NOTICE ON THE TERMS AND CONDITIONS OF THE SPOT EURO SALE TENDERS CONDITIONAL UPON THE REDUCTION OF SHORT-TERM EXTERNAL DEBT RELATED TO THE MEASURES NECESSARY IN ORDER TO TERMINATE THE SHIFTING OF RISK ARISING FROM UNFAVOURABLE EXCHANGE RATE MOVEMENTS ONTO FOREIGN CURRENCY DEBTORS

The Magyar Nemzeti Bank (MNB) is introducing a spot euro sale tender conditional upon the reduction of short-term external debt (hereinafter: conditional euro sale tender related to forint conversion) supplemented by an offsetting optional maximum one-week FX-swap transaction that can be rolled over until 30 March 2016 at the latest, in order to terminate the shifting of risk arising from unfavourable exchange rate movements onto foreign currency debtors. The related central bank programme also includes a *cross-currency interest rate swap tender combined with a spot transaction* related to the measure necessary in order to terminate the shifting of the risk arising from unfavourable exchange rate movements onto the foreign currency debtors (hereinafter: unconditional euro sale tender related to forint conversion), covered by a separate MNB notice. This Notice describes the parameters of the conditional euro sale tender related to the forint conversion.

The tender is open to resident credit institutions (subject to reserve requirements) with direct VIBER or BKR membership (hereinafter: Credit Institution). However, the participation of the credit institutions in the conditional euro sale tender related to forint conversion is restricted. The credit institution participation rate in the tender (hereinafter: limit) means the hedging values determined by the credit institutions in advance and stipulated in bilateral agreements between the MNB and the credit institution. The limit is reduced by the foreign currency drawn down in previous tenders under this Notice. The MNB undertakes to satisfy the demand of credit institutions up to the maximum value of the limit set within the framework of the bilateral agreements.

In the absence of a bilateral agreement the MNB determines an overall estimated hedging requirement for the maximum combined value of the credit institution's participation in the conditional and unconditional euro sale tenders related to forint conversion. The combined estimated hedging requirement equals the foreign currency and foreign currency-denominated mortgage loan portfolio outstanding on 30 September 2014, reduced by the limit allocated and agreed with the Credit Institution in the framework of the spot euro sale tenders conditional upon the reduction of the short-term external debt and tenders combined with spot transactions, both held on 13 October for the first time. In the absence of a bilateral agreement the limit is determined by the MNB based on the data held in the Central Loan Register and the interest statistics derived from the data reported by the credit institution. The MNB will disclose the total estimated hedging requirement at the request of the Credit Institution. Later on the parties may modify the value of the total estimated hedging requirement in bilateral agreements. The total estimated hedging requirement is reduced by the aggregate amount drawn down in previous tenders under this Notice and the notice in respect of the unconditional euro sale tender related to forint conversion. Those credit institutions that have no special agreement concluded with the MNB may participate in the central bank tenders, but the MNB is not in the position to guarantee for them the fulfilment of foreign currency requirements submitted on the same day.

The limit and total estimated hedging requirement of the Magyar Takarékszövetkezeti Bank Zrt. include the sum of the limits of the cooperative credit institutions having their settlement account with the Magyar Takarékszövetkezeti Bank

Zrt. as correspondent credit institutions subject to reserve requirements, as set out in Act CXXXV of 2013 on the Integration of Cooperative Credit Institutions and the Amendment of Certain Economic Laws.

The MNB will announce the conditional euro sale tender related to forint conversion daily, starting from the date specified in the first invitation to tender. Should any further requirement arise after the withdrawal, the MNB undertakes to hold further ad hoc tenders, until 28 January 2015 at the most, on the second business day following the Credit Institution's notice to this effect. The purpose of this central bank instrument is to ensure that the settlement of the conversion transactions related to the measures necessary to terminate the shifting of the risks arising from the unfavourable exchange rate movements to the foreign currency debtors takes place in an orderly manner, preserving the stability of the financial system and without a material impact on the forint exchange rate.

The MNB will announce the conditional euro sale tender related to forint conversion in the form of fixed-price tender, taking into account the bank limits and the total estimated hedging requirements. The Credit Institution may submit one bid for the conditional euro sale tender related to forint conversion, specifying the euro amount it wishes to purchase. If the Credit Institution's bid submitted under the conditional euro sale tender related to forint conversion exceeds its maximum limit, during the allocation the MNB will consider the bid up to the maximum limit. If the aggregate amount of the bids submitted by the Credit Institution under the conditional and unconditional euro sale tenders related to forint conversion exceeds its total estimated hedging requirement, during the allocation the MNB will consider the bids up to the maximum value of the total estimated hedging requirement, decreasing all submitted bids proportionately.

