Terms and conditions of participation in the MNB's EUR/HUF FX swap and CIRS tenders linked to Pillar 3 of the Funding for Growth Scheme

With effect from 3 June 2013, the Magyar Nemzeti Bank (MNB, Bank) will introduce new euro liquidity-providing FX swap and CIRS tenders at eight different maturities within the framework of Pillar 3 of the Funding for Growth Scheme (FGS) announced on 4 April 2013.

Under the new tender scheme, the credit institutions (Counterparties) defined in the detailed terms and conditions of the tender below will be allowed to sell forints against euros at the spot leg of the FX swap transaction to the Bank on the first trading day of each week during the term of pillar 3 of the FGS. Similar to the FX conversion scheme under Pillar 2 of the FGS, the Counterparties participating in Pillar 3 of the FGS will be obliged to reduce their short-term foreign liabilities to an extent corresponding to the amount of the foreign exchange purchased from the MNB, as a result of which the country's short-term foreign debt decreases.

By participating in the tender, the Counterparties participating in Pillar 3 of the FGS and the credit institutions that are, along with the Counterparty, subject to supervision on a consolidated basis under the Act on Credit Institutions and Financial Enterprises, undertake, from the contract date of their first FX swap or CIRS transaction to the last day of a two-month period following the expiry of the transaction, to perform, aggregately (by banking groups) or individually, data reporting (code no. AL7 "Components of Changes to Foreign Debt-type Liabilities") according to the decree of the MNB on the scope of information to be supplied for the central bank information system and on the method and deadline of data supply be in force.[1] These Counterparties also undertake to provide the data prescribed by data reporting AL7 to the MNB via the MNB's electronic data receiving system (EBEAD) retrospectively in respect of the months from April 2013 to the date of the use of the facility.[2] The deadline for such retrospective data reporting is 12:00 hours on the 2nd working day of the month following the due date of the FX swap or CIRS transaction first concluded. If this deadline falls within 10 working days after the due date, it will be postponed until 12:00 hours on the 10th working day following the due date. The access of the table designed for data reporting AL7 and a guide for completion are contained in Annex 2 to this Information Document.

By participating in the tender, the Counterparties participating in Pillar 3 of the FGS also undertake, in keeping with the above data reporting, to reduce their short-term foreign liabilities (i.e. those with a remaining maturity of less than 1 year) at least to an extent corresponding to the amount of the foreign exchange purchased under Pillar 3. The participation of the Counterparty in the tender is also deemed as its commitment to honouring the conditions and obligations specified in this Information Document.

The maturities available for FX swap tenders are five weeks, 13 weeks (three months) and 26 weeks (six months) and for CIRS tenders 78, 91, 104, 117 and 130 weeks (18, 21, 24, 27 and 30 months). In line with

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[1] Presently the Decree No. 20/2012 (X. 15.)

[2] Counterparties in the same banking group may, at their discretion, report data aggregately or individually.

earlier practice, the due dates and the maturity dates of the transactions fall on Wednesdays except for non-working days. The date of the first FX swap and CIRS tenders will be 3 June 2013. The MNB is to conduct the last CIRS tender and the last FX swap tender under Pillar 3 of the FGS on 26 August 2013 and 30 December 2013, respectively; however, subsequent to 26 August 2013, only the Counterparties rolling over their previous transactions can take part in FX swap tenders. The MNB reserves the right to extend the programme.

As regards CIRS transactions, the MNB and the Counterparties swap the three-month EURIBOR and the three-month BUBOR adjusted for spread every three months. Principal is only swapped at the initial settlement and at maturity (or at closing out).

The MNB will conduct tender procedures at a floating rate separately for each one of the eight maturities on the first working day of each week.[3] For each tendering procedure, the MNB publishes the highest implied HUF interest rate (expressed as the highest swap point) applicable to FX swaps, the highest spread applicable to CIRS transactions and, in both cases, for indicative purpose, the highest acceptable allotment amount. Subsequent to the sending of the bids, in the case of oversubscription, the MNB may increase the acceptable allotment amount. If, subsequently, the highest acceptable allotment amount is lower than the aggregate amount bid, the MNB will decide on the acceptance of the bids separately for each maturity by ranking them in the order of the price (i.e. the swap point or the spread) indicated in the bids. If, at the highest swap point or spread level accepted, the satisfaction in full of the aggregate amount bid exceeds the maximum amount to be allotted, the MNB will satisfy these bids in units of EUR 1 million, in accordance with the rules for dealing cards, until the maximum allotment amount is exhausted.

