation is favourable even in international comparison. In 2015, counterfeiting of higher denominations (mainly the 10,000-forint and 20,000-forint banknotes) remained most typical, accounting for 87 per cent of counterfeit forint notes.

In the period between 2014 and 2018, in the context of "Development and Tradition", Magyar Nemzeti Bank is poised to redesign the banknote series presently in circulation. Replacement of the six denominations began with the 10,000-forint banknote in 2014. The renewed, improved 20,000-forint bank notes were put into circulation in December 2015 and are expected to gain widespread use in 2016.

In 2015, elaboration of a new data collection system for credit institutions was completed in accordance with international accounting standards. The new system is designed to satisfy more detailed and harmonised supervisory and statistical objectives. The MNB's new data collection decree applicable to the credit institution sector as of 2017 is scheduled to be issued in the spring of 2016. In 2015, the MNB developed its consolidated risk monitoring system for bank groups employing both the new uniform EU-level data supply standard and the data content ordered by the MNB Decree. The first time the new system will perform risk evaluation of the activities of each bank group will be in Q1 2016.

In 2015, the MNB prepared for the operation of the supervisory data supply by insurance companies in connection with the launch of Solvency II, a harmonised EU-wide regulatory regime to be implemented in 2016.

In 2015, the MNB recorded a profit of HUF 94.5 billion, which was significantly higher than the profit realised in 2014. This favourable result can mainly be attributed to the improvement in net interest income resulting from base rate cuts and the MNB's programmes and the improvement of income from financial operations.

Actual operating costs amounted to HUF 32,973 million in 2015, which was 2.5 per cent higher than the amount in the previous year.

The rise in costs as compared to 2014 was partly due to taking up new positions related to organisational restructuring and new tasks, and partly due to restructuring of security and safety activities, accompanied by an increase in the number of properties owned by the MNB. However, this rise was mainly offset by a substantial decrease in other expenditures, stemming from a less intensive campaign for the Funding for Growth Scheme.

The financially realised value of investments implemented in 2015 was HUF 10,581 million – including advance payments for investment purposes – the majority of which is comprised by the Depository Programme. Expenses associated with the normal course of business, mainly IT investments, amounted to HUF 2,373 million.

In 2015, the environmental activity of the MNB was determined by the implementation of the medium-term (2014-2016) environmental strategy adopted

by the Board of Directors. The strategy addresses two focus areas: the environmentally conscious development of the MNB's buildings and further improvement of the environmental performance of the cash supply chain.

The medium-term strategy related to the MNB's buildings set the goal for the MNB's headquarters, which is classified as a national monument, to upgrade their assessment ratings by one notch in the international environmental assessment method and rating system (BREEAM In-Use). In order to achieve this goal, the pro-rata implementation of the required measures was completed.

In 2015, a thorough environmental assessment of the MNB's subsidiaries involved in cash production was completed. As a result, the Board of Directors approved the extension of the MNB's environmental management system (KÖvHIR) to Diósgyőri Papírgyár Zrt. and Pénzjegynyomda Zrt. In 2017, the subsidiaries will obtain the EMAS certificate – the international accreditation recognising environmental-friendly operation.

As to environmental protection, full compliance with prevailing regulations was ensured in 2015, with the MNB's EMAS certificate being renewed.

Without prejudice to its primary objective and basic tasks, the central bank considers its mission to serve the public good from its own sustainable earnings and, to the extent possible, provide support for professional objectives and certain goals serving broad social interests. The central bank can support the realisation of economic policy objectives by renewing and enhancing education – primarily tertiary education – and the system of economist and financial training and by supporting scientific activity and financial literacy. The results of the corporate social responsibility programme achieved in 2015 contributed to the realisation of the goals set out in the Corporate Social Responsibility Strategy to a substantial degree.

In line with the practice in previous years, the communications of the MNB in 2015 essentially focused on the presentation of the large-scale central bank programmes and measures supporting the economic policy of the government and Hungarian economic growth, along with the demonstration of activities serving broad social interests. Amongst other things, communications concentrated on the success and results of the Funding for Growth Scheme,

the easing cycle, the rate decisions and the reasons thereof, as well as the Self-Financing Programme. In particular, the central bank made efforts to highlight the achievement of not placing any additional burden on Hungary's budget with central bank operations, its activities and results under the Pallas Athena Public Thinking Programme, the Corporate Social Responsibility Programme – including the Depository Programme – in a transparent manner.

Through statements and press releases, the MNB continuously presented its most important decisions, the outcomes of the Monetary Council's meetings, the decisions and information regarding the monetary policy and the stability of the financial system, the findings of the supervisory inspections and the resolutions in that regard, as well as essential statistical data and news on cash circulation and the issuance of commemorative coins.

2 A brief overview of the Magyar Nemzeti Bank

Company name: Magyar Nemzeti Bank

Registered office: 1054 Budapest, Szabadság tér 8-9

Form of operation: company limited by shares the form of operation, i.e. the designation 'company limited by shares' or its abbreviation need not be included in the company name of the Magyar Nemzeti Bank.

Year of foundation: 1924

Owner (shareholder): the Hungarian State, represented by the minister in charge of public finances

Scope of activities: as defined by Act CXXXIX of 2013 on the Magyar Nemzeti Bank (hereinafter: MNB Act)

Subscribed capital: HUF 10 billion

2.1 OBJECTIVES, BASIC AND OTHER TASKS OF THE MNB

The Magyar Nemzeti Bank (hereinafter: MNB, the central bank) is a legal entity operating as a special company limited by shares, which conducts its operations in accordance with the provisions of the MNB Act.

In accordance with Article 127 of the Treaty on the Functioning of the European Union, the MNB Act – which establishes the MNB's primary objectives and basic tasks as well as its institutional, operational, personnel and financial independence and operation – stipulates that the primary objective of the MNB is to achieve and maintain price stability. Without prejudice to its primary objective, the MNB supports the maintenance of the stability of the system of financial intermediation, the enhancement of its resilience and its sustainable contribution to economic growth, and the MNB supports the economic policy of the government using the instruments at its disposal.

The MNB Act also stipulates the independence of the central bank in accordance with Article 130 of the Treaty on the Functioning of the European Union. On the basis of central bank independence, the MNB and the members of its bodies shall be independent in carrying out their tasks and meeting their obligations conferred upon them by the MNB Act, and shall neither seek nor take instructions from the Government, the institutions, bodies and offices of the European Union, the governments of its Member States or any other organisations or political parties, except from the European Central Bank and as required based on its membership in the European System of Financial Supervision. The Government or any other organisation shall adhere to this principle, and shall not attempt to influence the MNB or any member of its bodies in the course of performance of their tasks.

The basic tasks of the MNB are the following:

- it defines and implements monetary policy;
- it has the exclusive right to issue banknotes and coins, including commemorative banknotes and coins, which shall be the legal tender of Hungary;
- it has the exclusive right to hold and manage official foreign exchange and gold reserves, in order to preserve the external stability of the Hungarian economy;
- it has the exclusive right to conduct foreign exchange operations in relation to the management of foreign exchange reserves and the implementation of the exchange rate policy;
- it has the exclusive right to oversee payment and securities settlement systems, including overseeing the operation of the system and the operation of the organisation performing central counterparty activities in order to ensure the sound and efficient operation of these systems and the smooth

circulation of money. Within the scope of its powers set forth in the MNB Act, it participates in the development of payment and securities settlement systems;

- it collects and publishes the statistical information required for carrying out its tasks and fulfilling its statistical reporting obligations toward the European Central Bank as defined in Article 5 of Protocol (No. 4) on the Statute of the European System of Central Banks and of the European Central Bank attached to the Treaty on the Functioning of the European Union;
- it establishes the macroprudential policy for the stability of the entire system of financial intermediation and with the objective to enhance the resilience of the system of financial intermediation and to ensure its sustainable contribution to economic growth. To that end and within the limits specified in the MNB Act, the MNB explores the business and economic risks threatening the system of financial intermediation as a whole, promotes the prevention of the development of systemic risks and the reduction or elimination of the evolved systemic risks; furthermore, in the event of disturbances to the credit market it contributes to the balanced functioning of the system of intermediation in financing the economy through stimulating lending and – in the event of excessive credit outflow – by restraining lending.

Tasks of the MNB above and beyond its basic tasks are the following:

- it acts as a resolution authority;
- it acts as the sole supervisor of the system of financial intermediation, in order to
 - a) ensure the smooth, transparent and efficient functioning of the system of financial intermediation;
 - b) facilitate the prudent operation of the persons and organisations forming part of the system of financial intermediation and supervision the prudent exercise of owners' rights;
 - c) discover undesirable business and economic risks to individual financial organisations or individual sectors thereof, reducing or eliminating specific or sectoral risks which have evolved, and taking

preventive measures to ensure the prudent operation of individual financial organisations;

d) protect the interests of users the services provided by financial organisations, and strengthen public confidence in the system of financial intermediation;

- via the Financial Arbitration Board, it settles out-of-court disputes arising from the establishment and performance of the legal relationship established between the consumer and the entities or persons covered by the acts defined in Article 39 of the MNB Act relating to the establishment and performance of legal relationships for the use of services.

Any further tasks of the MNB shall be defined by acts and, in relation to the supervision of the system of financial intermediation, by legal regulations adopted pursuant to the authorisation of an act. Such tasks of the MNB shall comply with the basic tasks and responsibilities of the MNB as defined in the MNB Act.

2.2 BODIES AND MANAGEMENT OF THE MNB

The MNB operates as a legal person functioning in a form of a single-member company limited by shares. The general rules pertaining to companies limited by shares and the relevant provisions of Act V of 2013 on the Civil Code are applicable to the MNB, with the exceptions laid down by the MNB Act.

The Hungarian State as the shareholder is represented by the minister in charge of public finances. The MNB operates without a General Meeting.

The **shareholder** is entitled to pass decisions, by way of a shareholder's resolution, on the establishment and on the amendment of the Statutes as well as on the appointment, dismissal and remuneration of the auditor.

As a guarantee of independence, in contrast to the practice of other companies limited by shares, the remuneration of the MNB's Governor, Deputy Governors and other members of the Monetary Council as well as the members of the Supervisory Board are determined by the MNB Act rather than the shareholder.

Likewise, the bodies of the MNB are specified by the MNB Act as follows: the Monetary Council, the

Financial Stability Council, the Executive Board, and the Supervisory Board.

The MNB's supreme decision-making body is the **Monetary Council**.

The scope of competence of the Monetary Council includes:

- strategic decisions concerning monetary policy, the issue of legal tender, the holding and management of foreign exchange and gold reserves, as well as strategic decisions relating to foreign exchange transactions in the context of foreign exchange reserve management and implementation of exchange rate policy including and strategic decisions concerning statistical tasks, in particular, decisions regarding the level of the reserve ratio, interest rate payable on the minimum central bank reserves, decisions related to define the exchange rate regime and determining the central bank base rate;
- in relation to macroprudential tasks, the oversight, the supervision of the system of financial intermediation and the MNB's role as a resolution authority, decision on the strategic framework within which the Financial Stability Council makes its decisions;
- establishing the rules of procedure;
- decisions in any other matter in the exclusive competence of the Monetary Council as defined by law.

Members of the Monetary Council are: the Governor of the MNB as Chairman of the Monetary Council, the Deputy Governors of the MNB and the members elected by Parliament for six years. The Monetary Council has at least five and at most nine members.

At the first meeting of each year, the Monetary Council elects a Deputy Chairman from among the Deputy Governors of the MNB, who substitutes for the governor of the MNB in the event of his absence -with the exception of the issuance of decrees. In 2015, the Monetary Council elected Deputy Governor Dr Ádám Balog as Deputy Chairman, following this, due to the resignation of Ádám Balog, the Monetary Council elected Deputy Governor Márton Nagy as Deputy Chairman at its meeting on 1 September 2015.

Members of the Monetary Council in 2015:

- Dr György Matolcsy, Governor, Chairman of the Monetary Council from 4 March 2013,
- Dr Ádám Balog, Deputy Governor from 6 March 2013 until his resignation on 22 July 2015,
- Márton Nagy, Deputy Governor from 1 September 2015,
- Dr Ferenc Gerhardt, Deputy Governor from 22 April 2013,
- Dr László Windisch, Deputy Governor from 2 October 2013,
- Andrea Bártfai-Mager, from 21 March 2011,
- Dr János Béla Cinkotai, from 22 March 2011,
- Dr György Kocziszky, from 5 April 2011,
- Gyula Pleschinger, from 5 March 2013,
- Dr Csaba Kandrács, from 30 September 2013 until his resignation on 6 July 2015,
- Gusztáv Báger, from 6 July 2015.

The **Financial Stability Council** acts as the decision-making body of the MNB in relation to oversight, macroprudential tasks and resolution authority duties, as well as prudential supervision within the framework defined by the Monetary Council. In relation to these responsibilities, the Financial Stability Council acts on behalf of the MNB in administrative proceedings. Within this scope of competence, the Financial Stability Council:

- continuously monitors the stability of the system of financial intermediation as a whole and of the financial markets, in order to maintain the stability of the system of financial intermediation as a whole;
- takes account of risk factors threatening the system of financial intermediation as a whole;
- analyses the risks related to certain types of institutions or products or to the spread of these which may represent a threat to the system of financial intermediation as a whole;

- monitors developments on international and European markets and risks which may represent a threat to the stability of the system of financial intermediation as a whole, and makes decisions on the necessary measures within the strategic framework defined by the Monetary Council;
 - discusses strategic, regulatory and risk-related issues affecting the system of financial intermediation as a whole and issues opinions if necessary;
 - in situations threatening the stability of the system of financial intermediation, assesses systemic risks and decides on the measures required to mitigate or eliminate such risks;
 - places on its agenda, as necessary, the recommendations, opinions and risk warnings of the European Systemic Risk Board relevant to the system of financial intermediation as a whole;
 - discusses the recommendations and decisions issued by the European Supervisory Authorities as needed, including decisions addressed to national supervisory authorities calling for specific measures in the event of serious risks to the stability of the European financial system and expresses its opinion on the tasks arising from such decisions;
 - publishes non-binding recommendations for persons and organisations supervised by the MNB describing the basic principles of the law enforcement practices of the MNB;
 - annually defines the priority target areas of the MNB's control activities; and
 - makes decisions in administrative proceedings relating to the exercise of supervision over the system of financial intermediation and to the performance of resolution tasks.
- as a Council head designated by the Governor of the MNB, the Executive Director Financial Stability and Lending Incentives, or, following the amendment of the Organisational and Operational Rules from 8 September 2015, the Executive Director Monetary Policy, Financial Stability and Lending Incentives, and
 - as a Council head designated by the Governor of the MNB, the Executive Director Financial Institutions Supervision.
- In accordance with the MNB Act, responsibility for implementing the decisions of the Monetary Council and the Financial Stability Council, as well as for managing the operation of the MNB rests with the **Executive Board**.
- The scope of competence of the Executive Board includes:
- managing the implementation of the decisions of the Monetary Council and the Financial Stability Council;
 - approving the accounting report of the MNB and adopting decisions on the payment of dividends;
 - approving the draft report to be sent to the shareholder on the management and assets of the MNB;
 - approving matters related to the organisation and internal management of the MNB;
 - approving study plans and programmes relating to the operation of the MNB and the performance of its tasks, including the costs of the development and operational plan;
 - managing the MNB's internal audit organisation in respect of tasks falling outside the scope of competence of the Supervisory Board, and discussing the observations and plans of the internal audit;
 - amending the collective agreement in respect of employment rights and obligations, the exercise and performance of these rights and obligations, and the associated procedures; and
 - adopting decisions in respect of the central bank's powers to manage accounts and other financial and auxiliary financial services, as well as certain auxiliary services supplementing investment service activities.

Members of the Financial Stability Council:

- the Governor of the MNB as its chairman,
- the Deputy Governor responsible for monetary policy, financial stability and lending incentives, and the Deputy Governor responsible for the financial supervision and consumer protection, and
- as a Council head designated by the Governor of the MNB, the Deputy Governor responsible for statistics, cash logistics and the financial infrastructures,

The members of the Executive Board, which is the executive body of the MNB, are the Governor, as the Chairman of the Board, and the Deputy Governors of the MNB.

Provisions relating to the functions and operational procedures of the Monetary Council, the Financial Stability Council and the Executive Board are set forth in the MNB Act, the MNB's Statutes, Organisational and Operational Rules as well as the rules of procedure formulated by these bodies.

In addition to the auditor appointed by the shareholder, the MNB is also audited by the State Audit Office and the Supervisory Board.

The supervisory competence of the **State Audit Office** over the MNB is set forth in the Act on the State Audit Office. The State Audit Office supervises the financial management of the Magyar Nemzeti Bank and its activities that are not included in its basic tasks. In this regard, the State Audit Office examines if the MNB operates in accordance with the applicable law, its Statutes and the shareholder's resolutions.

The **auditor** of the MNB can be appointed for a maximum of 5 years. The shareholder decides on the appointment, dismissal and remuneration of the auditor by way of a shareholder resolution. Prior to the appointment or proposal for dismissal of the MNB's auditor, the Governor of the MNB consults the President of the State Audit Office.

As set forth in the MNB Act, the **Supervisory Board** is the body responsible for the continuous supervision of the MNB on behalf of the owner. The supervisory competence of the Supervisory Board defined by the MNB Act does not cover the supervision of the MNB's performance of its basic tasks, its actions as a resolution authority and its supervisory activity in respect of the financial intermediary system, or their impact on the MNB's profit and loss. Accordingly, the Supervisory Board compiles the report on the annual accounts as specified in the Act on Accounting within the above limitations.

Members of the Supervisory Board as defined in the MNB Act are its Chairman elected by Parliament, three additional members elected by Parliament, the representative of the minister in charge of public finances and an expert appointed by this minister. The Chairman of the Supervisory Board elected by Parliament is nominated by the parliamentary

panels of the governing parties, whereas the other members elected by Parliament are nominated by parliamentary panels. The mandate of the members of the supervisory board is for the duration of the mandate of the Parliament, and last until the end of the mandate of the Parliament.

Parliament elected the members of the Supervisory Board on 6 July 2015, as the mandate of the previous Supervisory Board expired.

Members of the Supervisory Board in 2015:

- Ferenc Papcsák, Chairman,
- László Madarász,
- Dr Gábor András Szényei,
- László Nyikos,
- István Molnár, and
- Dr Attila Simon Tóth.

2.3 ORGANISATION OF THE MNB

The organisation of the MNB is based on the operating and operational governance model introduced on 1 July 2013 and, in respect of the integrated organisation, on 1 October 2013. Although the organisational structure has changed several times since then, these changes did not fundamentally alter the organisational structure developed in 2013.

In 2015, modifications of the organisational structure were introduced in relation to the expansion of the range of supervisory instruments, the definition of the tasks of the Deputy Governor taking office as of 1 September 2015, and in order to increase efficiency in light of operational experience.

The organisational structure as of 31 December 2015 is shown in the **organisation chart** below.

2.4 THE MNB AS A MEMBER OF THE EUROPEAN SYSTEM OF CENTRAL BANKS

Hungary's accession to the European Union also entailed the MNB's membership in the European System of Central Banks (ESCB). The ESCB comprises the European Central Bank (ECB), which was

established in June 1998 with its seat in Frankfurt, and the national central banks of the EU Member States. Its governing bodies are the Executive Board and the Governing Council, the latter consisting of the members of the ECB's Executive Board and the governors of the central banks of the euro area Member States. The third decision-making body of the ECB is the General Council, which is responsible for maintaining an institutional relationship between the Eurosystem and the central banks of non-euro area Member States. The General Council holds its meetings quarterly and consists of the President and the Vice-President of the ECB and the governors of the central banks of all EU Member States. The key responsibilities of the General Council include consultancy concerning preparations for accession to the euro area, approval of the convergence reports of the ECB and monitoring the functioning of ERM II. Within the framework of the latter activity, it assesses the sustainability of the bilateral exchange rate of non-euro currencies participating in ERM II against the euro and provides a forum for the alignment of monetary and exchange rate policies and the management of intervention and financing mechanisms in ERM II. In addition, the General Council is involved in verifying whether the central banks of EU Member States and the ECB comply with the prohibition of monetary financing of the budget and privileged access of the public sector to financial institutions. The General Council also contributes to the ECB's advisory functions and to the collection of statistical information; it must be consulted in respect of any changes in the rules of accounting and financial data reporting, as well as issues related to the adjustment of the keys for subscriptions to the ECB's capital. The mandate of the General Council will expire on the date when all of the Member States have adopted the euro.

On 23 July 2014, the Council of the EU approved Lithuania's entry to the euro area, resulting in an increase in the number of euro area Member States from 18 to 19 as of 1 January 2015. The number of ESCB members did not change in 2015.

The ESCB members are also the owners of the ECB. The respective ownership shares of Member States are determined according to their shares in the GDP and total population of the EU (on the basis of statistical

data compiled by the European Commission). Since 1 July 2013, the paid-up capital of the ECB amounts to EUR 10.825 billion.

Currently, euro area central banks subscribe to 70 per cent of the ECB's capital, while the remaining 30 per cent is divided among the central banks of non-euro area Member States. These latter central banks pay a pre-defined minimum percentage of their respective subscriptions to the ECB's capital as a contribution to the operational costs of the ECB which are incurred in connection with their ESCB membership. With effect from 29 December 2010, this contribution was defined as 3.75 per cent of the respective subscriptions (previously it had been 7 per cent). As set forth in the Statute of the ESCB and of the ECB, the capital keys are adjusted every five years, or whenever a new Member State joins the EU. The last adjustment of the capital keys was made in the second half of 2013. Consequently, on 1 January 2014, the share of the MNB in the ECB's paid-up capital increased from 1.3740 per cent to 1.3798 per cent and remained unchanged in 2015.

The ESCB Committees play an important role in the work of the ECB's decision-making bodies. The basic role of these committees is to prepare decisions and facilitate coordination as per the horizontal division of various central bank duties, covering all areas of central banking operations from monetary policy through communication to statistical data reporting. Experts from the central banks of non-euro area Member States attend those committee meetings whose agenda includes items affecting the ESCB as a whole and which fall within the competence of the General Council. (For a detailed description of the ESCB Committees and the activities of the various fora assisting them, see Chapter 3.13.) The committees meet and discuss current issues relevant to their professional areas in ESCB composition, 4–5 times a year on average; according to a schedule determined for a year in advance.

The senior executives and relevant experts of the MNB continue to play an active role in the activities of these committees and their working groups. In 2015, participation in the ESCB committees continued to serve as a very useful forum for the exchange of professional experience.

Members of the Executive Board and the Monetary Council of the Magyar Nemzeti Bank



Dr György Matolcsy
Governor,
Chairman of the Monetary Council



Dr Ferenc Gerhardt
Deputy Governor,
Member of the Monetary Council



Nagy Márton
Deputy Governor,
Deputy Chairman of the Monetary Council



Dr László Windisch
Deputy Governor,
Member of the Monetary Council

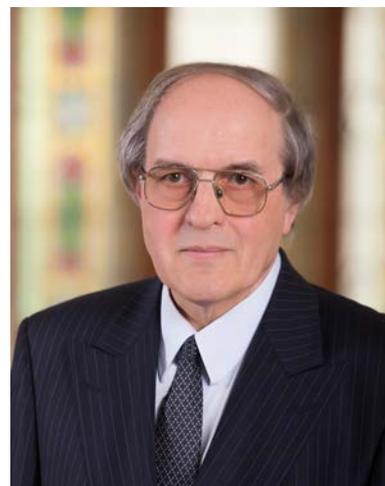
Members of the Monetary Council of the Magyar Nemzeti Bank



Gusztáv Báger
Member of the Monetary Council



Andrea Bártfai-Mager
Member of the Monetary Council



Dr János Béla Cinkotai
Member of the Monetary Council



Dr György Kocziszky
Member of the Monetary Council



Gyula Pleschinger
Member of the Monetary Council

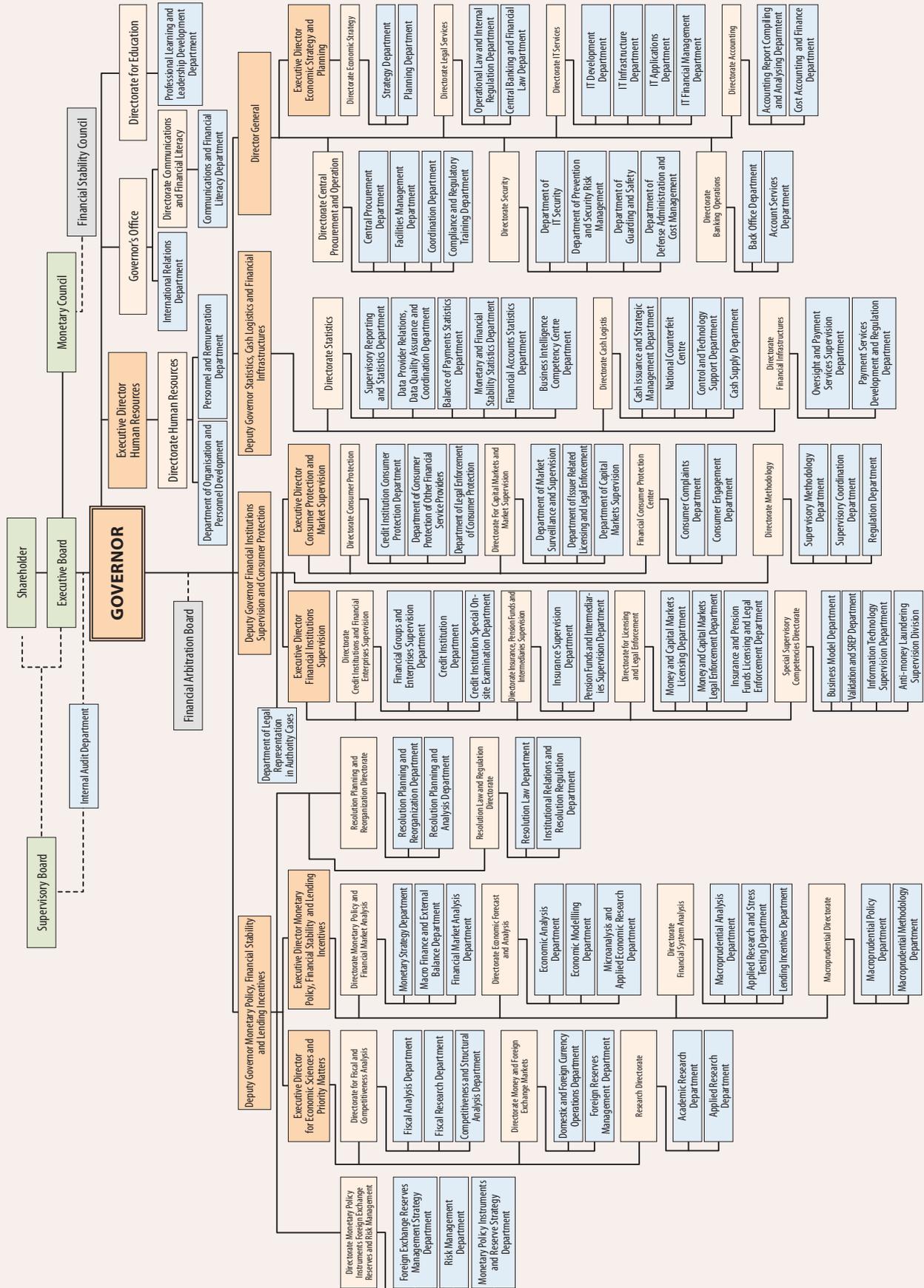
Members of the Supervisory Board of the Magyar Nemzeti Bank



Left to right: Dr. Tóth Attila Simon, Nyikos László, Madarász László, Papcsák Ferenc (elnök), Dr. Szényei Gábor András, Molnár István

Organisation chart

Organisation chart of Magyar Nemzeti Bank – 31 December 2015



3 Review of the MNB's performance in 2015

3.1 MONETARY POLICY

In 2015, the Monetary Council of the MNB deployed additional, targeted monetary policy instruments along with the traditional interest rate policy to respond to the challenges posed by a low inflation environment, restrained lending activity and the country's external vulnerability, with a view to achieving the medium-term inflation target in a sustainable manner and adequately stimulating the real economy. Over the long term, monetary policy can contribute to economic growth and a predictable macroeconomic environment by achieving and maintaining price stability and by ensuring the stability of the financial system.

International money market developments

On the whole, global money market sentiment was volatile in the first half of the year. US macroeconomic data had a positive impact on global risk appetite, which also benefited from the expanded asset purchase programme of the European Central Bank (ECB) starting from March. However, the decision of the Swiss central bank to abandon the exchange rate cap in January, the continued Russia–Ukraine conflict, the downgrade of the Greek government debt and the postponement of its loan repayments resulted in a deterioration in international investor sentiment. In the second half of 2015, events linked to the Greek debt problems, concerns about the economic growth in emerging countries, disturbances of the Chinese capital markets, uncertainties surrounding the Fed's decision to raise interest rates, and the continued decline in oil prices all impacted on global financial markets. Global money market sentiment improved slightly during the last months of the year.

Domestic economic environment

The domestic real economic environment continued to have a disinflationary impact in 2015. In the Monetary Council's assessment, output remained below potential throughout the period amidst recovering economic activity, and unemployment exceeded the

long-term level determined by structural factors, in spite of the downward trend. In 2015, consumer prices showed historically low dynamics. Underlying inflation indicators capturing the medium-term outlook continued to indicate moderate inflationary pressures in the economy.

Traditional monetary policy measures

Upon assessment of the inflation and macroeconomic developments, in March 2015, the Monetary Council – operating its traditional monetary policy instruments – decided to further lower the key policy rate and re-launch the easing cycle. By July 2015, the Monetary Council reduced the central bank base rate in several steps to a historically low of 1.35 per cent. This was warranted by indicators of underlying inflation falling short of the level consistent with the inflation target, the persistently negative output gap, below-target inflation expectations, commodity prices at historically low levels, inflation well below the target, as well as monetary conditions that remained loose overall both at the global and the regional level. After termination of the interest rate cycle, in the second half of 2015, the Monetary Council judged that, based on available information, the central bank base rate had reached a level sufficient to ensure the medium-term achievement of the inflation target and provide a corresponding degree of support to the real economy. In the context of additional cost shocks, however, communication about the expected path of the key policy rate intensified. Policymakers concluded that maintaining the prevailing level of the base rate and loose monetary conditions for an extended period, over the entire forecast horizon would be consistent with the medium-term achievement of the inflation target and a corresponding degree of support to the real economy.

Changes to the inflation targeting regime

Following the scheduled review of the inflation target, in March 2015, the Monetary Council decided to augment the flexibility of the inflation targeting regime. As a result, the Council designated

a ± 1 percentage point tolerance band while maintaining the inflation target defined as a 3 per cent rate of increase in the domestic Consumer Price Index published by the Central Statistical Office. The Bank continues to aim at achieving 3 per cent inflation, but the ± 1 percentage point tolerance band recognises that inflation may fluctuate around that level as an effect of shocks hitting the economy.

Unconventional monetary policy measures

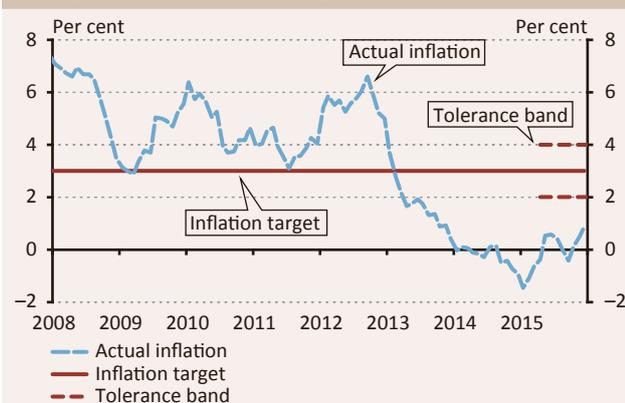
Along with gradual interest rate cuts, the MNB also applied other targeted, monetary policy instruments to address the monetary policy transmission difficulties caused by the crisis and to reduce Hungary's external vulnerability. Continuation of the Funding for Growth Scheme contributed to a further easing in credit conditions, while the Self-Financing Programme with the associated transformation of the set of monetary policy instruments contributed significantly to the decline in long-term government

securities yields and to the improvement of the external vulnerability of the country. In addition, the central bank supported the HUF conversion of households' foreign currency based mortgage loans, which further reduced external vulnerability and improved the transmission of monetary policy. Overall, the unconventional monetary policy instruments pointed to looser monetary conditions.

Inflation developments in 2015

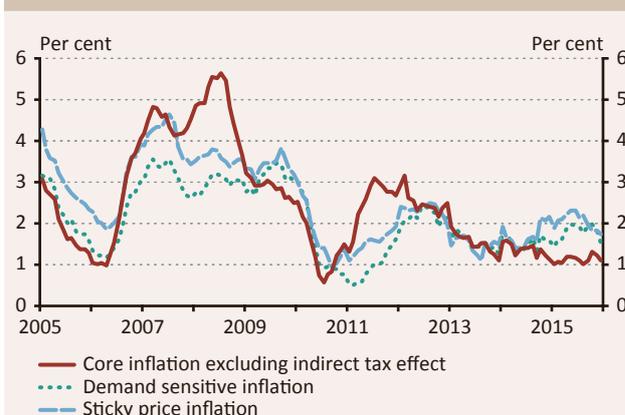
In the assessment of the Monetary Council, the inflation trends that started in 2010 continued in 2015 and were different from those of the previous periods. Despite the substantial monetary easing, consumer price inflation declined considerably due to factors outside of the scope of monetary policy and remained below the price stability objective of 3 per cent throughout the year, moving into the negative range on several occasions. Average annual inflation was -0.1 per cent in 2015.

Chart 1
Inflation target and inflation developments since the setting of the continuous target



Source: HCSO and MNB

Chart 2
Trend inflation indicators



Source: MNB

Table 1
Consumer price index and its components
(percentage change, year-on-year)

	2013	2014	2015	2015			
				Q1	Q2	Q3	Q4
Core inflation	3.3	2.2	1.2	0.9	1.3	1.2	1.4
Unprocessed food	6.1	-3.7	4.8	-0.7	5.6	6.0	8.1
Fuel and market energy	-1.0	-2.1	-11.0	-13.2	-8.2	-11.2	-11.4
Regulated prices	-3.7	-6.6	-0.7	-1.9	-1.0	-0.7	0.7
Consumer prices index	1.7	-0.2	-0.1	-1.0	0.3	0.0	0.5
Consumer prices index excluding indirect taxes	1.2	-0.2	-0.2	-1.1	-0.2	0.1	0.4

Note: In the case of price indices with unchanged tax content, the HCSO adjusts the consumer price index for the technical effect of changes in indirect taxes. The time series of certain inflation groups may differ, even retroactively, from those published in earlier years due to the reclassification of some partial items at the beginning of 2012.

Source: HCSO

The inflation rate, which fell significantly short of the inflation target in 2015, was the combined result of several factors. The main contributors to the historically low inflation rate observed throughout the year were the persistently low global inflationary environment, the low level of imported inflation, commodity price developments, changes in the price indices of unprocessed foods and industrial goods, the level of unused capacity in the economy, low wage dynamics and falling inflation expectations.

Changes in monetary policy instruments

31,100 enterprises have obtained financing under the Funding for Growth Scheme so far

The deadline for concluding the loan agreements and disbursing the loans under the second phase of the Funding for Growth Scheme launched in October 2013 expired on 31 December 2015. Participating credit institutions concluded contracts for a total amount of HUF 1,402 billion with 27,000 enterprises; utilisation of the Scheme in 2015 exceeded the amount observed in the previous year by HUF 227 billion (Chart 3). The loans effectively outstanding – not including the repaid instalments and undrawn loan parts – amounted to HUF 864.4 billion. The deadline for concluding the loan agreements and disbursing the loans under the FGS+ launched in March 2015 also expired at the end of 2015, in which contracts worth some HUF 23 billion were concluded with the partial risk-assumption of the MNB. In addition to launching the FGS+, the MNB intended to facilitate riskier enterprises' access to loans by allowing credit institutions to charge a guarantee fee in addition to the 2.5 per cent margin

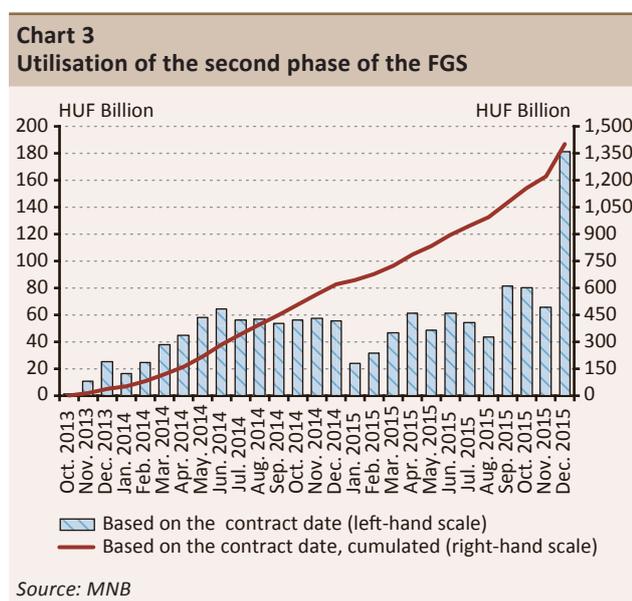
limit in relation to an institutional guarantee from May 2015. Upon exhaustion of the credit line of HUF 1,000 billion for the second phase at the end of September, in consideration of the strong demand, the MNB allowed credit institutions to provide loans to the debit of the HUF 500 billion allocated to the FGS+, under the conditions of the second phase of the FGS. Under the two programmes, 95 per cent of the overall available amount of HUF 1,500 billion was utilised. Since the launch of the FGS nearly 31,100 enterprises obtained financing in an amount of approximately HUF 2,126 billion, which not only played an important role in stopping the decrease in the loan portfolio, but also had a significant impact on economic growth.

Introduced as a temporary instrument, the FGS successfully fulfilled the market development and growth objectives established upon the announcement of the programme. Therefore, simultaneously with the gradual phase-out of the FGS from the beginning of 2016, the MNB will launch its Growth Supporting Programme (GSP) designed to ensure that a smooth return by banks to market-based financing. As part of the GSP, the third, phase-out stage of the FGS consists of two pillars. Both pillars will be announced with an amount of HUF 300 billion each. Compared with the second phase, the first pillar allows for more limited forint-based lending both in terms of volume and loan purposes. In the second pillar, banks will convert the forint loans received, which enables them to provide foreign currency lending to SMEs with natural foreign currency hedging. With this pillar, the MNB aims to manage market distortions in long-term foreign currency lending. The new Growth Supporting Programme also comprises the Market-Based Lending Scheme (MLS), a package of instruments containing positive incentives for banks to boost their lending activities. The MLS will support the banking sector's lending activity through an interest rate swap conditional on lending activity (LIRS), a corresponding preferential deposit facility, as well as incentives by means of setting banking capital adequacy requirements and a new corporate credit information system.

