Unofficial Translation

NOTICE ON THE TERMS AND CONDITIONS OF THE TENDERS FOR SPOT EURO SALE INSTRUMENTS CONDITIONAL ON THE REDUCTION IN SHORT-TERM EXTERNAL DEBT RELATED TO THE HEDGING REQUIREMENT FOR SETTLEMENTS STEMMING FROM THE UNFAIR USE OF EXCHANGE RATE SPREAD AND THE CONTRACTUAL CLAUSE ON UNILATERAL AMENDMENT OF HOUSEHOLD LOAN AGREEMENTS

On 13 October 2014, the Magyar Nemzeti Bank (MNB) introduced a spot euro sale facility conditional on the reduction in short-term external debt, in order to meet the hedging needs of credit institutions arising from the phasing-out of household loans denominated in foreign currency (hereinafter: conditional euro sale instrument related to settlement), supplemented by an offsetting optional FX-swap transaction that can be rolled over until 30 March 2016 at the latest. The related central bank programme includes a cross-currency interest rate swap (CIRS) combined with a spot transaction with no condition to reduce short-term external debt (hereinafter: unconditional euro sale instrument related to settlement), covered in a separate MNB notice. This Notice describes the parameters of the conditional euro sale instrument related to settlement.

The tenders for the conditional euro sale instrument related to settlement will be announced by the MNB on an ad hoc basis, at the earliest on the second business day following the preliminary notice of the resident Credit Institutions subject to reserve requirements, at least until 30 March 2015. The purpose of this central bank instrument is to ensure that the settlements defined in Act XXXVIII of 2014 and in Act XL of 2014 take place in a regulated manner, without threatening the stability of the financial system or materially affecting the forint exchange rate.

The tender is open to resident credit institutions (subject to reserve requirements) with direct VIBER or BKR membership (hereinafter: Credit Institution). Credit institution participation in the tenders of the conditional euro sale instrument related to settlement and the unconditional euro sale instrument related to settlement is restricted. The combined maximum credit institution participation rate in respect of the two instruments (hereinafter: limit) is the maximum hedging requirement of credit institutions for settlements, arising from the unfair use of exchange rate spread and the contractual clause on unilateral contract amendment of consumer loan agreements under Act XXXVIII of 2014, estimated by the MNB (hereinafter: estimated maximum hedging requirement), subtracting the amount of foreign currency already allocated to the Credit Institution in the context of this programme. The estimated maximum hedging requirement was determined by the MNB based on interest rate statistics derived from data included in the Central Loan Register and data reported by credit institutions, and in consultation with the Credit Institutions affected. The estimated maximum hedging requirement of the

Bank of Hungarian Savings Cooperative Ltd shall include the sum of the estimated maximum hedging requirements of cooperative credit institutions having their settlement account with the Bank of Hungarian Savings Cooperative Ltd as a correspondent credit institution subject to reserve requirements, as set out in Act CXXXV of 2013 on the integration of cooperative credit institutions and the amendments of certain economic laws. The MNB permits that, in the case of affiliates belonging to its counterparties, one of these Credit Institutions use the consolidated limit of the affiliates, which is subject to the condition that the affiliates renouncing their limits has submitted an official notice to this effect to the MNB. The declaration of the Credit Institution bearing the authorised signatures or signed by the persons registered by the MNB as persons authorised to dispose of the bank account qualifies as official notice on the condition that the scanned version of which has been received at the dsktit@mnb.hu MNB address by 11:00 am of the business day preceding the first tender (10 October 2014). By 4:00 pm of the business day preceding the first tender the MNB has notified the credit institutions of their final limits.

In the case of tenders announced at the preliminary request of Credit Institutions the MNB informs Credit Institutions with adequate limits about the date of the next tender via email. Credit Institutions may request the MNB to notify them of their limit applicable to the upcoming tender by 9:00 am of the business day preceding the tender. The MNB undertakes to disclose the Credit Institution’s limit applicable to the tender by 4:00 pm on the business day preceding the tender at the credit institution’s request.