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 during 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.

During the tender the MNB performs the spot sale of the foreign currency at the official MNB EUR/HUF exchange rate prevailing at the time when the bids are submitted. Unless the Credit Institution provides otherwise, by submitting its bid under 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 context 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. During the first leg of FX-swaps, the MNB uses the exchange rate specified in the invitation to tender and applied in the spot transaction, 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 until 30 March 2016 the adjusted rate in respect of the one-week FX-swap, stemming from the instrument's condition, established at the spot euro sale tender conditional upon the reduction of the external debt held on 13 October 2014, calculated compared to the market price. 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 MNB's benchmark deposit tender (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 termination of the rollover of the FX-swap transactions 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 participating in the tender undertakes to reduce, compared to the average for the June-August period, its foreign liabilities qualifying as short-term (within one year) based on the remaining maturity by the equivalent of at least 50 per cent of the foreign currency purchased in the framework of euro sale tenders conditional upon the reduction of short-term external debt, first held on 13 October 2014, and not rolled over under the foreign currency spot swap transaction. The Credit Institution must satisfy this condition in respect of the utilised foreign currency, i.e. purchased within the framework of the spot euro sale tenders conditional upon the reduction of short-term external debt related to forint conversion, first held on 13 October 2014, and not rolled over under foreign currency swap transactions. 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, the Credit Institution undertakes to satisfy the MNB AL7 data reporting on monthly basis, starting from the conclusion of its first transaction for 8 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 circle 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 transaction concluded first. If this deadline falls within 15 business days following the value date, the deadline is shifted to 12:00 pm. of the 20th business day following the value date. Failure to perform data reporting may result in the 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 the revaluation, will be taken into account. In the case of the affiliates belonging to the MNB's counterparties the conditions must be satisfied in consolidated form, with the exception of the credit institutions in which the Hungarian State has majority ownership. The verification takes place in accordance with the following formula in each month for which $X_t>0$:

$$(rka_t + rka_{t+1} + rka_{t+2})/3 \le (rka_6 + rka_7 + rka_8)/3 - 0,5*X_t$$

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 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 accumulated balance, as at the end of month "t", of the foreign currency, expressed in forint, purchased within the framework of the spot euro sale tenders conditional upon the reduction of short-term external debt related to forint conversion, first held on 13 October 2014, and not rolled over under foreign currency swap transaction. The balances are aggregated based on the average monthly official central bank 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 used immediately (not rolled over) in the framework of the spot transaction within the period starting from the month preceding month "t" by 4 months and ending in month "t", and the foreign currency amounts used upon terminating the rollover of the FX-swap transactions.

The Credit Institution is free to decide on the date when to roll over the 1-week foreign currency swap transactions 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, before the VIBER cut-off time, the MNB of its utilisation request at least two business days prior to terminating the roll-over, 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 main policy instrument settlement date. 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 bank 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 of 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 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 with 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	**Notice on the terms and conditions of the spot euro sale tenders conditional upon the reduction of short-term external debt related to the measures necessary in order to terminate the shifting of risk arising from unfavourable exchange rate movements onto foreign currency debtors**
Date, place and contents of notice/invitation	The MNB will announce the value date and the financial delivery/settlement date of the maturity leg, the spot EUR/HUF exchange rate, the market and the MNB swap points in the invitation to tender on the Reuters NBHR and the Bloomberg NBH6 pages, as well as on the MNB webpage.
Business hours for receiving bids	As specified in the invitation to 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 1 bid in the tender.
Bid limit	Integral multiples of EUR 1 million.
Adjustments	No
Bid increment	EUR 1 million
Date and place of announcement	At the time specified in the tender invitation on the Reuters NBHR and Bloomberg NBH6 pages and on the website of the MNB.
Contents of the announcement	Sum of the submitted bids, sum of the accepted bids
Initial exchange rate	The spot EUR/HUF foreign exchange rate announced in the invitation to tender
Haircut/Margin	Margin amounts to 4 per cent of the euro leg.
Time of daily revaluation and margin account transactions.	Published: on each trading day at 12 pm from the first business day following the tender, at the latest. 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 settlements.
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 this Notice shall be governed by the "Central Bank's Terms and Conditions for the Forint and FX Market Operations".

Budapest, 7 November 2014

MAGYAR NEMZETI BANK