Self-financing concept

Reform of monetary policy instruments

At its meeting on 2 June 2015, the Monetary Council decided to initiate the second phase of the Self-Financing Programme aimed at reducing external vulnerability and diverting bank funds towards collateral securities, primarily government securities



with regard to the nature of the Hungarian securities market. Accordingly, from 23 September 2015, a new three-month fixed-rate deposit became the MNB's main policy instrument replacing the previous two-week deposit. The three-month deposit is a fixed-rate instrument and is available without quantitative restrictions in the form of fixed-rate tenders. The interest rate on the three-month deposit is the central bank base rate. Nevertheless, the two-week deposit has remained part of the instruments as a liquidity management tool. The MNB imposed a quantity restriction on two-week deposits; thereafter holdings fell to HUF 1,000 billion by the end of 2015. The two-week deposits will be sold in the form of variable-rate tenders where the minimum acceptable interest rate is equal to the interest rate on the central bank O/N deposit, while the highest accepted interest rate is equal to the central bank base rate. The extension of the maturity of the main policy instrument contributed to the success of the self-financing concept by increasing the value of collateral securities (mainly government securities) against central bank instruments in terms of liquidity, thereby channelling bank funds to these markets.

At its meeting on 22 September 2015, the Monetary Council decided to narrow the interest rate corridor asymmetrically, which also facilitates the achievement of the objectives of the self-financing programme. With effect from 25 September 2015, the interest rate corridor was modified to +75/-125 basis points from the previous +/-100 basis points. As a result, the central bank O/N deposit became less attractive. With effect from 30 September 2015, the MNB also modified the conditions of collateralised loan tenders: on the one hand, the maturity of the loans was halved (the two-week loan was replaced by the one-week loan and the six-month loan by the three-month loan), and on the other hand the price of the one-week loan became more favourable (the previous base rate +50 basis points was replaced by base rate +25 basis points). Following the introduction of the new main policy instrument, the transformation of loan tenders offers support for liquidity management and stimulates the purchase of securities that are eligible as collateral, thereby providing support in the restructuring of bank funds.

Closely related to the second phase of the programme, the MNB announced on 6 October 2015 that the optional reserve calculation regime introduced in 2010 would cease from the maintenance period of December 2015. Thereafter, a uniform reserve

ratio of 2 per cent applies to all credit institutions. Introduction of the fixed reserve ratio represents a move towards the practice of the European Central Bank, and indirectly prompts banks to adjust to the transformation of the sterilisation instruments by purchasing securities that are eligible as collateral, instead of maintaining minimum reserves.

Central bank interest rate swap tenders

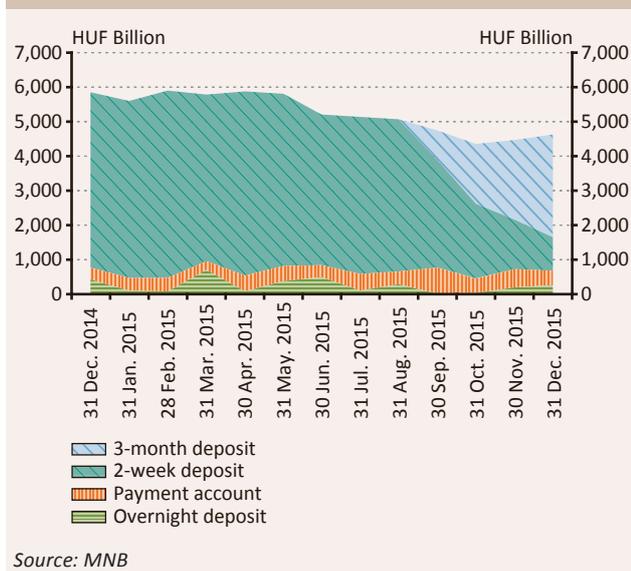
In 2015, the MNB continued to announce interest rate swap (IRS) tenders designed to support the concept of self-financing. Following the Monetary Council's decision of 7 July 2015, an interest swap facility with 10-year maturity was introduced, in addition to the 3-year and 5-year maturities already applied. The first IRS tender in the new maturity took place on 6 August. In the course of 2015, the MNB conducted interest rate swap contracts with credit institutions in an amount of HUF 238 billion at the 3-year tenders, HUF 544 billion at the 5-year tenders and HUF 125 billion at the 10-year tenders at nominal value. As a result, the total amount of outstanding central bank interest rate swap transactions reached HUF 1,296 billion at the end of the year. Interest rate swap spreads, i.e. the difference between government securities yields and the fixed rate of interest rate swap contracts, widened by 10-19 basis points for different maturities. Three-year, five-year and ten-year interest rate swap spreads stood at 61, 66 and 53 basis points at the end of December, respectively. These levels are in line with the values preceding the announcement of the self-financing programme in April 2014.

Forint liquidity management of the banking system

In 2015, items affecting the liabilities side forint liquidity of the central bank's balance sheet (sterilisation instruments, account balance on payment accounts and overnight central bank deposits) declined by a total of HUF 1,233 billion to HUF 4,628 billion.

The decline in liquidity was primarily due to the MNB's foreign exchange operations (including foreign currency tenders) and an increase in the volume of cash in circulation. By contrast, the Funding for Growth Scheme, the traditional central bank swap instruments, the central bank lending facilities and the Single Treasury Account (STA) improved liquidity. From the factors affecting the STA, it is noteworthy to point out firstly, the self-financing programme

Chart 4
Items affecting the liabilities side forint liquidity of the central bank's balance sheet



which *ceteris paribus* reduced both the central bank's balance sheet and the liquidity of the banking system, and secondly, the conversion of EU funds into forint which significantly boosted liquidity. Once again in April and October 2015, credit institutions required to hold reserves were free to choose from reserve ratios of 2, 3, 4 and 5 per cent. 41 credit institutions opted for the option to change in April, and 3 in October. As a result, the average required reserve ratio increased to 2.9 per cent from 2.87 per cent in May, and continued to increase – temporarily for a month – to 3.57 per cent in November. A uniform reserve ratio of 2 per cent entered into force in December.

The transformation of monetary policy instruments relating to the self-financing programme encourages credit institutions to use central bank credit instruments in a more intensive manner than previously. In parallel, the HUFONIA approached the base rate. The central bank concluded a monthly average of 28 overnight loan transactions in the period between September and December, whereas only a monthly average of 6 in the period between January and August. Meanwhile, the average monthly value of overnight loans remained practically unchanged, increasing to HUF 17 billion from HUF 16 billion. As a result of this, the HUFONIA was 50 basis points lower than the central bank base rate on average in the period between January and August, and was equal to the base rate in the period between September and December. Oversubscription in the two-week deposit tenders with limited quantities occurred only

four times until the end of December, and the average accepted interest rates at the tenders hovered around the base rate. This implies that the gradual decrease in two-week deposits did not pose liquidity problems for banks. The more extensive use of central bank loan tenders also contributed to this situation; after a break of several years, in 2015, credit institutions used again the longer-term credit instruments of the MNB.

Three-month benchmark yields – the yields most relevant in terms of the interest rate transmission mechanism – declined slightly with the decreasing base rate. It is favourable that BUBOR values indicated a decrease in the base rate in a number of cases. In the second half of the year, BUBOR and the spot yield calculated from the FRAs were stable and equal to the central bank base rate. However, yields on discount Treasury bills (DTB) shifted downwards from the central bank base rate in September, and then began to increase at the end of the month. The fact that DTB yields fell short of the base rate may be explained by a rise in demand for discount Treasury bills – triggered by the transformation of the sterilisation instruments – from the side of banks and other domestic institutional investors. In the course of the year, interest rates on variable interest loans and deposits with short-term maturities declined both in the corporate and the household segments. However, it was observed that the interest rates of sight deposits and current account deposits decreased less than the base rate. This was partly due to the zero threshold, and partly due to the fact that the alternative banking cost, the HUFONIA rate also decreased less than the base rate during the year.

Instruments providing foreign exchange liquidity

Foreign exchange spot tenders

The MNB conducted the last foreign currency tender related to the conversion of household foreign exchange mortgage loans on 23 January 2015, allocating EUR 102 million to counterparties. Consequently, the tenders related to conversion were completed at the end of January; the tenders related to settlement were also terminated at the end of March. At the tenders, the MNB sold a total of EUR 9,127 million to credit institutions. Of this amount, the share of settlement and conversion was EUR 1,081 million and EUR 8,046 million, respectively. In the case of conditional instruments, the total amount that banks did not roll over in one-week foreign exchange swaps during the year was EUR 1,006 million.

In view of the favourable developments in foreign currency reserves, the Monetary Council allowed the partial and later the full termination of unconditional FX swaps related to FX tenders prior to expiry. Banks had the opportunity to close the unconditional FX swaps latest expiring in March 2016, in a maximum amount of 20 per cent of the value of foreign currencies bought at the settlement and forint conversion tenders. In this context, the MNB held two tenders in April, at which counterparties concluded swaps in a total amount of EUR 357 million. From June, further termination tenders were held, at which the unconditional swaps could already be terminated prior to expiry without any restriction. In the period between June and September, credit institutions concluded swaps in a total amount of EUR 453 million. Early termination does not affect the development of the foreign exchange reserve path over the long term, it only shapes the time profile thereof, bringing forward the decline in foreign exchange reserve. Finally, in June, September and December foreign exchange swaps related to conversion were terminated in a total amount of EUR 1,435 million, contributing to a further reduction in the central bank balance sheet. In 2015, banks purchased EUR 3,251 million under foreign exchange swaps related to the phase-out of FX mortgage loans from the MNB.

Pursuant to the decision of the Monetary Council, the MNB also held foreign currency tenders related to the conversion of foreign currency consumer loans other than mortgage loans in 2015. On 24 August 2015, the MNB conducted its first foreign currency tender, followed by another three tenders. At the tenders, the MNB sold Swiss francs against forints; counterparties may roll over the currency under the MNB's one-week foreign currency swaps until August 2016 at the latest. In addition to the regular counterparties, other financial institutions are also allowed to participate in the tenders through umbrella banks. In the course of the year, the MNB allocated a total of CHF 605 million; as a result, banks were able to meet their hedging needs relating to forint conversion.

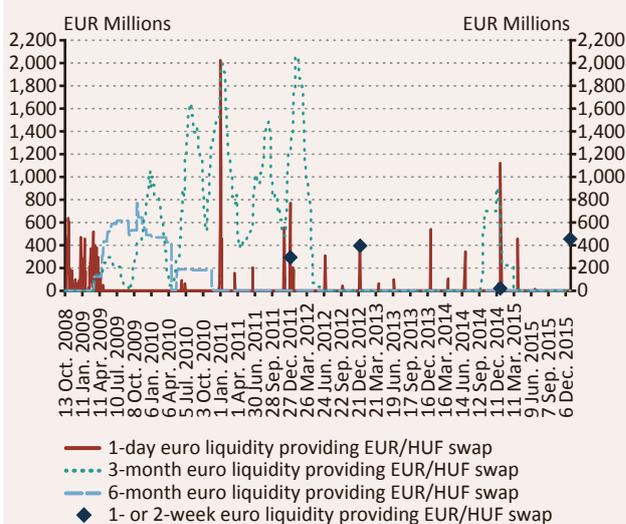
Central bank foreign currency swap transactions

HUF/EUR foreign currency swap spreads remained moderate during the year. The average overnight spread was 30 basis points, while the three-month spread stood at 50 basis points on average. The overnight spread increased temporarily again at the end of the first and second quarters, but there were no tensions in the market at the end of the third and

fourth quarters. The MNB's one-week swap tender and the fact that non-residents did not reduce their forint instruments at this time may have contributed to the lack of the year-end turbulence. Overall, the overnight spread declined somewhat during the year; this is partly attributable to the reform of forint market monetary policy instruments. In fact, a decline in net holdings of overnight instruments (the difference between deposit and loan) increased the short interbank yields which particularly affected implied forint yields in the swap market. The three-month spread was stable in the first half of the year before increasing temporarily in August in parallel with a deterioration in global risk indicators and the preparation for the reform of the sterilisation instruments. In line with annual seasonality, the three-month spread began to widen again at the end of November. Finally, as there were no tensions in the short-term market, the three-month spread decreased slightly and closed the year at zero level.

In 2015, compared to the previous year, demand decreased for traditional (overnight, one-week, two-week and three-month) central bank EUR/HUF FX swap instruments providing euro liquidity. In conjunction with the widened market spread, the banking system took recourse to the MNB's overnight facility providing euro liquidity in an amount of EUR 450 million on the last day of the first quarter, while EUR 14 million was allocated at the end of June. The portfolio of the three-month swap instrument was

Chart 5
Recourse to the MNB's FX swap instruments – outstanding amounts



Note: excluding the swap facilities provided under Pillar III of the Funding for Growth Scheme.

Source: MNB

reduced in a staggered manner during the first half of the year. In addition, with a view to assisting credit institutions in the management of FX liquidity, the MNB announced a one-off, one-week swap tender stretching over the end of the year at the end of December, allocating EUR 450 million in all. Owing to a termination and an expiration, the outstanding stock of the FX swap tenders related to Pillar III of the FGS phased out in 2014 dropped to EUR 473 million.

3.2 STABILITY OF THE FINANCIAL INTERMEDIARY SYSTEM

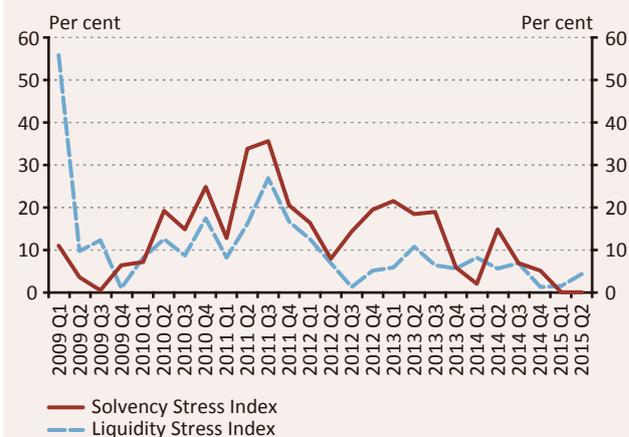
Pursuant to the MNB Act, the primary objective of the MNB is to achieve and maintain price stability. Without prejudice to its primary objective, the MNB supports the maintenance of the stability of the financial intermediary system, the enhancement of its resilience and its sustainable contribution to economic growth; furthermore, the MNB supports the economic policy of the government using the instruments at its disposal. As a member of the European System of Financial Supervision, the MNB performs the tasks imposed on it arising out of the scope of the European Banking Authority, the European Insurance and Occupational Pensions Authority, the European Securities and Markets Authority and the European Systemic Risk Board, supervises the Hungarian financial intermediary system, and acts as a resolution authority.

In line with the practice of recent years, the MNB published its *Financial Stability Reports* twice in 2015 (29 May and 23 November), and issued its quarterly publication entitled *Trends in Lending* with the results of its surveys presenting the latest trends in lending.

Key developments in the financial system

The *Financial Stability Reports* provide a regular and comprehensive assessment of risks to financial stability, presenting the main risks including the management of those risks. The shock-absorbing capacity of the domestic banking sector is solid, and the capital and liquidity position is adequate (Chart 6). However, the banking system still remains contractionary, i.e. it has a negative contribution to economic growth. Basically, the financial system is facing three major challenges which need to be addressed: restoring market-based corporate lending, reducing the high rates of non-performing loans (NPL rates) and improving the persistently weak profitability of the sector.

Chart 6
Liquidity and Solvency Stress Index



Note: In the case of stress indices, the lower the value of the index, the lower the ratio of banks below the regulatory minimum in the event of a stress scenario.

Source: MNB

In 2015, the vulnerability of the Hungarian financial system decreased significantly. Settlements of mortgage loans and the conversion of FX loans into local currency loans carried out in two steps were able to mitigate the most important systemic risk stemming from households' FX loans. The central bank's self-financing programme also significantly reduced the country's external vulnerability. The Funding for Growth Scheme effectively stabilised lending to non-financial corporates, but market based lending remained extremely subdued.

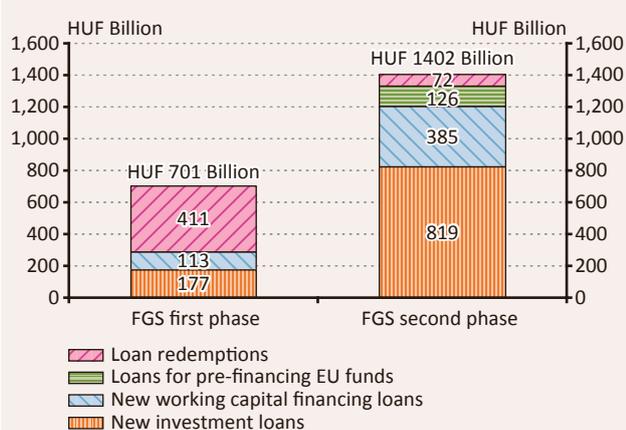
The contract period of the second phase of the Funding for Growth Scheme as well as the Funding for Growth Scheme Plus expired on 31 December 2015. Within the framework of the former, participating credit institutions concluded contracts for a total amount of HUF 1,402 billion with 27,000 enterprises, while under the FGS+, contracts worth HUF 23 billion were concluded with the partial risk-assumption of the MNB. Since the launch of the FGS in 2013, nearly 31,100 enterprises obtained financing in an amount of some HUF 2,126 billion. The programme played an important role in achieving a reversal in SME lending: not only did it stop the continuous downward shift that had been observed in the SME loan portfolio in the years preceding 2013, but from the third quarter of 2015 the outstanding borrowing of SMEs began to grow.

Of the HUF 1,402 billion contracted during the second phase of the FGS, 95 per cent comprised new loans (redemptions were limited to maximum 10 per cent of the allocation). Of this, new investment

loans (and new leasing deals) accounted for 61 per cent, and new working capital loans had a share of 29 per cent, while loans granted to pre-finance EU funds represented 10 per cent. More than one half of large banks' disbursements comprised investment loans, while the vast majority of the loans provided by small and medium-sized banks and cooperative banks served investment purposes. Under Pillar II, two thirds of the loans granted for the refinancing of forint and FX loans comprised loans intended to redeem outstanding investment loans and one third refinanced outstanding working capital loans; nearly 81 per cent of the loans provided under Pillar II was intended to refinance forint loans, while 19 per cent refinanced FX loans.

Within the contracts concluded under Pillar I, the average size of new investment loans, new working capital loans and EU loans was HUF 24 million, HUF 61 million and HUF 31 million, respectively. In this phase, every other loan was below HUF 10 million. The decline in loan size is consistent with the smaller average size of the enterprises accessing the loans: while in the first phase one fourth of the disbursements went to micro-enterprises, this ratio rose to 40 per cent in the second phase, amounting to around HUF 540 billion. Investment loans accounted for 78 per cent of the loans granted in this segment. Weighted by contract amount, the average maturity of new investment loans was 7.1 years, while the average maturity of new working capital loans and EU loans was 2.3 and 1.7 years, respectively. Regarding sectoral distribution, the sectors of agriculture, trade and repair and manufacturing were overrepresented, with nearly two thirds of the loans flowing into these three

Chart 7
Distribution of loans provided in the first and second phase of the FGS by purpose

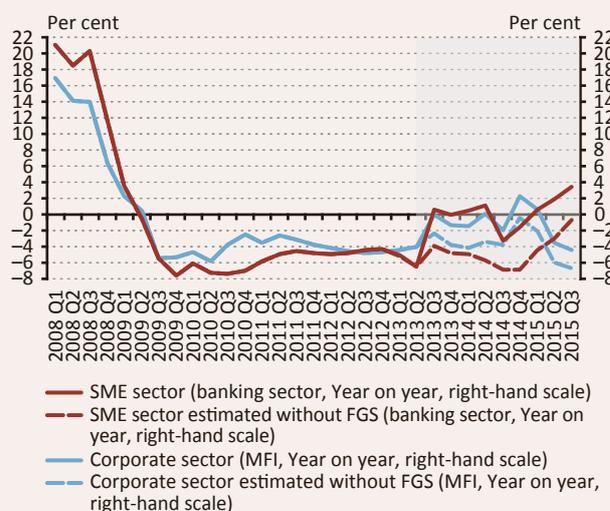


Source: MNB

sectors. The regional distribution of the loans provided under the FGS is less concentrated compared to loans outstanding before the launch of the programme; in other words, the previously observed dominance of Central Hungary declined.

Corporate lending, however, remains fragile and reflects a strong dual trend: while lending to the sector of small and medium-sized enterprises expanded thanks to the Funding for Growth Scheme, loans outstanding in the sector of large corporations declined steeply in 2015, partly as a result of a few one-off factors (Chart 8). The fragility of lending continues to reflect, to a large extent, the cautiousness and low risk appetite of the banking sector, which hinder a recovery in market-based corporate lending. This gives rise to the risk of a creditless economic recovery, which would point to a persistently lower potential growth path than would be necessary for an emerging country.

Chart 8
Annual growth rate of the outstanding borrowings of the corporate and SME sector



Note: The corporate sector time series is based on transactions, while the SME time series is calculated on the basis of estimated transactions starting from 2013 Q4.
Source: MNB

In the coming years, the recovery of market-based corporate lending poses the greatest challenge to the financial intermediary system, as the dynamics of corporate lending still fall significantly short of the 6–7 per cent level which is conducive to sustainable growth. Sustainable, dynamic economic growth requires a strong pick-up in the lending activity of the banking sector. This is why, in an effort to encourage banks' return to market-based lending activity, the MNB decided to launch the Growth Supporting

Programme (GSP) in 2015, within the framework of which – parallel to the phasing out of the FGS – the Market-Based Lending Scheme (MLS) is to commence. Under the MLS, the MNB supports banks' changeover to market-based lending – among other things – by an instrument designed to assist in risk management and another instrument aimed at supporting liquidity management. As a result, corporations will have access to forint-based, long-term financing at fixed interest rates.

The measures of the GSP may potentially boost corporate lending by HUF 250–400 billion, increasing lending to enterprises and in particular to SMEs by 5 to 10 per cent overall in 2016. This may boost GDP growth by 0.5–1 percentage point. An acceleration in sustainable economic growth also improves the operating environment of the banking sector.

The high percentage of non-performing loans represents another major risk in the household mortgage and commercial real estate loan segments. The settlement and the conversion of FX loans to forint loans mitigated the risk of new defaults regarding outstanding loans. In the case of new loans, in turn, debt brake rules contribute to containing such risks. At the same time, the high ratio of problematic household mortgage loans continue to be a key risk to the financial intermediary system, which may be mitigated, through the clean-up of the portfolio, by fine-tuning the institution of personal bankruptcy and the expansion of the National Asset Management Agency. Nevertheless, existing government programmes need to be supplemented by further measures to address the problem of non-performing mortgage loans under market conditions as well. The in-depth analysis of loans and debtors' position indicates that in many cases, the root of the problem is not the lack of income but excessive indebtedness; thus improving the quality of the loan portfolio appears achievable through sustainable restructuring.¹

As regards the quality of the corporate loan portfolio, non-performing project loans continue to pose a problem. The reorganisation of MKB contributed significantly to accelerating the clean-up of non-performing corporate loans outstanding by divesting bad commercial real estate loans. The activity of MARK Zrt. may facilitate the further cleaning of the

corporate non-performing loan portfolio. Preparations for the launch of MARK Zrt. have been completed and accordingly, setting a new precedent in Europe, a market-based central asset manager can start its operations in 2016.

The profitability of the banking sector may return to positive territory this year, but still remains low by international standards. While the aggregate effect of recent regulatory measures is almost neutral over the medium term, banks' profitability outlook should improve over the next two years on the whole, due to the lower provisioning requirements for loan losses and the reduction of the bank levy. Through weak capital accumulation capacity, profitability – which is permanently below the expected return on equity – has a negative impact on the growth possibilities of the banking sector and thus on the ability to adequately support sustainable economic growth. There is room for further improvement in profitability by improving cost efficiency. The cost saving of the banking sector may not only be increased at the level of individual banks; leveraging synergies through the merger of institutions may also boost the profitability of the sector. Cleaning up large, non-performing portfolios and an increase in cost efficiency are both needed for the restoration of structural profitability, after which it could become possible to ensure that the Hungarian financial system fulfils its role in supporting sustainable economic growth over the long term as well.

The MNB conducted a **Market Intelligence Survey** in 2015 as well, in the context of which MNB staff members visited 10 credit institutions to discuss with representatives of the institutions the status of the specific institution and the Hungarian banking sector, expected trends in lending, and the factors determining the future of the sector. The results of the survey were presented in the May issue of the *Financial Stability Report*.

Macroprudential regulatory activity of the MNB

By the end of 2015, the vast majority of the risks burdening the financial intermediary system had been addressed by government measures and by harnessing the strong macroprudential powers of the MNB. However, as the external environment is saddled with severe tensions, the faltering of measures serving

¹ Bálint Dancsik, Gergely Fábrián, Zita Fellner, Gábor Horváth, Péter Lang, Gábor Nagy, Zsolt Oláh, Sándor Winkler: Comprehensive analysis of the non-performing household mortgage portfolio using micro-level data. MNB Occasional Papers, Special Issue, 2015 <https://www.mnb.hu/letoltes/mnb-occasional-papers-special-issue.pdf>

to stabilise the euro area or an abrupt change in global market sentiment may give rise to turbulences in financial markets that may spill over to Hungary as well. Therefore, the main tasks of the MNB as the macroprudential authority in the coming period are to monitor the developments in the financial intermediary system and to prepare for mitigating, to the extent possible, the effects of potential future risks. With that in mind, developed as part of the international regulatory framework as global or European standards, numerous macroprudential instruments were introduced in 2015 with the intention of increasing the shock resilience of the Hungarian financial intermediary system. In addition, the MNB adopted a number of macroprudential instruments aimed at preventing the build-up of systemic risks similar to those observed in Hungary in the past.

In the first quarter of 2015, the MNB participated in the smooth implementation of the conversion of household foreign currency loans into forint. In order to mitigate the forint maturity mismatches arising in banks' balance sheets as a result of the conversion, the Mortgage Funding Adequacy Ratio (MFAR) was developed. Based on the regulation, in the future at least 15 per cent of mortgage loans is to be financed from long-term funds backed by mortgage collateral.

In order to alleviate the external vulnerability of the banking sector and to address currency mismatches on banks' balance sheets, the expert staff of the MNB prepared the tightening of the Foreign Exchange Funding Adequacy Ratio (FFAR) and the introduction of the Foreign Exchange Coverage Ratio (FECR). Under the modified FFAR ratio, as of 1 January 2016, net FX swap positions with a maturity of over one year cannot be recognised as long-term financing, and the prescribed level of the ratio was raised to 100 per cent. The new FECR ratio limits on-balance sheet currency mismatches to 15 per cent of the balance sheet total.

In consultation with market participants, the MNB completed preparations regarding the temporary data disclosure related to the Liquidity Coverage Ratio (LCR), which ensures the verifiability of the new provisions until the uniform European data supply becomes available. In order to increase credit institutions' resilience to short-term liquidity shocks, the LCR requirement was tightened; accordingly, as of 1 April 2016, the institutions are expected to meet 100 per cent of the liquidity requirements.

In 2015, the MNB put in place the conditions for the efficient application of the Systemic Risk Buffer (SRB) and in October 2015 it specified the general rules pertaining to problem project loans, effective from 1 January 2017. The capital surcharge requirement facilitates the strengthening of the shock resilience of high-risk institutions and may also encourage them to clean up their portfolios, thereby mitigating the systemic risk arising from problem (non-performing and restructured) commercial real estate exposures.

Based on the recommendation of the European Banking Authority (EBA), in 2015 a methodology was developed for the identification of other systemically important institutions. According to the methodology, nine institutions are considered to be systemically important in Hungary, subject to the MNB's additional capital requirement. At the end of 2015, the MNB published the list of systemically important institutions and the level of the expected capital buffer ratios. In 2016, the MNB will review the list of systemically important institutions and the level of the capital buffer ratios, and the institutions concerned are required to comply with the new requirements from 1 January 2017.

The MNB completed the methodological developments on the basis of which the Countercyclical Capital Buffer (CCB) is determined. In this context, the indicators recommended by the European Systemic Risk Board (ESRB) were adapted to the Hungarian environment and additional indicators were developed to measure the overheatedness and vulnerability of the financial system. Besides the adaptation and formulation of the indicators, additional indicators required for the calculation of the countercyclical capital buffer were also calibrated.

The indicators were employed in formulating the standardised credit-to-GDP gap indicator recommended by the ESRB, which gave a basis for the standardised Countercyclical Capital Buffer rate. They serve as the basis also for formulating the additional credit-to-GDP gap reflecting the specificities of the Hungarian environment, along with the additional benchmark Countercyclical Capital Buffer rate. Based on these and additional indicators, a macroprudential systemic risk map was developed as well. These diagnostics serve as a basis for drawing up the quarterly cyclical systemic risk report, on the basis of which the Financial Stability Board (FSB) of the MNB can make a decision on the actual level

of the Countercyclical Capital Buffer. At the end of 2015, the decision was made regarding the level of the Countercyclical Capital Buffer effective from 1 January 2016, which the MNB determined as 0 per cent, considering the current status of lending.

Throughout 2015, the MNB continued to monitor the international regulatory developments affecting the financial system and participated in the macroprudential policy working groups of various European institutions. At the invitation of the MNB, the EBA working group responsible for liquidity issues held its May 2015 session in Budapest.

3.3 SUPERVISION AND CONSUMER PROTECTION

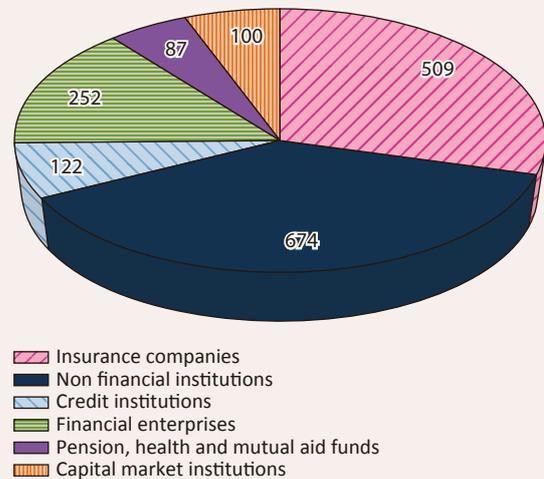
At the end of 2015, the MNB was responsible for the prudential supervision of 1,744 institutions; the distribution of the institutions by type is illustrated by Chart 9. During the year, the MNB conducted 121 prudential inspections and 45 market surveillance inspections. 80 prudential inspections and 25 market surveillance inspections were concluded, affecting a total of 96 institutions (groups) and 26 customers (legal and natural persons). In the review period, the MNB issued a total of 1,063 prudential resolutions, with 27 resolutions and 379 rulings issued altogether in the market surveillance and issuer oversight areas. The measures taken included the imposition of prudential institutional fines amounting to HUF 829 million, prudential personal fines amounting to HUF 76 million and market surveillance and supervisory fines of HUF 1.4 billion.

In the context of the Supervisory Review and Evaluation Process (SREP) launched in 2015 and concluded by the end of the year at large banks, the MNB set additional own funds requirements on seven institutions compared to the institutions' own internal capital requirement calculation, amounting to around HUF 100 billion in total.

During the year, the MNB launched 452 consumer protection inspections by request or *ex officio*, affecting 461 institutions. During the period, 295 consumer protection decisions were issued. In relation to settlement matters, the MNB issued a total of 237 interim injunctions and consumer protection warnings in 2015 and imposed consumer protection fines amounting to HUF 124 million. In addition to settlement matters, consumer protection fines

totalling HUF 94 million were imposed in relation to procedures commenced at request and *ex officio*.

Chart 9
Number of supervised entities by type as of 31 December 2015



Source: MNB.

Supervision of credit institutions and financial enterprises

In 2015, the MNB commenced a total of 40 investigations (20 comprehensive, 13 targeted, 4 thematic and 3 follow-up inspections) at credit institutions and financial enterprises in accordance with its statutory obligations and in consideration of the sector's risks. In addition to compliance with regulations, a quick response to the risks of the sector was a key priority; therefore, the number of unscheduled inspections conducted in response to the signals of the monitoring systems was higher than in the past.

In 2015, in supervising the money market sector, the MNB shifted to more proactive and process-oriented operation that monitors risks continuously and relies on a far broader, structured information base. To align its supervisory practice with the risk profile of the institutions, it placed its previous supervisory strategy for each institution type (complex banking groups, credit institutions, cooperative banks, financial enterprises) on new foundations, which already resulted in perceivable changes in the inspections this year.

One of the gravest problems in the sector is the substantial portfolio of non-performing project

loans and the adequacy of their collateral coverage. Therefore, these aspects were examined in detail in the context of thematic inspections at the banks holding the largest portfolios. The investigation covered the HUF 748 billion portfolio of 8 institutions; the detected impairment losses amounted to HUF 36 billion.

In accordance with the strategic objective set for 2015, the MNB inspected the remuneration policy of large institutions. After the evaluation of the inspection results, the MNB will make a proposal regarding changes in the relevant regulations and will issue recommendations.

As an important element of the renewed supervisory instruments, in 2015 the MNB introduced the application of in-house developed models in several areas for measuring the risks of market participants, with a transparent presentation provided to the institutions. In line with supervisory strategic objectives, in order to improve the stability and shock-resilience of the financial system, the MNB developed and presented to the sector the supervisory liquidity stress test to be applied by large banks from 2016, which determines the size of the required liquidity buffer in consideration of the unique characteristics of the given institution.

In the first half of the year, the renewed comprehensive inspections applying the integrated supervisory instruments detected such critical problems at members of the DRB banking group, which, as a result of the series of fraud events committed at Buda-Cash Brókerház Zrt., led to the revocation of the activity licenses of the credit institutions concerned.

The renewal of supervision affects the mandatory integration of cooperative credit institutions that is based on joint and several liability. In supervising the integration, parallel to the consolidated supervision of the Takarékbank Csoport, the MNB closely monitors the financial management of cooperative credit institutions. In the second half of the year, an on-site inspection was launched to understand the financial management and prudential situation of Takarékbank and its affiliates subject to consolidated supervision and to identify the risks materialising during the activity arising from the central bank role. The inspection was one of a kind in the sense that this was the first supervisory group inspection since the Act on the integration of cooperative credit institutions came into effect.

According to the MNB's expectations, a closer monitoring of the performance of the prescribed tasks and the application of tighter and more consistent, new sanctioning policy will strongly encourage institutions to pursue more risk-aware operations.

In keeping with international examples and the recommendation of the European Banking Authority (EBA), the business model-based approach has increasingly gained ground in supervisory activity. Business model analyses performed on the basis of the continuously developing framework became an integral part of the supervisory inspections conducted at domestic large banks, and the extension of the framework to insurance companies has also commenced. Thanks to the analyses, the MNB gains a forward-looking, more comprehensive insight into the sustainability and vulnerability of the profitability, strategy and business model of the supervised institution. In addition to supporting comprehensive supervisory inspection, the result of business model analyses can be applied effectively in backing the definition of capital requirements during ICAAP (internal capital adequacy assessment process) reviews.

The supervisory review and evaluation process (SREP) aimed at the internal capital adequacy assessment process of large banks was among the priority tasks in 2015. Reviewing the effects of the settlement of foreign currency household loans and the risk assessment of project portfolios were among the common focal points of these reviews during the period. In addition, individual focal points were also defined and analysed for each individual bank, including the definition of non-performing (default) exposures, internal models and strategic risks. In 2015, the MNB conducted the validation of four internal models to be used by institutions for determining their respective capital requirements. Also in the context of the SREP, the MNB encourages the institutions concerned to introduce these models, which typically allow for more precise risk measurement.

Concerning the SREP and the validation process, the MNB plays an active role in the work of the EBA in formulating the technical standards and guidelines related to advanced credit risk methodologies. In this context, for the complex institutions operating in Hungary, a quantitative impact assessment was drawn up in 2015 under the coordination of the central bank in relation to the default definition.

Table 2
Number of inspections at credit institutions and financial enterprises

Type of entity	Type of inspection	Closed in 2015		Started in 2015	In progress on 31 December 2015
		Started in 2014	Started in 2015		
Credit institutions	Comprehensive	6	7	18	11
	Targeted	1	10	17	7
	Thematic	0	1	2	1
	Follow-up	0	0	3	3
	Validation and SREP	0	8	12	4
Financial enterprises	Targeted	0	3	7	4
Payment service providers	Comprehensive	0	0	2	2

Supervision of insurance companies, funds and intermediaries

In the insurance sector, 14 new inspections were started and 15 ongoing inspections were concluded in 2015. The prudential fines imposed in the insurance market amounted to a total of HUF 510 million.

The comprehensive inspections concentrated on examining the products and stock management of motor third-party liability insurance plans, retirement pension insurance and unit-linked life insurance plans. Moreover, in line with the priorities set for 2015, the MNB also assigned priority to the examination of internal control's compliance with the new statutory provisions, the premium payments of savings-type life insurance policies and the preparedness of insurance companies for Solvency II.

The inspections identified violations and deficiencies in the internal governance and institution-wide controls of insurance companies, including violations regarding compliance activity and supervisory boards' practice of scheduling and holding sessions. In numerous cases infringements were detected regarding the contractual terms and customer information documents of the products sold, or regarding the provision of information to customers and complaint management. The most typical irregularities include those related to outsourcing contracts, product plans, provisioning and accounting policies, stock management and registration systems. Deficiencies were detected in the security of the information systems, the anti-money laundering activities and combating the financing of terrorism. Enhanced continuously based on the results and experiences so far, the examination methodology ensured and will continue to ensure the timely, preventative management of the risks detected.

Within the framework of the ethical life insurance concept aimed at the correction of incorrect life insurance products, the reduction of costs and cost transparency, following external consultations with the market, the MNB issued decrees on the calculation and publication of the total cost indicator (TCI), on the maximum level of the technical interest rate and on the mandatory contents of the needs assessment regarding life insurance products. In addition, after internal consultations, the draft Unit Linked Recommendation has been produced. Before finalisation, it will be passed on to external consultation in the first quarter of 2016.

The first official reporting of insurance firms based on Solvency II will take place in May 2016. The MNB has prepared for the receipt of uniform European supervisory reports and for forwarding the data to EIOPA supporting, at the same time, the preparation of data suppliers as well.

