Market Notice
Terms and conditions of the MNB's euro sale operations related to conversions of foreign currency loans delinquent for more than 90 days

24 April 2012

The original Hungarian text is the official version.

1 General terms

Between 15 May 2012 and 15 June 2012 (hereinafter the 'conversion period'), the Magyar Nemzeti Bank will be selling euros against forints in spot foreign exchange transactions to credit institutions meeting the specific conditions set out in this Market Notice. The operations are designed to help institutions obtain foreign currency for hedging related to conversions of foreign currency loans into forints (hereinafter the 'conversion programme'), as required by article 10/A § (1) of Act LXXV of 2011 on the fixing of exchange rates for repayments of foreign currency loans and forced sales of residential property (hereinafter 'Act LXXV of 2011').

Domestic credit institutions[1] subject to reserve requirements, with direct membership in VIBER or the Interbank Clearing System (hereinafter 'Credit Institutions'), will be allowed to participate in the operations if they have stocks of foreign currency lending suitable for conversion into forints, as required by article 10/A § (1) of Act LXXV of 2011, and meet other criteria set out in this Market Notice (hereinafter the credit institutions eligible to participate in the conversion programme are collectively called 'Counterparties').

On trading days in the period of the conversion programme, Credit Institutions will be able to purchase euros up to their – total and daily – limits predefined by the MNB. The maximum amount (total limit) of euros that Counterparties will be able to purchase under the conversion programme will be equal to their outstanding stock of foreign currency loans, meeting the criteria set out in the law, which the Magyar Nemzeti Bank will establish for each Counterparty based on (i) data on the stock of loans as at 8 May 2012, to be provided by Counterparties on 11 May 2012, and on (ii) data on the stock of loans as at 15 May 2012, to be provided on 21 May 2012. In defining the total limits, loans denominated in currencies other than the euro will be converted at the EUR/CHF and EUR/JPY cross exchange rates calculated on the basis of the MNB's official exchange rates for 11 May 2012.

On a trading day, a Credit Institution will be able to purchase foreign currency corresponding to the pro rata amount of its total limit, i.e. the total limit divided by the number of trading days within the conversion period (hereinafter the 'daily limit'). This will allow Credit Institutions to purchase, on average, from the MNB the euro amount at an exchange rate which defines – in part – the conversion exchange rate used vis-à-vis their customers. Credit Institutions will have the right to decide on which trading day and how much euros they want to purchase from the MNB up to their daily limits. However, the portion of daily limits remaining unused on a trading day cannot be used on subsequent trading days, i.e. daily limits will constitute the upper limit for conversion during each trading day within the period,

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[1] Credit institutions established within the territory of Hungary, non-resident credit institutions established within the European Economic Area having branch offices in Hungary through their Hungarian branch offices, as well as Hungarian branch offices of non-resident credit institutions established outside the European Economic Area.

irrespective of the extent to which a Credit Institution has used its daily limits during the previous trading days of the period. (Part 2 of this Notice includes a detailed description of the calculation of daily limits.)

The MNB will provide detailed information on the total amount of foreign currency sold under the programme at the time of the release of its statistical balance sheet on its website on 12 July 2012, after the programme is implemented.

A precondition of participation in the operations is that a Credit Institution provide data on 11 May 2012 and 21 May 2012 on the stock of loans it is obliged to convert under article 10/A § (1) of Act LXXV. By participating in the programme, Credit Institutions will also undertake that, provided that they will use the foreign currency purchased under the programme to repay their foreign liabilities, they will first repay short-term foreign liabilities, i.e. those maturing within a year. The sanctions to be imposed for breaches of this obligation are contained in Part 2 of this Notice.

The payment after payment (PaP) principle will be applied to the settlement of spot foreign exchange transactions, which means that the MNB will honour its obligation arising from such transactions after the Credit Institution has met its settlement obligation.

2 Detailed terms

Detailed conditions for spot euro sales

Type of tender	Free tender
Counterparties	Resident credit institutions subject to reserve requirements, with direct membership in VIBER or BKR, who fulfil the conditions set out in this Notice
Formal properties and contents of bids	Bids can be submitted through the Reuters Dealing platform or by fax (428-2529), by indicating the required euro amount
Trading days	Each business day of the conversion period beginning on 15 May 2012 and ending on 15 June 2012, i.e. a total of 23 trading days
Time of receipt of bids	Between 10:30 am and 10:45 am on trading days of the conversion period
Restrictions for the bid amount	Whole-number multiple of EUR 50,000, but minimum EUR 100,000 and maximum the amount of daily limit
Modification of bids	Not permitted
Exchange rate of transaction	Official EUR/HUF exchange rate published by the MNB after the receipt of bids on the day of transaction
Day of financial settlement	T+2

1. If a Credit Institution fails to comply with the conditions on the repayment of foreign liabilities with short-term (within one-year) remaining maturities, the MNB will have the right to suspend the participation of the Credit Institution in (i) its money-market operations conducted in forints and (ii)

its foreign exchange market operations for a definite or indefinite period. In imposing sanctions, the MNB will take into account:

a) the severity of non-compliance with conditions,

b) the recurrence and frequency of non-compliance with conditions,

c) the impact of non-compliance by a Credit Institution on the conduct of monetary policy,

d) all factors to be proven by a Credit Institution, which provide evidence that the Credit Institution has acted in conformity with the conduct to be expected in order to fulfil the conditions,

e) objective circumstances in a causal relationship with non-compliance with the conditions.

2. The MNB will set the daily limits as follows:

The conversion period consists of 23 trading days. On the first six days of the period (from 15 May to 22 May), the daily limit will be the pro rata share, i.e. 1/23rd, of the total amount to be converted, reported on 11 May.

However, in setting the daily limit for the next 17 days of the period (from 23 May to 15 June), the final data on the stock of overdue loans to be converted as reported on 21 May will be used as a basis. In addition, the daily limits used during the first six days of the operation will also be taken into account, using the following formula:

$\frac{X_{i,máj21} - 6 \cdot \frac{X_{i,máj11}}{23}}{17}$, where $X_{i,máj11}$ is the total stock of overdue loans to be converted, reported by a Credit Institution on 11 May and $X_{i,máj21}$ is the total stock of overdue loans to be converted, reported by a Credit Institution on 21 May.

3. In the case of forint settlement by a Credit Institution, the Bank will have the right to debit the Credit Institution's forint settlement account held with the MNB by the relevant amount.

Foreign currency settlement is made either:

a) to the bank account indicated by the Credit Institutions in its bid submitted (indicating the account holding institution, the place of account holding and the account number), or

b) on the basis of the list containing the Credit Institution's standing correspondent accounts (Standard Instructions) for spot conversions between forint and foreign exchange, as included in the MNB's 'Terms and Conditions of the Operations of the Central Bank in Forint and Foreign Currency Markets'.

If either is chosen, the Credit Institution cannot alternate between methods a) and b), and must apply one method consistently on each trading day of the conversion programme.

4. The list containing the Credit Institution's standing correspondent accounts (Standard Instructions), referred to in point 3.b), should be sent in writing, duly signed, to the MNB's Money and Foreign Exchange Market Department at least 7 (seven) working days before the value date, indicating the name of the account-holding institution, the place of account holding and the account number. The list can also be sent or modified in the form of an authentic SWIFT message. Ad hoc departure from the account relations provided by the Credit Institution is not allowed.

5. To issues not regulated in this Notice, the 'Terms and Conditions of the Operations of the Central Bank in Forint and Foreign Currency Markets' apply.

MAGYAR NEMZETI BANK