In the case of conditional euro sale instruments related to settlement, the MNB will announce fixed-price tenders, taking into account the bank limits. Credit Institutions may submit one bid per tender specifying the amount of euro they wish to purchase. If the Credit Institution's bid exceeds the limit, the MNB will automatically take the bid into account at the limit. In the event of overbidding, the MNB will distribute the currency among participating Credit Institutions in proportion to the bids received.

Credit Institutions are not permitted to amend their submitted bids. In the tender, the MNB applies the Payment after payment (PaP) principle, meaning that the MNB shall meet its payment obligation stemming from these transactions only after the counterparty’s performance of its respective payment obligation. The settlement date is T+2 business days both for the spot transaction and the spot leg of the swap transaction. The MNB applies netting on spot transactions and the first leg of swap transactions for currencies pertaining to the same value date. The MNB applies netting and the PaP principle to the rolled over swaps as well.

In the case of the conditional euro sale instrument related to settlement, the spot currency sale by the MNB is performed at MNB’s official euro (EUR/HUF) exchange rate. Unless the Credit Institution indicates otherwise, by submitting its bid in the tender the Credit Institution agrees to the MNB automatically rolling over the foreign currency amount allocated to it — until utilisation of the foreign currency under the terms and conditions defined herein — in the form of the one-week EUR/HUF FX-swap commencing with a two-day lag compared to the contract date, without any separate pertaining declaration by the Credit Institution. In the case of the first leg of FX-swaps, the MNB applies the MNB’s official euro (EUR/HUF) exchange rate used for allocation, and defines the maturing leg’s exchange rate based on the quotes applicable to market transactions of similar maturity, taking account of the yield adjustment attributable to the condition. The MNB undertakes to maintain the adjusted rate compared to the market price stemming from the instrument's condition established at the 13 October 2014 tender until 30 March 2016 in respect of the one-week FX swap. The maturity of the FX-swap transaction concluded on the day of the tender will be defined in a way that ensures that the maturity of the transaction corresponds to the settlement date of the two-week maturity central bank main policy instrument (usually Wednesday). The maturity of the FX-swap transaction concluded on the day of the tender may be shorter than the one-week maturity applied during the rollover.

Until the utilisation of the foreign currency liquidity under the terms defined in this Notice, euro payments will not be fulfilled, while the net settlement of forint payments will be performed weekly. Foreign currency payments are only made in the context of allocation linked to the tenders if the Credit Institution clearly indicates in its bid that it does not wish to roll over the currency under the MNB's related swap instrument.

The Credit Institution taking part in the tender undertakes to reduce its foreign liabilities qualifying as short-term (within one year) based on remaining maturity by the equivalent of at least 50 per cent of the foreign currency purchased in the framework of conditional euro sale related to settlement and not rolled over under the foreign currency swap, compared to the average for the June-August 2014 period. The Credit Institution must fulfil the condition in terms of the utilised foreign currency, i.e. the foreign currency purchased in the framework of the conditional euro sale and not rolled over under the foreign currency swap transaction. The MNB will verify fulfilment of the condition at the end of every month based on the data reporting, applying a three-month rolling average.

By participating in the tender, Credit Institutions undertake to satisfy the MNB AL7 data reporting on a monthly basis, starting from the conclusion of their first transaction for 6 months following the very last utilisation of the foreign currency (in accordance with the prevailing MNB decree on the information to be provided for the central bank's information system, the range of information providers, the manner and deadline of information provision). In respect of the affiliates belonging to its counterparties, the MNB permits the provision of the information either in aggregated form or separately by Credit Institution. The Credit Institution also undertakes to send to the MNB, via the MNB's electronic data acceptance system (EBEAD), the data corresponding to the data reporting of code AL7, retrospectively in respect of the months preceding the participation in the tender, starting from July 2014. The deadline for the retrospective and the first current month's data reporting is 12:00 pm of the 2nd business day of the month following the value date of the first transaction concluded. If this deadline falls within 15 business days following the value date, the value date is shifted to 12:00 pm of the 20th business day following the value date. Failure to perform data reporting may result in the potential exclusion of the Credit Institution from the upcoming tender.