In September 2015, the MNB's recommendation on the sale of insurance products through electronic media came into force, and its application in practice is rigorously inspected by the MNB both during on-site inspections and as part of the MNB's ongoing supervision. This ensures that consumers have access not only to the price of insurance services, but also to comprehensive and easily understandable information enabling them to compare the contents of different services and select the product best suiting their needs.

In the second half of the year, the protracted financial crisis of the Romania-based Astra Insurance Company necessitated the reinforcement of the bilateral cooperation with the Romanian supervisory authority in charge of prudential supervision. Since

international regulation fails to address a number of important details of cross-border insurance activity, in September 2015 a formal cooperation agreement was concluded to ensure the efficient cooperation of the two supervisory authorities.

In the pension, health and mutual aid funds sector, 18 new inspections were started and 15 ongoing inspections were concluded in 2015, in the context of which a total of HUF 6.7 million was imposed in fines.

In several cases, comprehensive inspections concluded at funds detected the violation of accounting regulations pertaining to voluntary funds, personal and operational risks surrounding the organisational and institutional structure developed at the funds, deficiencies of the internal control systems and internal control processes and failures to meet payment deadlines. The MNB instructed the funds concerned to correct the deficiencies of record keeping arising from non-compliance with regulations and to eliminate the infringements. During the on-site inspection of voluntary funds, priority aspects included the proper execution of payments related to services provided to members and to the termination of membership and other settlements, and the correct crediting of membership fees to individual accounts in accordance with the appropriate distribution ratio. In addition, priority was assigned to the financing methods of operating expenses and the indirect costs related to investments. On 21 December 2015, the MNB published an information document presenting the fees charged by voluntary pension funds between 2000 and 2014. Thanks to the increase in the assets of funds and to regulatory and administrative measures, charges declined. On-site inspections continue to assign a key priority to the level of asset management expenses.

The MNB signed a cooperation agreement with the National Association of Voluntary Funds – as the largest advocacy organisation of the sector

of voluntary funds – in order to ensure close and efficient cooperation between the stakeholders. The main objective of the cooperation agreement is to share professional opinions and to facilitate regular information exchange regarding market and regulatory processes and continuous professional consultations.

With respect to the targeted inspections of independent intermediaries, one of the priorities of the MNB was to verify the adequate management of customer funds, legal compliance regarding the persons performing the intermediation and the mediated transactions and the completeness of the documentation. During the inspections the MNB identified violations in all cases. Fines were imposed for mediation by unauthorised, unregistered or unqualified persons, for record-keeping deficiencies regarding persons performing mediation and money market contracts, failure to register or unregister brokers, insufficient information provision to customers and inadequate maintenance of customer accounts.

The MNB imposed a prudential fine of HUF 30 million – an unprecedented amount in the market of intermediaries – on a leading, independent insurance intermediary in the life insurance market for the serious violations detected during the inspections.

Supervision of capital market institutions

Partly owing to its renewed inspection methods, the MNB detected severe fraud cases at three brokerage firms at the beginning of the year. As a result – in line with the proactive supervisory approach – a series of targeted inspections was launched at all investment firms. Subjects of the inspections included the analysis of the procedures and systems applied by the investment firms, as well as the records kept, primarily in order to detect and prevent fraud. The inspections and ongoing supervision continue to consider the protection of customer assets and compliance with

Table 3
Number of inspections at insurance companies, funds and intermediaries

Type of entity	Type of inspection	Closed in 2015		Started in 2015	In progress on 31 December 2015
		Started in 2014	Started in 2015		
Insurance companies	Comprehensive	6	2	7	5
	Targeted	0	1	4	3
Pension, health and mutual aid funds	Comprehensive	9	5	14	9
	Targeted	0	1	3	2
Intermediaries	Targeted	4	2	6	4

the relevant regulations as a key priority, in addition to compliance with portfolio management provisions and the provisions of EMIR.

Of the control procedures in progress (16 comprehensive inspections, 20 targeted inspections and 1 follow-up inspection), 19 procedures were concluded. Inspections to determine the personal liability of 11 high-ranking officials were launched at three investment firms affected by fraud. At the end of 2015, a total of 32 inspections were in progress.

As a result of the concluded inspections, the operating licenses of three investment firms were revoked and criminal proceedings were initiated; moreover, supervisory commissioners were assigned in the case of two investment fund managers. Based on the experiences of the inspections, in addition to monitoring data reporting, as part of its supervisory activity, the MNB focuses on the continuous and efficient control of the business processes and capital position of the supervised entities.

The MNB applied new control procedures during its targeted inspections: in essence, the MNB accessed data via on-site data and database backups rather than by way of preliminary data collection. The information thus collected is more exhaustive and contains new data types, and it is processed by continuously enhanced, innovative methods. The efficient application of the newly designed instruments is supported by the establishment of a fast response, operative control unit.

The rules of entering and remaining in the market have been tightened in order to strengthen general confidence in the capital market as well as its security level, to prevent future fraud and to strengthen the MNB's control and administrative powers. The frequency of comprehensive inspections increased, and the instruments applied in market surveillance procedures (e.g. access to protected data, on-site search with a warrant) and in audits (e.g. narrowing the obligation of advance notice, extraordinary targeted inspection, expansion of the framework of on-site audits, possibility of appointing an on-site investigator) were expanded.

With a view to increasing customer confidence, an MNB Decree was adopted on regular reporting regarding securities accounts. Consequently, from 2016, customers of investment service providers may anonymously query the end-of-month balances of their securities accounts held with these service providers from the MNB's website.

Market surveillance

During the market surveillance procedures initiated on suspicion of unlicensed or unregistered activities, insider trading, illegal market manipulation or the violation of acquisition or short-selling rules, the MNB continued to consistently apply its market surveillance measures and sanctions policy.

In 2015, the MNB launched around 40 market surveillance procedures. To deter non-compliant

Table 4
Number of inspections at capital market institutions

Type of entity	Type of inspection	Closed in 2015		Started in 2015	In progress on 31 December 2015
		Started in 2014	Started in 2015		
Investment firms	Comprehensive	1	0	3	3
	Targeted	1	6	16	10
Investment fund managers	Comprehensive	0	1	2	1
	Targeted	0	2	3	1
Venture capital fund managers	Comprehensive	0	0	2	2
	Targeted	0	1	1	0
Credit institutions (investment services)	Comprehensive	3	2	3	1
	Targeted	1	0	0	0
	Follow-up	0	0	1	1
Commodities exchange service providers	Comprehensive	0	0	2	2
Central counterparty	Comprehensive	0	1	1	0

entities, the MNB imposed fines amounting to more than HUF 1.3 billion in 2015 and initiated criminal proceedings in half of the cases while also applying, for the protection of investors, risk mitigating and damage control measures several times. In order to inform the public as soon as possible and to protect potential “victims”, from 2015 a new practice was introduced: even before the conclusion of the market surveillance procedure in progress, the MNB banned the unauthorised service provider’s activities with immediate effect and issued a press release on the decision.

The largest market surveillance fine of 2015 was imposed in the fourth quarter on the grounds of unauthorised financial service activities aimed at the collection of repayable funds from the public, amounting to HUF 500 million.

Authorisation

During the year, the MNB issued a total of 616 prudential authorisation resolutions.

The focal points of money market authorisation activities comprised cooperative bank mergers, the acquisition of qualifying holdings in credit institutions, as well as payment services master agreement portfolio transfers and the transfers of outstanding loans, credit, leasing and receivables. The most prominent examples of authorisation cases are the authorisation of Corvinus Zrt.’s acquisition of a 100 per cent, direct qualifying holding in Budapest Bank Zrt. and its subsidiaries, and the issue of authorisations and licenses in relation to the resolution of MKB Bank’s reorganisation programme.

In the capital market area, the MNB’s authorisation and registration powers were expanded – by way of the statutory amendments entering into force in July 2015 – primarily by tightening personal conditions,

the addition of the new broker registration powers and the expansion of the personal authorisation powers. In the fourth quarter, the MNB’s acquisition of a qualifying interest in the Budapest Stock Exchange was authorised, as a result of which the MNB’s shareholding increased to 76 per cent.

As regards the insurance and funds segments, the entry into force of the new Insurance Act requires a great deal of preparation. In the case of insurance authorisation, the most important cases of the year involved the transfer of assets and liabilities between certain insurance companies and the authorisation of cross-border mergers. Procedures linked to the transformation and winding-up of funds continued to be the most notable authorisation cases in the funds segment.

Consumer protection

In 2015, the consumer protection activity of the MNB was largely dominated by extraordinary tasks – from legislative duties to regulatory audits – related to the settlement. At financial institutions with the largest client base, the MNB conducted preliminary audits to check the legal compliance of the calculation method used for the settlement.

In addition, during the year the MNB placed special focus on monitoring the execution of the tasks related to the settlement and the contract amendment in the context of thematic inspections. The thematic inspection affected 42 banks, 110 cooperative credit institutions, 73 financial enterprises equivalent to credit institutions and 96 financial institutions engaging in debt management.

The thematic inspection pertaining to the settlement and the conversion was concluded at 44 financial institutions during the year, and at the end of the year 277 inspections were still in progress. In relation

Table 5

Measures taken in the framework of thematic inspections carried out in relation to settlement and conversion in 2015

Type of entity	Interim injunctions (based on MNB Act, Art. 87)	Consumer protection warnings	Consumer protection fines (HUF million)
Credit institutions	5	10	116.3
Cooperative credit institutions	16	13	0.7
Financial enterprises equivalent to credit institutions	33	32	6.0
Debt management institutions	50	78	0.9
Total	104	133	123.9

Table 6
Measures brought outside of the framework of thematic inspections carried out in relation to the settlement and conversion in 2015

	Money markets	Insurance	Capital markets	Funds	Total
Ex officio (no.)	48	22	2	0	72
By request (no.)	306	224	16	3	549
Fines imposed (HUF million)	63.6	28.7	1.4	0.1	93.8

to settlement matters, 104 interim injunctions and 133 consumer protection warnings were issued, and a total of HUF 124 million was imposed in consumer protection fines (Table 5).

In order to facilitate compliant settlement practices, the MNB organised bilateral and multilateral personal consultations with the affected institutions numerous times. In addition, it opened a regularly updated, separate sub-page on its website for the supervised entities.

Several measures were taken in response to consumers' feedback and as a result of inspections carried out at the MNB's own initiative. The measures were mainly intended to correct the deficiencies of information provision; however, immediate measures were required in the case of a number of institutions, with fines imposed.

Interim injunctions – prohibiting the continuation of the violation and ordering the elimination of the infringement – were typically required in cases of inadequate compliance with the disclosure obligation or incorrect data included in the notification letters on settlement, which derived from inaccurate calculation or the incorrect determination of service charges. Consumer protection warnings were issued in an effort to prevent anomalies related to complaint management on the one hand, and to ensure the compliance of the notification letters with the MNB Decree on the other hand. Moreover, in one case the MNB explained its expectations and opinion regarding the execution of a court ruling.

Pursuant to the Kúria Act and the Settlement Act, the MNB initiated litigations of public interest against 17 institutions in 2015. Two lawsuits were merged, reducing the number of lawsuits to 16. With the exception of one deferred lawsuit, all lawsuits were concluded. All lawsuits concluded with legally binding rulings were effective; as a result of the lawsuits, all institutions concerned were ordered to settle accounts regarding the amounts charged unfairly from 26 November 2010.

In addition to cases related to the settlement and the conversion of foreign currency loans, the consumer protection area of the MNB conducted numerous other inspections and in several cases, it succeeded in taking action against conduct detrimental to consumers.

The most notable of these inspections involved action taken against a service provider conduct particularly detrimental to consumers, which resulted in the nearly complete termination of the practice of issuing warrants of an extremely short maturity.

The MNB also paid special attention to financial institutions performing workout operations as this activity has a direct impact on vulnerable consumers, and for this reason, verifying compliance with the existing rules and tightening the rules further are considered important by the MNB. To that end, the central bank participates actively in formulating regulations applicable to this activity.

Accordingly, in relation to the revocation of Astra Insurance Company's business license, the MNB continuously provided the public with up-to-date information, preventing a potential bout of panic.

With respect to the continuous enhancement of consumer protection activities, the transformation of the methodology of supervision was one of the most notable developments. With the assistance of the new methodology, the MNB perceives and evaluates the activities of the supervised entities in relation to consumer protection, and takes action without delay against undesired conduct as necessary. The development of the methodology of trial transactions results in more efficient feedback to the supervised entities, which facilitates the speedy correction of the detected deficiencies.

In 2015, the Financial Consumer Protection Centre received 71,918 customer service inquiries and 5,948 requests, more than double the value registered in 2014.

A significant part of customer inquiries (41 per cent) comprised requests for information regarding settlement and conversion; in particular, in relation to eligibility, deadlines, the content of notification letters, the conversion of vehicle loans, the deducted discounts and possible legal remedies. Inquiries received in connection with capital market participants whose operations are not deemed prudent accounted for 8 per cent of all inquiries, while petitions submitted in relation to the broker scandals comprised 5 per cent of all cases, typically regarding compensation and claims reporting. Inquiries regarding the termination of the services provided by Astra Insurance Company comprised nearly 4 per cent of all customer service contacts.

The Financial Consumer Protection Centre provided in-depth information to consumers regarding actions to be taken and legal enforcement options related to the correction of unfair lending practices.

As part of the communication dedicated to financial consumer protection, in the framework of the paper series entitled "*Financial Navigator*", the MNB posted 18 new papers on its website, of which 15 papers are also available in a printed format at more than 3,000 branches of around 200 financial institutions, at 10 Government Windows, at the Financial Consulting Office Network and at various NGOs. The printed booklets were published in more than 2.8 million copies to foster the financially aware decision-making of the general public. The MNB also supports the comprehensive provision of information to consumers by posting short movies on the most important financial topics online. 2015 saw the publication of 8 such movies and almost 500 social media items aimed at improving financial awareness. In addition, several information documents were issued regarding the debt consolidation of natural persons. The new consumer protection microsite created on the renewed website of the MNB provides efficient access to easy-to-understand consumer information, with more than 350 articles offering thematic content to visitors.

NGOs participating in the Civil Network – the national financial consumer protection information network – organised 550 events for consumers, in particular, vulnerable social groups (pensioners, students) to provide information or provide assistance in consumers' legal enforcement efforts. Such events included the presentation given to primary school students on basic finances, events dedicated to the topic of the settlement, or training sessions for

pensioners regarding the internet bank. The national network of the Financial Consumer Protection Centre – the activities of which are supported by the MNB – provided information and consulting services in almost 13,000 cases at 11 county seats. The Financial Consumer Protection Centre held 12 forums and four professional consultations for NGOs in 2015.

3.4 RESOLUTION

In the first quarter, upon the MNB's discovery of capital market fraud events, the MNB acting in its scope of authority for resolution examined several institutions to determine whether the conditions of bringing the affected institution under resolution were met (Dél-Dunántúli Regionális Bank Zrt, Észak-magyarországi Regionális Bank Zrt, Buda Regionális Bank Zrt, Dél-Dunántúli Takarékszövetkezet Bank Zrt. and Buda-Cash Brókerház Zrt.). According to the assessments, the criteria for bringing the institution under resolution were not met in any of the above cases. Moreover, the MNB acting in its scope of authority for resolution played an active role in the compensation of depositors and investors through the provision of liquidity funds to the National Deposit Insurance Fund and the Investor Protection Fund and through the formulating of lending terms. It is partly owing to these efforts that the compensation of the customers of all affected institutions could begin within the statutory deadline.

As a result of the MNB's commitment, the first and second sessions of the resolution college subject to the MNB's competence took place in June and December 2015 respectively, with the attendance of the European Banking Authority (EBA) and the European Central Bank (ECB). With this, Hungary was the first in the European Union to launch, in accordance with the European Union Directive on the recovery and resolution of credit institutions and investment firms (Bank Recovery and Resolution Directive – BRRD), a resolution college affecting the banking group subject to the MNB's competence and to begin preparations for drawing up the group resolution plan.

The MNB is an active participant in shaping the regulatory environment both at the European Union and at the domestic level. Accordingly, among other things, the MNB continued working on the enhancement of the coherence of the resolution framework. Moreover, the integration of the EBA guidelines into the practice of the resolution authority was completed during the year: under the BRRD and in accordance with the relevant EBA guidelines, the

MNB developed the rules of the resolution procedure and in the form of a Resolution Handbook and published the resolution methodology covering the resolution procedure from the preparation process to the conclusion of the procedure. As a result of intensive professional work, the MNB completed the second draft decree on resolutions in the second half of the year in the subject of the methodology of the ex-ante review of the implementation of resolution objectives. In December, the MNB drew up its draft proposal regarding the annual contributions paid to the Resolution Fund in proportion to the risk profile determined on the basis of the requested information. The contributions were determined on the basis of the directly applicable EU regulation (Regulation) issued on the subject of ex-ante contributions to the resolution financing arrangements. During the year, the MNB commenced resolution planning in the form of data requests, analyst background work and consultation with the affected institutions.

One key task of the MNB is to inform market participants about the regulatory changes affecting their activities in an adequate format. To that end, for the second time in September 2015, it arranged a market consultation for the joint review of regulatory developments regarding resolutions across the EU and in Hungary and the resulting expectations for market participants.

The MNB also participates actively at the international level in enhancing the resolution framework and building international relations. The experts of the MNB are standard-setting participants in the resolution working groups of international and European organisations, including, in particular, participation in the Q&A network designed to interpret the specific provisions of the BRRD, and the multiple-day seminar (so-called technical assistance) held in Moldavia by the MNB's experts at the request of the European Commission regarding the banking supervision and resolution regulatory framework of the European Union and the experiences regarding its application in Hungary.

In 2015, the MNB's most important task in this regard was the resolution of MKB Bank Zrt. (MKB). On 18 December 2014, the MNB placed MKB under resolution and, accelerating the transformations required for the

restoration of profitability, it began the reorganisation of the institution. The MNB discontinued the business segments that were not closely related to the core activity of MKB Bank and reorganised the group engaged in vehicle financing, retaining the leasing segment. As a result of the reorganisation, operating expenses decreased significantly; among other things, personnel was reduced, including management, and certain branch offices were closed down.

Along with the restructuring, from the beginning of 2015, work commenced on shedding toxic portfolio elements as part of a two-step process. In the first step, an external professional consultant was retained to announce the sale of the bad asset portfolio – which comprised commercial real estate financing transactions – under market conditions. As a result, for the first time in Hungary and in accordance with the Resolution Act,² a resolution tool (sale of business) was deployed: comprising numerous syndicated, non-resident and Hungarian real estate financing transactions the asset portfolio of MKB Bank was sold in the framework of the resolution procedure. In the second step, the remaining commercial real estate portfolio was divested from the credit institution (asset separation tool). To ensure the resolution procedure's compliance with European Union rules, the MNB carried out intensive consultations with the competent Directorates General of the European Commission, and as a result, by its decision published on 16 December 2015, the European Commission approved the divestiture of the remaining commercial real estate portfolio as an impaired asset measure. In accordance with the decision of the European Commission, Magyar Szanálási Vagyonkezelő Zrt. (MSZVK) – a resolution asset management vehicle established by the Resolution Fund – purchased the bad assets of MKB at real economic value (which is higher than the current market value), as defined by an independent appraiser. The funds required for the acquisition of the assets by MSZVK were provided – at market rate and under the state's statutory guarantee callable on first demand – by a consortium composed of domestic commercial banks.

The MNB provided professional assistance to the Resolution Fund for the establishment of MSZVK, for the finances and also for the execution of the complex process of the transfer of claims and assets.

² Act XXXVII of 2014 on the further development of the system of institutions strengthening the security of the individual players of the financial intermediary system (Resolution Act).

The transaction required the appointment of a number of experts (to determine the actual economic value, to evaluate the real estate portfolio, to prepare the independent appraisals and to review the MKB's restructuring plan and medium-term business plan).

In the last quarter of 2015, preparations began for the sale of MKB: after a series of investor meetings, non-binding bids for the purchase were received in December, and preparations started for the due diligence of the Bank by investors.

3.5 PAYMENT AND SECURITIES SETTLEMENT SYSTEMS

Security of domestic payments

Findings of payment inspections

In 2015, the MNB verified compliance with the provisions of Act LXXXV of 2009 on the Pursuit of the Business of Payment Services (hereinafter: Act on Payment Services) and MNB Decree No. 18/2009 (VIII. 6.) on executing payments (hereinafter: MNB Decree) at 22 credit institutions and branches of EU-based credit institutions (hereinafter collectively: credit institutions). In addition to scheduled inspections, at the beginning of 2015 the MNB concluded 10 inspections carried over from 2014; along with prescribing measures, the MNB imposed fines amounting to a total of HUF 24.2 million in the case of 5 inspections. In two cases, the measures prescribed based on the inspections carried out in 2014 were implemented inadequately; the MNB therefore prescribed additional measures and repeatedly imposed fines amounting to HUF 4.2 million in these cases. Inspections conducted in 2015 found violations of legal regulations in 176 cases. Of these cases, 14 inspections were concluded by the application of measures (the MNB instructed the institutions concerned to meet their obligations by the deadline and to perform, in this context, extraordinary data supply). The MNB imposed fines in these cases amounting to HUF 38.8 million in total on 5 credit institutions, due to the severity of the irregularities. Thus, the fines imposed in 2015 amounted to a total of HUF 67.2 million, including fines carried over from the previous year and follow-up audits. In addition, six administrative procedures were still in progress on 31 December 2015.

The inspections revealed that credit institutions violated the provisions of the Act on Payment Services in respect of the provision of ex-ante and ex-post

information, the formal and substantive requirements of the master agreement pertaining to the provision of payment services, the amendment of the master agreement, the opening of the payment account, the correction of payment transactions, liability and loss allocation rules and queuing rules. Moreover, violations of the MNB Decree were found in respect of certain rules pertaining to the receipt of payment orders, the rejection of payment orders issued by the other payment service provider or by the client, the queuing or partial execution of payment orders, the administrative order to transfer, the court order to transfer, the execution of the payment order, the execution of payment transactions between payment service providers to the credit of the payment account, the value date, the provision of the amount of the payment transaction to the beneficiary and the execution of direct debits. The most frequent infringements involved violation of the requirements of the Act on Payment Services in respect of the supply of ex-ante and ex-post information, and of the MNB Decree in respect of making the amount of the payment transaction available to the beneficiary.

By reinforcing the compliance of credit institutions and other payment service providers with regulations, payment inspections contribute to the reliable and compliant operation of the financial intermediary system, the predictability of payment processes for customers, and hence, the efficient delivery of services to customers.

Statements on payments

In 2015, the central bank issued 23 statements and professional opinions on payments based on administrative and customer inquiries. In four cases, the MNB provided an opinion focusing on payment issues in relation to European Union legislation, and in 19 cases it issued statements or professional opinions based on household, institutional, administrative or other requests.

Transposition of the recommendations and guidelines on the security of internet payments into Hungarian practice

Due to the rapid development of the payment solutions available on the internet, it has become critical to establish the relevant security requirements. To that end, in the context of the cooperation between the European Central Bank (ECB) and the European Banking Authority (EBA) and with the participation

of Member States – including Hungary – specific control and security measures for internet payments were developed. These are essentially uniform recommendations and guidelines for the provision of information to customers and communications with them. The final guideline was issued by the EBA at the end of 2014, which must be satisfied by the payment service providers and the payment methods operating in the Member States from 1 August 2015. The MNB, as the competent authority, fully supports the objective of the guideline and agrees with the importance of protecting customer safety and sensitive payment data. Accordingly, the MNB prepared the Hungarian recommendation applicable to the safety of internet payments. The recommendation covers all institutions that provide internet-based payment services to their customers. The MNB verifies compliance with the recommendation within the framework of payment audits.

Payment and settlement systems

Oversight of the domestic payment and settlement systems

The MNB's Financial Stability Board approved the report on the operation of the payment, securities clearing and settlement systems in 2015, which stated that the MNB's real-time gross settlement system (RTGS), the interbank clearing system (ICS) operated by GIRO Zrt, and the securities settlement and settlement systems of the KELER Group functioned with a high degree of reliability, without major incidents and with sufficient liquidity in 2015.

Comprehensive oversight assessments using the reformed oversight framework

With a view to ensuring the reliable, efficient operation of the systems overseen by the MNB, the new international oversight principles related to financial infrastructures were implemented in the domestic practice in 2014, as part of which the risk-based oversight framework applied until then was reformed. As a result of this, in 2015 the comprehensive oversight assessment of the systems was already performed on the basis of the reformed framework. Based on the findings of the assessments, it can be stated that in the period under review the domestic systems operated safely, efficiently and transparently, thus supporting the operation of the domestic money and capital market, and thereby strengthening financial stability.

Further acceleration of domestic transfers execution

With a view to further accelerating transfers and enhancing efficiency, from 7 September 2015 the MNB and GIRO Zrt. increased the number of settlement cycles from five to ten, i.e. on working days interbank transactions are settled in ten cycles. As a result of this, on working days the first settlement cycle is executed at 7:30 am, which provides earlier access to credit transfers on the beneficiary bank accounts, while the last settlement cycle is executed later, i.e. at 5:00 pm. The earlier cycle is advantageous primarily for households, while the later settlement times are favourable for the corporate sector, as they have the opportunity to initiate payments with same day settlement until a later time. With the introduction of the earlier and later cycles, the time available during the day also became longer. With the extension of the uptime and the harmonisation thereof with other developments, the uptime of the real-time gross settlement system (RTGS) performing the intraday clearing of the Interbank Clearing System (ICS) was also prolonged; since 3 August 2015 the system already starts at 7:00 am instead of 8:00 am. As a result of these developments, transfers can reach the beneficiaries' accounts within less than one and a half hours on average, instead of the previous time of slightly more than two hours. The number of additional intraday payments that can be executed from the incoming credit transfers may increase, the efficiency of the corporate sector's liquidity management may further improve and the waiting time in the case of transactions following the execution of the payment (e.g. sale, receipt of goods) may decrease, and thus payment by transfer may more often represent a favourable alternative to cash payment. As a result of the higher frequency of the cycles – based on the experiences gained so far – the turnover of individual settlement cycles decreased, which may also be positive for bank liquidity. The development may also contribute to the further increase in the number of electronic transactions, thereby making the operation of payments more efficient and reducing the social expenses of transaction execution.

The forint accessed the continuous linked settlement (CLS) mechanism

On 16 November 2015, the MNB successfully joined the CLS system. In February 2014, the MNB and CLS Bank International launched a joint project with the objective of making the forint a settlement currency

for the users of the continuous linked settlement service provided by CLS. Before the accession of the forint, credit institutions could settle foreign exchange transactions using a multilateral net method in seventeen currencies. With the addition of the Hungarian legal tender as the eighteenth currency, it became possible to execute transactions between the forint and other CLS currencies free of currency settlement risk – which was previously managed to a lesser degree – in the case of the domestic and international banks which have access to the service. Consequently, by creating internationally harmonised processes the service rendered by CLS contributes to enhancing the safety of both international and domestic interbank cooperation. The tasks completed last year included the framing of laws and regulations, as well as IT and business changes, which all served the purpose of developing the operating environment necessary for accession.

The MNB was invited to the international working group performing the cooperative oversight of CLS

Oversight of the foreign currency settlement system (CLS) rendering international services takes place with the participation of the respective countries' central banks, headed by the central bank of the country where the system is seated. In the case of CLS, the primary overseer is the Federal Reserve Bank of New York. The tools and duties of cooperative oversight are identical to those of oversight related to national financial infrastructures. In view of the fact that in November 2015 the forint became part of the CLS mechanism, the MNB, as the 18th central bank, received an invitation to participate in the international CLS Oversight Committee, which carries out cooperative oversight duties. The MNB's participation in cooperative oversight contributes to the identification and mitigation of risks related to the banking system, and the international payment and settlement systems.

Renminbi settlement centre established in Hungary

In recent years, fostering the international use of the renminbi became a key objective of Chinese economic policy. As part of the Central Bank Renminbi Programme, the MNB – as the first entity in Central and Eastern Europe – is supporting an increase in the weight of renminbi in international settlements. With the programme, the MNB aims to set up money, foreign exchange and capital market infrastructures,

to enhance the clearing and settlement systems and to support negotiations in respect of Chinese capital market licences with the involvement of the financial, corporate and government actors that have a role in renminbi settlements.

On 27 June 2015, the MNB and the People's Bank of China (PBC, the central bank of the People's Republic of China) concluded an agreement on the establishment of the renminbi settlement mechanism in Hungary, and on 1 July the PBC designated the Hungarian branch office of the Bank of China as an official renminbi clearing bank. Thus, Budapest became the fifth renminbi centre in Europe, after Frankfurt, London, Paris and Luxembourg. Within the framework of the clearing arrangement, the PBC and the MNB agreed that they would perform the supervision and oversight of renminbi settlement, the exchange of information, as well as the assessment and development of the system together in a concerted manner. The Budapest settlement centre, also collecting deposits and granting loans denominated in renminbi, will provide easier access to the Chinese financial system, facilitate transactions between Chinese and Hungarian companies and assist the activity of investors using the Chinese currency.

Payment table set expanded further

The MNB's publication on payment turnover was expanded to include the table set presenting the most important statistics related to the payment and securities settlement systems, thus presenting the domestic financial infrastructures with substantially broader and more detailed data. In addition to publishing the statistical tables in the usual form, for the first time the MNB also prepared an interactive interface, which makes data analysis and tracking of the payment systems' main trends easier and more interesting. For the interactive interface, see the following link: <http://www.mnb.hu/letoltes/interaktiv-felulet.swf>

Other information

The Budapest Stock Exchange is once again in Hungarian hands

On 9 December 2015, as a result of the sales contract signed with the former Austrian owners and the subsequent approval of the competition authority, the MNB became the 75.75 per cent owner (thus holding a qualified majority) of the Budapest Stock Exchange

Ltd., as a result of which the stock exchange once again became national property. It is a priority objective of the MNB to develop the stock exchange and create an efficiently operating capital market of sufficient size, since it contributes to establishing a financial system of sounder structure and – by guaranteeing the transparency of listed companies – to a further reduction of the shadow economy. The new ownership structure, which ensures efficient operation, as well as the cooperation with the government with a view to developing the Hungarian capital market, will promote the achievement of the new strategic goals of BSE Ltd. The MNB plans to introduce a number of strategic innovations serving the development of the Hungarian capital market and strengthening the stock exchange, to provide proper incentives for Hungarian stock exchange issuers and investors. In the development of the new strategy, the MNB wishes to cooperate with the stakeholder market participants. With this objective in mind, it established the Stock Exchange Advisory Board with their participation.

Publications related to payments and payment systems

The central bank's publication *Payment Systems Report 2015* was released on 9 June 2015 and provided a detailed presentation of the development trends in the domestic payment methods and means, the evolution in payment efficiency, as well as the developments related to the operation of the domestic payment and settlement systems and the oversight of such. Moreover, in 2015 a paper on payments was included in each issue of the MNB Bulletin (altogether four), which are available on the central bank's website. These papers analyse the anticipated effects of the cooperative banks' integration on payments, the time needed for transfers in the intraday clearing, the features of the overnight interbank transactions executed in the large-value payment system³ operated by the MNB, and the results of survey on the payment practices of households. Additionally, the equilibrium model elaborated for the assessment and forecasting of the public policy decisions related to the payment system was published in issue 2015/3 of the English-language MNB Working Papers series, which mostly presents research of an academic nature. The MNB's economist presented the paper in the form of a lecture at the annual conference on electronic money and payments organised in Ottawa (Canada), at the invitation of the Bank of Canada.

3.6 FOREIGN EXCHANGE RESERVES MANAGEMENT

Purposes of holding reserves

Similarly to other central banks, one of the key tasks of the MNB – as specified in the Act on MNB – is to manage the foreign exchange reserves of the country. The MNB holds foreign exchange reserves for the purpose of fulfilling several functions:

- providing sufficient reserves to meet the requirements of the international investment climate (international collateral),
- providing intervention capacity (i.e. supporting monetary and exchange rate policy),
- providing foreign currency liquidity for the banking system,
- ensuring the state's need for foreign currency transactions (supporting the public debt management, satisfying the state's foreign currency payments, etc.)

The reserve adequacy indicator primarily followed by market participants and also by the MNB is – the internationally recognised – Guidotti rule. Based on this rule, reserve adequacy was favourable throughout the whole year of 2015. Foreign exchange reserves, even in comparison with other reserve indicators, essentially exceeded the level required by investors. The MNB regularly reviews the desirable level of reserves and, if necessary, initiates measures – within the permitted limits – to reach the adequate level.

The foreign exchange swap facility, which supports the foreign currency liquidity of the banking system and was introduced after the crisis as part of the set of monetary instruments, is backed by a sufficient volume of liquid foreign exchange reserves. In addition to the monetary policy swap instruments, in 2015 the swap instruments related to the conversion of household foreign currency loans should also be mentioned; these instruments were used by the MNB to supply the foreign currency needed by the banking system for the conversion of foreign currency loans into forint.

As regards transaction objectives, the most important goal was still the provision of foreign currency liquidity

³ Real-time gross settlement system

necessary for the management of the state's debt. The state repurchased foreign currency bonds as part of debt management, and renewed a large part of the expiring foreign currency-denominated government debt by issuing forint government securities, which was greatly facilitated by the MNB's self-financing programme. The continuous provision of the budgetary institutions with foreign currency should be mentioned here. The transfers received from the European Union also flow through the MNB; these have been and will be substantial sources of reserve accumulation. The aforementioned transaction goals were satisfied smoothly during 2015 as well.

The MNB still does not hold foreign currency purely for asset accumulation purposes. On the other hand, in the course of managing the required volume of foreign reserves it makes efforts to enforce yield considerations at all times, i.e. as a responsible asset manager to retain and, if possible, even increase the value thereof.

Reserve size

The size of the official foreign exchange reserves decreased by EUR 4.26 billion during the year, and thus at the end of 2015 reserves amounted to EUR 30.3 billion.

The reserve stock was primarily reduced by the maturities of the bonds of the Government Debt Management Agency and the MNB, and other debt management items. Items that should be mentioned include the Government Debt Management Agency's bond maturities in the amount of USD 1.5 billion on 3 February, the Premium Euro Hungarian Government Bond maturity in the nominal value of EUR 1 billion on 21 December and the MNB's bond maturity on 14 October in the amount of JPY 10 billion. In addition, in the second half of the year a prepayment was made in the amount of almost EUR 1.1 billion. Other debt management items, including the Hungarian foreign currency government bonds repurchased as part of the self-financing programme and orders received from budgetary institutions, reduced the reserves by roughly EUR 1 billion. Similarly to previous years, the transfer received from the European Union was the largest reserve increasing item, amounting to EUR 4.4 billion in 2015. The return on foreign exchange reserves was EUR 50 million. The payments related to the conversion of households' foreign currency loans reduced the reserves by roughly EUR 3.8 billion. The change in the short hedged deposits represented a decrease of roughly EUR 340 million.

Chart 10
Development in the size of foreign exchange reserves



Financial performance and risks of foreign exchange reserves

In fulfilling its core tasks as stipulated in the Act, i.e. managing the country's foreign exchange reserves, the MNB inevitably faces financial risks. The basic principles are that the degree of the assumed risks should be aligned with the objectives of the core activity, the size of the risks should be known, and risk assumption should be conscious and limited, in accordance with the institution's risk taking capacity. In the course of foreign exchange reserves management, the threefold objective of liquidity, security and yield must be satisfied, meaning that the MNB tries to achieve the highest yield level while continuously keeping the risks at the pre-defined low level.

Similarly to the other central bank duties, the Monetary Council is also the supreme decision-making body in respect of foreign exchange reserves management: it defines the objectives and requirements related to the foreign exchange reserves, such as the level and liquidity of the reserves, decides on the currency used for optimisation, the risk strategy and the most important numerical strategic parameters of the reserve investment. The operative decision-making powers are exercised and the foreign exchange reserve management strategy is implemented by the Executive Board within the framework stipulated by the Monetary Council. The Executive Board approves the limit system serving as a framework for risk taking: the permitted maximum deviation of the reserve portfolios from the benchmarks, the counterparty limits and the range of investment instruments permitted in the field of reserve management.

The two main pillars of the reserve management are the benchmark system and the limit system. Independent performance measurement is an important element of the risk-taking policy. With a view to ensuring the measurement of the success of portfolio management, the performance of each reserve portfolio is compared with the performance of a reference (benchmark) portfolio. The benchmark portfolios show the yield that would have been earned by a passively managed portfolio representing a wide market segment with the same investment parameters. The performance of foreign exchange reserve management activity is presented in comparison to these reference portfolios. The benchmarks reflecting the risk-return preference of the MNB and serving the performance measurement of the portfolios are maintained by the risk management unit independent of the business area.

The most important risk categories related to foreign exchange reserve management include the market risk, liquidity risk, credit risk, settlement risk and counterparty risk. The MNB controls the possible degree of financial risks related to foreign exchange reserve management using limits. In accordance with the conservative reserve portfolio management characteristic of central banks, the MNB applies a strict limit system, which considers market and other indicators, in addition to the expected high level of credit ratings.

In the course of foreign exchange reserve management, the MNB applies a variety of risk-minimising techniques to ensure that the assumed risks comply with the MNB's risk tolerance. In the case of derivative instruments, the MNB concluded ISDA (International Swaps and Derivatives Association) and related CSA (Credit Support Annex) contracts with its counterparties, which keep the credit risk exposure potentially arising in respect of the counterparty at a low level through the margin arrangement. In the case of the repo transactions regulated by the GMRAs (Global Master Repurchase Agreement), the prescribed margin also helps to limit risks. In the case of foreign exchange market transactions, the MNB settles its transactions, in accordance with the international best practices, in the CLS system, thereby minimising its settlement risks. In the course of reserve management, the MNB also considers the foreign currency liquidity requirement of the newly introduced monetary policy instruments.

The MNB manages EUR, USD, JPY and GBP portfolios. The MNB assumes exchange rate exposure only in EUR: it hedges the other currency/euro cross rate risks by derivative instruments. The holding of other exchange rate-hedged foreign currency instruments is justified by the higher diversification and, in the case of the US dollar, the available higher liquidity. The MNB actively manages a total of six portfolios in euro, US dollar and British pound; the MNB changed the style of the British pound portfolio management from passive to active in 2015. The MNB manages the Japanese yen portfolio, containing government securities only, as an index-linked portfolio strictly following the benchmark. From the end of 2012 – in the form of a mandate given to an external asset manager and custodian – US agency mortgage backed securities (MBS) also form part of the MNB's investment strategy. The MNB decided in 2015 to allocate a small part of the foreign exchange reserve portfolios to Chinese government securities investments, the first step of which was carried out indirectly, in cooperation with BIS (Bank for International Settlements, Basel). The strategic average duration (target duration) of the reserve portfolios was around 1 year.