At the request of the Counterparty, the MNB may close out a CIRS transaction concluded earlier the maturity of which has fallen to one year or less at any coupon payment date if the Counterparty notifies it of its intention to get the transaction closed out at least one week in advance via any one of the channels prescribed for bidding in these tender conditions. The MNB defines the value of the transaction on the second day preceding the closing out (T-2), which is settled between the counterparties in forint on the settlement day. The MNB provides the Counterparty with indicative valuation on demand of the Counterparty before the initiation of the closing out. As for the valuation, the MNB adjusts the market mid basis swap spread of the valuation date for the interest rate differential between the spread embedded in the transaction and the market mid basis swap spread of the deal date.[4]

Checking on reduction in short-term foreign liabilities

A condition for participation in Pillar 3 of the FGS is that the Counterparty reduces its short-term foreign liabilities at least to an extent that corresponds to the contracted FX swap or CIRS amount. In the case of conversions linked to Pillar 2 discussed in detail in a separate FGS brochure, a reduction in short-term foreign liabilities is also a condition for participation. Therefore, the MNB will check compliance with the requirement to reduce short-term foreign liabilities within the same procedure in the case of Counterparties participating in both Pillar 2 and Pillar 3 of the FGS.

The MNB will check compliance with the requirement to reduce short-term foreign liabilities aggregately at a banking group level, expressed in forints, in a manner that it excludes revaluation stemming from changes in prices or exchange rates (row 14 in Data table entitled “Components of Changes to Foreign

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[3] If both the Monday and the Tuesday concerned are a non-working day, the date of the tendering procedure is, as an exception, the last working day of the previous week (e.g. 16th in the case of the weekend of 20th of August 2013).

[4] As an example for the valuation of the swap at closing out let us suppose that the spread of a transaction with the MNB is -80 basis points while the market mid basis swap spread of the deal date was -70 basis points. The MNB incorporates in the closing out valuation price that the transaction has been concluded 10 basis points below the initial market mid basis swap spread. Thus if the market mid basis swap spread at closing out is -40 basis points, the MNB calculates with -50 basis points while determining the closing out value. By this way the MNB does not take into account the differential between the spread of the transaction and the market spread of the deal date.

Debt-type Liabilities" identification code no. AL7). With 31 March 2013 as a base date and with revaluation excluded, relying on data reporting AL7, the Bank will determine adjusted short-term foreign liabilities for the end of each month.[5]

The MNB determines the value of the FX swap and CIRS portfolio as well as the FX conversion portfolio provided within the framework of Pillar 2 of the FGS by totalling the starting legs as at the value date. In the case of FX conversions, the portfolio is the sum total of the transactions concluded and implemented before 30 June 2014; however, with effect from 1 July 2014 this portfolio will not count towards compliance, i.e. from a compliance point of view, the value of the conversion portfolio will be zero. An end-of-the month FX swap or CIRS portfolio will comprise the transactions whose starting leg is settled in the month concerned or earlier, and its expiring leg will be settled later. The aggregate sum of the FX conversion deals contracted within the framework of the above Pillar 2 and the FX swaps and CIRS contracted within the framework of Pillar 3 will hereinafter be referred to as "the FGS portfolio".[6]

The MNB will determine an end-of-the month compliance ratio for each Counterparty. If a Counterparty has not used any one of the facilities (neither the FX conversion under Pillar 2 nor the FX swap or the CIRS facility) yet in terms of the due date, the compliance ratio in the month at issue is 0.

1.) When a facility is used for the first time, the MNB identifies, for the period between 30 April 2013 and the month immediately preceding the date of the use of the facility, the short-term foreign liabilities portfolio with the lowest value among the adjusted end-of-the month short-term foreign liabilities. It is called the minimum value. In order to arrive at the compliance ratio at the end of the month when a facility is used for the first time, the minimum value is reduced by the sum of the change in the FGS portfolio in the month at issue and the adjusted end-of-the month short-term foreign liabilities.

2.) If, later, the FGS portfolio changes again, we identify the lowest of the adjusted short-term foreign liabilities in the last month immediately preceding it and affected by changes in the portfolio and the adjusted short-term foreign liabilities in the intervening months preceding the month at issue. This is the new minimum value.[7] In accordance with the above, the compliance ratio is this minimum value reduced by changes in the FGS portfolio and the adjusted short-term foreign liabilities at the end of the month at issue.