Based on the AL7 data reporting the short-term foreign funds include all of the Credit Institution's short-term external debts outstanding on the day of data reporting, including portions of long-term debt according to original maturity that have shortened to short-term debt. For the purpose of the verification the forint equivalent of the short-term external debt, net of revaluation, will be taken into account. Affiliates forming part of the list of eligible MNB counterparties must satisfy the condition jointly. The verification takes place in accordance with the following formula:

$$(rka_t + rka_{t+1} + rka_{t+2})/3 \leq (rka_6 + rka_7 + rka_8)/3 - 0.5*X_t$$

where

- "rka_t": is the forint equivalent of the short-term external debt balance of month "t", adjusted for the month-end revaluation, based on data reporting AL7. The months with sequence number of 6, 7 and 8 indicate the balance as at the end of June, July and August 2014. Assuming that the balance as at the end of June 2014 is zero, the next month's balance is always the previous month's balance adjusted for revaluation, increased by lines 10 and 16, and decreased by lines 2, 3, 4 and 6 of the AL7 table applicable to the relevant month.
- "X_t": is the forint equivalent of the balance of the foreign currency purchased by the counterparty in the framework of conditional euro sale, not rolled over within a foreign currency swap transaction, accumulated until the end of month "t". The balances are aggregated based on the average monthly official EUR/HUF exchange rate calculated for the business days of the month when the foreign currency was utilised as defined above. The accumulated balance only includes the foreign currency amounts taken not earlier than 6 months ago.

The Credit Institution is free to decide on the period how long to conclude the one-week foreign currency swap transaction with the MNB; however, it is verified subsequently whether in the month of the drawdown it utilised the foreign currency received from MNB in accordance with the conditions. The Credit Institution undertakes to notify the MNB of its utilisation request during the business hours at least two business days prior to such utilisation of the foreign currency, i.e. that it does not wish to conclude the newly launched one-week swap with the MNB. The MNB undertakes to make the foreign currency available within two business days of receipt of such requests, but not earlier than on the next Wednesday. The Credit Institution may utilise the foreign currency rolled over within the MNB swap instrument in several portions, in which case the MNB can only expect fulfilment of the condition up to the extent of the foreign currency used.

The Credit Institution may roll over the purchased foreign currency until 30 March 2016 at the latest. If the Credit Institution still has rolled over foreign currency at the MNB on 28 March 2016, then the MNB will not renew the swap transaction on this date and will verify fulfilment of the condition starting from March 2016.

In the event of failure to fulfil the condition linked to the utilisation of foreign currency liquidity, a forint penalty shall be levied on the Credit Institution. The penalty amounts to the double of the central bank base rate, where the basis of comparison is the Credit Institution's delay in reducing short-term external liabilities for the remaining maturity compared to the value representing fulfilment of the condition. By participating in the tender, the Credit Institution authorises the MNB to debit the Credit Institution's account held with the MNB with the penalty amount within 30 days after establishing the non-fulfilment of the condition. The penalty is calculated as follows:

$$B_t = E_t * n_t * \sum_{j=1}^{n_t} (2 * k_j / n_t) / (100*360)$$

$$E_t = (rka_t + rka_{t+1} + rka_{t+2})/3 - (rka_6 + rka_7 + rka_8)/3 + 0.5*X_t$$

where

- "B_t": The forint equivalent of the penalty applicable to the non-fulfilment of month "t".
- "E_t": Rate of the non-fulfilment of month "t", i.e. the 3-month rolling difference calculated from the specified short-term external debt condition, if it is a positive value.
- "n_t": The number of days in calendar month "t".
- "j": The sequence number of the day within month "t".
- "k_j": The central bank base rate, expressed in percentage, prevailing on day "j" of month "t".

The MNB maintains a margin account for the Credit Institution and evaluates the FX-swap transactions concluded in the context of tenders at least once a day. In respect of these transactions the balance on the margin account (hereinafter: forint margin) must reach the difference between the Credit Institution's outstanding forint debt towards the MNB stemming from these transactions and its foreign currency receivables minus the margin expressed in forint. The EUR amount is converted to HUF at the official euro (EUR/HUF) exchange rate of the MNB as at the specific date. When calculating the margin, the MNB uses the sum of the face value and the accrued interest as the value for the foreign currency legs of FX-swap transactions.