The EUR risk-free portfolio represents the backbone of the foreign exchange reserves and may only include highly-rated government securities, state-guaranteed securities and the issues of (supranational) international institutions. Its benchmark includes 100 per cent euro area government securities of AAA-AA rating. In addition to the foregoing, highly-rated corporate and bank issues, and covered securities may be purchased for the EUR investment portfolio; this portfolio typically includes government securities only for the purpose of adjusting the maturity structure.

The benchmark of both the euro and the US dollar investment portfolio contains government securities, corporate and bank bonds, as well as money and capital market instruments of high credit rating with a maximum residual maturity of 7 years. The structure of the benchmark portfolios, the credit rating and residual maturity of the assets reflect a conservative willingness to take risks, typically characterising central banks.

In the decreasing yield environment resulting from the global crisis that commenced in 2008, most central banks realised a profit on their foreign exchange reserves as a result of the typically rising prices of

the bonds managed in the central banks' portfolios. With the government and other bonds of mostly high credit rating, managed in its portfolios, the MNB also benefited from this process through the revaluation of the positions as a result of the decreasing yield environment. In view of the yield environment that sank close to zero there is no longer an opportunity for further price increase, which explains the more modest performance compared to previous years. Similarly to previous years, the diverging monetary policy measures of the ECB and the FED had a considerable impact on 2015 as well. In the USA, after quantitative easing was abandoned and the asset purchase programme ended, investors started to price in the impact of potential interest rate increases. Expectations with regard to interest rate increases changed continuously during the year, and finally an increase of 25 basis points was implemented in December. By contrast, in Europe easing the monetary stance remained in focus. The uncertainties around Greece exerted an opposite impact on the yield curve than the ECB's easing programme. In May and June, significant volatility was observed as a result of the unproductive negotiations between creditors and Greece. The situation in Greece consolidated in August after the Greek Parliament and creditors accepted a new financing package. The monetary easing that characterised the euro area manifested itself in negative deposit rates and in the continuation of the asset purchase programme launched previously. In accordance with the diverging monetary policies, the euro yield curve for maturities below 5 years, being in the negative domain, dropped by 10-40 basis points to a varying degree depending on the maturities, while in the case of the US dollar it shifted upward by 15-40 basis points, varying by maturities.

Despite the low yield environment, in 2015 the Bank achieved positive performance on the foreign exchange reserves both in absolute terms and compared to the respective benchmarks. The liquidity allocated for the attainment of the monetary policy objectives was continuously available during the year and no credit risk event occurred that would have had an adverse effect on the MNB's reputation. In 2015, the annualised yield realised on foreign exchange reserves – weighted by the market value and adjusted for the financing cost – was 0.14 per cent, outperforming the benchmark by 11 basis points.

In respect of the future performance of foreign exchange reserves, it still represents a risk that the

performance of the reserve portfolios may become negative if the yields of the highly rated assets move from an extremely low level as result of a yield increase, which deteriorates reserve performance as a result of the revaluation loss arising from depreciation of the existing bonds over the short run. On the other hand, due to the short duration of the reserves, the medium-term impact of this is already positive.

At the end of 2015, the value at risk of the items included in the MNB's foreign currency balance sheet under interest rate change was EUR 35 million (VaR at 95 per cent confidence level on a horizon of 1 month). The value at risk of EUR 35 million represents roughly 1 thousandth of the reserve portfolios.

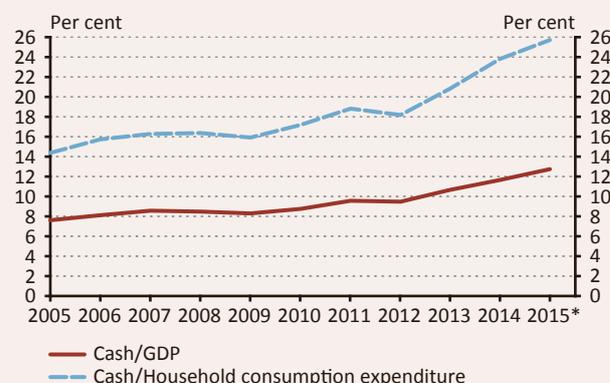
3.7 CASH LOGISTICS ACTIVITY

Currency in circulation

On 31 December 2015, the total value of currency in circulation amounted to HUF 4,305 billion, representing a 15 per cent year-on-year increase of HUF 569 billion.

Due to the dynamic increase in cash holdings, the GDP-proportionate value of this indicator reached 12.8 per cent. The increase in cash holdings is presumably attributable to the fact that last year – in parallel with the decreasing inflationary environment – deposit rates fell, thereby further reducing the interest loss related to currency holdings, and the expansion of retail trade may have also had a positive impact on cash demand.

Chart 11
Cash/ GDP and cash / Consumption expenditure of households



* The 2015 GDP figure and the consumption expenditure of households are MNB estimates.

In 2015, the 20,000-forint banknote contributed 10 per cent to the growth in the cash volume in circulation, the 10,000-forint banknote contributed 28 per cent, the 5,000-forint banknote contributed 5 per cent, the 2,000-forint banknote contributed 4 per cent, the 1,000-forint banknote contributed 6 per cent and the 500-forint banknote contributed 4 per cent.

The two largest banknote denominations still play a dominant role in the cash turnover: at the end of last year they jointly accounted for more than 64 per cent of the volume of banknotes in circulation. This is due to the fact that in addition to their payment role in

the cash turnover, they also fulfil a capital formation function.

Compared to the end of previous year, the volume of the forint coins in circulation increased by 6 per cent on average, without significant growth in any of the denominations.

The MNB's expenditures related to the cash production amounted to HUF 10.9 billion in 2015. The increase compared to previous years is primarily attributable to the higher manufacturing needs related to the new, developed banknotes.

Chart 12
Distribution of banknotes in circulation by quantity at end-2015

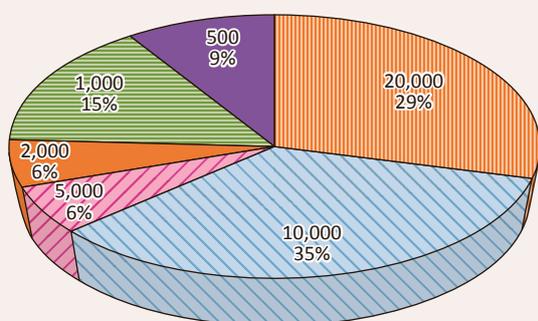


Chart 13
Banknote and circulation coin manufacturing
(gross expenditure)



Table 7
Data on banknotes and coins⁴ in circulation on 31 December 2015

Banknotes	Volume	Value	Ratio (%)	
	Million pieces	Billion HUF	Volume	Value
20,000 forint	124.6	2,491.0	29.3	58.8
10,000 forint	148.6	1,486.1	35.0	35.1
5,000 forint	26.2	130.8	6.2	3.1
2,000 forint	23.8	47.6	5.6	1.1
1,000 forint	63.2	63.2	14.8	1.5
500 forint	38.7	19.3	9.1	0.4
Total	425.0	4,238.1	100.0	100.0
Coins	Volume	Value	Ratio (%)	
	Million pieces	Billion HUF	Volume	Value
200 forint	121.4	24.3	8.0	41.3
100 forint	161.9	16.2	10.6	27.6
50 forint	142.6	7.1	9.3	12.1
20 forint	272.4	5.4	17.9	9.3
10 forint	317.5	3.2	20.8	5.4
5 forint	509.6	2.5	33.4	4.3
Total	1,525.4	58.8	100.0	100.0

⁴ The table does not include holdings of commemorative coin and commemorative banknotes issued by the central bank, which – as legal tender – form part of the means of payment in circulation, but, in accordance with their role, do not participate actively in the execution of cash turnover.

Distribution of cash

In 2015, the MNB managed cash turnover for its customers, i.e. credit institutions and the Hungarian Post Office, in a total amount of HUF 4,132 billion; within that it distributed 291 million banknotes to its customers, while 241 million banknotes were delivered to the central bank. In the past year, the MNB declared unfit for circulation and destroyed 63 million end-of-life banknotes, and replaced them by new, high quality means of payment.

Prevention and reduction of counterfeiting

Although the 2,149 forint banknote counterfeitings identified in cash turnover in 2015 represents a minor increase compared to the previous year when the number of counterfeitings was extremely low, it can be

Chart 14
Annual trends in the number of counterfeit forint banknotes identified in turnover

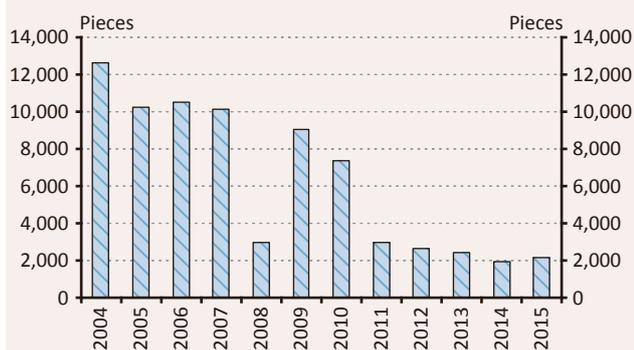
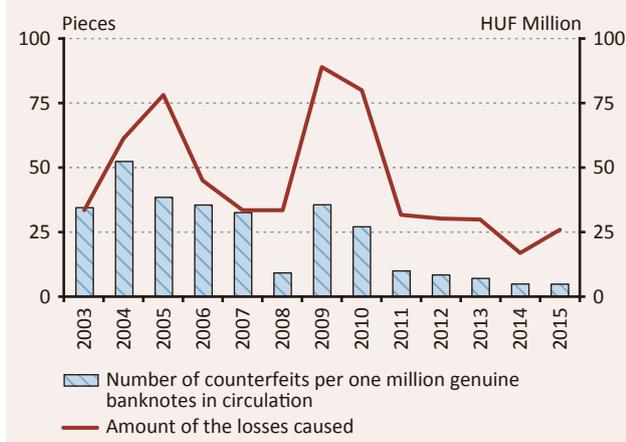


Chart 15
Trends in the counterfeitings for each one million genuine banknotes and the value of the resulting damage



still stated that the counterfeiting of forint banknotes remains low.

The number of counterfeit banknotes for each one million genuine banknotes in circulation was 5 in last year, which is extremely favourable even by international standards.

The free educational activity performed by the MNB in respect of banknotes also contributed significantly to maintaining the favourable situation. In addition to the educational materials provided by the central bank and also published on the internet, in 2015 the MNB's experts trained more than 3,500 retail cashiers in the efficient identification of counterfeit banknotes.

In 2015, the counterfeiting of the higher denominations (10,000-forint and 20,000-forint) was once again the most common, accounting for 87 per cent of all counterfeitings.

Table 8
Denomination breakdown of discovered forint banknote counterfeitings in 2015
(per cent)

Denominations	500	1000	2000	5000	10,000	20,000
Breakdown	3	0	2	8	56	31

The counterfeiting methods, still characterised by the use of office reproduction equipment (colour copy machines, printers), also did not change considerably.

Persons familiar with the features of authentic banknotes can detect the occasionally deceptive counterfeitings using simple checks (touching, holding up to light or moving) or in a cash office environment using combined checks, i.e. with the use of UV-A and UV-C light.

The occurrence of counterfeit foreign currency is still negligible. The central bank's experts examined 2,144 various foreign currency counterfeitings in 2015. Of these, the number of counterfeit euro banknotes was 1,451.

Cash distribution administrative inspections

In 2015, the MNB inspected compliance with the provisions of the MNB Act on cash issuance and with the Banknote Decree,⁵ and with the MNB Decree

⁵ MNB Decree 11/2011 (IX.6.) on the processing and distribution of banknotes and on technical tasks relating to the protection of banknotes against counterfeiting.

on data supply related to cash processing and cash distribution⁶ in respect of nine credit institutions, three cash processing providers, three currency exchange intermediary companies and one other economic agent.

In 2015, the MNB launched 16 administrative inspection procedures and eight which were launched in 2014 were closed. Of these, in eight cases in a letter of warning the MNB called upon the inspected institutions to eliminate the shortcomings identified; it found no infringement in 14 procedures and two procedures were still in progress on 31 December 2015. Warnings were issued in five cases due to infringements identified during the continuous inspection of the data from regular reporting.

During the administrative inspection procedures completed in 2015, the MNB identified the violation of certain rules applicable to the recycling of banknotes, the maintenance of banknote handling machines and the documentation of changes in their fitness selection parameters, the action plan for the management of extraordinary situations occurring in the distribution of cash, the management of incomplete or damaged banknotes, the denomination exchange of banknotes, the content of institutions' internal regulations and the management of suspected counterfeit banknotes.

Hungarian banknotes being redesigned

In the period 2014–2018, the MNB is renewing the banknote series currently in circulation, and issuing redesigned, enhanced and modern banknotes that will also satisfy the cash distribution requirements of the banknote processing units and automated teller machines, while at the same time providing state-of-the-art protection against counterfeiting.

From among the banknote series consisting of six denominations, the MNB first renewed the 10,000-forint banknote in 2014. The next station of the enhancement process was the 20,000-forint banknote, which became legal tender from 25 September 2015.

The redesigned 20,000-forint banknotes gradually appeared in the circulation from December 2015, after the adequate preparation of the actors of the cash distribution chain, and their use is expected to spread widely during 2016. The former 20,000-forint

banknotes can be used in cash turnover until the end of 2016; after the date of the withdrawal, credit institutions and the post offices are obliged to exchange the withdrawn banknotes for legal tender free of charge for 3 years, while the MNB will exchange them for 20 years after the date of withdrawal.

Issue of commemorative coins

Pursuant to the MNB Act, the MNB has exclusive right to issue banknotes and coins, including also the commemorative banknotes and commemorative coins, which are legal tenders of Hungary.

Since 2014, the MNB has also issued all commemorative coins made of precious metal in a cheaper, non-ferrous metal version, with a view to enforcing the coins' value-conveying, attention-raising and educational roles in a wider circle. The MNB's decision with regard to the distribution of silver commemorative coins (for 3 month after issue) and non-ferrous metal commemorative coins at face value also serves the purpose of expanding the range of conveying value.

Based on the statutory powers and in the spirit of the sales policy in place since 2014, in 2015 the central bank issued 22 commemorative coins in 11 topics. Three of these were gold coins, seven were silver coins and 12 were non-ferrous metal commemorative coins.

On 27 February 2015, within the framework of the "Csók 150" commemorative year, the MNB paid tribute to István Csók, one of the Hungarian painters to win the most awards and prizes at home and abroad, by issuing a silver coin with a face value of HUF 10,000 and a non-ferrous metal coin with a face value of HUF 2,000.

On 30 March 2015, the Magyar Nemzeti Bank issued a silver coin with a face value of HUF 10,000 and a non-ferrous metal coin with a face value of HUF 2,000 to commemorate the 500th anniversary of the birth of Sebastyén Tinódi (one of the most well-known figures of Hungarian epic poetry in the 16th century).

On 1 April 2015, the MNB issued a silver coin with a face value of HUF 5,000 and a non-ferrous metal coin with a face value of HUF 2,000 to commemorate the 90th anniversary of the Nobel Prize awarded to

⁶ MNB Decree 48/2014 (XII. 9.), which was in force in 2015, on the obligations of money and credit market institutions to report data to the central bank's information system primarily to enable the Magyar Nemzeti Bank to carry out its supervisory duties.

Richárd Zsigmondy (an outstanding figure of colloid chemistry).

On 22 April 2015, the series presenting Hungarian national parks was expanded to include a silver and a non-ferrous metal collector coin named "Duna-Ipoly National Park" with a face value of HUF 10,000 and HUF 2,000, respectively.

On 30 June 2015, the MNB issued a silver and non-ferrous metal collector coin named "Jurisics Castle, Kőszeg" as the 6th member of the "Hungarian Castles" series, which commenced in 2004.

As part of the inventions and technical innovations of Hungarian engineers and inventors series, on 24 July 2015 the MNB issued a non-ferrous metal collector coin named "125th anniversary of birth of Kornél Szilvay" with a face value of HUF 2,000 in BU and proof version. Kornél Szilvay was one of the greatest figures of Hungarian firefighting and an outstanding representative of the Hungarian history of technology.

On 29 August 2015, the MNB issued a bronze-patinated copper alloy collector coin named "National Memorial Site Mohács" with a face value of HUF 2,000 as part of the National Memorials of Hungary series.

On 3 September 2015, the MNB issued version commemorative of the HUF 50 circulation coin. By issuing the new 50 forint coin, the Bank wishes to draw the attention of society to the importance of national and historical memorial sites, to their purpose, as well as to the role played by the various sites in history. Two million pieces of the special metal coin were put into circulation.

On 26 September 2015, the MNB issued a gold collector coin with a face value of HUF 50,000 and HUF 5,000 and a non-ferrous metal coin with a face value of HUF 2,000 to commemorate the 425th anniversary of the first Hungarian translation of the Bible.

On 1 October 2015, the Magyar Nemzeti Bank paid tribute to Kálmán Széll by issuing a silver collectors coin and a non-ferrous metal collector coin with a face value of HUF 5,000 and HUF 2,000, respectively, to mark the 100th anniversary of the death of the statesman.

On 15 October 2015, the MNB issued a silver commemorative coin and a non-ferrous metal collector coin, named "Róth Miksa" with a face value of HUF 10,000 and HUF 2,000, respectively, to mark the 110th anniversary of the building of the Magyar Nemzeti Bank and 150th anniversary of the birth of Róth Miksa.

To close the 2015 commemorative coin programme, on 6 November 2015 the central bank issued a gold collector coin – also fitting in the "Smallest Gold Coins of the World Collection" series – with a face value of HUF 5,000 and a non-ferrous metal coin with a face value of HUF 2,000 to mark the 150th anniversary of the death of Ignaz Semmelweis. With the issue the MNB paid tribute to the physician described as the "saviour of mothers" who, with his invention, was the early pioneer of antiseptic procedures and established the aseptic gynaecological and birth procedures.

3.8 STATISTICAL SERVICES

For the purpose of fulfilling its duties as specified in the MNB Act, the Magyar Nemzeti Bank collects statistical information and publishes the statistics compiled from such.

The MNB prepares and publishes on its website the monetary, balance of payments and international investment position, financial account and securities statistics, the time series containing the data related to the supervisory, the payments and payment systems, the price and exchange rate statistics, and to the financial stability, macroprudential and financial intermediary system, in accordance with the published release calendar. In relation to the individual statistical areas the MNB also issues methodological publications.

Similarly to the previous years, five MNB Decrees were issued in 2015 in respect of data supply for 2016. These consisted of the MNB Decree containing the data supply ordered for the purpose of fulfilling the MNB's fundamental duties,⁷ and another four MNB Decrees⁸ prescribing the data supplies, which are primarily necessary for the fulfilment of supervisory tasks. In 2015, the effective MNB Decrees related to the data supplies of 2015 were modified on six occasions due to changes in the domestic and international legislative environment, and to ensure

⁷ MNB 50/2015. (XII. 9.) protection against forgery

⁸ MNB 48/2015. (XII. 8.) MNB 49/2015 (XII. 9.) MNB 51/2015 (XII. 9.) MNB 52/2015 (XII. 11.) protection against forgery

the receipt of data necessary for the performance of the MNB's macroprudential, payment service and supervisory duties, as well as for the research, analysis and decision support data required for the fulfilment of the MNB's fundamental duties.⁹

Data collection integration projects

The Executive Board of the MNB approved two priority projects of the Directorate Statistics in 2013, after the integration of the HFSA and the MNB: these projects are the *Integration of statistical and supervisory data collection* and the *Integration of statistical and supervisory IT systems*.

The main goal of the *data collection integration project* is to rationalise and consolidate statistical and supervisory data collections after the integration, to eliminate overlaps, and to develop a new, integrated, international quality data collection system that is suitable for satisfying supervisory and central bank statistical requirements. Changing the data collection model will take place over a period of several years, and in parallel, the project entitled "*Integration of statistical and supervisory IT systems*" addresses the required information technology support system. The first step of the *Data collection integration project* was to develop a data collection method for the credit institution sector based on the international accounting standards to be introduced as of 1 January 2017. The deadline for introducing the new data collection system – which is designed to satisfy more detailed and harmonised supervisory and central bank statistical objectives – is consistent with the first milestone of the integration of the information technology systems i.e. 1 January 2017.

In 2015, the new credit institution data collection concept was elaborated in full and was presented to the functional domains of the MNB and to the affected reporting agents. After the consultations in 2015, the MNB's new data supply decree, to be fulfilled from 2017, or rather certain data supplies for the reference period 31 December 2016, is scheduled to be issued

in the second quarter of 2016. After 2017, the data collection project will integrate the reporting scheme of additional sectors and linked to this effort, the IT project will ensure the comprehensive integration of the relevant information technology systems.

Methodological and publication changes in the MNB statistics

In the area of monetary statistics, the effects of the methodological changeover related to the 2014 renewal of the national accounts and financial statistics were first reflected in 2015, both in the central bank's publications and in international data supplies.

From January 2015, the MNB is sending recast data of expanded structure to the ECB, in accordance with the ECB's new decrees related to the monetary balance sheet and interest rate statistics.

During the year, in the relevant monetary statistics press releases, the MNB called the attention to the portfolio and currency structure realignments arising from the conversion and settlement of mortgage loans, and the conversion of the non-mortgage foreign currency consumer loans.¹⁰ In relation to this, satisfying the users' requirements, the range of the data published in the monetary balance sheet and interest rate statistics was also expanded: in the monetary balance sheet, the extraordinary expenditure arising from the settlement due to the exchange rate spread of consumer loan contracts and unilateral contract modification was added, and in the interest rate statistics, the new contract portfolio of refinancing loans due to conversion into forint was added.

The significance of developing and operating databases containing the individual credit information of non-financial corporations and household has increasingly come into focus both in Europe and in Hungary. Hence, it is an important achievement that – in addition to the Central Credit Information System data, taken over from BISZ Plc. in anonymised form –

⁹ The amendments affected MNB Decree 48/2014. (XI. 27.) on data reports required for the performance of the MNB's fundamental duties, as well as MNB Decrees 51/2014. (XII. 9.) and 52/2014. (XII. 9.) MNB data reports by money and financial market institutions, and capital market institutions required primarily for the performance of supervisory tasks [Decrees 4/2015. (III. 6.) MNB, 5/2015. (III. 12.) MNB, 21/2015. (VI. 29.) MNB, 26/2015. (VII. 30.) MNB, 27/2015. (VIII. 6.) MNB, 37/2015. (IX. 24.) MNB].

¹⁰ The conversion of the mortgage loans into forint is regulated by Act LXXVII of 2014 on Settling Certain Issues Related to the Conversion of the Currency of Certain Consumer Loans and to the Rules Governing Interest Rates, while the settlement thereof is regulated by Act XL f 2014 on the Rules of the Settlement of Accounts Provided for by Act XXXVIII of 2014 on the Resolution of the Curia Concerning the Uniformity of Law Regarding Consumer Loan Agreements of Financial Institutions, and on Certain Other Provisions. The conversion of non-mortgage foreign currency consumer loans is regulated by Act CXLV of 2015 on Resolving Issues Concerning the HUF Conversion of Receivables from Certain Consumer Loan Agreements.

another report was also introduced in 2015, containing credit risk and other credit data, to supplement the credit information system.

In 2015, the payments publication was expanded to include the presentation of more important statistics related to the payments and securities settlement systems. Consequently, a larger volume of substantially more detailed data are available for the description of domestic financial infrastructures. The MNB also developed an interactive interface for the publication, which makes the data analysis, and the monitoring of the key trends in the payment systems simpler and more interesting.

Pursuant to Act LXXVIII of 2014, starting from March 2015 the MNB publishes on a monthly basis the interest rate and interest rate spread change indices, as well as the cross-currency interest rate swap (CCIRS) spread index, to be applied for determining the interest rate of consumer loan contracts.

In the analysis of foreign capital flows, user demand arose both in Hungary and on the international scene that within the total foreign direct investment stated in the standard balance of payments statistics, information should also be provided on the size of 'newly issued shares' received by the company. The separation of cross-border mergers and acquisitions within the equity transactions serves the purpose of satisfying these requirements of economists. The MNB started to publish these transactions in September 2015.

Supervisory statistics

The supervisory data collection introduced in 2014 for credit institutions with uniform content and format across the European Union and prescribed in the EU legal acts directly applicable in the Member States (hereinafter: EU reporting standard) were supplemented with new elements in 2015 and several modifications were adopted. The standardised receipt and processing of these data, and guaranteeing the data quality of the reporting in the new format and content represented the largest challenge for the national authorities, thus also for the MNB. Of the uniform European regulations, the reporting with regard to encumbered assets was integrated into the EU reporting standard, while reporting related

to the funding plan – since it was prescribed in an EU directive – was integrated into the MNB's decree determining the reporting obligations of the money and credit market organisations for supervisory purposes. The implementation of the latest version of the EU reporting standards required regulated and close cooperation of the IT and statistical areas, which was realised in a project form. A procedure was elaborated during the project, using which in the future it will be easy to monitor and apply the newer versions of the EU reporting standard. The expansion of the content of the EU reporting standard did not come to end in 2015; in the next one or two years new elements are expected to appear in relation to the regulatory changes (e.g. liquidity monitoring), which – if the subject matter is identical – will replace the previous supervisory data collections based on the MNB decree, to avoid duplication. In 2015, the forwarding of the data of the largest banking groups in accordance with the EU reporting standard to the European Banking Authority continued; the number of these increased from three in 2014 to four as a result of the regulation related to data transmission. Using the data prescribed by the new uniform reporting standard and by the MNB Decree together, the statistical functional area, in cooperation with the supervisors, set up a new consolidated risk monitoring system of banking groups, which – after testing – will provide the risk assessment of the activity of all banking groups with regard to the first quarter of 2016 for the first time.

Preparatory works for a change of similar magnitude were conducted in 2015 in the insurers' supervisory reporting, related to the introduction of the Solvency II uniform EU rules in 2016. As part of the preparation of the uniform data collection, according to the recommendation of the EIOPA, in 2015 the MNB requested insurers to supply test data covering a narrower range of the annual and quarterly new data collection. After the verification of data quality, the test data was also forwarded to the EIOPA. The regulation, which is directly applicable in the Member States with regard to insurers' reporting obligations, was promulgated on 31 December 2015 in the Official Journal of the EU.¹¹ Simultaneously with this, the data content specified in the MNB Decree related to the data collection from the insurers falling under the Solvency II regime significantly decreased and changed from 2016 to avoid overlaps.

¹¹ 2015/2450/EU Commission implementing regulation.

International data supply, international cooperation

In 2015, the MNB satisfied all reporting requirements of the European Union applicable to the MNB; accordingly it performed regular reporting to the statistical office of the European Union (Eurostat), the European Central Bank and to the Bank for International Settlements (BIS). In accordance with its status and the requirements arising from international cooperation and membership obligations, the MNB also regularly supplies data and information to the International Monetary Fund, the World Bank and the Organisation for Economic Co-operation and Development (OECD). The MNB played an active role in the international statistical working group and events in 2015 as well.

The 60th World Statistics Congress of the International Statistical Institute (ISI) was organised between 26 and 31 July 2015 in Rio de Janeiro. Linked with the programme of the congress on 24 July a one-day seminar was organised to present the post-crisis situation of international capital flows. The objective of the organisers was to foster an exchange of views on statistical issues related to economic, monetary and financial stability.

Data quality, administrative inspection

The MNB's Directorate Statistics audited the compliance – i.e. the timely submission of the reports and the data quality – with the reporting requirements prescribed on the basis of the MNB decrees prescribing data supply to the central bank information system and by the directly applicable EU legal acts (hereinafter together: reporting regulations) in the form of continuous inspection in 2015 as well. In view of the circumstances identified during the ongoing control, the Directorate Statistics initiated administrative inspection procedure in the case of one bank during the year to inspect the quality of the data supplies for the fulfilment of the MNB's fundamental duties. Three of the 19 administrative inspection procedures, launched against investment funds in 2014 and concluded in 2015, were closed with a warning, and 16 cases were closed without prescribing a measure; however, based on the findings of the inspection, measures were taken against further nine banks due to their erroneous data supply.

During 2015, due to the infringements identified on the basis of the continuous inspection of the

fulfilment of data supplies, measures were taken in 310 cases: in 42 cases binding resolution or calls, while in the rest of the cases warnings were issued, mostly due to the omission or late performance of the reporting obligations (the erroneous reporting justified measures in nine cases). Based on the audit evidence, the MNB obliged the reporting agents to eliminate the identified errors, submit the omitted reports retrospectively and fulfil the statutory requirements in the future. The measures affected certain statistical data supplies with regard to the balance of payments, monetary, securities and payments statistics, and the financial intermediary system, as well as supervisory reports.

During 2015, a penalty was imposed on seven reporting agents in the total amount of HUF 750,000 for the omission or late performance of reporting.

3.9 THE MNB'S ACTIVITY IN THE AREA OF SOCIAL RESPONSIBILITY

In the implementation of the Pallas Athena Public Thinking Programme – forming a key element of the Social Responsibility Strategy – announced in line with the mission, vision and fundamental values laid down in its Statute, the MNB considers the enhancement of financial literacy, financial awareness, the underlying economic and social knowledge, as well as the related institutional system and infrastructure to be its mission and strategic task. The central bank facilitates the attainment of the goals aligned with its duties through foundations.

In the MNB's view, the central bank can support the realisation of economic policy objectives by renewing and enhancing education – primarily tertiary education – and the system of economist and financial training and by supporting scientific activity and financial literacy. The MNB launched its education programmes with this goal in mind.

On 20 July 2015, the MNB signed a Cooperation Agreement with the Corvinus University of Budapest. Pursuant to the agreement in the 2015/2016 academic year the Bank provides financial assistance to the university in the total amount of HUF 200,000,000. The University has used this amount for setting up the MNB scholarship programme, for strengthening the personnel and for infrastructure development. Within the framework of the cooperation, the Institute of Economic Geography, Geoeconomy and Sustainable Development was set up at the University in 2015.

Cooperation in education with the Kecskemét College is going on in various areas, greatly contributing to economics education in the country. The business and management BA programme has been elaborated and may start at the Kecskemét College in September 2016. Students may start the programme in the form of dual training as well; the MNB as an institution providing primary dual internship also cooperates in this with the Kecskemét College.

Within the framework of the Tiszaroff Action Plan, the so-called 'Tiszaroff Scholarship Application' was implemented. Announced in conjunction with the College of Szolnok and supported by the Pallas Athena Domus Animae Foundation, the evaluation of the 'Tiszaroff Scholarship Application' for the first semester of the 2015/2016 school year was completed. Based on the evaluation of the applications received, 45 students in higher education will receive a scholarship.

With the implementation of its Depository Programme, the MNB contributes to the preservation of cultural heritage. The primary objective of the Programme is to regain for Hungary the possession of as high a portion of art treasures that earlier passed into foreign ownership as possible, and at the same time to keep such treasures that can be found in domestic estates in Hungary by purchasing them. As result of the Programme, important works that have come into public ownership and can be seen in public collections include Tiziano Vecellio's painting, Virgin Mary with Child and St. Paul; Lajos Gulácsy's The Mulatto and the Sculpturesque White Woman; János Vaszary's Christianity; Dezső Orbán's Great Nude; Gábor Bachman's collection of architecture and design; Mihály Munkácsy's Christ Before Pilate; a collection of silver thaler coins minted in 14–17th century Transylvania; the rendering of the Transylvanian Region of the Szentendre Open-Air Museum of Ethnography; István Kövesi's collection of paintings; documents related to the early works and oeuvre of László Moholy-Nagy; Júlia Klaniczay and György Galántai's Artpool document collection; and Abraham van Beijeren's Still-Life with Fruit, Sea Food, and Precious Tableware.

In addition, within the constraints of available resources, the MNB participates, directly or through its foundations, under strategic agreements or via ad hoc grants, in value creation, the preservation of national values, intellectual and cultural heritage (e.g. Hungarian State Opera, Palace of Arts, Museum of Fine Arts), and supports the training of professionals

and scientific activities (e.g. Hungarian Economic Association, Kodolányi János College, Heller Farkas Special College). Through charitable donations, it has contributed to improving the quality of life and equal opportunities of disadvantaged groups and to alleviating the difficulties arising from extraordinary life situations (e.g. Three Princes Movement, Csodalámpa Wish Fulfilling Foundation, International Children's Safety Service). Within the framework of its corporate social responsibility programme and aligned with its designated strategic objectives, the central bank is open to enlarging the group of its cooperating partners.

3.10 FACTORS SHAPING THE COMMUNICATION OF THE MNB

In line with the practice in previous years, the communications of the MNB essentially focussed on the presentation of the large-scale central bank programmes and measures supporting the economic policy of the government and Hungarian economic growth, along with the demonstration of activities serving broad social interests. Communication concentrated, inter alia, on the successes and results of the Funding for Growth Scheme, the base rate cut and the decisions related to its underlying reasons and on the self-financing programme, but the MNB also put special emphasis on presenting in a transparent manner its operations that do not burden the budget, i.e. the activity and achievements within the framework of the Pallas Athena Public Thinking Programme and the Corporate Social Responsibility Programme and within that in the Depository Programme.

Through statements and press releases, the MNB continuously presented its most important decisions, the outcomes of the Monetary Council's meetings, the decisions and information regarding the monetary policy and the stability of the financial system, the findings of the supervisory inspections and the resolutions in that regard, as well as essential statistical data and news on cash circulation and the issuance of commemorative coins.

In order to supply the general public with continuous and professional information, in 2015 the MNB issued a total 298 press releases, and 90 professional articles were published on online sites and its own website.

The crisis increased the role of communication in monetary policy, and communication became an

important tool for central banks in shaping and stabilising interest rate expectations. Accordingly, with its press releases and publications, the MNB also placed great emphasis on informing economic agents and influencing interest rate expectations last year. This played a key role following the end of the base rate cut cycle. The press releases and forward guidance of the Monetary Council were successful and efficient, because – in line with the goals of the Monetary Council – they greatly contributed to the major downward shift in longer-term interest rate expectations and thus facilitated achievement of the inflation target over the medium term.

One of the most important publications of the Magyar Nemzeti Bank as an inflation targeting central bank is the quarterly *Inflation Report*, which was published on four occasions last year as well. Since December 2015, the standpoint published in the months of the *Inflation Report* has been a chapter of the *Inflation Report* with the title ‘The Monetary Council’s key findings related to the *Inflation Report*’. Accordingly, for the easier comparability of monthly releases, the MNB issues a more concise release following the interest rate decisions in those months as well when the *Inflation Report* is published. The format of this release is identical with that of the releases published in the months between *Inflation Reports*. This change made central bank communication more transparent, which improves the efficiency of central bank decisions.

In addition to the releases on interest rates, the MNB published a number of releases on the decisions of the Monetary Council concerning other issues as well in 2015. Last year, 12 releases were compiled in connection with the Funding for Growth Scheme, while releases appeared regarding the restructuring of instruments and the self-financing programme as well. A number of professional articles were also published concerning the subjects of monetary policy (12), inflation (7) and lending (10), primarily focusing on the FGS.

The MNB devoted special attention to providing continuous and detailed information about the content and process of the settlement and conversion into forints of household foreign currency loans as well as about the supervisory measures that protect consumers. The latter proved to be an especially important task in terms of handling the cases known as the broker scandal by the MNB, the provision of objective information to the public and the unbiased presentation of supervisory work.

In communications, emphasis was put on the presentation of the educational programmes supported by the MNB, which, *inter alia*, set the basic targets of improving the quality of economics and financial education.

Within the framework of informing the general public, the MNB conducted a successful campaign for the smooth introduction of the new, developed 20,000-forint banknote through press relations, in the form of announcements of public interest on television and using the tools of online media, including social media.

In order to increase financial awareness and consumers’ knowledge, the MNB prepared an educational series, and made it public on its website, video sharing channel and social media sites.

The new website of the MNB was launched in August 2015. The central bank created a website that is better-arranged and more user-friendly than the previous one so that users can find the necessary information more quickly and easily. The MNB upgraded its online communication channels, including its Facebook site, in line with 21st century expectations. The number of users is increasing steadily; the MNB keeps contact with more than 14,000 permanent followers on this site.

3.11 THE MNB’S INCOME IN 2015

In 2015, the Magyar Nemzeti Bank earned a profit of HUF 94.5 billion. In 2015, the following main developments had an effect on the balance sheet and the profit:

- the level and composition of foreign exchange reserves defined by monetary policy, and foreign currency purchases and sales affecting the level of reserves: operations performed by the Government Debt Management Agency in relation to debt management, net foreign exchange inflows from EU transfers, the foreign exchange conversions performed by the Hungarian State Treasury for purposes not related to debt financing and the conversion of households’ consumer foreign currency loans into forints;
- the developments in instruments absorbing forint liquidity, which are correlated with the changes in foreign exchange reserves and the MNB’s net foreign currency receivables as well as with the

balance sheet narrowing effect of the self-financing programme;

- changes in forint interest rates and international foreign exchange interest rates; and
- changes in the forint exchange rate.

Net interest and interest-related losses amounted to HUF 42.7 billion, which represents an improvement of HUF 43.5 billion on a year earlier. The MNB's interest loss stems from the fact that the FX reserves, which account for more than 80 per cent of its balance sheet, are mainly financed from forint funds, and foreign exchange yields are below the average forint interest rate. In 2015, the improvement in interest income was mainly the result of the decline in the difference between yield levels.

Net forint interest and interest-related losses amounted to HUF 93 billion, i.e. HUF 65.5 billion less than in 2014. In 2015, the calendar day weighted average central bank base rate declined by some 74 basis points compared to a year earlier. The average stock of forint liabilities with interest pegged to the base rate (minimum reserves and liquidity absorbing instruments) also declined. Both processes resulted in an improvement in interest income.

Foreign exchange interest and interest-related income amounted to HUF 50.3 billion. The lower level of income compared to the previous year is attributable to the decline in interest income on FX reserves. As a result of the MNB's programmes, starting from June

the reserves started to decline. Expressed in euro, their average annual level was below that of 2014. In parallel with that, euro yield levels continued to fall in 2015, resulting in lower interest income on the FX reserves than in the previous year. FX interest income was also affected by the change in accounting rules in December 2014, which resulted in a one-off decline in interest income in 2014, but, overall, the change contributes to the reduction of the fluctuations in profit/loss.

As a result of the amendment to the accounting rules in 2014, profits were realised on financial operations. This profit/loss category primarily contains the gains and losses realised from changes in the market prices of securities included in the FX reserves. Fixed-rate, high-coupon securities, which continuously ensure higher interest income than market yields, represent a high portion in the foreign exchange reserves. These securities are purchased above par value, incurring a loss upon maturity or sale according to the accounting rules in effect before December 2014. The new accounting practice eliminated this problem by amortising the purchase price difference (premium). The MNB's profit from financial operations amounted to HUF 14.9 billion in 2015.