3.) If the Counterparty has already used any one of the FGS facilities, however, its portfolio did not change in a given month, the minimum value will be the same as the one in the previous month less the change in the FGS portfolio in the previous month. The calculation of the compliance ratio will remain unchanged in this case as well.

The Customer fulfils its obligation to reduce short-term foreign liabilities in any given month if the value of the compliance ratio is not negative on the average of three successive months.

If the Counterparty is participating in Pillar 3 and sanctions are imposed, first the FX swap transactions, then the CIRS ones are closed out together with the settlement in forint of the closing out value

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[5] The new amount (portfolio) is the adjusted amount (portfolio) in the previous month increased by rows 10 and 16 of Table AL7 for the month at issue and decreased by rows 2, 3, 4 and 6.

[6] New FX conversion deals as well as the FX swaps and CIRS contracted within the framework of the FGS increase the FGS portfolio; by contrast, maturing or closed out FX swaps and CIRS reduce it. The MNB expects compliance with the condition linked to Pillar 2 that requires reduction in short-term foreign liabilities until 30 June 2014. Therefore, the total value of the FX conversion will be zero from July 2014 onwards. By July 2014 the FGS portfolio will have been reduced by the total amount of the FX conversion portfolio on a one-off basis.

[7] Thus, for instance, if the FGS portfolio changes in October and it last changed in July before that, the minimum value in October will be the lowest of the adjusted short-term foreign liabilities in July, August and September. If, in the month affected by the last change in the FGS portfolio, the Counterparty violated the requirement for the short-term foreign liabilities, the minimum value will be downward revised for the extent of this earlier infringement.

determined by the MNB.[8] If the Counterparty still fails to fulfil the obligation that it has undertaken, the MNB concludes a transaction with the Counterparty that corresponds to the amount of the FX conversion, in the opposite direction, at an exchange rate from between the exchange rate applied at the conclusion of the original transaction and the fixing prevailing at the date when the sanctions are imposed that is the less favourable to the Counterparty. The MNB will impose the same sanction if the Counterparty only undertook an obligation to reduce short-term foreign liabilities under Pillar 2. The imposition of sanctions in the case of non-compliance is not automatic, as the MNB will assess the extent to which the Counterparty is responsible for non-compliance before imposing sanctions on it. In justified cases the MNB may disqualify the Counterparty and exclude it from the eligible counterparties in respect of both Pillar 3 and other monetary policy instruments.

The calculation rules used to check on reduction in short-term foreign liabilities are contained in Annex 1 to this Information Document.

Other technical parameters of the transactions

The initial exchange rate used in the starting leg of the transactions concluded within the framework of the MNB's euro liquidity-providing EUR/HUF FX swap and CIRS tenders will be the prevailing market exchange rate.

The MNB will manage a margin account for the Counterparties and mark to market all outstanding transactions concluded within the framework of the tender at least on a daily basis. In respect of these transactions, the sum of the amount on the forint legs, and the amount on the margin account (collectively: forint margin) must reach every day 102 per cent of the forint equivalent of a Counterparty's euro liabilities to the Bank arising from such transactions. The euro amounts are converted into forints at the Bank's daily official exchange rate. As for the calculation of the margin, in the case of FX swaps the value of the two currency legs is the sum of the notional and the accrued interest, while in the case of CIRSs the value of the currency legs is the market value.

If the forint margin of a Counterparty does not reach the required amount at the time the positions are marked to market, the Bank will, while simultaneously notifying the Counterparty, debit the Counterparty's settlement account kept with the Bank by the amount needed to restore the required margin and will credit the amount to the margin account of the Counterparty. If the forint margin exceeds the required amount at the time the positions are marked to market, the Bank will transfer the amount in excess of the required margin from the Counterparty's margin account to its settlement account kept with the Bank. The Bank remunerates the Counterparty's credit balance on the margin account at the prevailing central bank base rate, with interest settled on the Counterparty's settlement account kept with the Bank on the last day of the month. The Counterparty pays interest to the Bank at the prevailing central bank base rate for the debit balance on the Counterparty's margin account, with interest debited by the Bank to the Counterparty's settlement account kept with the Bank on the last day of the month.

All mutual obligations between the Bank and the Counterparty arising from short-term FX swap transactions concluded, in accordance with this Information Document, within the framework of Pillar 3 of the FGS as well as maturing and new EUR/HUF FX swap transactions with various maturities concluded within the framework of other EUR/HUF FX swap tenders of the Bank, which are for the same value date and denominated in the same currency, will be offset and settled on a net basis, and only the resulting balance will be paid to each other. The CIRS deals with maturity of over 1 year concluded in accordance with this Information Document will not be included in netting. Both interest and principal swap upon maturity will be settled by the parties on a gross basis.

