Unofficial Translation

NOTICE ON THE TERMS AND CONDITIONS OF TENDERS FOR THE CROSS-CURRENCY INTEREST RATE SWAP COMBINED WITH A SPOT TRANSACTION RELATED TO THE HEDGING REQUIREMENT FOR SETTLEMENTS STEMMING FROM THE UNFAIR USE OF EXCHANGE RATE SPREAD AND THE CONTRACTUAL CLAUSE ON THE UNILATERAL AMENDMENT OF HOUSEHOLD LOAN AGREEMENTS

On 13 October 2014, the Magyar Nemzeti Bank (MNB) introduced a cross-currency interest rate swap (CIRS) combined with a spot transaction facility (hereinafter: unconditional euro sale instrument related to settlement), in order to meet the hedging needs of credit institutions arising from the phasing-out of household loans denominated in foreign currency. The related central bank programme includes a spot euro sale facility conditional on the reduction in short-term external debt (hereinafter: conditional euro sale instrument related to settlement), covered in a separate MNB notice. This Notice describes the parameters of the unconditional euro sale instrument related to settlement.

The tenders for the unconditional 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 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 unconditional 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 maturity specifying the amount of euro they wish to purchase. If the Credit Institution's bid for a tender exceeds the limit, the MNB will reduce the bids proportionately across all maturities by reducing the total amount of bids to the limit. In the event of overbidding, the MNB will distribute the currency among participating Credit Institutions in proportion to the bids received, and proportionately reduce bids for each maturity.

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 unconditional euro sale instrument related to settlement refers to the combination of a spot euro purchase transaction and an opposite CIRS transaction maturing in 2016 or 2017. The settlement date is T+2 business days both for the spot transaction and the spot leg of the CIRS transactions. The MNB applies netting on spot transactions and the first leg of CIRS transactions for currencies pertaining to the same value date. The parameters of the CIRS transaction are specified in the tender notice.

In the case of the unconditional euro sale instrument related to settlement, the spot currency sale by the MNB is performed at the EUR/HUF reference exchange rate published by the European Central Bank. The Credit Institution shall indicate in its bid the maturity of the CIRS transaction to be concluded with the MNB in the requested foreign currency amount. A Credit Institution may conclude multiple CIRS transactions up to the received foreign currency amount. The MNB will not evaluate any bids failing to specify a CIRS maturity. The MNB applies the European Central Bank's EUR/HUF reference exchange rate used for the allocation by the first leg of the CIRS. In the case of central bank CIRS transactions the MNB specifies the price announced in the tender based on the market CIRS transactions using the 3-month BUBOR and EURIBOR reference rates, taking account of the yield adjustment. CIRS transactions cannot be terminated with the MNB prior to their maturity.

The MNB will announce CIRS transactions for eight maturities in case of the unconditional euro sale instrument related to settlement, with the transactions maturing on the third Wednesdays of the last month of the calendar quarters in 2016 and 2017 (unless it is a bank holiday). The MNB expects the Credit Institution to strive to use the foreign currency obtained from the unconditional euro sale instrument for the repayment of external funds or swaps with identical maturity to the assets or maturity differing by at most six months.

Interest settlements under the transaction between the MNB and the Credit Institution will take place on the third Wednesday of the last month of the calendar quarters (unless it is a bank holiday). The MNB determines the variable interest rates for the first interest period by applying a linear interpolation of the transaction value of the two nearest BUBOR and EURIBOR reference interest rates bracketing the term of the first period.

The MNB maintains a margin account for the Credit Institution and evaluates the CIRS 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 market value for the currency legs of CIRS 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.

In the case of CIRS transactions, the MNB does not apply any FX-rate reset.

Detailed terms and conditions

Type of transaction	**Cross-currency interest rate swap combined with spot transaction**
Date, place and contents of notice/invitation	MNB will announce the value date, the maximum acceptable volume, the market and the MNB spread at 2:15 pm on the day of the tender on the Reuters NBHR and the Bloomberg NBH6 pages, as well as on the MNB webpage.
Business hours for receiving bids	2:15-2:30 pm on the day of the tender
Eligible counterparties	Resident Credit Institutions (subject to reserve requirements) with direct VIBER or BKR membership.
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 and the related CIRS maturity.
Number of bids accepted from any bidder	Credit Institutions may submit one bid per tender. A Credit Institution may conclude multiple CIRS transactions up to the received foreign currency amount.
Bid limit	Integral multiples of EUR 1 million.
Adjustments	No
Bid increment	EUR 1 million
Date and place of announcements	At 3:30 pm on the day of the tender on the Reuters NBHR and Bloomberg NBH6 pages and on the website of the MNB.
Contents of announcements	The amount of foreign currency jointly submitted and accepted in the tenders
Initial exchange rate	The EUR/HUF exchange reference rate published by the European Central Bank.
Maturities	In 2016 and 2017, on the third Wednesday of the last month of the calendar quarters, unless it is a bank holiday.
Haircut/Margin	Margin amounts to 5 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