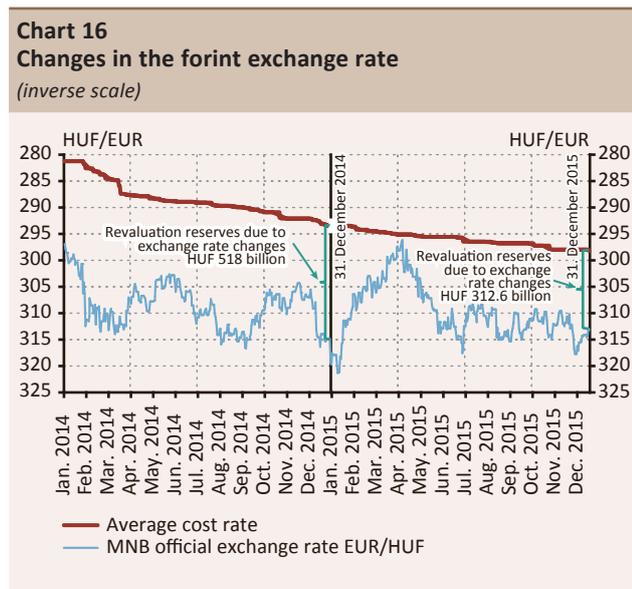
The two main factors determining the income arising from exchange rate changes are the difference between the official and the cost rates as well as the volume of foreign exchange sales. In 2015, the exchange rate of the forint fluctuated strongly; the difference between the official and the cost rates was typically smaller during the year than in 2014.

Table 9
Abbreviated income statement and individual balance sheet items of the MNB
(HUF billions)

No.	Description (P/L line)	2014	2015	Change
1	Net interest and interest related income (I+II)-(X+XI)	-86.3	-42.7	43.5
2	net forint interest and interest related income (I-X)	-158.5	-93.0	65.5
3	net foreign exchange interest and interest related income (II-XI)	72.2	50.3	-21.9
4	Realised gains/losses arising from financial operations (IV-XIV)	-119.6	14.9	134.4
5	Income arising from exchange rate changes (III-XII)	511.0	177.7	-333.3
6	Other constituents of net income* (V+VI+VII+VIII)-(XIII+XV+XVI+XVII+XVIII)	-277.7	-55.3	222.4
7	Profit/loss for the year (1+4+5+6)	27.4	94.5	67.1
8	Revaluation reserves in the balance sheet due to unrealised foreign exchange gain/loss	518.0	312.6	-205.4
9	due to changes in the market value of the foreign currency securities	54.5	28.5	-26.0

*Revenues on supervisory activities, net profit/loss of banking operations, costs of issuing banknotes and coins, net creation and release of provisions, income/expenses from commission and from other items.

The volume of FX sales also declined compared to the previous year; they primarily took place in connection with the debt management operations of the Government Debt Management Agency (ÁKK) and the conversion of households' consumer FX loans into forints. Exchange gains earned during the year amounted to HUF 177.7 billion, and continued to be the most significant component of the central bank's profit.



Other constituents of net income include operating income, costs and expenses, the costs of issuing banknotes and coins, creation and release of provisions, income from supervisory activity and income/expenses from fees and commissions and other income/expenses. Compared to the previous year, the resulting net expenditures fell in 2015. The higher net expenditures observed in 2014 are attributable to the transfer of assets by the founder to foundations in the framework of the Pallas Athena Public Thinking Programme.

The MNB's equity amounted to HUF 459 billion at the end of the year. Its magnitude was fundamentally determined by the level of revaluation reserves, in particular, the reserves due to exchange rate changes, and developments in the annual profit/loss also played an important role in its change.

Revaluation reserves due to exchange rate changes declined by HUF 205.4 billion compared to end-2014, and as of end-2015 the difference between the official and the average cost rates was smaller than a year earlier. Revaluation reserves due to exchange rate changes stood at HUF 312.36 billion on 31 December 2015.

On 31 December 2015, the MNB's balance sheet showed unrealised gains of HUF 28.5 billion on foreign currency-denominated securities marked to market, which falls short of the previous year's level mainly as a result of a decline in FX reserves.

3.12 FINANCIAL PERFORMANCE OF THE MNB

The internal operations of the MNB are essentially aimed at providing the resources required for an efficient discharge of the duties stipulated by the MNB Act.

Operating costs

Actual operating costs in 2015 amounted to HUF 32,973 million, which is 13.7 per cent below the approved budget and 2.5 per cent above the expenditures incurred in 2014.

The increase in costs compared to the previous year is primarily attributable to personnel costs, determined by filling the positions related to the restructuring of

Table 10
Operating costs of the MNB in 2015

Description	Actual data for 2014	Budget for 2015*	Actual data for 2015	Index (2015 actual / 2015 budgeted)	Index (2015 actual / 2014 actual)
	HUF millions			%	
1. Staff expenditures	16,329	22,368	19,712	88.1%	120.7%
2. General operating costs	15,846	15,841	13,261	83.7%	83.7%
Total	32,175	38,209	32,973	86.3%	102.5%

* Operating budget plan modified in accordance with Resolution 163/2015 (07.23.) of the Executive Board.

the organisation and necessary for performing the new tasks.

In addition, it was mainly the increase in operating costs that caused the difference compared to the previous year, including the reorganisation of the facility protection and guarding activity, the costs stemming from the increase in the number of properties owned by the MNB, including the expenditures related to the already opened foreign representation offices. Depreciation costs also rose in connection with the new properties compared to the previous year.

On the other hand, due to the less intensive campaign costs of the Funding for Growth Scheme, in 2015 there was a sharp decline in other expenses compared to the previous year.

Personnel costs

Personnel costs in 2015 (HUF 19,712 million) exceeded the previous year's costs by 20.7 per cent (by HUF 3,383 million). The rise in personnel costs is attributable to several factors. The average headcount increased by 6.9 per cent, rising by 82 people compared to the previous year. The underlying reasons included the filling of positions related to the restructuring of the organisation and necessary for the performance of the new tasks.

The ratio of employees with adequate competences for the new, expanded ranges of bank tasks increased within the organisation. The growing headcount and the increase in the ratio of recourse to this benefit resulted in the rise in the amount spent by the employer on voluntary pension fund contributions and, keeping in mind the principle of 'equal wage for equal work', in the pay rise differentiated on a performance basis.

In order to enhance the Bank's effectiveness and knowledge base, to expand internal expertise and develop skills, a new training and leisure centre serving as location for education and training as well as facilitating the bank personnel's recreation started its operation in 2014. The planning of the related costs for 2015 as a whole could only be based on estimation.

The programmes implemented within the framework of corporate social responsibility also had an impact on costs due to the growing number of higher-education

students with a scholarship and participants in trainee programmes.

General operating costs

General operating costs in 2015 (HUF 13,261 million) were 16.3 per cent lower than in 2014 due to changes in the components for the following reasons.

IT costs increased by HUF 317 million in year-on-year terms. This is mainly attributable to the support costs of the arising and planned tasks in the field of IT security (data loss prevention, log analysis, etc.). The implementation of the IT security expert examination ordered in 2014 was carried over to 2015, which was unknown in the planning period.

Operating costs also increased (to HUF 5,771 million) compared to 2014. This increase mainly resulted from the reorganisation of the guarding and facility protection activity, as starting from 2015 this task is not performed by the MNB's own personnel any longer (therefore, no related personnel cost are incurred). Actual rental payments of the already opened foreign representation offices and the expenditures on residential lease for the representatives also added to the costs. Other new items were the rent of the 9th floor of the Bank Centre as well as the leasing costs of package x-ray machines and the metal detector gate.

Other costs in 2015 declined by 61 per cent (i.e. by HUF 1,902 million) compared to the expenditures of the previous year. This is mainly the result of a decline in communication costs, as the campaign costs related to the Funding for Growth Scheme were lower in 2015 than before.

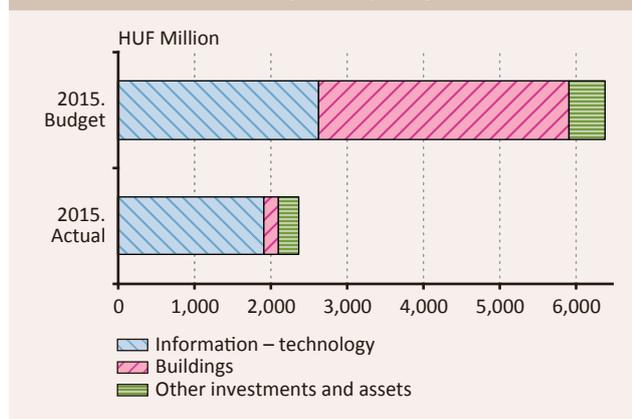
Capital expenditure

In order to achieve the MNB's objectives and maintain the quantity and quality of tangible assets, development projects and procurements became necessary. In relation to normal operations, the approved capital expenditure budget for 2015 amounted to HUF 6,377 million. An appropriation was also approved for the implementation of the Corporate Social Responsibility Programme, for ensuring the location of internal training, and for the renovation, rebuilding or reconstruction of existing real estates and real property to be purchased by the MNB. In relation to the Corporate Social Responsibility Programme, the MNB supports the purchase of art

treasures as part of the Depository Programme, for the implementation of which the approved investment plan includes a separate appropriation.

In 2015, HUF 10,581 million was spent in relation to investment projects, including advance payments made for investment purposes. The Depository Programme accounts for most of this amount. HUF 3,845 million was paid in connection with the real estate purchases; this amount was reduced by the reversals due to the properties transferred to the foundations (HUF 4,504 million). Investment expenditures related to the normal course of operation amounted to HUF 2,373 million.

Chart 17
Trends in the MNB's capital expenditure, excluding the appropriation for real estate purchases and renovations as well as without the Depository Programme



Two properties were purchased for training, administrative and other institutional purposes. These properties were transferred to the foundations set up within the Public Thinking Programme.

Purchases made for IT operating purposes comprise a large portion of information technology investment. Continuous availability of the pool of equipment providing the network connections between IT systems is essential for the operation of the central bank. Therefore, obsolete equipment has been replaced and the necessary network capacities have been installed.

For the protection against threats through external communications relations, which is essential for undisturbed operation, the firewall system that ensures safe external data connections has been renewed, simultaneously with an expansion of capacities.

The quality of the information system supporting central bank statistics is of crucial importance, and thus an essential condition for this activity is the availability of high-quality IT support. Among its IT developments, the objective of the most important one in 2015 was the development and support of a common data reception system for the receipt of the MNB's supervisory and statistical data provisions.

Infrastructure projects related to the processing of tasks concerning the settlement matters are still in progress, although the IT support of the settlement formula and calculations set forth by law has already been implemented.

An important investment in the IT security area is identity management, which is designed to support administrative and management tasks related to user access control. Another similar project implements an IT system that aims at the protection of data, as well as monitors and identifies data through content-based examination and security analysis of data flows. In order to develop the security environment, the security systems of the Logistics Centre and the building at *Szabadság tér* are being replaced. The replacement of bank security electronic and mechanical systems helps the work of the armed security guards, and its objectives also include the prevention of emergencies.

As a major investment related to the real estate, the base distributors of the mains electrical network of the head office and the floor-level distributors installed in the basement were replaced.

Personnel management at the MNB

The MNB regards personnel management as a strategic issue, facilitating efficient and effective operations. Therefore, it provides stable employment, moral and professional respect, competitive income as well as opportunities for promotion, training and further education for its employees who are committed to the central bank's objectives over the long term and are ready to continuously renew their professional knowledge. The MNB strives to have adequate quantity and quality of labour readily available. Therefore, the acknowledgement of the continuous developments and self-education implemented in the MNB's training system continues to be an important element of the human resources strategy.

In order to have highly qualified personnel that represent the most excellent professional level, every year the MNB – taking account of the received demands and focusing on the principle of cost-efficiency – prepares an updated and revised training catalogue and training plan, based on a three-year training concept. The MNB considers it important to have highly qualified, knowledgeable, dedicated and loyal employees. Relying on such a pool of employees, the MNB is capable of taking part in the changes along the renewing domestic economic and social interests and values.

The MNB paid special attention to the supply of replacements with adequate knowledge and to the general preparation and training of individual employees in 2015 as well. The MNB also considers it important to support individual ambitions, thus expressing respect for the individual as well. In line with that, PhD training and passing the bar examination were also supported.

In 2015, not only professional, but personal skills development programmes and language training were also included in the MNB's training system. Tailor-made to individual needs they served the participants' development in the most effective and efficient manner possible in terms of efficiency, approach as well as the development of readiness to cooperate.

For the preservation of the personnel's health, a complete check-up programme is available for each employee once a year.

It is of key importance in the MNB's organisational culture that employees can fulfil their family roles as well and can perform their workplace tasks with a balanced family background. As a result of a number of measures and successful initiatives and as an acknowledgement of its Child-focus and Family-friendly Programme, in May 2015 the MNB won the title of 'Family-friendly Workplace' presented by the Ministry of Human Capacities. With this title, the Ministry appreciated the efforts, programmes, initiatives and system-level solutions undertaken by the central bank voluntarily and irrespective of competition, in order to support employees with family and children.

With the wage bill management introduced at the MNB as of 1 July 2015, a system was set up that is suitable for the fast and flexible management of the problems arising in the various professional areas by

the (temporary) regrouping of employees. In addition, the wage bill management also supports leaders in the most complete performance of the tasks of the areas managed by them in a way that the heads of the various areas can directly evaluate excellent work and the relevant achievements, which may be reflected in the remuneration of the employees as well. Accordingly, the system that was introduced became suitable for the long-term retention of high-quality, highly qualified personnel and also for the strengthening of responsible financial management by granting much wider possibilities for the heads of wage management areas to give proposals.

The long-term goal of the wage bill management is that the fulfilment of the strategic objectives and tasks of individual areas may be reflected in wage setting as well, may help in determining competitive salaries, motivate a more thorough assessment of employees and the acknowledgement of expertise and skills in the salary, as well as instigate the heads of professional areas to staff management that is even more sensible and economical than the current one, providing at the same time greater opportunities to ensure competitive income for knowledgeable and experienced employees.

The MNB had already provided wide-ranging support to its employees with its complex system of fringe benefits set up in 2014, and expanded this with further welfare allowances for families in 2015.

In 2015, the MNB changed its internship system with the aim of providing as wide professional experiences as possible for participants in higher education within the MNB. Within the framework of the internship system, the MNB received higher-education students for the period of their mandatory practice and also within the framework of the dual training launched in 2014. The new system allows the selection of students whose performance is outstanding and their employment by the Bank.

Changes in staff number

Changes in the staff number of the MNB were determined by the labour supply required for the tasks to be completed and by measures related to the transformation of the organisation.

During the year, the employment of 118 employees was terminated as a result of natural migration and quality replacements. In an additional 21 cases, the

expiry of fixed-term contracts and the termination of employment during the probationary period were the reasons for the decline in staff number. In addition, due to employer's succession, 87 armed security guards were transferred to MNB Biztonsági Zrt.

In order to secure an adequate workforce for the operating structure aligned to the challenges and the MNB's expanded tasks, 237 new entrants were recruited to fill vacant or new positions in 2015. During the year, the number of employees joining the so-called 'inactive payroll' – who are not included in the statistical headcount – exceeded the number of those returning from the 'inactive payroll' by 16. The relevant effect also reduces the closing headcount.

In 2015, the average staff number of the MNB was 1,273.92 employees, exceeding that of the previous year by 82.3 people. In the framework of the internship programme, 15 persons were employed, with 17 additional students supported and admitted to internship in the context of dual training.

At end-2015, the total staff number was 1,267 people; the number of employees was 5 persons lower than at end-2014.

There was no change in the composition by age; the average age of employees was 41 years in 2015 as well.

Procurement

Like other central banks in the European Union, the MNB conducts public procurement procedures in respect of purchases where the value reaches the value limits of national public procurements. The MNB is subject to public procurement jurisdiction based on Commission Decision 2008/963 amending the Annexes to Directives 2004/17/EC and 2004/18/EC of the European Parliament and of the Council on public procurement procedures, as regards their lists of contracting entities and contracting authorities.

The procurement processes of the MNB are regulated by the MNB's internal regulations, in accordance with the effective Act on Public Procurement.

There are three types of procurement procedures at the MNB:

- other procurement below a net amount of HUF 2 million;

- other procurement reaching a net amount of HUF 2 million but not reaching the public procurement value limit (other procurement between a net amount of HUF 2 and 8 million); and

- public procurement.

Procurement procedures below net HUF 2 million are conducted by the cost bearer organisational units within their own sphere of responsibility, while procurements and public procurements reaching the value of net HUF 2 million are arranged by the Central Procurement Department of the Central Procurement and Operation Directorate with support from the organisational units concerned.

In 2015, 197 procurement requests were received and procedures launched, of which 71 procedures were carried over to 2016.

The number of procedures concluded (contracted) in 2015 was 184 (with 69 carried over from 2014)

- public procurement: 103;

- other procurement in excess of net HUF 2 million: 81.

The total value of completed procedures with a value in excess of a net amount of HUF 2 million implied a total expenditure of HUF 15,710 million for the central bank. The value of works of art purchased within the framework of the MNB's Depository Programme accounts for a major part (some 55 per cent) of the expenditures. The remaining 45 per cent represents actual operating costs associated mainly with the IT infrastructure enlargement required by the performance of the increased tasks of the MNB.

Environmentally conscious operation

In 2015 as well, the environmental activity of the MNB was determined by the policies set out in its revised environmental strategy. Along with the environmentally conscious development of buildings, measures were aimed at the further enhancement of the environmental performance of the cash supply chain.

In 2015, harmonisation and standardisation of waste management activities took place in the MNB's properties; the recycling of paper waste is now ensured in all buildings of the MNB located in Budapest. Important progress was achieved in the

development of waste management in connection with the utilisation of 'banknote briquettes'. A proposal was prepared following a comprehensive analysis of international practices related to the treatment of waste banknotes unfit for circulation. As of 1 January 2016, in lieu of the former utilisation for charity purposes, so-called 'green electricity' is generated from the 'banknote briquettes' in domestic power plants, which is a more advantageous solution in terms of the protection of the environment. The first deliveries were made in early 2016, and the experiences have been positive.

In 2014, the MNB set the goal for its head office to achieve, within three years, the 'Very good' qualification in the international environmental rating system (BREEAM In-Use), which is one notch higher than the current assessment. This exemplary initiative is unique in Hungarian practice in the case of historic buildings. The pro-rata implementation of the changes required to achieve the higher rating has been completed. In connection with a change in the standard, a complete revision was carried out at end-2015. As a result, in 2016 only minor changes are necessary to achieve the higher rating.

The environmental performance of the buildings was mainly determined by the energy consumption in 2015 as well. Although in parallel with a 6.9 per cent increase in the MNB's average headcount the total energy consumption of the properties included in the environmental management system (head office, Logistics Centre, premises at *Krisztina körút*) grew slightly (by 3.2 per cent), compared to the year 2013 base it was 4.5 per cent lower. (According to the environmental target, at end-2016 the total energy consumption will be 10 per cent lower than the year 2013 base.) The lower energy consumption compared to the base is attributable to the combined effect of various factors. In the head office, the continuous modernisation of the lighting system (replacement of the emergency exit directional lights with LED sources of light) and the reduction of the vehicle fleet also had a favourable impact. In addition, weather conditions, which are becoming milder and milder and at the same time more extreme year by year, also contributed to the decline in total energy consumption. Within total energy consumption, the energy spent on heating increased by 9.9 per cent in 2015 due to the extreme weather resulting from global warming, when summer was hot and relatively long, and in winter and the transition period cold snaps were experienced. The improvement in the

efficiency of total energy consumption is shown by the fact that specific energy consumption improved in 2015 as well.

Operating the environmental management system (KÖVHIR) allows the continuous monitoring of the environmental factors that result in significant environmental impacts, and also allows intervention if necessary for the improvement of the environmental performance year by year. The MNB is planning to extend this system to the affiliates involved in banknote production. Following the assessment of the environmental performance of the cash production activity and the exploration of the possibilities of further improving the performance, in 2015 a decision was made that Pénzjegynyomda Zrt. and Diósgyőri Papírgyár Zrt. would join the KÖVHIR system and obtain an EMAS certificate in 2017. In 2016, the MNB contributes to their preparation for this by providing professional support and sharing the experiences gained so far.

Operational risk management

The successful implementation of the MNB's strategic objectives and the protection of its good reputation and wealth are crucially important values. An efficient operational risk management system plays an important role in the protection of these objectives and values. With that in mind, the identification, assessment and continuous in-house monitoring of operational risks and the implementation of the appropriate response measures constitute an integral part of the MNB's corporate governance.

In order to be able to adequately attend to its fundamental tasks in critical situations as well, the MNB operates efficient business continuity management. Within that, it continuously updates its business continuity and disaster recovery plans, the reliability of which is tested every year. Of key importance are the one-week live integrated test related to the operation of the payment system and the management of foreign exchange reserves as well as the testing of the cash supply to the households, which is also done in a live situation, with the involvement of external actors.

3.13 INTRODUCTION OF THE ESCB COMMITTEES

Since Hungary's accession to the European Union, the MNB's management and experts have been participating in the work of the ESCB committees

and their working groups. This membership and cooperation provides an opportunity for national central banks to work together and formulate joint positions and also enables the representatives of national central banks to obtain information on the ECB's activities on a regular basis. On 31 December 2015, fifteen ESCB committees and two other committees assisting the work of the ESCB were in operation. In connection with the launch of the so-called Single Supervisory Mechanism (SSM) in November 2014, in addition to the two existing configurations (euro area composition and ESCB composition) some committees have held meetings in SSM composition since 2014 as well, with the attendance of representatives of the supervisory authorities operating as organisations independent of the central banks of the Member States participating in the SSM.

The following provides a brief summary of the fields of activity (mandates) of each ESCB committee:

Accounting and Monetary Income Committee (AMICO): This Committee develops and regularly reviews the accounting policy principles which define the framework of financial statements in accordance with the Statute of the ESCB and the methodology of the preparation of regular financial reports, facilitating their co-ordination at an international level. It monitors the calculation of monetary income in accordance with the risk management process developed by the security framework system of accounting.

Banknote Committee (BANCO): This Committee determines the euro banknote needs of euro area countries, coordinates the production of banknotes and works out the stockpiling and banknote processing policies of euro banknotes. Its tasks include sharing experience in the production of euro banknotes, the examination and development of security features to prevent euro banknotes from being counterfeited, and the assessment of security risks related to the production of the euro. It contributes to the harmonisation of practices applied in the euro area, the development of the system which monitors counterfeiting and the verification of statistics regarding euro banknotes and coins.

Committee on Controlling (COMCO): COMCO has been an ESCB committee since July 2007 (only euro area NCBs participate in the work of this committee).

It contributes to the application and enhancement of the Common Eurosystem Cost Methodology, and prepares analyses on the cost data and cost structure of certain functions and products of the Eurosystem/ESCB. In the area of management information systems, it serves as an important forum for co-operation and information exchange on issues concerning the ESCB as a whole.

Eurosystem/ESCB Communications Committee (ECCO): This Committee contributes to the development of the external communication policy of the Eurosystem, the ESCB and the ECB, with the aim of making the objectives defined by the Eurosystem/ESCB more transparent and understandable, and informing the public of the tasks and activities of the Eurosystem and the ESCB.

Financial Stability Committee (FSC): The FSC has been operational since 2011, when the Banking Supervision Committee (BSC) ceased operation. Its task is to provide professional support to the decision-making bodies of the European Central Bank in their functions relating to financial stability and macroprudential policy issues.

Internal Auditors Committee (IAC): By reviewing the relevant common projects, systems and activities and by providing for co-operation in certain auditing issues which are of 'common interest' for the ECB and national central banks, this Committee assists the ESCB in achieving its targets.

International Relations Committee (IRC): The IRC assists in carrying out those tasks of the ESCB that are related to international cooperation and contributes to formulating the position of the Eurosystem regarding the various areas of relations with non-EU countries.

Information Technology Committee (ITC): This Committee contributes to the development of the information technology policy and strategy of the Eurosystem and the ESCB as well as the related guidelines with special regard to security concerns, and provides technical advice to other committees. Furthermore, it initiates and implements Eurosystem and ESCB level developments and independent projects.

Legal Committee (LEGCO): LEGCO provides legal assistance for the work of the ESCB; in particular, it contributes to the maintenance of the regulatory

framework of the Eurosystem and the ESCB and to the review of the transposition of legal regulations into national law, and monitors and reports on how national authorities and EU institutions comply with their consultation obligations relating to draft legislation in areas falling within the ECB's competence.

Market Operations Committee (MOC): The MOC assists the ESCB in the implementation of the single monetary policy and the execution of foreign exchange transactions, the management of the ECB's foreign reserves and in the appropriate adaptation of the monetary policy tools applied by the central banks of Member States where the euro is yet to be introduced, as well as in the implementation of ERM II.

Monetary Policy Committee (MPC): This Committee assists the ESCB in the implementation of the single monetary and exchange rate policy of the Community. In addition, it provides assistance in the execution of the ESCB's tasks related to the coordination of the monetary and exchange rate policies of the NCBs of non-euro area Member States and the ECB.

Organisational Development Committee (ODC): The ODC was set up in July 2013 with only euro area members. It assists the work of ECB decision-makers with proposals regarding the planning and organisational issues related to the operation of the Eurosystem and the Single Supervisory Mechanism (SSM). In addition, it also coordinates the work of the Eurosystem Procurement Coordination Office (EPCO), and runs the operational risk management and business continuity system of the Eurosystem/ESCB.

Payment and Settlement Systems Committee (PSSC): This Committee assists the ESCB in the smooth operation of the payment system and in connection with the cross-border use of collaterals. Furthermore, it supports the ESCB in general and 'oversight' issues relating to payment systems, as well as in issues concerning central banks with regard to securities clearing and settlement systems.

Risk Management Committee (RMC): The RMC was set up in September 2010 and only consists euro area members. Its task is to assist the work of ECB decision-makers in managing and controlling risks arising from the market operations of the Eurosystem by means of analyses and proposals.

Statistics Committee (STC): The STC assists in the collection of statistical information required for carrying out the tasks of the ESCB. It contributes, *inter alia*, to the elaboration and cost effective application of necessary modifications in statistical data collection.

Other committees assisting the work of the ESCB:

Budget Committee (BUCOM): This Committee assists the Governing Council of the ECB on issues concerning the budget of the ECB; its members are the central banks of the euro area Member States.

Human Resources Conference (HRC): The objective of this committee, established in 2005, is to serve as a forum for the central banks of the Eurosystem/ESCB in the exchange of information, opinion and experiences on issues concerning the management of human resources.

3.14 THE MNB'S RESEARCH ACTIVITIES IN 2015

Academic, basic research activities are typically performed by the Research Directorate, while applied research is mainly carried out by the analyst of several directorates. Academic research is ultimately published in international and domestic scientific journals. Applied research is mostly presented in dedicated publications of the MNB: the *MNB Working Papers* (issued in English only), the *MNB Occasional Papers* series and the *Financial and Economic Review*. In addition to the publications, participation in international conferences and in the research networks and working groups coordinated by the ECB all form part of the MNB's research activity.

Publications

In 2015, one article was published in a leading international journal, the *Journal of Business and Economic Statistics*. In addition, one article was published in *Közgazdasági Szemle (Economic Review)*, and *Statisztikai Szemle (Statistical Review)* also published a study by an author from the central bank. Applied research findings were presented in the MNB's publications. Five studies were published in the *MNB Working Papers* series, four in the *MNB Occasional Papers* and a total of eighteen papers in the *Financial and Economic Review* last year.

Conferences and lectures

The MNB organised the Budapest Economic Seminar Series (BESS) in 2015 as well, with internationally acknowledged economists presenting their studies to those interested. Last year, the renowned lecturers welcomed by the MNB included Dean Corbae (University of Wisconsin), Kartik Athreya (Fed of Richmond), Kim Huynh (Bank of Canada), John Earle (George Mason University) and Peter Sinclair (University of Birmingham and Bank of England).

The MNB's researchers held presentations at a number of international conferences as well as at several central banks and universities. Of the major conferences, the Econometric Society World Congress organised in Montreal in July is worth mentioning, where two studies written by the MNB's researchers were included in the programme. In addition, a study prepared in the MNB was presented at an exclusive conference organised on an invitation basis in Mexico by the International Journal of Central Banking, which is a leading journal in the field of central banking, at the joint conference of the central bank of Slovenia and the Centre for Economic Policy Research (CEPR) held in Ljubljana and also at the first conference of the European Association of Comparative Economic Studies. Furthermore, the MNB's researchers delivered academic lectures at the Turkish, German, Polish and Mexican central banks as well as at universities abroad, including the Academia Sinica (Taiwan), the George Mason University and St. Andrews University. Looking at lectures held in Hungary, two MNB studies were presented in the seminar series of the Research Centre for Economic and Regional Studies of the Hungarian Academy of Sciences as well, and also many lecturers represented the MNB at the December conference of the Hungarian Society of Economics.

Several MNB staff members participated in the research networks and working groups coordinated by the ECB. Analysts and researchers participated in the regular discussions of the Working Group on Econometric Modelling (WGEM), the Wage Dynamics Network (WDN), the Household Finance and Consumption Network (HFCN) and the Competitiveness Network (CompNet), and an MNB staff presentation was also delivered at the ECB's Head of Research Meeting held in December 2015.

3.15 PUBLICATIONS AND CONFERENCES ORGANISED BY THE MNB IN 2015

Publications

Regular publications

Inflation Report

The *Inflation Report* is published quarterly in order to enable the public to understand and follow the Bank's policies. The *Report* provides a regular presentation of past and expected future trends in inflation, evaluates the macroeconomic developments that determine inflation, and provides a summary of the forecasts and considerations on the basis of which the Monetary Council takes its decisions.

Report on Financial Stability

Published biannually, this *Report* outlines the position of the Bank regarding the changes experienced in the financial system, and describes the effect of these changes on the stability of the financial system. The analysis in the *Report* focuses on the forward-looking assessment of long-term trends and risks.

Growth Report

The annually published *Growth Report* is intended to present, by using standard and alternative indicators as well, Hungary's longer-term growth path (occasionally encompassing an entire business cycle) and its determinants. The *Report* provides an annual overview of the most important trends shaping economic growth over the short, medium and longer term.

Trends in Lending

The objective of the publication *Trends in Lending* is to present a detailed picture of the latest trends in lending and to facilitate the appropriate interpretation of these developments. To this end, it elaborates on the developments in credit aggregates, the demand for loans perceived by banks and credit conditions.

Risk Outlook for Non-bank Financial Sectors

As of 2015, the publication *Risk Outlook for Non-bank Financial Sectors* is issued by the MNB once a year. This report presents the risks of insurers, funds, financial enterprises and intermediaries, co-operative credit institutions and the capital market. The *Risk Outlook for Non-bank Financial Sectors* mainly focuses on a deeper analysis of the sectors not discussed or more briefly discussed in the *Financial Stability Report*, and thus it does not contain the findings relating to the banking sector outlined in detail therein. The main objective of this publication is to increase the risk awareness of those active in the supervised markets and to strengthen the confidence put in the sectors. The report provides an overview of the essential experiences obtained during official investigations and the continuous supervision broken down by areas, highlighting the main prudential risks identified in the period under review.

Report on the Balance of Payments

The *Report* is published four times a year in order to inform market participants of balance of payments developments and to provide a deeper insight into the correlations in the economy. Developments in the external balance are key to financial stability, as processes relating to the balance of payments allow for conclusions to be drawn concerning the sustainability of economic growth and the relevant risks. The MNB carries out comprehensive and regular analyses of trends relating to Hungary's external balance, examining a number of indicators to assess macroeconomic imbalances.

Payment Systems Report

Once a year, the *Report* provides a comprehensive review of the trends in payments and the functioning of the overseen payment and securities settlement systems in Hungary, the main risks and any measures taken by the MNB which are necessary to maintain the smooth provision of payment services and facilitate the reliable and efficient operation of the supporting payment and settlement systems.

Public Finance Report

With the aim to support the fulfilment of its fundamental duties stipulated in the MNB Act, and particularly the task related to the definition and implementation of monetary policy, the MNB analyses

the developments in budgetary deficit and debt, monitors the financing of the general government, analyses the impact of financing on the monetary processes, on the capital markets and on liquidity, and researches fiscal policy issues. Pursuant to Act CXCV of 2011 on the Economic Stability of Hungary, the Governor of the MNB is a member of the Fiscal Council (FC), and thus the professional expertise and accumulated information available in the MNB can indirectly support the work of the FC. The MNB prepares background analyses for the duties of the FC stipulated in the Stability Act, and makes them available for the FC. The general public can learn about the most important findings of these expert analyses from the publication *Public Finance Report* (formerly entitled *Analysis of the General Government*).

Annual Report

Published once annually, this publication presents the Bank's business report on the previous year and its audited annual financial statements.

Semi-annual Report: Semi-annual Report on the MNB's Activities

This *Report* is published once a year in September and is the Bank's business report for the first half of the year.

Interim Report: Quarterly Report on the MNB's Activities

The Interim Report is published twice a year, in April and November, between the annual and semi-annual reporting periods. It gives account of the basic activities of the operating units of the Bank stipulated in the MNB Act, in respect of the first and the third quarters: monetary policy, overview of the financial system, FX reserves, payment transactions, cash logistics activities, and statistical changes.

Central Bank Almanac

In a comprehensible format, the *Central Bank Almanac* provides a retrospective summary of the most important events of economic life and the main steps of monetary policy in the year under review. The volume, which gives a comprehensive presentation and evaluation of decisions and results already published earlier, allows a review and reassessment of the events of the past months for the public that is open for the subject. The *Central Bank Almanac*

is also designed to summarise all the professional MNB articles published during the year whose messages – although may not be eternal, but – help the understanding of main economic developments and central bank decisions over the longer term. This publication is released once a year, in Hungarian and in English.

MNB Occasional Papers

This series presents economic analyses related to the MNB's monetary policy decision-making process. It aims at increasing the transparency of monetary policy. Accordingly, in addition to studies also describing technical details of forecasting, the publication also covers economic issues surrounding the preparatory work for decision-making. The Occasional Paper (OP) series of the MNB primarily presents practical (applied) research related to the Central Bank's professional areas, summarises theories and international findings in relation to specific topics, and provides analyses facilitating the understanding of central bank decision-making.

MNB Working Papers

The MNB Working Papers series presents the results of theoretical research conducted in the MNB. The studies published in this series are meant primarily for academic, central bank and other researchers, with the goal of encouraging readers to offer comments that the authors may use in their future research. Since the autumn of 2005, this series has been available only in English.

Other publications

The self-financing programme of the Magyar Nemzeti Bank

Prior to the global financial crisis that erupted in 2008, the Hungarian economy accumulated high external debt, and thus its external exposure increased. During recent years, however, the external balance position of the country has improved considerably; external vulnerability has declined, allowing a targeted use of foreign exchange reserves. The central bank's self-financing programme announced in April 2014 aims at reducing the risks stemming from the high external and FX government debt. This publication presents how Hungary over the past more than one year was able to renew its maturing external FX debt from forints and how it was facilitated by the MNB's

programme, i.e. the transformation of the main policy instrument and the introduction of the central bank interest rate swap tenders.

The renewed Magyar Nemzeti Bank 2013–2015

The global economic crisis of 2008–2009 opened a new era in monetary policy. The central banks of the world - partly from necessity, and partly because they recognised the shortcomings of their earlier perceptions concerning their own roles - started to play a more and more active role in the stabilisation and in the recovery from the serious economic damages caused by the crisis. In terms of domestic monetary policy, this turnaround only started in the summer of 2012 and unfolded after March 2013. Following its appointment, the new central bank management attempted to take careful but determined steps to work off the backlog accumulated before against the best international practice, and thus renewed domestic monetary policy in a number of areas. This publication provides a brief summary of these eventful two years, taking stock of the most important domestic monetary policy steps.

The MNB's publications are available on its website (<http://www.mnb.hu/en/publications>).

Financial and Economic Review

With a history of over a decade, the *Financial and Economic Review* is a recently rejuvenated social and scientific journal offering an increasing range of content and a gradually developing set of topics, with contemporary typography. It is published in separate volumes in Hungarian and in English. Since the end of 2014, the journal has been edited and published by the MNB. It is available on the website of the Financial and Economic Review (<http://english.hitelintezetiszemle.hu/>).

Series of MNB books

On 5 March 2015, the central bank launched a new series of books on economic and monetary policy subjects. The first volume of the series was written by Dr György Matolcsy. The book entitled *Balance and Growth* provides a detailed presentation of all the new economic policy concepts, innovations and instruments that resulted in the success of the Hungarian economy between 2010 and 2014, which was significant from the aspect of economic history as well, achieving fiscal and financial stabilisation,

and thus creating the fundamental conditions for sustainable growth. The Bank is planning to publish further volumes of the series in 2016.

Events organised by the MNB

As for events, the MNB pursues a strategy of openness with its associate and partner institutions, which strengthens professional partnership. The events organised by the MNB include international conferences, internal events and so-called cultural events as well.

International events

The majority of the international, professional conferences that last for several days involve 50–60 people, although the number of participants in some events may reach 150–200 people. These events usually include professional conference, lunch and some cultural programmes as well. The majority of the international conferences are held in the building of the MNB.

Lamfalussy Lectures Conference

The objective of this annual event launched under the name 'Lamfalussy Lectures Conference' is to invite distinguished lecturers to Hungary to share with and present to the audience and fellow professionals their views on current issues in global economic policy, specifically in monetary policy and the financial system. The first conference was held in January 2014 with presentations and discussions focusing on the economic, monetary and financial integration of Europe and its future, the causes of the euro crisis, monetary policy challenges, euro accession strategies and issues regarding the Banking Union.

The second conference held in February 2015 was entitled 'New narrative for Europe (and for the monetary union after the crisis)'. Speeches were delivered by renowned lecturers, such as Benoît Cœuré, Member of the Executive Board of the European Central Bank (winner of the Lamfalussy Award in 2015), Ewald Nowotny, Governor of the Oesterreichische Nationalbank (winner of the Lamfalussy Award in 2014) as well as the governors of the central banks of Finland, Croatia, Portugal, Slovenia and Turkey.

The conference was also held at an external location in Budapest in 2015, with the participation of around 500 guests.