If the forint margin of a Credit Institution does not reach the required amount upon the daily revaluation, the MNB, simultaneously notifying the Credit Institution, will debit the Credit Institution's MNB settlement account by the amount needed to restore the required margin and will credit the amount to the Credit Institution's margin account. If the forint margin exceeds the required amount upon the daily revaluation, the MNB will transfer the amount in excess of the required margin from the credit institution's margin account to its MNB settlement account. The MNB remunerates the Credit Institution's positive balance on the margin account at the prevailing central bank base rate, with interest settled on the Credit Institution's MNB settlement account on the last day of the month. The Credit Institution pays interest to the MNB at the prevailing central bank base rate for the negative balance on the Credit Institution's margin account, with interest debited by the MNB to the counterparty's MNB settlement account on the last day of the month.

Detailed terms and conditions

Type of transaction	**Sport euro sale conditional upon the reduction of short-term external debt**
Date, place and contents of notice/invitation	By default, MNB will announce the value date and the financial delivery/settlement date of the maturity leg, the maximum acceptable volume, the market and the MNB swap points, at 11:00 am on the day of the tender on the Reuters NBHQ and the Bloomberg NBH6 pages, as well as on the MNB webpage.
Business hours for receiving bids	11:00-11:15 am on the day of the tender
Eligible counterparties	Resident Credit Institutions (subject to reserve requirements) with direct VIBER or BKR membership.
Maturities	The foreign currency obtained by the spot transaction can be rolled over by the one-week foreign exchange swap transaction concluded with the MNB until 30 March 2016 at the latest.
Content and formal requirements for the bids	The bids may be submitted via Reuters Dealing, or – in the absence thereof – via fax, specifying the requested EUR amount.
Number of bids accepted from any bidder	Credit Institutions may submit one bid per tender.
Bid limit	Integral multiples of EUR 1 million.
Adjustments	No
Bid increment	EUR 1 million
Date and place of announcements	At 12:15 pm on the day of the tender on the Reuters NBHQ and Bloomberg NBH6 pages and on the website of the MNB.
Contents of announcements	Spot EUR/HUF exchange rate, sum of the submitted bids, sum of the accepted bids
Initial exchange rate	MNB official foreign currency mid-rate
Haircut/Margin	Margin amounts to 4 per cent of the euro leg.
Time of daily revaluation and margin account transactions	Published: at 12:00 pm on each trading day. Time of account transactions: Between 12 pm and VIBER closing

1. The forint payment to be made by the MNB in favour of the Credit Institution is credited to the Credit Institution's forint bank account held with the MNB, while in the case of forint payments to be made by the Credit Institution the MNB is entitled to debit the Credit Institution's bank account held with the MNB.
   Foreign currency payments may be made:

a) to the account (name of the account-keeping credit institution, the place of the account and the account number) specified in the bid submitted by the Credit Institution under the tender, or
b) based on the Standard Instructions, containing the Credit Institution's correspondent accounts applicable to the spot foreign currency and forint conversions, as defined in the “Central Bank’s Terms and Conditions for Forint and FX Market Operations”.
Option a) or b) selected by the Credit Institution cannot be applied alternately by the given Credit Institution, i.e. it must be the same in relation to all tenders.

2. The Standard Instructions mentioned in subsection 1.b) may be submitted or modified to the MNB's Money and FX Market organisational unit specifying the currency, the name of the account-keeping credit institution, the place of the account, the account number and the value date, at least 7 (seven) business days before the value date in writing, bearing the authorised signatures or in the form of authenticated SWIFT message. No ad hoc departure from the standard instructions specified by the Credit Institution is permitted.
3. The issues not regulated in these Notice shall be governed by the “Central Bank’s Terms and Conditions for the Forint and FX Market Operations”

Budapest, 2 December 2014

MAGYAR NEMZETI BANK