

## **Agreement**

### **between the Magyar Nemzeti Bank and the Hungarian Banking Association on hedging transactions related to the conversion into forint of foreign currency and foreign currency-denominated non-mortgage household loans**

The Magyar Nemzeti Bank (MNB), acting in its financial stability function under Act CXXXIX of 2013 and based on its experiences about the conversion into forint of foreign currency and foreign currency-denominated household mortgage loans, is taking an active role in the conversion into forint of foreign currency and foreign currency-denominated non-mortgage household loans.

The MNB and the Hungarian Banking Association are both committed to ensuring that the conversion of foreign currency and foreign currency-denominated non-mortgage household loans is carried out in a rapid and orderly manner, the stability of the financial system is preserved and the process has no major impact on the exchange rate of the forint.

With regard to the above, the MNB and the Hungarian Banking Association hereby issue the following joint declaration.

1. The MNB undertakes to provide the participating financial institutions with the amount of foreign currency required for the conversion into forint of foreign currency and foreign currency-denominated non-mortgage household loans and for the related hedging transactions.
2. Participation in the central bank's programme is only open to financial institutions that offer their debtors – in accordance with the agreement between the Government and the Banking Association and with the relevant legislation – the opportunity to convert into forint their foreign currency and foreign currency-denominated non-mortgage household loans.
3. The MNB undertakes to hold foreign exchange sale tenders for both its counterparty credit institutions and for non-counterparty financial institutions through umbrella banks. Only the Bank's counterparty credit institutions can be umbrella banks. The credit institution in

question and the financial enterprise involved in the conversion into forint shall confirm in a joint declaration to the MNB their umbrella bank agreement as regards the hedging transaction related to the conversion into forint.

4. The MNB undertakes to hold the first tender on the day when the Government and the Hungarian Banking Association sign their agreement if the signing takes place before 12:00. If the signing takes place after 12:00 or on a day other than a working day, the first tender will be held on the first working day after the signing. If needed, the Bank may hold further tenders with the conditions stipulated in the relevant terms and conditions.
5. The MNB undertakes to provide the amount of foreign currency required to meet banks' hedging needs – as defined above – in Swiss franc at the latest official MNB exchange rate effective at the time of the tender.
6. At the tenders, the MNB's counterparty credit institutions may purchase Swiss franc from the MNB in spot foreign exchange transactions up to the amount (limit) agreed upon with the MNB.
7. Provided that the law on the conversion into forint of the loans concerned is passed, the MNB is expected to determine the limits on banks' foreign exchange positions based on the effect of the conversion, in consultation with the credit institutions and prior to the foreign currency sale tenders. The basis for calculating the credit institutions' respective limits is their outstanding amount of foreign currency and foreign currency-denominated non-mortgage household loans. In the case of an umbrella bank agreement, the individual limit for a credit institution will be increased by the limit established for the financial enterprise in the umbrella bank agreement. Credit institutions may purchase foreign currency from the MNB in spot transactions unconditionally, or they can roll it over in short-term swap transactions with the MNB upon utilisation. The parameters of the foreign currency transactions and foreign exchange swaps with the central bank are governed by the terms and conditions available on the official website of the MNB.
8. The members of the Hungarian Banking Association, as well as the members of a group of financial institutions subject to consolidated supervision shall make every reasonable effort to

meet their hedging (foreign currency purchase) needs – resulting from the conversion into forint of the foreign currency and foreign currency-denominated non-mortgage household loans – at the MNB's tenders.

9. In line with the practice employed during the conversion into forint of foreign currency and foreign currency-denominated household mortgage loans, the MNB does not consider it to be a change in the open foreign exchange position if, when purchasing foreign exchange at the Bank's tenders – in order to hedge for the conversion – its counterparty credit institutions exhaust their respective limits, non-counterparty financial institutions exhaust the amount stipulated in the umbrella bank agreement, and umbrella banks exhaust their respective increased limits. Furthermore, in the case of a group of financial institutions subject to consolidated supervision, the adjustment taken into account when calculating the foreign exchange position is equal to the volume of foreign currency purchased by a group member or group members at the tenders. The MNB shall determine banks' open foreign exchange positions and the resulting potential capital requirements in accordance with the above.
10. The members of the Hungarian Banking Association undertake to use the foreign currency purchased from the MNB under this agreement for converting foreign currency and foreign currency-denominated non-mortgage household loans into forint. The umbrella bank agreements shall also contain the provisions of this section.
11. Due to the risk posed by foreign currency and foreign currency-denominated non-mortgage household loans, the MNB undertakes not to stipulate a systemic risk buffer or individual extra capital buffer (SREP) requirements for financial institutions participating in the programme enabled by the law on the conversion to forint of such loans. For the purposes of this section, participating financial institutions are those financial institutions that have made their declaration to the Magyar Nemzeti Bank as regards the conversion into forint – provided for in the relevant legislation – within the statutory deadline and published their declaration on their website, regardless of the actual number of subsequent contract amendments for conversion into forint.
12. The members of the Hungarian Banking Association undertake to repay the foreign currency purchased from the MNB and not used for the conversion into forint of foreign currency and

foreign currency-denominated non-mortgage household loans at the official MNB exchange rate effective on the given day. The MNB undertakes to repurchase from the credit institutions the foreign currency not used for the conversion into forint of foreign currency and foreign currency-denominated non-mortgage household loans at the official MNB exchange rate effective on the given day. The members of a group of financial institutions subject to consolidated supervision may repay the unused foreign currency purchased at the tenders under the same conditions. Non-counterparty financial institutions may also repay the unused foreign currency purchased through umbrella banks under the same conditions. This section shall be applicable even if the law on the conversion into forint of foreign currency and foreign currency-denominated non-mortgage household loans is not passed by the Hungarian Parliament.

13. If the law on the conversion into forint of foreign currency and foreign currency-denominated non-mortgage household loans is not passed by the Hungarian Parliament by 30 September 2015, the agreement shall be terminated except for Section 12.

Budapest, 19 August 2015

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Magyar Nemzeti Bank

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Hungarian Banking Association