BESS at MNB lectures¹¹

11 March 2015 – Erwan Gautier (University of Nantes) More Facts about Prices: France Before and During the Great Recession

18 March 2015 – Ragnar Nymoen (University of Oslo) Did US consumers 'save for a rainy day' before the Great Recession?

25 March 2015 – Ryan Chahrour (Boston College) Good news is bad news: Leverage cycles and sudden stops

01 April 2015 – Yavuz Arslan (Central Bank of the Republic of Turkey) Joint Dynamics of House Prices and Foreclosures

17 April 2015 – Michał Rubaszek (National Bank of Poland) Forecasting with DSGE models with financial frictions

13 May 2015 – Kartik Athreya (FRB Richmond) Stock Market Investment: The Role of Human Capital

20 May 2015 – John Earle (George Mason University) Finance and Growth at the Micro Level: Evidence from the Small Business Administration Loan Programs

21 May 2015 – Dean Corbae (University of Wisconsin) Capital Requirements in a Quantitative Model of Banking Industry Dynamics

03 June 2015 – Christoph Müller (Freiburg University) A Long-Term Evaluation of Recent Hungarian Pension Reforms

01 July 2015 – Kim P. Huynh (Bank of Canada) Functional Principal Component Analysis of Density Families with Complex Survey Data on UK Prices

09 December 2015 – Philipp Schmidt-Dengler (University of Vienna) Information and Price Dispersion: Theory and Evidence

¹¹ BESS - Budapest Economic Seminar Series.

Courses of the Bank's "Budapest School for Central Bank Studies" Training Centre

Spring courses 2015

Fabio Canova (European University Institute)
Structural estimation of macroeconometric models,
30 March – 3 April 2015

- Limited information estimation – impulse response matching
- Likelihood based estimation
- Bayesian estimation

Practical estimation topics

Jean-Charles Rochet (Institute für Banking und Finance, Zurich) **Financial stability and macro-prudential policies**, 7–10 April 2015

- Academic research on macro-prudential regulation: Recent contributions and remaining challenges
- The lender of last resort
- Capital regulation and credit fluctuations
- Macro models with a financial sector

Summer courses 2015

Massimiliano Marcellino (Bocconi University)
Techniques and tools for short-term macroeconomic forecasting, 6–10 July 2015

- Forecasting with linear models
- Forecasting with time-varying models
- Forecasting with Bayesian methods

Steven N. Durlauf (University of Wisconsin) **Social interactions networks and complexity**, 3–7 August 2015

- Mathematics of complex systems
- Integration of interactions into formal economic theory
- Identification of interaction effects from observational data
- Applications of interactions-based models to inequality
- Applications of interactions-based models to aggregate fluctuations

4 Additional information on the supervisory activity of the MNB in 2015

4.1 INSTITUTION OVERSIGHT

As of 31 December 2015, the MNB performed oversight of 1,744 institutions according to the breakdown in Table 11.

4.2 INSPECTIONS COMPLETED

The MNB carries out the inspections on the basis of an annual planning system, according to detailed daily schedules.

In preparing the inspection plans, the MNB considers the following criteria:

- the cycle plan of supervisory inspections defined in the MNB Act;
- the risk rating of the institutions and the resource requirement and inspection duration determined accordingly;
- the supervisory scoring system designed to establish the order of institutions to be inspected, also in consideration of other individual characteristics of the institutions concerned; and
- the available resources.

The number of prudential on-site inspections and their breakdown by sector and inspection type are summarised in the table 12.

Capital markets	100
Investment fund manager	72
Commodities exchange service provider	3
Investment firm	22
Clearing house	1
Central counterparty	1
Stock exchange	1
Funds	87
Private pension fund	5
Voluntary funds	81
Voluntary health fund	27
Voluntary pension fund	44
Voluntary mutual fund	10
Occupational pension fund	1
Financial market	1,048
Non financial institution	674
Electronic money issuer	1
Independent intermediary	667
Special services intermediary	1
Payment service provider	5
Financial institution	374
Credit institution	122
Bank	30
Specialized credit institution	9
Cooperative credit institution	83
Financial enterprises	252
Financial enterprise equivalent to credit institutions	2
Other financial enterprises	250
Insurance	509
Insurance institution	51
Insurance association	21
Insurance company	30
Independent insurance intermediary	445
Broker	385
Multiple agent	60
Special adviser	12
Advocacy	1
Total	1,744

Table 12**Inspection statistics**

Number of prudential on-site inspections	2014		2015		2016 Planned	
	Comprehensive	Other*	Comprehensive	Other*	Comprehensive	Other*
Large banks	2	16	4	20	3	13
Small and medium-sized banks	11	1	5	3	6	9
Cooperative credit institutions	20	1	8	8	22	9
Specialized credit institutions	0	3	1	3	2	4
Financial enterprises	0	1	0	7	0	0
Payment service providers	0	1	2	1	2	0
Insurance companies	10	1	7	3	6	3
Insurance associations	3	0	1	2	1	0
Intermediaries	0	14	0	6	0	5
Funds	18	0	16	3	14	1
Capital market institutions	17	7	9	22	37	5
Occupational pension funds	0	0	0	0	1	0
Total	81	45	53	78	94	49

* Including inspections and validations in the context of the complex SREP (Supervisory Review and Evaluation Process).

4.3 AUTHORISATION AND LEGAL ENFORCEMENT

The authorisation and legal enforcement activity of the MNB comprises the entire spectrum of legal activities linked to the supervision of the financial intermediary system, including the execution of all authorisation

procedures related to the overseen institutions and the performance of the legal enforcement tasks of the prudential inspection activity.

The statistics on the authorisation and prudential legal enforcement activities of the MNB are shown in the tables 13-16, broken down by sector.

Table 13	
Measures taken in the financial market sector	
<i>(Pieces)</i>	
Prudential measures	
Resolutions closing supervisory proceedings	61
Other prudential measures, resolutions	185
Rulings	92
out of which: resolutions imposing fines	31
Total amount of fines (HUF million)	364.0
Authorisation resolutions/rulings	
Authorisation of the foundation of credit institutions	2
Authorisation of the operation of credit institutions	1
Withdrawal of Authorisation for the foundation of credit institutions	1
Authorisation of the foundation and the operation of financial enterprises	7
Withdrawal of Authorisation for operations of financial enterprises	4
Resolutions concerning the amendment of the scope of activities	17
Authorisation of the election of senior executives	235
out of which: credit institutions' senior executives	113
Refusal of the election of senior executives	2
Approval of the amendment of agency contract	254
Authorisation of multiple agents	30
Authorisation of brokers	1
Authorisation of the employment of intermediaries	72
Authorisation of the amendment of the bylaws	18
Authorisation of the acquisition of qualifying holdings	39
Authorisation of merger and division	16
Authorisation of the acquisition of qualifying holdings in a nonresident enterprise	4
Decision on the invalidation of Authorisation for employment of intermediaries	11
Withdrawal of the Authorisation for operations of intermediaries	10
Authorisation concerning the calculation of the capital requirements of operational risk	1
Authorisation of other regulations	11
Resolutions concerning consolidated supervision	19
Authorisation of the repayment of subordinated loan capital before due date	1
Resolutions issued under CRR	30
Authorisation of the transfer of client accounts	4
Resolutions concerning bank representative office	4
Rulings	122
Other resolutions	18
Total amount of resolutions and rulings	934

Table 14**Measures taken in the capital market sector***(Pieces)*

Prudential measures	
Resolutions closing supervisory proceedings	25
Other prudential measures, resolutions	1
out of which: resolutions imposing fines	8
Rulings	233
Total amount of fines (HUF million)	24.5
Authorisation resolutions/rulings	
Authorisation for operations	5
Withdrawal of Authorisation for operations	7
Authorisation of other regulations	9
Authorisation of senior executives	55
Authorisation of the acquisition of qualifying holdings	2
Rulings	52
Other resolutions	70
Total amount of resolutions and rulings	200

Table 15**Measures taken in the insurance sector***(Pieces)*

Prudential measures	
Resolutions closing supervisory proceedings	14
Other prudential measures, resolutions	148
out of which: resolutions imposing fines	55
Rulings	15
Total amount of fines (HUF million)	510.2
Authorisation resolutions/rulings	
Authorisation of executive officers	103
Authorisation of professional executives	16
Withdrawal of Authorisation for operations at request	20
Other resolutions	8
Authorisation of activities closely related to insurance activities	7
Authorisation of the activities of independent insurance intermediaries	14
Rulings	36
Total amount of resolutions and rulings	381

Table 16	
Measures taken in the funds sector	
<i>(Pieces)</i>	
Prudential measures	
Resolutions closing supervisory proceedings	16
Other prudential measures, resolutions	21
out of which: resolutions imposing fines	7
Rulings	10
Total amount of fines (HUF million)	6.7
Authorisation resolutions/rulings	
Resolutions closing activities	3
Approval of optional investment portfolio system	15
Approval of contract concluded with real estate appraiser	4
Authorisation of the merger of pension funds	5
Rulings	6
Total amount of resolutions and rulings	80

4.4 MARKET SURVEILLANCE

The summary data concerning the measures required within the framework of the MNB's market surveillance activity in 2015 are presented in the tables below.

Table 17	
Market surveillance and supervision related measures	
<i>(Pieces)</i>	
Market surveillance and supervisory measures	
Resolutions related to unauthorised activities	425
out of which: resolutions imposing fines	6
Resolutions related to market abuse	8
out of which: resolutions imposing fines	7
Resolutions related to compliance with company takeover rules	1
Resolutions closing supervisory proceedings related to issuers	3
out of which: resolutions imposing fines	2
Resolutions related to issuers supervision	12
out of which: resolutions imposing fines	9
out of which: suspension of stock exchange trading	3
Rulings closing a procedure	4
out of which: international request for assistance	2
Ex-ante approval of trading suspension on stock exchange	4
Rulings imposing a fine	7
Rulings related to seizure	16
Rulings related to provisional protective measures	1
Rulings related to provisional measures	5
Rulings related to engagement of interpreter	2
Rulings related to witness summoned	284
Other rulings	67
Total amount of resolutions and rulings	836
Total amount of fines (HUF million)	1,399
Total amount of procedural fines (HUF million)	7.5

Table 18**Licensing related to securities issuance***(Pieces)*

Approvals concerning the publishing of a prospectus for the public offer of investment notes issued by investment funds	82
Registry of an investment fund	84
Approvals concerning the modification of the fund rules (management policy) of an investment fund	551
Deleting investment fund from registry	42
Approvals concerning the restructuring of an investment fund	38
Approvals concerning the merger of investment funds	12
Approvals concerning the mandate agreement concluded with a real estate appraiser	6
Approvals concerning the publishing of a prospectus for the public offer of securities	9
Approvals concerning the publishing of a prospectus for the public offer of securities and/or the listing of the securities to a regulated market	3
Approvals concerning the supplement of prospectuses or base prospectuses	38
Release of issuer from transparency (reporting) requirements	2
Approvals concerning takeover bids	2
Rulings on the suspension of administrative procedure	22
Approval of security/defense plans for printed certificates of securities	152
Resolutions on refusal	3
Rulings on the termination of administrative procedure	21
Other resolutions/rulings	50
Total amount of resolutions and rulings	1,117
out of which: resolutions imposing a fine	0
Total amount of fines (HUF million)	0

4.5 CONSUMER PROTECTION

The following tables summarise the MNB's year 2015 financial consumer protection activities broken down by sectors, for the matters not related to settlement and conversion into forints.

Table 19**The MNB's consumer protection administrative activity**

	Insurance	Funds	Financial markets	Capital markets	Total
Inspections conducted	246	3	354	18	621
out of which: by request	224	3	306	16	549
ex officio	22	0	48	2	72
along with prudential inspections	4	3	3	4	14
Rulings	608	11	1,022	106	1,747
out of which: substantive	214	2	361	32	609
non substantive	394	9	661	74	1,138
Resolutions	105	2	178	10	295
out of which: without breach of law	170	1	240	9	420
with breach of law	25	1	36	3	65
Number of breaches of law	27	1	31	3	62
Total amount of fines (HUF million)	28.7	0.1	63.6	1.4	93.8
Number of trial transactions	13	0	5	1	19

Table 20	
Consumer protection measures in the financial market sector	
<i>(Pieces)</i>	
Due to unfair business to consumer commercial practices	8
Due to breach of complaints handling rules	24
Due to breach of obligation concerning periodic information	9
Due to insufficient information to customers (eg. management of the contracts, amortisation table, notification on interest rate variation, account statement, termination, increase in charges, notification on cancellation, compensation proposal, MiFID)	10
Breach of bank secrets	8
Breach of provisions concerning the rules of protection of clients of central credit information system	2
Imposition of procedural fine in injunctions	8
Total amount of resolutions and rulings	1,200
out of which: resolutions imposing a fine	69
Total amount of fines (HUF million)	63.6

Table 21	
Consumer protection measures in the capital market sector	
<i>(Pieces)</i>	
Due to unfair business to consumer commercial practices	3
Due to breach of complaints handling rules	5
Total amount of resolutions and rulings	116
out of which: resolutions imposing a fine	9
Total amount of fines (HUF million)	1.4

Table 22	
Consumer protection measures in the insurance sector	
<i>(Pieces)</i>	
Due to unfair business to consumer commercial practices	15
Due to breach of complaints handling rules	18
Due to insufficient information to customers (eg. management of the contracts, amortisation table, notification on interest rate variation, account statement, termination, increase in charges, notification on cancellation, compensation proposal, MiFID)	17
Due to breach of requirement of due professional care	2
Due to breach of the rules concerning needs assessment	3
Total amount of resolutions and rulings	713
out of which: resolutions imposing a fine	39
Total amount of fines (HUF million)	28.7

Table 23	
Consumer protection measures in the funds sector	
<i>(Pieces)</i>	
Due to unfair business to consumer commercial practices	1
Due to breach of complaints handling rules	5
Total amount of resolutions and rulings	13
out of which: resolutions imposing a fine	1
Total amount of fines (HUFmn)	0.1

The following tables show the main data related to the activity of the Financial Consumer Protection Centre.

Table 24
Distribution of customer inquiries and requests received by receipt channel

Channel of receipt	No.	Per cent
Mail	5,948	7.6
E-mail	12,850	16.5
Personal	8,300	10.7
Phone	50,768	65.2
Total	77,866	100.0

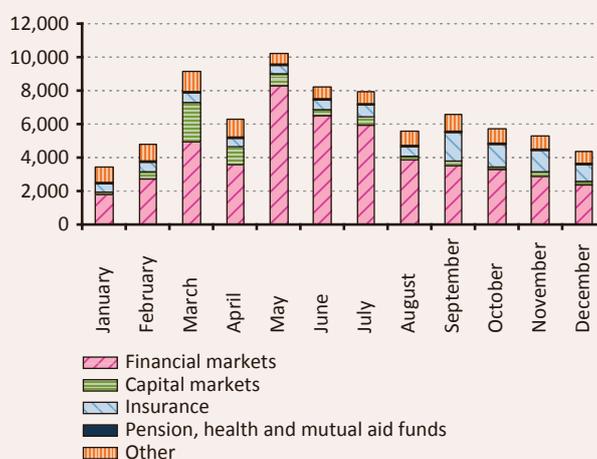
Table 25
Customer inquiries and requests broken down by sectors

Sector	No.	Per cent
Financial markets	49,865	64.0
Capital markets	6,623	8.5
Insurance	10,021	12.9
Pension, health and mutual aid funds	406	0.5
Other	10,951	14.1
Total	77,866	100.0

Table 26
Number of customer inquiries and requests broken down by sector and quarter

Sector	Q1	Q2	Q3	Q4	2015 Total
Financial markets	9,572	18,433	13,287	8,573	49,865
Capital markets	2,846	2,119	1,026	632	6,623
Insurance	1,730	1,634	3,030	3,627	10,021
Pension, health and mutual aid funds	137	134	77	58	406
Other	3,200	2,443	2,728	2,580	10,951
Total	17,485	24,763	20,148	15,470	77,866

Chart 18
Number of customer inquiries and requests in a sectoral and monthly breakdown



4.6 ADMINISTRATIVE REPRESENTATION AT PROCEEDINGS

Administrative representation at proceedings comprises the representation of the MNB in the assertion of claims of public interest, as well as litigation and non-litigious proceedings related to the

MNB's administrative decisions passed in the context of its supervisory and consumer protection activities, and also the representation of the Financial Arbitration Board in litigation launched for the abrogation of the FAB's resolutions or recommendations, and keeping records pertaining to such procedures.

Table 27

Cases commenced in 2015 broken down by type and sector

Type	No.	Per cent	Sector	No.	Per cent
Judicial review of administrative decisions (litigious)	20	42.6	Financial market	24	51.1
Non-litigious	25	53.2	Capital markets	9	19.1
Financial Arbitration Board	2	4.3	Insurance	13	27.7
			Pension, health and mutual aid funds	1	2.1
Total	47	100.0	Total	47	100.0

Table 28

Cases won based on court decisions that became final in 2015

(in administrative litigious and non-litigious proceedings)

	No.	Per cent
Dismissed	9	11.5
Won	63	80.8
Lost	6	7.7
Total	78	100.0

5 Explanation of abbreviations and terms specific to central banking

ABBREVIATIONS

BSE: Budapest Stock Exchange

BIS: Bank for International Settlements

ICS: Interbank Clearing System

BREEM: Building Research Establishment Environmental Assessment Methodology

BRRD: Bank Recovery and Resolution Directive

CEBS: Committee of European Banking Supervisors

CRD IV: Capital Requirement Directive – Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC

CRR: Capital Requirement Regulation – Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms applicable in EU Member States

EBA: European Banking Authority

EIOPA: European Insurance and Occupational Pensions Authority

ECB: European Central Bank

ESRB: European Systemic Risk Board

GIRO: Giro Clearing House Ltd.

EMU: Economic and Monetary Union

IMF: International Monetary Fund

ISDA: International Swaps and Derivatives Association

ESCB: European System of Central Banks

KELER: KELER Central Clearing House and Depository Ltd.

CSO: Central Statistical Office

LCR: Liquidity Coverage Ratio

MNB: Magyar Nemzeti Bank

MNE: Ministry for National Economy

FGS: Funding for Growth Scheme

GSP: Growth Supporting Programme

OECD: Organisation for Economic Co-operation and Development

FCPC: Financial Consumer Protection Centre

MLS: Market-Based Lending Scheme

PIP ('FCP'): Financial Compass Programme

POP ('FTP'): Financial Training Programme

FSB: Financial Stability Board

SRB: Systemic Risk Buffer

SRM: Single Resolution Mechanism

SSM: Single Supervisory Mechanism

VIBER: real-time gross settlement system, a payment system operated by the MNB

GLOSSARY

CLS (Continuous Linked Settlement): A clearing and settlement model that enables the elimination of FX settlement risks. It is based on a multi-currency payment versus payment (PvP) mechanism. The CLS is operated by the CLS Bank.

Foreign exchange funding adequacy ratio (FFAR): The ratio of the sum of stable foreign exchange funds and net foreign exchange swap stock with a maturity over a year and the weighted foreign currency denominated assets to be financed.

Foreign exchange swap: Usually a short-term transaction involving the exchange of different currencies and, when the transaction is settled, exchange of the currencies again at the price determined in the contract by the cross rate and the interest rate of the currencies.

Duration: Average remaining maturity of bonds. It is an indicator measuring the level of risk associated with the bond portfolio.

Clearing: Control and transmission of payment transactions, calculation of interbank balances in accordance with specified rules; in the case of securities transactions: matching and confirmation of positions, calculation of accounts receivable/payable and managing the arising financial risk.

ERM II, Exchange Rate Mechanism II: An exchange rate mechanism for establishing the conditions for an exchange rate policy co-operation between euro area countries and EU Member States not participating in the third stage of EMU. The ERM II is a multilateral system of fixed but adjustable exchange rates, where the mid-rate is surrounded by a normal, +/-15 per cent fluctuation band. All decisions in relation to the mid-rate and, as the case may be, a narrower fluctuation band, are made on the basis of a joint agreement between the Member State concerned, the euro area countries, the ECB and the other Member States participating in the mechanism.

Payment System Forum: An independent, self-organising, open professional organisation with consultative character committed to the matters of the domestic payment system and operating on the MNB's initiative, with the support of the Hungarian Banking Association and the involvement of market participants that play a decisive role in payment transactions as well as the Hungarian State Treasury, GIRO Zrt. and KELER Zrt. The supreme body of the Forum is the Payment System Council, which consists of the representatives of the members and operates under the co-chairmanship of the MNB and the Hungarian Banking Association.

Payment System Council: The decision-making body of the Payment System Forum.

FX swap: See Foreign exchange swap.

IMF reserve quota: The freely drawable, i.e. not yet drawn portion of the IMF quota paid to the International Monetary Fund in SDR (Special Drawing Right).

Interest rate futures: A stock exchange transaction where the basis of future settlement is a certain amount of standardised (expressed-in-contract) deposits with interest rate specified at the time of the deal.

Currency interest rate swap, CIRS: Usually a medium or long-term transaction involving the exchange of different currencies, a series of interest payments on the principal and repayment of principals when the transaction is settled.

Interest rate swap, IRS: The exchange of fixed rate and variable rate interest on principal at pre-determined intervals, adjusted to certain market rates and conditions.

Cash turnover: The sum of exchanges and payments to and from the central bank.

Revaluation reserve: The revaluation reserve of the forint exchange rate and the revaluation reserve of foreign exchange securities are reserves that are part of the equity of the MNB. If they have a negative balance, the central government is liable to reimburse the negative portion, and credit the amount to the respective revaluation reserve account by 31 March of the year following the current year. The amount of the reimbursement is recorded in the balance sheet of the current year as a receivable from the central budget.

Revaluation reserve due to forint exchange rate changes: Non-realised exchange rate gains and losses on the forint exchange rate changes of foreign currency assets and liabilities are indicated in the forint exchange rate revaluation reserve, which constitutes a part of the equity.

Revaluation reserve of foreign exchange securities: The valuation difference between the market value and cost rate of foreign exchange assets based on securities (except for repurchased foreign exchange bonds) is indicated in the revaluation reserve of foreign exchange securities, which constitutes a part of the equity.

MNB Act: Act CXXXIX of 2013 on Magyar Nemzeti Bank.

Monetary financial institutions: The central bank, financial institutions and money market funds together constitute this institutional category within financial corporations.

Omnibus II directive: See Solvency II directive.

O/N: Overnight deposit/loan.

Option contract: For the owner of the foreign exchange option this means a right, but not an obligation, to buy or sell a certain amount of currency against another currency at a pre-determined rate, at or before a pre-determined date. If the possessor of the option exercises this right, it will become an obligation for the seller (writer) of the option.

Money market funds: Money market funds are investment funds, the mutual fund shares of which are similar to bank deposits from the aspect of liquidity. Money market funds invest 85 per cent of their assets in money market instruments or transferable debt securities with a remaining maturity of maximum one year or instruments with a return similar to that of the interest rate of money market instruments.

Money market instruments: Low-risk, liquid securities traded in large amounts on markets where they can be exchanged for cash immediately at a low cost.

Repurchase and reverse repurchase transaction: An agreement on the transfer of the ownership right of a security with a repurchase obligation at a pre-determined price at a future date specified or to be specified at the time when the contract is concluded. During the term of the contract the buyer may either obtain the security which is the subject of the transaction and freely dispose over it (delivery repo transaction) or may not obtain it and may not freely dispose over it, in which case the security is deposited as a bail to the benefit of the buyer during the term of the contract (hold-in-custody repo).

ROA: Return on assets.

ROE: return on equity.

SEPA: Single Euro Payments Area, an area within which economic operators can effect and receive payments in euro anywhere, using one single payment account, in the same manner as in their own respective countries. Geographically, the Area covers the 28 EU Member States, Iceland, Liechtenstein, Norway, Switzerland and Monaco.

Solvency II directive: Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance. A new, risk-based regulatory framework for insurers which is based on three pillars, namely, quantitative requirements, qualitative requirements and public disclosure. It is a European standard based on which the supervisory authorities can create standard rules for capital in order to reduce/avoid the risk of insolvency. Applicable from 1 January 2016. The Omnibus II directive (Directive 2012/23/EU of the European Parliament and of the Council) includes the amending provisions of the Solvency II directive – which has been approved but it is yet to become valid and applicable – and the Prospectus directive (Directive 2003/71/EC of the European Parliament and of the Council).

TARGET2-Securities (T2S): The single technical platform of the Eurosystem through which central depositories and national central banks can provide basic, cross-border and neutral securities settlement services in central bank funds across all Europe.

Settlement: Final settlement of interbank liabilities and receivables on an account managed by a common bank, typically the MNB.

VaR: Value at risk – a method for measuring risks. VaR quantifies the maximum amount of loss to be expected at a given confidence level for a specific time horizon.

Part B)
Audited financial statements
of the Magyar Nemzeti Bank

1 Independent auditor's report



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This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholder of Magyar Nemzeti Bank

Report on financial statements

1.) We have audited the accompanying 2015 annual financial statements of Magyar Nemzeti Bank ("the Company"), which comprise the balance sheet as at 31 December 2015 - showing a balance sheet total of HUF 11,495,507 million and a profit for the year of HUF 44,452 million -, the related profit and loss account for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

2.) Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with the Hungarian Accounting Law, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

3.) Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4.) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



5.) We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6.) In our opinion the annual financial statements give a true and fair view of the equity and financial position of Magyar Nemzeti Bank as at 31 December 2015 and of the results of its operations for the year then ended in accordance with the Hungarian Accounting Law.

Other reporting requirement- Report on the business report

7.) We have reviewed the business report of Magyar Nemzeti Bank for 2015. Management is responsible for the preparation of the business report in accordance with the Hungarian Accounting Law. Our responsibility is to assess whether the business report is consistent with the financial statements for the same financial year. Our work regarding the business report has been restricted to assessing whether the business report is consistent with the financial statements and did not include reviewing other information originated from non-audited financial records. In our opinion, the business report of Magyar Nemzeti Bank for 2015 corresponds to the disclosures in the 2015 financial statements of Magyar Nemzeti Bank.

Budapest, 29 April 2016

(The original Hungarian language version has been signed.)

Szabó Gergely
Ernst & Young Kft.
Registration No. 001165

Szabó Gergely
Registered auditor
Chamber membership No.: 005676

2 Balance sheet of the Magyar Nemzeti Bank

HUF millions

Reference number to notes on the Accounts	ASSETS	31.12.2014	31.12.2015	Change
1	2	3	4	4-3
	I. RECEIVABLES DENOMINATED IN FORINT	1,180,874	1,446,828	265,954
4.3.	1. Receivables from the central government	139,495	39,178	-100,317
4.7.	2. Receivables from credit institutions	1,040,063	1,405,552	365,489
4.10.	3. Other receivables	1,316	2,098	782
	II. RECEIVABLES DENOMINATED IN FOREIGN CURRENCY	11,263,490	9,843,344	-1,420,146
4.9.	1. Gold and foreign currency reserves	10,814,487	9,436,975	-1,377,512
4.4.	2. Receivables from the central government	0	0	0
4.8.	3. Receivables from credit institutions	10,500	6,962	-3,538
4.10.	4. Other receivables	438,503	399,407	-39,096
	III. BANKING ASSETS	84,220	109,638	25,418
4.12.	of which: invested assets	83,740	107,137	23,397
4.14.	IV. PREPAID EXPENSES/ACCRUED INCOME	112,004	95,697	-16,307
	V. TOTAL ASSETS (I+II+III+IV)	12,640,588	11,495,507	-1,145,081
Reference number to notes on the Accounts	LIABILITIES AND EQUITY	31.12.2014	31.12.2015	Change
1	2	3	4	4-3
	VI. LIABILITIES DENOMINATED IN FORINT	10,290,278	9,527,734	-762,544
4.5.	1. Central government deposits	524,838	403,624	-121,214
4.7.	2. Deposits by credit institutions	5,997,814	4,772,252	-1,225,562
	of which: the main policy instrument*	5,083,350	2,986,826	-2,096,524
	3. Banknotes and coins in circulation	3,735,554	4,304,879	569,325
4.11.	4. Other deposits and liabilities	32,072	46,979	14,907
	VII. LIABILITIES DENOMINATED IN FOREIGN CURRENCY	1,650,694	1,407,934	-242,760
4.5.	1. Central government deposits	550,771	416,115	-134,656
4.8.	2. Deposits by credit institutions	59,096	58,378	-718
4.11.	3. Other deposits and liabilities	1,040,827	933,441	-107,386
4.13.	VIII. PROVISIONS	4,267	1,978	-2,289
4.15.	IX. OTHER BANKING LIABILITIES	18,017	67,839	49,822
4.14.	X. ACCRUED EXPENSES/DEFERRED INCOME	31,454	31,044	-410
4.15.	XI. EQUITY	645,878	458,978	-186,900
	1. Share capital	10,000	10,000	0
	2. Retained earnings	36,057	63,417	27,360
	3. Valuation reserves	0	0	0
4.16.	4. Revaluation reserves due to exchange rate changes	517,984	312,599	-205,385
4.16.	5. Revaluation reserves of foreign currency securities	54,477	28,510	-25,967
	6. Profit/Loss for the year	27,360	44,452	17,092
	XII. TOTAL EQUITY AND LIABILITIES (VI+VII+VIII+IX+X+XI)	12,640,588	11,495,507	-1,145,081

* From 23 September 2015, the three-month MNB-deposit became the main policy instrument, replacing the two-week deposit.

27 April 2016, Budapest

Dr György Matolcsy
Governor of the Magyar Nemzeti Bank

3 Income statement of the Magyar Nemzeti Bank

HUF millions

Reference number to notes on the Accounts	INCOME	2014	2015	Difference
1	2	3	4	4-3
4.18.	I. INTEREST AND INTEREST-RELATED INCOME DENOMINATED IN FORINT	9,447	10,817	1,370
	1. Interest on receivables from the central government	4,566	2,706	-1,860
	2. Interest on receivables from credit institutions	4,030	3,128	-902
	3. Interest on other receivables	17	771	754
	4. Interest-related income	834	4,212	3,378
4.18.	II. INTEREST AND INTEREST-RELATED INCOME DENOMINATED IN FOREIGN CURRENCY	251,952	215,866	-36,086
	1. Interest on foreign currency reserves	169,586	123,495	-46,091
	2. Interest on receivables from the central government	0	3,235	3,235
	3. Interest on receivables from credit institutions	0	0	0
	4. Interest on other receivables	67	54	-13
	5. Interest-related income	82,299	89,082	6,783
4.19.	III. INCOME ARISING FROM EXCHANGE RATE CHANGES	520,671	184,568	-336,103
4.18.	IV. REALISED GAINS ARISING FROM FINANCIAL OPERATIONS	3,435	18,190	14,755
4.21.	V. OTHER INCOME	15,526	14,524	-1,002
	1. Fees and commissions	936	1,033	97
4.22.	2. Income other than fees and commissions	1,588	1,380	-208
4.23.	3. Income from supervisory activities	13,002	12,111	-891
4.13.	VI. PROVISIONS RELEASED	1,272	2,933	1,661
4.13.	VII. IMPAIRMENT RELEASED	120	1,399	1,279
4.24.	VIII. OPERATING INCOME	560	1,466	906
	IX. TOTAL INCOME (I+II+III+IV+V+VI+VII+VIII)	802,983	449,763	-353,220
Reference number to notes on the Accounts	EXPENSES	2014	2015	Difference
1	2	3	4	4-3
4.18.	X. INTEREST AND INTEREST-RELATED EXPENSES DENOMINATED IN FORINT	167,973	103,825	-64,148
	1. Interest on central government deposits	29,028	11,229	-17,799
	2. Interest on deposits by credit institutions	55,306	92,498	37,192
	of which: interest on the main policy instrument*	41,353	74,063	32,710
	3. Interest on other deposits	83,639	98	-83,541
	of which: interest on the main policy instrument**	83,513	0	-83,513
	4. Interest-related expenses	0	0	0
4.18.	XI. INTEREST AND INTEREST-RELATED EXPENSES DENOMINATED IN FOREIGN CURRENCY	179,705	165,561	-14,144
	1. Interest on central government deposits	113	-1,737	-1,850
	2. Interest on deposits of credit institutions	0	-29	-29
	3. Interest on other liabilities	1,677	1,685	8
	4. Interest-related expenses	177,915	165,642	-12,273
4.19.	XII. EXPENSES RESULTING FROM EXCHANGE RATE CHANGES	9,682	6,891	-2,791
4.20.	XIII. COST OF ISSUING BANKNOTES AND COINS	5,188	11,286	6,098
4.18.	XIV. REALISED LOSSES ARISING FROM FINANCIAL OPERATIONS	123,012	3,328	-119,684
4.21.	XV. OTHER EXPENSES	252,401	21,268	-231,133
	1. Fees and commissions	837	851	14
4.22.	2. Expenses other than fees and commissions	251,564	20,417	-231,147
4.13.	XVI. PROVISIONS CHARGED	1,463	644	-819
4.13.	XVII. IMPAIRMENT	3,460	7,556	4,096
4.24.	XVIII. OPERATING COSTS AND EXPENSES	32,739	34,952	2,213
	XIX. TOTAL EXPENSES (X+XI+XII+XIII+XIV+XV+XVI+XVII+XVIII)	775,623	355,311	-420,312
	XX. PROFIT/LOSS BEFORE DIVIDENDS (IX-XIX)	27,360	94,452	67,092
	XXI. Uses of retained earnings for dividends	0	0	0
	XXII. Dividends	0	50 000	50 000
	XXIII. PROFIT/LOSS FOR THE YEAR (XX+XXI-XXII)	27,360	44,452	17,092

* From 1 August 2014, the two-week deposit, and from 23 September 2015 the three-month MNB-deposit became the main policy instrument.

** Until 31 July 2014 the two-week bond was the main policy instrument.

27 April 2016, Budapest

Dr György Matolcsy
Governor of the Magyar Nemzeti Bank

4 Notes to the financial statements

4.1 THE MNB'S ACCOUNTING POLICY

The Magyar Nemzeti Bank (MNB), the central bank of Hungary, is owned by the Hungarian State. Ownership rights are exercised by the minister in charge of public finances (the shareholder).

The accounting policy of the Magyar Nemzeti Bank is based on the Act on Accounting (Act C of 2000), Act CXXXIX of 2013 on the Magyar Nemzeti Bank (hereinafter: the MNB Act) and Government Decree 221/2000 (XII. 19) on the special reporting and accounting requirements applicable to the Magyar Nemzeti Bank (hereinafter: the MNB Decree). Since the effective date of the Act promulgating the international treaty on the accession of Hungary to the EU, i.e. 1 May 2004, the Magyar Nemzeti Bank has been a member of the European System of Central Banks (ESCB).

The following sections present a brief description of the accounting system of the MNB, and the valuation and profit recognition rules, whenever these differ from the general rules.

4.1.1 The MNB's accounting framework

One of the key accounting principles of the MNB is that transactions are booked for the period in which they occur, unless the financial year is already closed. This is especially important in terms of the accurate measurement of exchange rate gains and losses, with special regard to foreign exchange sales and purchases. Spot foreign currency transactions which involve foreign exchange conversions are recorded in the books at the date of the transactions. Assets and liabilities arising from such transactions affect the MNB's foreign currency position from the date of entering into the transaction. The same procedure is applied to recording the revaluation difference in the balance sheet relating to derivative transactions for hedging purposes.

On a daily basis, the MNB records:

- exchange rate differences arising from revaluation of its foreign assets and liabilities and derivative transactions for hedging purposes recorded off-balance sheet;
- amortisation of the securities' premiums and discounts; and
- accrued/deferred interest arising from on and off-balance sheet assets and liabilities from hedging transactions.

Pursuant to the MNB Decree, for the purpose of reporting data to the owner, the MNB is required to close accounts relating to its assets and liabilities and to net income on a quarterly basis, and to prepare trial balances following the procedure specified in its accounting policy.

For internal use, the MNB compiles a balance sheet and income statement every month, which are supported by the following:

- market valuation of foreign currency securities, with the exception of foreign currency bonds repurchased by the MNB with the aim of debt redemption;

- breakdown and recording of realised and unrealised portions of foreign exchange gains and losses deriving from daily revaluation; and
- charging of depreciation and amortisation.

Upon the quarterly closing of accounts, the MNB measures its off-balance sheet contingent and future liabilities arising from derivative transactions for other purposes and securities lending operations based on international agreements (in this case, the liabilities are equal to the purchase value of the collateral received) and other off-balance sheet liabilities. The MNB also grades quarterly the claims and securities in the balance sheet and at the end of the year in addition to the foregoing it measures the invested assets. As a result of this measurement, the MNB recognises impairment losses as necessary and forms provisions for liabilities and expected losses.

According to the change in the accounting policy, the balance sheet date became the 15th working day of January instead of 15 January of the year following the reporting year starting from the close of the year 2015. With regard to this report, the balance sheet date was 22 January 2016.

By law, the MNB is also required to report to Parliament. The MNB submits one single report to both Parliament and the Ministry for National Economy, which as it is in charge of public finances, exercises the rights of ownership as laid down in the MNB Act. This takes the form of an Annual Report, which contains a business report describing the MNB's structure, operations and state of affairs in the reporting year and the MNB's annual financial statements defined by the Act on Accounting, as adopted by the Board of Directors and approved by audit certificate. The Supervisory Board submits an opinion on the Annual Report and makes a report on such to the shareholder. The Annual Report is published in unabridged form on the internet. The website is accessible at: <http://english.mnb.hu>.

The Governor of the MNB also reports to the Parliament's committee responsible for economic affairs on the half-year activity of the MNB. This report is the Half-year Report which contains a business report describing the MNB's structure, operations and state of affairs in the reporting period and the MNB's half-year financial statements defined by the Act on Accounting. The Half-year Report is also published on the internet.

Pursuant to MNB Decree, the MNB is not obliged to draw up consolidated financial statements.

The financial statements of the MNB must be audited by the statutory auditor in compliance with the Act on Accounting. The registered auditor of the MNB is Gergely Szabó (Ernst & Young Könyvvizsgáló Kft.), Chamber membership number: 005676.

The person authorised to sign the Annual Report is Dr György Matolcsy, Governor of the Magyar Nemzeti Bank.

The person responsible for accounting services is Gábor Kalina, registration number: 194599.

4.1.2 Major principles of valuation

Receivables from the central government

Securities stated under receivables from the central government are recorded in the balance sheet at amortised purchase price and include no interest. The difference between the purchase price excluding interest and the face value is shown in the MNB's income statement as a valuation gain or loss in proportion to the time elapsed.

Receivables from the central government also include any receivables associated with the reimbursement of revaluation reserves at year-end.

Impairment losses may not be recorded in connection with receivables from the central government.

Receivables from credit institutions

Mortgage bonds stated under receivables from credit institutions are recorded in the balance sheet at amortised purchase price net of interest. The market value difference at acquisition is shown in the MNB's interest related income as a valuation gain or loss in proportion to the time elapsed.

Impairment losses on mortgage bonds must be accounted in proportion to the risk of losses.

Interest-free refinancing loans within the framework of the Funding for Growth Scheme (FGS) and the base rate fixed security-backed loans provided to credit institutions must be recorded in the balance sheet at the disbursed amount.

Other receivables

Receivables from supervisory activities are recorded in the balance sheet with their impairment. The MNB books the supervisory fee prescriptions in line with the incoming data reported by the institutions and the penalty prescriptions are recorded in line with the finalised resolutions. The supervisory fees, levied and used penalties, as well as the received fees from public proceedings must be recorded as 'Income from supervisory activities'.

The balance of 'Other receivables' also contains the employee loans at the amount of the disbursements. The related interest income is stated under 'Interest on other receivables'.

'Other receivables' must be qualified and impaired if necessary.

Valuation of foreign currency assets and liabilities and the recording of exchange rate gains

In its books, the MNB records all foreign currency assets and liabilities at the official exchange rate prevailing on the date of acquisition. If a foreign currency asset or liability is created as a result of foreign exchange conversion, the exchange rate gain or loss arising from the difference between the actual rate and the official rate is recorded by the MNB as conversion income for that particular date and is recognised under gains/losses from exchange rate changes in the income statement.

The MNB carries out daily revaluation of foreign currency assets and liabilities as well as off-balance sheet assets and liabilities arising from derivative transactions for hedging purposes, taking account of variations in the official exchange rate. As a result of this revaluation, balance sheet items denominated in foreign currency are stated in an amount converted at the official exchange rate prevailing on the balance sheet date. Banking assets and banking liabilities in foreign currencies (with the exception of foreign investments) and derivative transactions for purposes other than hedging do not form part of revaluation.

Income received in foreign currency is stated at the official exchange rate prevailing on that particular date.

Daily accounting for accrued income is preceded by reversing the accrued income on the previous day. As a result, foreign currency accruals are recorded in the balance sheet at the official exchange rate without revaluation.

In respect of the foreign exchange gains and losses arising in the course of daily revaluation, realised exchange rate gains can be stated as a profit item, while unrealised income is reported under 'Equity', in the item 'Revaluation reserve due to exchange rate changes'.

Realised income arises as a result of selling and buying foreign currency. The latter occurs when the assets in a given currency are exceeded by corresponding liabilities. Realised income arises as the difference between the value of the traded foreign currency at the official exchange rate and the average cost rate.

Foreign currency securities

Foreign currency securities are stated at market price. The difference between the market value (mid prices applied by the portfolio management facilitating tool) prevailing on the date of valuation and the amortised purchase value is recorded in the revaluation reserve of foreign currency securities as part of equity. Exchange rate gains or losses realised on selling and maturing are stated under 'Realised gains/losses arising from financial operations'.

The Magyar Nemzeti Bank measures its securities on the basis of market prices prevailing on the last working day of each month. However if adequately liquid prices are not ensured on this day, the valuation of securities is based on the market prices available on the previous working day.

The foreign currency securities managed by the external trustee on the grounds of a given mandate are also stated at market price, applying the prices received from the custodian.

Securities issued by the MNB abroad and subsequently repurchased must be recognised in gross, i.e. in the item 'Other foreign currency receivables'. Foreign currency bonds repurchased by the MNB are measured at amortised historical cost.

Security repurchase transactions are recorded as credit/deposit transactions, while the related receivables or liabilities are stated as off-balance sheet items.

Securities lent through securities lending operations based on international agreements need not be removed from foreign exchange reserves; they are recorded as off-balance sheet items. Non-cash collateral and investments from cash collateral must be recorded as contingent liabilities under off-balance sheet items and if their market value is negative, a provision of equal amount must be created for the investments on a quarterly basis.

Accounting rules relating to the IMF quota

Part of the IMF quota subscribed in foreign currency and denominated in SDR as a callable loan is stated under foreign exchange reserve.

The part of the quota paid in forint, subscribed in SDR, is presented under 'Other foreign currency receivables' in the balance sheet. The related IMF forint deposit is presented on the liabilities side of the balance sheet. It is the MNB's duty to ensure at least annually that the amount of the IMF's forint deposit is equal to the amount of the quota paid in forint. As this deposit account is a HUF account only formally, it is presented under 'Other foreign currency payables' in the balance sheet.

The SDR allocation aims to increase the foreign exchange reserves of the IMF's members and creates an unmatured liability vis-à-vis the IMF on the liability side of the balance sheet. This transaction has an effect on profit or loss (interest must be paid on the SDR amount received), if it is utilised.

Accounting rules relating to derivatives

On the basis of transaction purpose, the MNB distinguishes between two groups of derivative transactions: hedging transactions and derivative transactions for purposes other than hedging.

Hedging transactions are defined as transactions which reduce the risk arising from changes in the exchange rate or market value of a specific asset or liability or open position, are directly related to such, are announced as hedging transactions at the start of the deal and neutralise or significantly mitigate the risk that is intended to be hedged. Furthermore, derivative transactions with the government or non-resident counterparts on behalf of the government are also regarded as hedging transactions.

Derivative transactions must be stated under off-balance sheet assets and liabilities. The aggregate revaluation difference of foreign currency assets and liabilities arising from hedging transactions must be stated in the balance sheet (depending on their balance, either in the item 'Other foreign currency receivables or liabilities', or 'Foreign currency receivables from or liabilities to the central government or credit institutions'), including the interest accrued in proportion to the time elapsed (as accrued income or accrued expenses).

When derivative transactions for purposes other than hedging are closed, the income from such transactions must be stated in the lines of income and expenses arising from exchange rate changes when foreign exchange transactions are involved, and in the lines of interest-related income and interest-related expenses in the case of transactions linked to interest rate changes. While such transactions are not revalued, consistent with the principle of prudence, in reasonable cases – based on the information available at the balance sheet date – a provision is set aside on a quarterly basis, equal to the negative market value of the transaction.

Banking assets and liabilities

Banking assets and liabilities are stated on the respective sides of the balance sheet. These are the following:

- assets and liabilities not directly related to central bank functions and bank operations (such as settlements relating to taxes, contributions, payments to employees, creditors, unsold precious metals held for non-central bank purposes); as well as
- liabilities arising from banknotes no longer accepted as legal tender but not yet exchanged;
- investments; and
- assets required for operating the organisation (such as intangibles, tangibles, and inventories).

The MNB's balance sheet does not state cash among liquid assets. The central bank is the exclusive issuer of banknotes and coins. Notes and coins held at the Cashier and the Depository are not in circulation and therefore are deducted from banknotes and coins on the liabilities side of the balance sheet.

Depreciation rates applied by the Magyar Nemzeti Bank:

Description	<i>Per cent</i>
	31.12.2015
Concessions, licences and similar rights	17
Trademarks patents and similar assets	10–50
Capitalised value of reorganisation	20
Owned and managed buildings	2–3
Vehicles*	20
Telecommunication devices, office equipment, machines	9–50
Office equipment	14.5–33
Computer hardware	9–33
Emission machinery	5–33
Instruments	9–33
Bank security devices	2–33
Other equipment and devices	3–33
<i>*Residual value 20 per cent of the vehicles.</i>	

The above listed ranges of depreciation rates are reference values based on estimated useful economic life. The Bank must deviate from the reference values depending on the actual time of use. Depreciation is charged on a straight-line basis in every case. The Bank records no depreciation if the assets do not lose their value in use or if the value increases from year to year, given the particular nature of the assets (e.g. land, works of art, art treasure).

4.2 EFFECTS OF MACROECONOMIC TRENDS ON THE 2015 BALANCE SHEET AND INCOME STATEMENT OF THE MAGYAR NEMZETI BANK

In 2015, the MNB recorded a profit of HUF 94.5 billion, representing an increase of HUF 67.1 billion compared to the figure for 2014. The measures gradually taken by the Bank from 2014 contributed to the significant profit, favourably affecting net interest income and income arising from exchange rate changes. The continued reduction of the central bank base rate played a part in the decline in interest expenses. Income arising from exchange rate changes continued to be key component of the profit. The official forint exchange rate against the euro fluctuated in a relatively broader band in the course of 2015. The MNB quotation exchange rate was EUR/HUF 313.12 at end-2015, representing appreciation of 0.6 per cent relative to the end of 2014. The official exchange rate was weaker than the average cost for the entire year. The difference between the two rates was EUR/HUF 21.47 at 31 December 2014 and fell to EUR/HUF 14.95 at end-2015. The volume of foreign currency sales was mainly influenced by the conversion of households' mortgage and consumer FX loans into forints and by transactions with the Government Debt Management Agency (ÁKK). The MNB realised a gain of HUF 177.7 billion on foreign currency sales in the course of 2015.

The balance sheet total according to Hungarian Accounting Standards (HAS) was HUF 11,495.5 billion on 31 December 2015, decreasing by 9.1 per cent relative to end-2014. As a result of the self-financing programme and the conversion of households' FX loans into forints, foreign reserves decreased especially on the assets side and MNB deposits on the liability side. The reducing impact of the programmes mentioned surpassed the broadening impact of FGS on the balance sheet.

In 2015, the bank recorded a net interest and interest related loss of HUF 42.7 billion, representing an improvement of HUF 43.6 billion compared to the figure for end-2014. The improvement of the net interest result can be attributed to changes in the accounting rules applying to securities. The HUF 65.5 billion decrease in the HUF interest loss was mainly generated by the lower central bank base rate in 2015. The average central bank base rate was 1.64 per cent in 2015, which was 74 basis points lower than the annual average in 2014. Consequently, the average stock of forint liabilities with interest pegged to the base rate also declined, contributing to the improvement in net forint interest income. Net foreign currency interest income decreased by HUF 21.9 billion as a result of smaller interest income due to lower foreign exchange yields. From the end-2014 the purchase price difference (premium) of securities is amortised reducing net interest income. The decline in interest expenses was supported by the central bank's programmes aiming to reduce vulnerability of the economy (i.e. conversion of households' FX loans into forints and self-financing programme) by influencing the contraction of central bank balance sheet.

The total realised gains from financial operations amounted to HUF 14.9 billion in 2015. The reason for the significant improvement compared to 2014 is the change in accounting rules, under which no losses are realised on maturity of securities, since the purchase price difference (premium) of securities is amortised until maturity reducing net interest income. The changeover was implemented on 31 December 2014, and therefore losses in 2014 mainly occurred upon the maturity of bonds with high coupons which were bought over nominal value, as a loss on price difference.

For more details on impacts on net income, see Section 3.11 of the Business Report.

4.3 FORINT RECEIVABLES FROM THE CENTRAL GOVERNMENT

HUF millions

B/S line	Remaining maturity	Balance		Change
		31.12.2014	31.12.2015	
	Government bonds maturing within 1 year	0	0	0
	Government bonds maturing within 1 to 5 years	14,177	0	-14,177
	Government bonds maturing over 5 years	125,318	39,178	-86,140
I.1.	Total receivables from the central government	139,495	39,178	-100,317

The amount of government bonds was HUF 39.2 billion on 31 December 2015, representing a significant decrease of HUF 100 billion compared to end-2014. The total amount of Hungarian government bonds and a substantial part (69 per cent) of government debt bonds was repurchased by ÁKK at end-2015.

4.4 FOREIGN CURRENCY RECEIVABLES FROM THE CENTRAL GOVERNMENT

Neither at end-2014 nor at end-2015 was any amount listed in the line for foreign currency receivables from the central government. The balance of currency swaps with the central government changed to a net credit balance, and thus these items were stated as 'Foreign currency liabilities of the central government' (see Section 4.5.).

4.5 FORINT AND FOREIGN CURRENCY LIABILITIES OF THE CENTRAL GOVERNMENT

Forint deposits of the central government

HUF millions

B/S line	Description	Balance		Change
		31.12.2014	31.12.2015	
	Single Treasury Account (KESZ)	524,417	403,218	-121,199
	Deposit by Government Debt Management Agency (ÁKK Zrt)	361	347	-14
	Other	60	59	-1
VI.1.	Forint deposits of the central government	524,838	403,624	-121,214

The total balance of forint deposits of the central government increased by HUF 121.2 billion relative to end-2014. The amount of the Single Treasury Account (KESZ) increased at the beginning of 2015 owing to seasonal effect, but then decreased in February, after a USD bond maturity, as the foreign currency needed to repay was bought by ÁKK from its forint deposits. The central government's deposits rose in May, due to the (central) budget surplus and persistent government bond issues. The amount of deposits also increased in the final quarter of 2015, mainly due to incoming EU grants (transfers). Afterwards, the government bond repurchases mentioned Section 4.3. and further government bond maturities caused a considerable decrease in the amount of deposits by the end of the year. The annual average balance was HUF 900.1 billion in 2015, down HUF 347.3 billion compared to 2014.

Foreign currency liabilities of the central government

HUF millions

B/S line	Description	Balance		Change
		31.12.2014	31.12.2015	
	Foreign currency deposits of the central government	463,423	255,939	-207,484
	Swap and forward transactions with the central government	74	0	-74
	Currency swaps with the central government	87,274	160,176	72,902
VII.1.	Foreign currency liabilities of the central government	550,771	416,115	-134,656

The balance of the foreign currency deposits of the central government including currency swaps was HUF 416.1 billion on 31 December 2015, reflecting a decline of HUF 134.7 billion compared to end-2014. In 2015, the total amount of the central government's liabilities denominated in foreign currency was typically higher than in 2014, which can be attributed to a rise in margin accounts – due to favourable cross-rate changes – placed in connection with hedging transactions concluded to set the foreign currency structure of the government debt. There was a significant decrease in the last few days of the year, partly owing to the PEMÁK (Premium Euro Hungarian Government Bond) maturity and partly owing to foreign currency government bonds repurchases by the ÁKK.

Among the hedging transactions concluded with the central government, only the currency swaps had outstanding amount on 31 December 2015. The cross-rate changes caused the increase of HUF 72.9 billion.

Foreign currency liabilities of the central government in a breakdown by remaining maturity

HUF millions

B/S line	Remaining maturity	Balance		Change
		31.12.2014	31.12.2015	
	– within 1 year	474,289	255,939	–218,350
	– within 1 to 5 years	18,918	38,672	19,754
	– over 5 years	57,564	121,504	63,940
VII.1.	Foreign currency liabilities of the central government	550,771	416,115	–134,656

Currency structure of derivative transactions with the central government

HUF millions

No.	Description	Balance		Change
		31.12.2014	31.12.2015	
1.	– HUF	258,927	0	–258,927
2.	– EUR	819,681	833,178	13,497
3.	Receivables from derivative transactions (1+2)	1,078,608	833,178	–245,430
4.	– HUF	143	0	–143
5.	– EUR	258,858	0	–258,858
6.	– USD	906,955	993,354	86,399
7.	Payables from derivative transactions (4+5+6)	1,165,956	993,354	–172,602
8.	Net payables from derivative transactions (7-3)	87,348	160,176	72,828

4.6 NET POSITIONS VIS-À-VIS THE CENTRAL GOVERNMENT

HUF millions

B/S line	Description	Balance		Change
		31.12.2014	31.12.2015	
I.1.—VI.1.	Net forint position	–385,343	–364,446	20,897
II.2.—VII.1.	Net foreign currency position	–550,771	–416,115	134,656
	Total	–936,114	–780,561	155,553

4.7 FORINT RECEIVABLES FROM AND LIABILITIES TO CREDIT INSTITUTIONS

Forint receivables from credit institutions

HUF millions

B/S line	Description	Balance		Change
		31.12.2014	31.12.2015	
	Security-backed loans	10	103,061	103,051
	Covered mortgage bonds	29,249	10,701	-18,548
	FGS refinancing loans	1,007,964	1,286,742	278,778
	Other receivables	2,840	5,048	2,208
I.2.	Total receivables from credit institutions	1,040,063	1,405,552	365,489

The amount of receivables from credit institutions was HUF 1,405.6 billion on December 2015. The total increase of HUF 365.5 billion in the balance relative to end-2014 appeared due to the joint effect of a number of factors.

The bulk of the total balance is comprised of Funding for Growth Scheme (FGS) refinancing loans. The second phase of the FGS launched in October 2013 – as the continuation of the FGS launched in June 2013 – was so successful that the credit line of HUF 1,000 billion was exhausted at the end of September 2015. Thus, the allocated and undrawn credit line of the FGS+, which was launched in the first quarter of 2015, can be utilised for the defined loan purposes in the second phase of the FGS. The amount of refinancing loans granted under Pillar I and Pillar II, after deducting repayments, totalled HUF 1,286.7 billion on 31 December 2015. Within the whole volume, the amount derived from the first phase was HUF 407.2 billion, from the second phase was HUF 864.4 billion and from FGS+ was HUF 15.2 billion (repayment of the loans has started). The MNB accepts SME loans financed by credit institutions as collateral, in addition to the normal securities eligible for the central bank. Accepting the value of collateral blocked in favour of the MNB must be covered by the MNB's credit-receivables toward the given credit institution. The total nominal value of these credits amounted to HUF 761.2 billion on 31 December 2015.

The increase of HUF 103.1 billion in the balance of security-backed loans was mainly caused by loan tenders granted to credit institutions in the second half of the year. The amount of overnight loans was higher at the end of 2015, with a smaller extent of increase.

Receivables in connection with mortgage bonds decreased by HUF 18.5 billion to HUF 10.7 billion as at 31 December 2015. This value contains the amortised cost price difference, in addition to the nominal value. The nominal value of mortgage bonds was HUF 30 billion at the end of 2014 and due to a maturity and a sale it declined by HUF 18.8 billion.

The end-2015 balance of other receivables showed an increase of HUF 2.2 billion compared to the previous year, as the gross value of stale claims from credit institutions under liquidation rose by HUF 6.7 billion to HUF 11 billion in 2015. Taking in account the expected returns, an impairment loss of HUF 6 billion was created on these receivables at end-2015.

Forint receivables from credit institutions by remaining maturity

HUF millions

No.	Remaining maturity	Balance		Change
		31.12.2014	31.12.2015	
1.	– matured	2,842	5,048	2,206
2.	– within 1 year	95,913	177,991	82,078
3.	– within 1 to 5 years	471,203	671,253	200,050
4.	– over 5 years	470,105	551,260	81,155
5.	Total receivables from credit institutions (1+2+3+4)	1,040,063	1,405,552	365,489

Forint liabilities of credit institutions

HUF millions

B/S line	Description	Balance		Change
		31.12.2014	31.12.2015	
	Current accounts	477,646	563,071	85,425
	Two-week MNB deposits	5,083,350	958,100	–4,125,250
	Three-month MNB deposits	0	2,986,826	2,986,826
	Other deposits	436,818	264,255	–172,563
VI.2.	Deposits of credit institutions	5,997,814	4,772,252	–1,225,562

The line 'Deposits of credit institutions' includes the liquidity-absorbing instruments and minimum reserves of domestic credit institutions, both of which are pegged to the base rate; the aggregate balance of such was HUF 4,772.3 billion at end-2015. The maturity dates of all deposits were within one year. From 23 September 2015, the central bank instruments were supplemented with a new element: a three-month fixed-rate deposit became the MNB's main policy instrument, replacing the earlier two-week deposit. The balance of the new deposit rose to nearly HUF 3,000 billion by the end of the year. The new three-month deposit is a fixed-rate instrument, which is available without quantitative restrictions in the form of fixed-rate tenders, and the interest rate on it is the central bank base rate. The two-week deposit has remained part of the instruments as a liquidity management tool. Two-week deposits will be sold with a quantity restriction in the form of variable-rate tenders by the MNB. Owing to the quantity restriction, the amount of two-week deposits declined by HUF 4,125.3 billion to HUF 958.1 billion by end-2015. The balance of overnight central banks deposits was HUF 172.6 billion lower at end-2015 relative to end-2014.

4.8 NET POSITIONS VIS-À-VIS CREDIT INSTITUTIONS

HUF millions

B/S line	Description	Balance		Change
		31.12.2014	31.12.2015	
I.2.—VI.2.	Net forint position	–4,957,751	–3,366,700	1,591,051
II.3.—VII.2.	Net foreign currency position	–48,596	–51,416	–2,820
	Total	–5,006,347	–3,418,116	1,588,231

Net liabilities to credit institutions decreased from HUF 5,006.3 billion at end-2014 to HUF 3,418.1 billion as of 31 December 2015. Within this, the net forint position improved by HUF 1,591.1 billion, showing a net forint liabilities balance of HUF 3,366.7 billion at end-2015. The reduction of two-week deposits contributed significantly to the improvement in the net position, as well as the decrease in overnight deposits and the increase in FGS refinancing loans to credit institutions and in security-backed loans. Their impact was offset by the increase in the new three-month deposits.

Net foreign currency liabilities declined by HUF 2.8 billion compared to end-2014, showing a balance of HUF 51.4 billion at 31 December 2015. In addition to fix foreign currency deposits, the net balance of the foreign currency liabilities of credit institutions included the outstanding amount of foreign exchange swaps in the end of the period under review. The amount of foreign currency deposited in interest-bearing accounts at the MNB by domestic credit institutions was HUF 19.3 billion higher at 31 December 2015 relative to end-2014. According to the aggregate net balance, swaps providing EUR liquidity to banking sector by the MNB were stated under receivables at end-2014, and under receivables at end-2015. While at end-2014 demand for the overnight, two-week and three-month swaps was fairly high (EUR 1.5 billion altogether), by end-2015 the interest in these swaps diminished, and demand only for one-week swaps amounted to just EUR 0.5 billion. The MNB's FX swaps instruments constituting Pillar III of the FGS terminated in 2014, and thus the outstanding amount of FX swaps, due to maturity, decreased from EUR 581 million at end-2014 to EUR 473 million by end-2015. According to the decision of the Monetary Council in September 2014, the MNB provided the banking system with the foreign currency needed to phase out household foreign currency loans. In line with this, the total amount swaps and currency swaps concluded with credit institutions amounted to EUR 5.9 billion as at 31 December 2015. The CHF swaps matured during the second quarter of 2015.

Foreign currency receivables from and liabilities to credit institutions in a breakdown by remaining maturity

HUF millions

No.	Remaining maturity	Balance		Change
		31.12.2014	31.12.2015	
1.	– within 1 year	2,263	6,962	4,699
2.	– within 1 to 5 years	8,237	0	–8,237
3.	– over 5 years	0	0	0
4.	Total foreign currency receivables from credit institutions (1+2+3)	10,500	6,962	–3,538
5.	– within 1 year	23,435	52,445	29,010
6.	– within 1 to 5 years	35,661	5,933	–29,728
7.	– over 5 years	0	0	0
8.	Total foreign currency liabilities to credit institutions (5+6+7)	59,096	58,378	–718
9.	Net foreign currency position (4-8)	–48,596	–51,416	–2,820

4.9 GOLD AND FOREIGN EXCHANGE RESERVES OF THE CENTRAL BANK

Forint balances

HUF millions

B/S line	Description	Balance		Change
		31.12.2014	31.12.2015	
	Gold reserve	30,689	30,117	–572
	Reserve position in the IMF	27,714	29,353	1,639
	Foreign currency deposits	958,795	1,020,443	61,648
	Foreign currency securities	9,570,568	8,305,698	–1,264,870
	Foreign currency repo transactions	226,721	51,364	–175,357
II.1.	Gold and foreign currency reserves	10,814,487	9,436,975	–1,377,512

For statistical purposes, the MNB regularly publishes the amount of foreign currency reserves. According to the statistical rules, foreign currency reserves also include accrued interest, and consequently, gold and foreign currency reserves differ in amount according to the statistical and accounting rules.

Foreign exchange reserves not including accrued interest amounted to HUF 9,437 billion at 31 December 2015, down HUF 1,377.5 billion compared to the previous year-end.

The end-2015 balance of foreign currency securities contained only HUF 90.7 billion (1.1 per cent altogether) of securities managed by the external trustee on the ground of the given mandate.

Euro balances

EUR millions

B/S line	Description	Balance		Change
		31.12.2014	31.12.2015	
	Gold reserve	97	96	-1
	Reserve position in the IMF	88	94	6
	Foreign currency deposits	3,045	3,259	214
	Foreign currency securities	30,393	26,526	-3,867
	Foreign currency repo transactions	720	164	-556
II.1.	Gold and foreign currency reserves	34,343	30,139	-4,204

The official exchange rate of the forint was EUR/HUF 314.89 on 31 December 2014 and EUR/HUF 313.12 on 31 December 2015.

In the course of 2015, the most significant item increasing foreign currency reserves was the incoming EUR transfers from the European Commission; furthermore, the maturity of monetary policy swaps with credit institutions and changes in cross rates also increased the balance. On the other hand, the level of reserves was reduced by the termination of foreign exchange swaps related to conversion of household foreign currency loans into forint, by the debt management and other activities of the Government Debt Management Agency, by the net balance of foreign currency influx and payment managed by the Hungarian State Treasury, and by the change in short-hedged deposits. As a consequence of the aforementioned effects, the stock of foreign exchange reserves denominated in euro decreased by EUR 4.2 billion by 31 December 2015.

4.10 OTHER FORINT AND FOREIGN CURRENCY RECEIVABLES

Other forint receivables

HUF millions

B/S line	Description	Balance		Change
		31.12.2014	31.12.2015	
	Receivables from supervisory activities	3,894	5,345	1,451
	Employee loans	1,154	2,061	907
	Total other receivables in HUF in gross value	5,048	7,406	2,358
	Impairment loss for other receivables	-3,732	-5,308	-1,576
I.3.	Other forint receivables	1,316	2,098	782

The item 'Receivables from supervisory activities' includes supervisory fees and fines. This balance (corrected by overpayments) amounted to HUF 5.3 billion at 31 December 2014, and on 99.3 percent of this an impairment loss was created in line with the internal rules of the MNB. The total amount of the personal loans and preferential property loans granted by the MNB to its employees was HUF 2.1 billion at end-2015.

Other foreign currency receivables

HUF millions

B/S line	Description	Balance		Change
		31.12.2014	31.12.2015	
	Forint payment of IMF quota	362,018	383,432	21,414
	Repurchased bonds by debt redempton	7,265	0	-7,265
	Receivables from investment units	0	15,796	15,796
	Foreign hedging transactions*	68,720	96	-68,624
	Other	500	83	-417
II.4.	Other foreign currency receivables	438,503	399,407	-39,096

* The revaluation difference of hedging derivative transactions is stated in net terms, in accordance with the MNB Decree.

Due to the weakening of the forint exchange rate, the forint payment of the IMF quota rose in comparison to SDR by 5.9 per cent.

The last one of the bonds issued abroad by the MNB and subsequently repurchased matured in October 2015 causing a decline of HUF 7.3 billion.

The item 'Receivables from investment units' contains the stock of the non-foreign reserves Chinese renminbi-denominated investment units to be recorded at market value. Transaction took place within the framework of Central Bank Renminbi Programme announced by the MNB, in the first phase of which investment units were purchased indirectly from the BIS.

The item 'Foreign hedging transactions' includes the net debit balance of swap and forward transactions with non-resident counterparties concluded by the MNB. At end-2015, the net credit balance of HUF 25.1 billion of swap transactions appeared under item VII.3. Other foreign currency liabilities.

4.11 OTHER DEPOSITS AND LIABILITIES**Other forint liabilities**

HUF millions

B/S line	Description	Balance		Change
		31.12.2014	31.12.2015	
	International financial institutions' forint deposits	25,910	38,818	12,908
	Other liabilities	6,162	8,161	1,999
VI.4.	Other forint deposits and liabilities	32,072	46,979	14,907

The item 'International financial institution's deposits' mainly includes the forint deposits of the European Commission.

Other foreign currency liabilities

HUF millions

B/S line	Description	Balance		Change
		31.12.2014	31.12.2015	
	Bonds	21,686	0	-21,686
	Repo transactions	125,956	0	-125,956
	IMF deposit	733,981	777,395	43,414
	Foreign deposits and loans	158,821	129,834	-28,987
	Hedging transactions*	0	25,144	25,144
	Other liabilities	383	1,068	685
VII.3.	Other foreign currency liabilities	1,040,827	933,441	-107,386

* The revaluation difference of hedging transactions is stated in net terms, in accordance with the MNB Decree. As well as in 2014, the debit balance of HUF 68,720 million (net receivable amount) appeared as II.4. Other foreign currency receivables, in line with its opposite sign.

The balance of other foreign currency liabilities fell by HUF 107.4 billion to HUF 933.4 billion as at 31 December 2015. The sum of repo transactions which ensured euro liabilities to hedging swaps with the credit institutions terminated at end-2014, causing a significant decline. The total decrease of HUF 29 billion in the balance of foreign deposits relative to 2014 appeared due to a fall in the volume of hedging transaction marked to market, and it was reflected in the change in the amount of the mark-to-market deposit, which is for the market price differences of transactions. The October maturity of the last foreign exchange bonds issued in the past by the MNB caused a further decline of HUF 21.7 billion. In contrast to the foregoing, the amount of the IMF deposit increased, due to depreciation of the forint exchange rate versus the SDR on the one hand and to a switch-over to the new official exchange rate ordered by the IMF, which is due once a year (every April) on the other hand.

Other foreign currency liabilities by remaining maturity

HUF millions

B/S line	Remaining maturity	Balance		Change
		31.12.2014	31.12.2015	
	– within 1 year	668,484	539,056	-129,428
	– within 1 to 5 years	0	0	0
	– over 5 years	0	0	0
	– without maturity	372,343	394,385	22,042
VII.3.	Other foreign currency liabilities	1,040,827	933,441	-107,386

The item 'Liabilities without maturity' almost fully includes the liabilities amounting to SDR 991.1 million, which derived from the SDR allocation carried out by the IMF in 2009. Revaluation caused the increase.

Currency structure of other foreign currency liabilities

HUF millions

No.	Description	Balance		Change
		31.12.2014	31.12.2015	
1.	– USD	12,154	13,853	1,699
2.	– EUR	273,006	147,729	-125,277
3.	– JPY	21,686	0	-21,686
4.	– SDR	393,726	437,140	43,414
5.	– Other	340,255	309,575	-30,680
6.	Other foreign currency liabilities	1,040,827	908,297	-132,530

The item 'Other' amounted to HUF 309.6 billion at the end of 2015 and mainly contains the revaluation-corrected forint coverage of the IMF quota. The SDR-denominated items increased by HUF 43.4 billion due to the 5.9 per cent weakening of the forint exchange rate versus the SDR. The EUR-denominated items decreased by HUF 125.3 billion mainly due to the declining stock of short-hedged repo transactions.

4.12 INVESTED ASSETS

In addition to intangibles, tangibles and capital expenditure (HUF 40.3 billion), invested assets include shares in investments (HUF 9.6 billion in foreign investments and HUF 57.2 billion in domestic investments).

Changes in the gross value, depreciation, and net value of intangibles, tangibles, and capital expenditure

HUF millions

	Assets						Capital expenditure and advances given	Intangibles, tangibles and capital expenditure
	Immaterial goods		Tangible assets					
	Intangible assets	Software under development	Buildings and accessories	Equipment	Depository Programme	Assets of banknote and coin		
Gross value								
31.12.2014	11,271	37	27,744	15,012	0	238	1,362	55,664
Commissioning/ Acquisition	1,087	66	357	1,244	8,867	2	-1,040	10,583
Scrapping	-353	-2		-1				-356
Selling			-1	-70				-71
Transfer free of charge				-678				-678
Other disposal/ Reclassification						-1		-1
31.12.2015	12,005	101	28,100	15,507	8,867	239	322	65,141
Details of depreciation								
31.12.2014	9,896	0	3,859	9,482	0	0	0	23,237
Ordinary depreciation	676		867	1,128				2,671
Derecognition	-348			-700				-1,048
31.12.2015	10,224	0	4,726	9,910	0	0	0	24,860
Balance								
31.12.2014	1,375	37	23,885	5,530	0	238	1,362	32,427
31.12.2015	1,781	101	23,374	5,597	8,867	239	322	40,281
Change	406	64	-511	67	8,867	1	-1,040	7,854

In 2015, art treasures with a total value of HUF 8.9 billion were acquired within the framework of the Depository Programme. The net value of the state-owned, managed buildings (3 buildings and 2 plots of land) was HUF 66 million at 31 December 2015.

Foreign investments and dividends from investments

HUF millions

Description	Ownership share (%)		Book value		Dividends received*	
	31.12.2014	31.12.2015	31.12.2014	31.12.2015	2014	2015
BIS	1.43	1.43	7,294	7,888	650	761
<i>SDR millions</i>			10	10		
<i>CHF millions</i>			13.5	13.5		
European Central Bank	1.38	1.38	1,764	1,754	–	–
<i>EUR thousands</i>			5,601	5,601		
SWIFT	0.02	0.03	3	15	0	0
<i>EUR thousands</i>			8.6	46.4		
Total investments			9,061	9,657	650	761

* Dividends financially settled in the given year.

In May 2015, in addition to the existing 17 SWIFT shares, the MNB bought a further 11 shares with a total value of EUR 38,000.

Ownership distribution in the ECB at 31 December 2015

National Central Banks (NCBs)	Subscribed capital	Paid-up capital	Capital key (%)
	EUR thousands		
Nationale Bank van België/ Banque Nationale de Belgique	268,222	268,222	2.4778
Deutsche Bundesbank	1,948,209	1,948,209	17.9973
Eesti Pank	20,871	20,871	0.1928
Central Bank of Ireland	125,646	125,646	1.1607
Bank of Greece	220,094	220,094	2.0332
Banco de España	957,028	957,028	8.8409
Banque de France	1,534,900	1,534,900	14.1792
Banca d'Italia	1,332,645	1,332,645	12.3108
Central Bank of Cyprus	16,378	16,378	0.1513
Latvijas Banka	30,537	30,537	0.2821
Lietuvos bankas	44,729	44,729	0.4132
Banque centrale du Luxembourg	21,975	21,975	0.2030
Central Bank of Malta	7,015	7,015	0.0648
De Nederlandsche Bank	433,379	433,379	4.0035
Oesterreichische Nationalbank	212,506	212,506	1.9631
Banco de Portugal	188,723	188,723	1.7434
Banka Slovenije	37,400	37,400	0.3455
Národná banka Slovenska	83,623	83,623	0.7725
Suomen Pankki – Finlands Bank	136,005	136,005	1.2564
Subtotal for euro area NCBs	7,619,885	7,619,885	70.3915
Bulgarian National Bank	92,987	3,487	0.8590
Česká národní banka	174,012	6,525	1.6075
Danmarks Nationalbank	161,000	6,038	1.4873
Hrvatska narodna banka	65,199	2,445	0.6023
Magyar Nemzeti Bank	149,363	5,601	1.3798
Narodowy Bank Polski	554,565	20,796	5.1230
Banca Națională a României	281,710	10,564	2.6024
Sveriges riksbank	246,042	9,227	2.2729
Bank of England	1,480,244	55,509	13.6743
Subtotal for non-euro area NCBs	3,205,122	120,192	29.6085
Total NCBs	10,825,007	7,740,077	100.0000

The Republic of Hungary joined the European Union on 1 May 2004. Consequently, the MNB became a member of the ESCB. The ESCB comprises the European Central Bank (ECB) and the national central banks of the 28 EU Member States. The Eurosystem is composed of the ECB and of the national central banks of Member States which have already adopted the euro.

Pursuant to the provisions of Article 28 of the Statute of the ESCB and the ECB (hereinafter referred to as 'the Statute'), the MNB has become an owner of the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29 of the Statute and must be adjusted every five years based on demographic and GDP data provided by the European Commission. Shares can additionally change with a new accession to the EU or with capital increase.

Pursuant to Article 47 of the Statute, non-euro area NCBs are required to pay 3.75 per cent of their subscribed capital to the ECB as a contribution to the operational costs of the ECB. As a non-euro area NCB, the MNB is not entitled to receive any share of the distributable profits of the ECB, nor is it liable to fund any loss of the ECB.

The MNB's participation in the ECB is presented in the sub-item 'Invested assets' under 'III. Banking assets' in the balance sheet of the MNB. The value of the investment (i.e. paid-up capital) amounted to EUR 5.6 million (HUF 1.8 billion) in the MNB's balance sheet as at 31 December 2015.

Domestic investments and dividends from investments

HUF millions

Description	Ownership share (%)		Book value		Dividends received*	
	31.12.2014	31.12.2015	31.12.2014	31.12.2015	2014	2015
Pénzjegynyomda Zrt. 1055 Budapest, Markó utca 13–17.	100.0	100.0	8,927	10,627	0	0
Magyar Pénzverő Zrt. 1239 Budapest, Európa u. 1.	100.0	100.0	575	575	52	0
Pénzügyi Stabilitási és Felszámoló Nkft. 1055 Budapest, Bajcsy-Zsilinszky út 78.	100.0	100.0	50	50	–	–
MARK Magyar Reorganizációs és Követeléskezelő Zrt. 1055 Budapest, Bajcsy-Zsilinszky út 78.	100.0	100.0	21,700	21,700	0	0
MNB-Jóléti Kft. 1054 Budapest, Szabadság tér 8–9.	100.0	100.0	50	75	–	–
MNB-Biztonsági Zrt. 1054 Budapest, Szabadság tér 8–9.	100.0	100.0	200	200	0	0
GIRO Elszámolásforgalmi Zrt. 1054 Budapest, Vadász utca 31.	100.0	100.0	9,779	9,779	0	0
KELER Zrt. 1074 Budapest, Rákóczi út 70–72.	53.3	53.3	643	643	0	0
KELER KSZF Zrt. 1074 Budapest, Rákóczi út 70–72.	0.2	0.2	7	7	0	0
Budapesti Értéktőzsde Zrt. 1054 Budapest, Szabadság tér 7.	6.9	75.7	321	13,543	39	36
Total investments			42,252	57,199	91	36

* Dividends financially settled in the given year.

Participations of domestic investments

Description	Participations		
	Name Headquarter	Ownership share (%)	Share capital (HUF millions)
		31.12.2015	31.12.2015
Pénzjegynyomda Zrt.	DIPA Diósgyőri Papírgyár Zrt. 3535 Miskolc, Hegyalja út 203/1.	100.0	4,196
MARK Zrt.	MARK Ingatlan Zrt. 1055 Budapest, Bajcsy-Zsilinszky út 78.	100.0	200
MNB-Biztonsági Zrt.	QUALITAS-Védelmi Tanácsadó Kft. 1123 Budapest, Alkotás utca 50. C. ép. V. em.	100.0	140
GIRO Elszámolásforgalmi Zrt.	BISZ Központi Hítelinformációs Zrt. 1205 Budapest, Mártonffy utca 25–27.	100.0	167
KELER Zrt.	KELER KSZF Zrt. 1074 Budapest, Rákóczi út 70–72.	99.7	1,823
KELER KSZF Zrt.	KELER Energy Luxembourg S.á.r.l. L–2310 Luxembourg, Ave Pasteur 16.	100.0	20,000 EUR
Budapesti Értéktőzsde Zrt.	KELER Zrt. 1074 Budapest, Rákóczi út 70–72.	46.7	4,500
	KELER KSZF Zrt. 1074 Budapest, Rákóczi út 70–72.	0.1	1,823

In addition to banknotes, **Pénzjegynyomda Zrt.** produces documents, tax stamps and securities for domestic and foreign clients. Developments and important investments were implemented to ensure the modern, secure production of forint banknotes and documents satisfying customer needs. The main strategy of the company is focused on banknote production in adequate quantity and excellent quality, and increased penetration in market segments other than banknote production based on competitive advantages. This set of goals can ensure the long-term growth path for Pénzjegynyomda Zrt. and maintain and enhance shareholders' value. In March 2015, the Executive Board of the MNB decided to increase Pénzjegynyomda's share capital amounting to HUF 8,927 million by HUF 1.7 billion, and consequently a cash contribution amounting to HUF 425 million took place by the end of March 2015 and a further HUF 1,275 million at the end of July. From the increase of its share capital, the company spent HUF 600 million to increase the share capital of its subsidiary (Diósgyőri Papírgyár Zrt., DIPA Zrt.) in the amount of HUF 3,596 million, in order to implement excellent quality banknote paper production and security investments. The remaining amount of HUF 1.1 billion served the improvement of equipment for reducing the risk of issuing banknotes, and the revision and modernisation of hologram technology at Pénzjegynyomda. After the approval of the Executive Board of the MNB, the company set up a new site in June 2015 by the purchase of premises, in order to fulfil the demand for place arising from the development of technology. In the new site, after a gradually implemented move from the beginning of December 2015, the company produces cards, makes personalisation, prints the 'Erzsébet' voucher and manufactures tax stamps/banderoles. The primary function of **DIPA**, with the priority of serving its shareholder, is to produce banknote base paper in adequate quantity, quality, and timing. At the centre of the product strategy of the company are quality products applied with high-level security elements. Beside banknote base paper, DIPA produces a significant share of base papers for documents used in public administration, base papers for tickets, as well as the base papers for the passports of several countries and for documents, for which it ensures complex solutions. The company stands, also in international relations, for strengthening the appreciation of its customers based on tradition and innovative solutions and stabilising or improving the results achieved, thereby ensuring an efficient investment for the shareholder.

Pursuant to the MNB's order, the primary duty of **Magyar Pénzverő Zrt.** is to produce circulation coins for cash turnover and commemorative coins issued by the MNB. Utilisation of the company's free capacity allows for the production of non-legal tender commemorative coins and coins for foreign markets on the basis of its own coin programme and customised orders. Within the range of its commercial activities, the company sells commemorative coins, collector banknotes, medals and gold investment products in Hungary and abroad as a wholesaler and retailer as well.

Pénzügyi Stabilitási és Felszámoló Nonprofit Kft. (PSFN Kft., Financial Stability and Liquidator Non-profit Ltd.) essentially performs tasks related to the organised market derecognition of financial institutions in crisis. If the stability of an institution is undermined or seriously violates the rules of prudent operation and the supervisory authority decides on exceptional arrangement, PSFN Kft. is responsible for the designation of supervisory commissioners and supporting their work to manage and restore the normal operation of the institution. If insolvency proceedings cannot be avoided, PSFN Kft. provides for the institution's termination, in the framework of liquidation or in the framework of winding-up proceedings. As the scope of institutions under the control of PSFN Kft. expanded, the company's headcount and infrastructure had to be gradually developed, and simultaneously new solutions in crisis management were elaborated. In 2015, the procedures of PSFN Kft. were expanded to include the liquidation of investment service providers in relation to three procedures of particular importance (Buda-Cash Zrt., Questor Értékpapír Zrt., Hungária értékpapír Zrt.) and the specifics of these procedures confronted the company with new challenges. Over the long term, the strategic aim of PSFN Kft. is to develop innovative and professional approaches and procedures which can be exemplary for companies conducting insolvency procedures striving for legitimate proceeding on the market.

The primary objective of **Magyar Reorganizációs és Követeléskezelő (MARK) Zrt.** (MARK Hungarian Restructuring and Debt Management Private Company Limited by Shares, MARK Ltd.) is to accelerate the reduction of poor-quality commercial real estate loans in the Hungarian banking system. The asset management company frees the banking system from its problematic assets by the acquisition of non-performing or unstable commercial real estate loan portfolios. In the second half of 2015, the operational formation of MARK was completed, and thus the company is prepared to take over the bank portfolios at the beginning of 2016. The adoption of its asset acquisition methodology by the European Union was an important milestone in the history of MARK. On 21 October 2015, the notification containing the detailed methodology was officially submitted to the Commission. As a result of this, following the positive decision by Brussels expected in February 2016, MARK can start its asset acquisition activity, setting a precedent as the first market-based asset management company in EU operating with market price acquisition. This can enable significant decrease in the ratio of non-performing corporate loans in the banking system by the end-2016. Consequently the stability, lending ability and willingness of the financial institutions are strengthened, significantly contributing to the further improvement of investor rating of Hungary and benefiting the competitiveness of the country. MARK achieves the macroprudential basic task of the MNB effectively and in targeted manner, and its programme for acquiring the poor-quality commercial real estate loan portfolios considerably accelerates the cleaning of banks' balance sheets. The aim is to have a successful precedent set by the operation of MARK, as a result of which the reliance on the central bank will cease and its operation will be placed on a market-basis in the medium term, including the refinancing of the existing bridge financing by the central bank from the market.

MNB-Jóléti Humán Szolgáltató és Üzemeltető Kft. is responsible for the maintenance and operation of Tiszaroff Training and Recreation Center which is owned by the MNB and for the provision of recruitment and other services determined by the MNB at high level on-site (conferences, trainings, courses, external assemblies). In addition, the company operates the buffets at workplaces for employees of the MNB and provides other services (e.g. catering, operation of Teátrum) for the MNB as the owner. The book value of the investment increased from HUF 50 million to HUF 75 million in 2015 due to the share capital increases of HUF 20 million and HUF 70 million during the year and the HUF 65 million impairment loss based on the expected loss.

MNB-Biztonsági Zrt. started its active personal guarding and protecting activity from 1 March 2015 in accordance with the content of service contract. The company carries out the personal guarding and protecting of the office objects and premises of the MNB with armed security guards under legal obligation. Additionally, it is involved in performing the tasks of money and valuables transport and the maintenance tasks of CIT vehicles. MNB-Biztonsági Zrt. carries out tasks of guarding and protecting and securing events for the MNB beyond its main activity with armed security guards. With the aim of separation of the armed security guard activity and the personal and property protecting the company as sole owner founded Qualitas-Védelmi Kft. on 6 November 2015, which is expected to begin its actual activity on 1 April 2016. MNB-Biztonsági Zrt. does not provide services to third parties outside the MNB. A further rise in the number of highly trained guards with special expertise is essential for successfully discharging the increased guarding and protection tasks (e.g.

guards authorised to handle new equipment required for passenger and luggage inspection). For this reason, the preparation and examination of a part of the personnel was managed successfully.

By becoming the sole owner of **GIRO Zrt.**, the MNB has the opportunity to directly implement its ideas for developing electronic money circulation. The company operates the payment system for domestic interbank forint credit transfers and direct debits, the so-called Interbank Clearing System. The key objectives in its strategy include stable and safe operation, development of the existing clearing services, implementation of new clearing services, and increasing the competitiveness of clearing fees. In line with this, the company decreased clearing transaction fees by 20 percent from January 2015 and carried out a further reduction in the fees in January 2016, as a result of which the interbank transfer fee fell by 27 percent in total, compared to the prices before the acquisition by central bank. In addition, during the year another important development was the increase in the number of the daytime settlement cycles to 10 from September 2015. Concentrating the cycles further accelerates the circulation of money, and thus beneficiaries can access their money sooner and the corporate sector can manage its liquidity more efficiently. **BISZ Zrt.**, which is owned by GIRO Zrt. as a sole shareholder, operates the Central Credit Information System (KHR). During the year, the changes in KHR related to the settlement of mortgage loans, and the conversion of FX loans into local currency loans was adapted successfully. In addition, the necessary developments in KHR in connection with the establishment of the Family Insolvency Service were carried out.

In December 2015, the MNB became the owner of a 75.5 percent stake in **Budapesti Értéktőzsde Zrt.** (BÉT) and thus holds a qualified majority. As the majority owner, the aim of the Hungarian central bank is to achieve an adequately sized, effectively operating capital market in Hungary. Accordingly, in the elaboration of the company's new strategy, developing the domestic capital market was emphasised. The strategy focuses on widening the investor base and making more attractive the conditions of supply and demand and liquidity in the domestic stock exchange, contributing to establishing a healthier structure of the financial system and improving the interest rate transmission. This strategy can assist the further reduction of the shadow economy by ensuring the transparency of the listed companies. Since the company has a minority participation in the KELER Group consisting of **KELER Zrt.** and **KELER KSZF Zrt.**, the MNB also acquired a strategic share in the KELER Group as the majority owner of the BÉT. As the operator of the post-trade infrastructure in the Hungarian securities market, the KELER Group accounts, guarantees and settles the stock exchange transactions traded on the BÉT and transactions involving dematerialised securities issued in Hungary.

Equity of domestic investments

Upon compilation of the Annual Report, these are the available latest data, as shown in the following table.

HUF millions

Investment	Share capital	Reserves	Profit/loss for the year	Equity
	31.12.2015	31.12.2015	31.12.2015	31.12.2015
Pénzjegynyomda Zrt.	10,627	2,768	1,345	14,740
Magyar Pénzverő Zrt.	575	528	243	1,346
Pénzügyi Stabilitási és Felszámoló Nkft.	50	3	0	53
MARK Zrt.	200	21,519	-917	20,802
MNB-Jóléti Kft.	140	0	-61	79
MNB-Biztonsági Zrt.	200	-40	228	388
GIRO Elszámolásforgalmi Zrt.	2,496	5,644	758	8,898
KELER Zrt.	4,500	21,404	1,495	27,399
KELER KSZF Zrt.	1,823	3,575	282	5,680
Budapesti Értéktőzsde Zrt.	541	4,931	501	5,973

The MNB's receivables from and liabilities to affiliated companies

HUF millions

Investment	Receivables	Liabilities
	31.12.2015	31.12.2015
Pénzjegynyomda Zrt.	1,182	446
Magyar Pénzverő Zrt.	2	23
MNB-Jóléti Kft.	110	58
MNB-Biztonsági Zrt.	671	0
GIRO Elszámolásforgalmi Zrt.	0	1
KELER Zrt.	0	3
Total	1,965	531

The above table presents short-term receivables and liabilities. Receivables from Pénzjegynyomda Zrt. consists of advanced payments provided for stocks, and liabilities to this company derive from invoicing of produced banknotes. Receivables from MNB-Jóléti Kft. are advanced payments provided in connection with capital expenditure and operating, and receivables from MNB-Biztonsági Zrt. are related to capital settlement.

4.13 IMPAIRMENT LOSSES AND PROVISIONS

HUF millions

B/S line	Description	31.12.2014	Interim changes in 2015		31.12.2015
		Impairment losses / provisions	Increase (+)	Reversal (-)	Total impairment losses / provisions
1	2	3	4	5	3+4+5
I.2.	Forint receivables from credit institutions	1,455	5,914	-1,384	5,985
I.3.	Other forint receivables	3,732	1,577	-1	5,308
II.4.	Other foreign currency receivables	18	1	-1	18
III.	Invested assets	55	65	0	120
III.	Other assets	22	0	-13	9
VIII.	Liabilities	4,267	644	-2,933	1,978
	– litigation related liabilities	1,718	552	-1,174	1,096
	– derivatives	2,444	28	-1,728	744
	– bond lending	105	64	-31	138
	Total	9,549	8,201	-4,332	13,418

Impairment losses and provisions increased by HUF 3,869 million to HUF 13,418 million in 2015.

Based on the expected recovery, an impairment loss of HUF 5,985 million was created for forint receivables from credit institutions; compared to end-2014, in total there was a formation of an impairment loss in the amount of HUF 5,914 million and a write-back of an impairment loss in the amount of HUF 1,384 million.

In relation to forint receivables from supervisory activities, a HUF 1,577 million impairment loss appeared in total during the quarterly impairment testing, and in relation to other forint receivables a reversal of impairment loss of HUF 1 million was recognised in 2015.

The impairment balance of other foreign currency receivables remained unchanged as a result of the formation and write-back of impairment losses in the amount of HUF 1 million each, due to revaluation.

In relation to invested assets, a HUF 65 million impairment loss was recognised on the investment in MNB-Jóléti Kft., based on the preliminary loss expected during the year-end impairment testing, according to the accounting policy.

The impairment loss on the other banking assets decreased by HUF 13 million, due to settlement and write-backs in 2015.

In connection with litigation-related contingent liabilities, a provision of HUF 1,096 million was necessary as of 31 December 2015; compared to end-2014, in total there was a reversal of HUF 1,174 million and the formation of a provision in the amount of HUF 552 million.

The additional provision created due to changes in the market value of derivatives for purposes other than hedging amounted to HUF 28 million, while a provision of HUF 1,728 million was reversed in 2015.

According to the international securities lending contracts, the MNB is charged with the entire amount of potential losses arising from cash-hedge investments made by agents. Based on the principle of prudence, a provision must be created to cover this loss as a future liability. The end-2014 balance of provisions created for forint bond lending amounted to HUF 105 million, which increased to HUF 138 million by 31 December 2015, due to the less favourable market assessment of the underlying securities.

4.14 PREPAID EXPENSES/ACCRUED INCOME AND ACCRUED EXPENSES/DEFERRED INCOME

HUF millions

B/S line	Description	Balance		Change
		31.12.2014	31.12.2015	
	Due to banking transactions	111,765	95,500	-16,265
	Due to internal operation	239	197	-42
IV.	Prepaid expenses/accrued income	112,004	95,697	-16,307
	Due to banking transactions	30,969	30,806	-163
	Due to internal operation	485	238	-247
X.	Accrued expenses/deferred income	31,454	31,044	-410

Prepaid expenses, accrued income, accrued expenses, and deferred income include interest received/charged and interest related income/charges and expenses incurred in the reporting period, independently of the date of financial settlement.

4.15 CHANGES IN EQUITY

HUF millions

B/S line	Description	31.12.2014	Interim changes	2015.12.31
XI.1.	Share capital	10,000	0	10,000
XI.2.	Retained earnings	36,057	27,360	63,417
XI.3.	Valuation reserves	0	0	0
XI.4.	Revaluation reserves due to exchange rate changes	517,984	-205,385	312,599
XI.5.	Revaluation reserves of foreign currency securities	54,477	-25,967	28,510
XI.6.	Profit/Loss for the year	27,360	17,092	44,452
XI.	Equity	645,878	-136,900	458,978

The share capital consists of a single registered share with a nominal value of HUF 10 billion.

Pursuant to the MNB Act, the MNB's dividend is specified by the Executive Board. According to the decision of the Executive Board, the MNB will pay a HUF 50 billion dividend from the profit of HUF 94.5 billion, and accordingly the profit for the year of the MNB was HUF 44.5 billion at 31 December 2015.

For more details on revaluation reserves, see Section 4.16.

Under 'IX. Other banking liabilities' in the balance sheet, the increase was caused by the fact that the dividend approved by the Executive Board in the financial statement for 2015 is reported in this item until financial settlement.

4.16 REVALUATION RESERVES

HUF millions

B/S line	Description	31.12.2014	2015.12.31	Change
XI.4.	Revaluation reserves due to exchange rate changes	517,984	312,599	-205,385
XI.5.	Revaluation reserves of foreign currency securities	54,477	28,510	-25,967
	Total revaluation reserves	572,461	341,109	-231,352

The official forint exchange rate versus the euro fluctuated in a range of EUR/HUF 296.1 to 321.34 in 2015. It reached its lowest value in mid-April and its highest value in mid-January. Compared to 31 December 2014, the exchange rate strengthened by 0.6 per cent. The exchange rate was EUR/HUF 313.12 as at 31 December 2015. The average cost rate weakened by HUF 4.75 to EUR/HUF 298.17. As a result, the difference between the official and average cost rate was lower compared to end-2014 (a decrease from EUR/HUF 21.47 to EUR/HUF 14.95). Consequently, the revaluation reserves due to exchange rate changes, calculated as the difference of foreign exchange items converted into forints using the official and average cost rate, decreased by HUF 205.4 billion to HUF 312.6 billion.

Revaluation reserves of foreign currency securities are calculated as the difference between the market value and the amortised book value of securities, due to the implementation of amortisation from end-2014. Market value differences on the foreign currency securities in the MNB's portfolio showed a balance of HUF 28.5 billion as at 31 December 2015.

Annual changes in the forint exchange rate

EUR/HUF

Date	MNB official exchange rate	Average cost rate
31.12.2014	314.89	293.42
31.12.2015	313.12	298.17
Annual appreciation (+) / depreciation (-)		
In 2014	-6.1%	
In 2015	0.6%	

4.17 OFF-BALANCE SHEET LIABILITIES AND OTHER SIGNIFICANT OFF-BALANCE SHEET ITEMS OF THE MNB

Liabilities arising from hedging transactions and derivative transactions for purposes other than hedging with related receivables

HUF millions

No.	Description	31.12.2014			31.12.2015		
		Receivables	Liabilities	Net market value	Receivables	Liabilities	Net market value
1.	Interest rate swap transactions	1,706,451	1,706,451	1,579	2,634,171	2,634,171	17,976
2.	Bond future transactions	0	253,725	-842	0	33,695	-19
3.	FX swap and forward transactions	4,545,709	4,478,330	62,573	3,478,755	3,501,907	-22,971
4.	Currency swap transactions (including transactions without capital replacement)	3,323,474	3,384,534	-123,142	3,291,513	3,351,549	-187,442
5.	Total hedging transactions (1+2+3+4)	9,575,634	9,823,040	-59,832	9,404,439	9,521,322	-192,456
6.	CDS transactions	188,934	188,934	-1,578	187,872	187,872	-716
7.	FX swap and forward transactions	3,149	3,154	-9	25,163	25,162	-18
8.	Total derivative transactions for purposes other than hedging (6+7)	192,083	192,088	-1,587	213,035	213,034	-734
9.	Total (5+8)	9,767,717	10,015,128	-61,419	9,617,474	9,734,356	-193,190

The table above includes all types of off-balance sheet liabilities arising from derivative transactions; it also includes FX swaps, currency swaps and forward transactions for hedging purposes, which are part of the foreign currency position and are recorded in the balance sheet, except for currency swaps without capital movement. Hedging transactions reduce risks related to the net foreign currency position and arising from cross-rate fluctuations and interest rate changes. These transactions support the creation of the benchmark foreign currency structure determined by the Monetary Council.

The aim of interest rate swap transactions for hedging purposes linked to specific bond issuance is to achieve the interest structure deemed desired by the MNB. Furthermore, the MNB continued to conclude interest rate swap tenders with domestic credit institutions in 2015; most of the approved transactions have a maturity of 1 to 5 years, nearly 10 percent have 10-year maturity.

The aim of bond futures transactions is to reduce the duration of the reserve portfolio; these are hedging transactions maturing within 1 year.

FX swap and forward transactions are the main instruments for hedging foreign exchange risk, based on expectations related to foreign exchange rate changes; their aim is to achieve the targeted foreign currency position, and their maturity is less than 1 year.

Of the end-2015 balance, 20 per cent of the currency swap transactions consisted of transactions without capital replacement concluded in February and November 2013 with a maturity of 10 years.

The item 'CDS transactions' (Credit Default Swap) is used to record transactions, the aim of which is to decrease the credit risk of two benchmark securities. The transactions will mature in 2016.

The FX swap and forward transactions for purposes other than hedging are based on expectations related to foreign exchange rate changes; their aim is to achieve the targeted foreign currency position, and their maturity is less than 1 year (typically 1 or 2 months).

Liabilities from derivative transactions by remaining maturity

HUF millions

No.	Remaining maturity	Balance		Change
		31.12.2014	31.12.2015	
	– within 1 year	5,128,008	4,884,234	–243,774
	– within 1 to 5 years	2,795,580	1,988,576	–807,004
	– over 5 years	1,899,452	2,648,512	749,060
1.	Hedging transactions	9,823,040	9,521,322	–301,718
	– within 1 year	3,154	213,034	209,880
	– within 1 to 5 years	188,934	0	–188,934
	– over 5 years	0	0	0
2.	Derivative transactions for purposes other than hedging	192,088	213,034	20,946
3.	Total (1+2)	10,015,128	9,734,356	–280,772

Other off-balance sheet liabilities

HUF millions

No.	Description	Balance		Change
		31.12.2014	31.12.2015	
1.	FGS residual drawable credit facilities	43,747	185,609	141,862
2.	Litigation-related contingent liabilities	3,557	1,564	–1,993
3.	Guarantees	1,634	1,763	129
4.	Other off-balance sheet liabilities	11	15	4
5.	Total (1+2+3+4)	48,949	188,951	140,002

In connection with the Funding for Growth Scheme, the MNB shows as off-balance sheet liabilities the still available credit facilities allocated originally in the framework of FGS+, but now drawable both in the additional phase of FGS Pillar I and in the Pillar of FGS+ for the request of the banks.

Litigation-related contingent liabilities are to record the legal proceedings for which provisions have been formed. The majority of the proceedings are connected to the supervisory activities and contain proceedings against penalty resolutions as well as indemnity cases.

The item 'Guarantees' consists of export guarantees, to which an irrevocable indemnity bond is always linked. When exercising a guarantee, the MNB has the right to a reverse guarantee if needed. In 2015, the MNB was exempted from one guarantee; the increase in the balance was caused by exchange rate changes.

Recording off-balance sheet security transactions

HUF millions

No.	Description	Balance		Change
		31.12.2014	31.12.2015	
1.	Face value of securities lent	613,892	555,761	–58,131
	- automatic securities lending	35,093	48,037	12,944
	- agency securities lending	578,799	507,724	–71,075
2.	Purchase cost of the non-cash hedge arising from security lending transactions	126,627	96,973	–29,654
3.	Investment of cash hedge arising from security lending transactions			
	- at purchase cost	471,300	432,792	–38,508
	- at market value	471,196	432,654	–38,542
4.	Face value of securities bought under repo transactions	203,861	51,006	–152,855
5.	Face value of securities sold under reverse repo and blocked to ECB repo transactions	113,338	0	–113,338

4.18 NET INTEREST INCOME AND REALISED NET INCOME OF FINANCIAL OPERATIONS

Net forint and foreign currency interest and interest-related income

HUF millions

P/L line	Description	2014	2015	Change
1	2	3	4	4-3
(I.1.+II.2.)—(X.1.+XI.1.)	Central government	-24,575	-3,551	21,024
(I.2.+II.3.)—(X.2.+XI.2.)	Credit institutions	-51,276	-89,341	-38,065
(I.3.+II.1.+II.4.)—(X.3.+XI.3.)	Other	84,354	122,537	38,183
	Net profit/loss from interest	8,503	29,645	21,142
	Forint securities	611	485	-126
	Foreign currency securities	-99,952	-91,024	8,928
	Derivative transactions for hedging and other purposes*	4,575	18,218	13,643
	Other	-16	-27	-11
(I.4.+II.5.)—(X.4.+XI.4.)	Net interest-related profit/loss	-94,782	-72,348	22,434
(I.+II.)—(X.+XI.)	Net interest and interest-related income	-86,279	-42,703	43,576

* For details on derivative transactions for hedging and other purposes, see the last table in this section.

In 2015, the MNB recorded a net interest and interest-related loss of HUF 42.7 billion, representing an improvement of HUF 43.6 billion compared to the figure for end-2014, which was a loss of HUF 86.3 billion.

Net interest income improved by HUF 21.1 billion in comparison to end-2014, mainly due to the decrease in the average base rate.

Positive factors in net interest income were:

- interest expenses on the main policy instruments (on two-week MNB deposits until 22 September 2015 and on three-month MNB deposits after that date) were HUF 50.8 billion lower;
- interest paid on the forint and foreign currency deposits of the central government decreased by HUF 19.6 billion compared to 2014, due to the shrinking forint and FX interest rates and to the lower balance of deposits;
- an increase of HUF 1.4 billion in interest income on receivables from the central government arising from the purchase of the FX bonds issued in the past by the Hungarian state.

Negative factors in net interest income were:

- a decline of HUF 45.1 billion in interest income on foreign exchange reserves relative to 2014;
- a decrease in interest income on loans to credit institutions and mortgage bonds of HUF 0.9 billion.

Net interest-related income increased by HUF 22.4 billion; it includes mainly the net gain or loss on derivative transactions which are not related to exchange rate changes and the amortisation of the purchase price difference (premium) of securities.

As a result of negative FX interest rates on short maturities, certain lines in the income statement contain negative sums for interest income/expenses. The lines XI.1. 'Interest on central government deposits' and XI.2. 'Interest on deposits of credit institutions' among interest expenses denominated in foreign currency include

entirely negative interest amounts. A negative interest sum of HUF 1.6 billion was recorded within the interest on foreign currency reserves of HUF 123.4 billion (line II.1.).

Details of income from derivative transactions for hedging and for purposes other than hedging represented in interest-related income

HUF millions

No.	Description	2014	2015	Change
1.	– net interest on currency swaps	–12,594	–2,288	10,306
2.	– interest margin on hedge interest rate swaps	11,096	15,798	4,702
3.	– net interest gains on hedge FX swaps	338	5,902	5,564
4.	– net interest gains on hedge forward transactions	14,417	652	–13,765
5.	– net interest gains on hedge futures transactions	–9,376	–1,624	7,752
6.	– net interest-related income on hedge swap transactions	0	–148	–148
7.	– net interest-related income on hedge option transactions	151	137	–14
8.	– net interest and interest-related income on other transactions	543	–211	–754
9.	Net income from derivative transactions (1+2+3+4+5+6+7+8)	4,575	18,218	13,643

Currency swap transactions include derivative transactions concluded with foreign partners, with the Government Debt Management Agency, and with domestic credit institutions. The amount of transactions concluded with the Government Debt Management Agency increased in 2015, but changes in FX market yields (euro and US dollar yields) had an unfavourable impact on the result. The transactions concluded with foreign partners serve mainly to hedge transactions concluded with the Government Debt Management Agency. The average amount of transactions concluded with domestic credit institutions was considerably higher compared to 2014, caused by transactions related to the phasing-out of households' foreign currency loans. The net interest result of the currency swaps was a loss of HUF 2.3 billion, and there was an improvement of HUF 10.3 billion compared to 2014.

The HUF 4.7 billion increase in the interest result on interest rate swaps was caused by the rising number of transactions concluded with domestic credit institutions and by the favourable changes in FX market yields.

Hedge FX swaps include short-term transactions concluded with foreign partners, with the Government Debt Management Agency, and with domestic credit institutions. Net interest gains on these swaps rose by HUF 5.5 billion caused mainly by transactions related to the phasing-out of households' foreign currency loans.

The amount of hedge forward transactions dropped significantly in comparison to 2014 due to the decrease in transactions concluded with the Government Debt Management Agency. Net interest gains on hedge forward transactions decreased by HUF 13.8 billion, resulting from the lower difference in interest on the smaller amount.

Net interest loss on hedge futures transactions decreased by HUF 7.8 billion, due to the lower interest expense on bond futures transactions.

Realised gains/losses from financial operations

HUF millions

P/L line	Description	2014	2015	Change
IV.	Realised gains from financial operations	3,435	18,190	14,755
XIV.	Realised losses from financial operations	123,012	3,328	-119,684
IV.-XIV.	Net financial gains/losses	-119,577	14,862	134,439

Realised gains and loss from financial operations include gains and losses arising from sales of securities, from sales of investments arising from security lending transactions and gains and losses related to CDS transactions.

Net realised gains from financial operations amounted to HUF 14.9 billion in 2015, improving by HUF 123.4 billion compared to 2014. Losses in 2014 mainly occurred on the maturity of bonds with high coupons which were bought over nominal value. Due to the changes in accounting rules from end-2014, the premiums and discounts of securities are amortised until maturity, and consequently no additional income/loss is recognised upon the maturity of the securities.

4.19 COMPONENTS OF INCOME FROM THE REVALUATION OF FOREIGN EXCHANGE HOLDINGS

HUF millions

Description	2014	2015
Net income from exchange rate changes (realised and conversion spread)*	510,989	177,677
Change in revaluation reserves in the balance sheet** (due to unrealised revaluation net income)	8,381	-205,385
Total effect of exchange rate changes	519,370	-27,708

* P/L line: III.-XII.
** Revaluation reserves due to exchange rate changes (balance sheet line XI.4.).

In 2015, the total exchange rate change effect was a loss of HUF 27.7 billion, due to the changes in the exchange rate of the forint. In the sales related to decreasing the daily net FX position, the MNB realised a gain of HUF 177.7 billion, while the amount of the revaluation reserve was decreased by the unrealised exchange rate changes losses of HUF 205.4 billion during the year.

For more details on revaluation reserves, see Section 4.16.

4.20 COST OF ISSUING BANKNOTES AND COINS

HUF millions

P/L line	Description	2014	2015	Change
	Cost of banknote production	3,660	7,925	4,265
	Cost of coin production	1,159	3,025	1,866
	Cost of production of commemorative and collector coins	369	336	-33
XIII.	Cost of issuing banknotes and coins	5,188	11,286	6,098

The cost of issuing banknotes and coins was HUF 11.3 billion in 2015. In particular, the cost of banknote production rose by HUF 4.3 billion compared to the preceding year. The change was caused mainly by the banknote issuance program, which proceeds in line with the preliminary schedule. The comparison is distorted by the fact that in the first half of 2014 the MNB did not have printed banknotes, and therefore the amount serving as basis of comparison contains only half-year cost. The cost of coin production rose by HUF 1.9 billion compared to the previous year, which was caused by the growing cash demand.

4.21 OTHER INCOME/EXPENSES

HUF millions

P/L line	Description	2014	2015	Change
V.1.	Income from fees and commissions	936	1,033	97
XV.1.	Expenses of fees and commissions	837	851	14
	Net income from fees and commissions	99	182	83
V.2.	Income from other than fees and commissions	1,588	1,380	-208
XV.2.	Expenses of other than fees and commissions	251,564	20,417	-231,147
	Net income from other than fees and commissions	-249,976	-19,037	230,939
V.3.	Income from supervisory activities	13,002	12,111	-891
V.-XV.	Other net results	-236,875	-6,744	230,131

Income from fees and commissions mainly relates to payment services. In 2015, the income from fees and commissions increased by HUF 97 million partly because of the increase of income from account management fees, partly from commission fees, and from penalties imposed on credit institutions related to the default of conditions of tenders and programmes announced by the central bank.

For more details on income other than fees and commissions, see Section 4.22; in respect of income related to supervisory activities, see Section 4.23.

4.22 INCOME OTHER THAN FEES AND COMMISSIONS

HUF millions

P/L line	Description	2014	2015	Change
	Income from sales of employee loans	312	0	-312
	Income related to coins and commemorative coins	472	471	-1
	Dividends from investments	741	797	56
	Income from assets assigned free of charge	2	1	-1
	Recommitment of financial money transfer	1	13	12
	Other income	60	98	38
V.2.	Income from other than commissions and charges	1,588	1,380	-208
	Financial money transfer	248,240	15,288	-232,952
	Expenses from sales of employee loans	443	0	-443
	Expenses related to coins and commemorative coins	436	458	22
	Expenses from assets assigned free of charge	2,423	4,545	2,122
	Other expenditures	22	126	104
XV.2.	Expenses from other than commissions and charges	251,564	20,417	-231,147
V.2.-XV.2.	Net income/expenses from other than commissions and charges	-249,976	-19,037	230,939

Income other than fees and commissions includes the following in 2015:

- The item ‘Financial money transfer’ includes final money transfers for financial and professional purposes mainly to foundations and to schools, as well as donations for charitable purposes. The majority (HUF 12 billion) of the balance is the allocation of founders’ financial assets related to the Pallas Athena Public Thinking Programme launched by the MNB.
- Expenses from assets assigned free of charge includes the transfer of non-financial assets (real property) of HUF 4.5 billion to the foundations established in the framework of the Pallas Athena Public Thinking Programme.
- Net income related to coins and commemorative coins depends on the commemorative coin programme, and arises mainly from the difference between the income from sales of commemorative coins and the expenses related to the removal of the coins’ face value. From 2014, by agreement, the sale of commemorative coins is accounted with the Pénczverő Zrt. at face value, except when the production cost exceeds the face value.
- Dividends from investments increased by HUF 56 million compared to 2014. In 2015, the BÉT paid a dividend of HUF 36 million to the MNB, and BIS paid EUR 2.4 million (HUF 761 million) to the MNB.

4.23 INCOME FROM SUPERVISORY ACTIVITIES

<i>HUF millions</i>				
P/L line	Description	2014	2015	Change
	Supervisory fee and default interest	8,503	8,963	460
	Received penalties and reimbursement from public proceedings	4,373	2,968	-1,405
	Administrative servicing fee from public proceedings	126	180	54
V.3.	Income from supervisory activities	13,002	12,111	-891

The main item of income from supervisory activities is the supervisory fee received from the supervised institutions obliged to pay this fee. In 2015, the income arising from the assessment of the minimum charges for the entire year and of the quarterly payable variable-rate fees amounted to HUF 9 billion, while in 2014 the declared obligation amounted to HUF 8.5 billion. Penalties imposed by the MNB, which became final and from reimbursements added up to HUF 3 billion. In connection with penalties, an impairment of HUF 1.6 billion was also created in the period under review for the recoveries, as well as for litigation items based on the probability of losing a lawsuit (see Section 4.13). Administrative servicing fees and magisterial exam fees amounted to HUF 0.2 billion in 2015.

4.24 OPERATING INCOME AND EXPENSES

HUF millions

P/L line	Description	2014	2015	Change
	Income from assets and inventories	90	62	-28
	Income from subcontracted services	63	454	391
	Income from invoiced services	364	931	567
	Other income	43	19	-24
VIII.	Total operating income	560	1,466	906
	Cost of materials	14,276	11,677	-2,599
	Personnel-related costs	16,329	19,712	3,383
	Depreciation	2,109	2,671	562
	Transfer of costs of other activities	-539	-1,086	-547
	Total operating costs	32,175	32,974	799
	Expenses incurred on assets and inventories	56	60	4
	Expenses incurred on subcontracted services	63	452	389
	Expenses incurred on invoiced services	366	1,036	670
	Other expenses	79	430	351
	Total operating expenses	564	1,978	1,414
XVIII.	Total operating costs and expenses	32,739	34,952	2,213
VIII.-XVIII.	Net operating expenses	-32,179	-33,486	-1,307

Net operating expenses amounted to HUF 33.5 billion in 2015, representing an increase of HUF 1.3 billion compared to 2014.

Operating expenses in 2015 were 2.5 per cent (HUF 0.8 billion) higher than previous year. The main reason for this cost increase was the rise in personnel-related expenses, as defined by charges related to reorganisation and positions needed to perform new tasks. In addition, the depreciation cost of the new buildings also caused an increase in the amount of depreciation costs.

The cost of materials in the reporting year was nearly HUF 11.7 billion, as a result of the following factors with contrasting effects:

- Communication costs decreased by HUF 7 billion over the previous year, as campaign costs related to the Funding for Growth Scheme in 2015 were lower than before.
- Compared to the previous year, IT costs increased by HUF 0.3 billion, mainly due to the increase in IT security support costs.
- Compared to 2014, operating costs rose by HUF 3.1 billion, partly due to the reorganisation of guarding activities, and owing to the new leased areas in the Bank Center office building. Furthermore, foreign liaison office rents also caused additional expenses compared to last year.
- Legal costs in 2015 were HUF 0.4 billion higher than the previous year, mainly due to the additional tasks related to the phasing-out of household foreign currency loans and conversion into Hungarian forint.
- The gross audit fee for 2015 amounted to HUF 37.1 million.

Personnel-related costs increased by 20.7 per cent (nearly HUF 3.4 billion) compared to the previous year. Costs rose primarily due to the additional staff resulting from the new tasks specified in the Act in 2015. One reason for the additional staff was that new departments were created to perform resolution and reorganisation tasks and to create the Board of Education. The legal regulations on the phasing-out of household foreign currency loans and conversion into Hungarian forint also specified the Financial Arbitration Board as a forum for compulsory enforcement, which also increased the headcount. Compared to previous year, the number of requests received by the Board increased 4-5-fold. The Board was only able to do this work with a larger staff due to the significantly increased number of cases.

Depreciation increased by 26.6 per cent (by HUF 0.6 billion) in 2015 versus the previous year, mainly due to additional amortisation expenses related to the new property.

The transfer of costs is intended to ensure that the total amount of operating expenses reflects only the actual expenses incurred by the MNB. This transfer amounted to HUF 1.1 billion in absolute terms, more than twice the amount from 2014. On the one hand, this was due to the transferred depreciation of the leased area of the office building Eiffel Palace, and on the other hand to the settlement of developments implemented from own resources, which was transferred from April 2014.

Income from invoiced services amounted to HUF 931 billion: this stems mainly from rental income and operating expenses of the office building Eiffel Palace. Operating expenses and depreciation of the building relating to the leasing are mainly listed as expenses from invoiced services.

4.25 INFORMATION ON WAGES AND NUMBER OF STAFF

HUF millions

Description	2014	2015	Change (%)
Payroll costs incurred on staff	10,625	12,484	17
Other staff costs*	429	470	10
Payroll	11,054	12,954	17
Other payments to personnel	1,720	2,362	37
Taxes on personnel related payments	3,555	4,396	24
Payments to personnel	16,329	19,712	21

* Other wage costs include payments on termination and in exchange for vacation time used and amounts paid to non-staff and non-MNB workers.

Persons

Description	2014	2015	Change (%)
Average number of staff	1,192	1,274	7

Remuneration and loans of executive officers

HUF millions

Bodies	Compensation
Monetary Council*	176
Supervisory Board	36

* Includes the salaries and employer's voluntary pension fund contributions of external members of the Monetary Council in an employment relationship with the MNB, pursuant to Article 9 (4) c) of the MNB Act.

Bodies	Amount of loans	Outstanding at 31.12.2015	Final maturity	Rate of interest
	HUF millions			
Monetary Council	43	25	01.08.2018	Floating*
Supervisory Board	–	–	–	–

* The preferential interest rate for housing loans is the central bank base rate, the interest rate for personal loans is the central bank base rate +5 per cent.

The Bank has no obligation to pay pension benefits to its former senior officers.

27 April 2016, Budapest

Dr György Matolcsy
Governor of the Magyar Nemzeti Bank

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