[8] While calculating the closing out value of the FX swap transactions, the MNB, similarly to its CIRS transactions, adjusts the prevailing market mid implied interest rates for the difference between the implied yield of the transaction and the market mid implied yield at the deal date.

The payment after payment (PaP) principle will be applied to the MNB's EUR/HUF FX swap and CIRS tenders linked to Pillar 3 of the FGS, meaning that the Bank will honour its obligation arising from such transactions after the Counterparty has complied with its settlement obligation.

Parameters and conditions of the MNB's euro liquidity-providing EUR/HUF FX swap tenders linked to Pillar 3 of the FGS

Type of operation	**The MNB's euro liquidity-providing EUR/HUF FX swap tenders linked to Pillar 3 of the Funding for Growth Scheme**
Place, time and content of announcement/invitation to tender	The Bank announces the date of settlement/clearing of the starting and maturing legs, the prevailing market EUR/HUF exchange rate applicable to the transactions, the highest acceptable swap point, as well as the highest allotment amount at 10:00 a.m. on the first trading day of each week on Reuters' NBHP and Bloomberg's NBH17 wire service pages.
Eligible counterparties	Direct RTGSS or ICS participant resident credit institutions subject to reserve requirements, which, by participating in the tender, undertake to satisfy the conditions set forth in this Information Document
Maturities	5, 13 or 26 weeks (1, 3 or 6 month(s))
Initiator	Counterparty
Business hours/time of acceptance of bids	Between 10:30 and 11:00 hours on the first trading day of each week during the term of Pillar 3 of the FGS specified in this Information Document
Form- and content-related requirements of bids	Bids can be submitted either through the Reuters Dealing platform or by fax, indicating the euro amount requested and the swap point offered
Maximum number of bids per maturity and tenderer	3
Minimum bid amount	At least EUR 5 million per bid, in whole-number multiples of EUR 1 million
Modification of bids	Not permitted
Minimum bid increment	EUR 1 million
Place and date of announcement of results:	On Reuters' NBHN and Bloomberg's NBH11 wire service pages, at 12:00 a.m. on the day of the tender
Content of announcement of results	Total amount of bids submitted, amount of bids accepted, average swap point
Starting exchange rate	Prevailing market EUR/HUF exchange rate
Time of daily valuation and of margin account operations	Disclosure: 12:00 a.m. on each trading day Time of account operations: 12:00 hours – closing time of the RTGS system
Fulfilment of euro settlement obligations vis-à-vis the MNB	To the euro account designated in the standing correspondent accounts of the Magyar Nemzeti Bank used in spot FX market operations

Detailed parameters and conditions of the MNB's euro liquidity-providing EUR/HUF CIRS tenders linked to Pillar 3 of the FGS

Type of operation	**The MNB's euro liquidity-providing EUR/HUF CIRS tenders linked to Pillar 3 of the Funding for Growth Scheme**
Place, time and content of announcement/invitation to tender	The Bank announces the date of settlement/clearing of the starting and maturing legs, the prevailing market EUR/HUF exchange rate applicable to the transactions, the highest acceptable spread, as well as the highest allotment amount at 10:00 a.m. on the first trading day of each week on Reuters' NBHP and Bloomberg's NBH17 wire service pages.
Eligible counterparties	Direct RTGSS or ICS participant resident credit institutions subject to reserve requirements, which, by participating in the tender, undertake to satisfy the conditions set forth in this Information Document
Maturities	78, 91, 104, 117 and 130 weeks (18, 21, 24, 27 and 30 months)
Initiator	Counterparty
Business hours/time of acceptance of bids	Between 10:30 and 11:00 hours on the first trading day of each week during the term of Pillar 3 of the FGS specified in this Information Document
Form- and content-related requirements of bids	Bids can be submitted either through the Reuters Dealing platform or by fax, indicating the euro amount requested and the spread offered.
Maximum number of bids per maturity and tenderer	3
Minimum bid amount	At least EUR 5 million per bid, in whole-number multiples of EUR 1 million
Modification of bids	Not permitted
Minimum bid increment	EUR 1 million
Place and date of announcement of results	On Reuters' NBHN and Bloomberg's NBH11 wire service pages, at 12:00 a.m. on the day of the tender
Content of announcement of results	Total amount of bids submitted, amount of bids accepted, average accepted spread
Starting exchange rate	Prevailing market EUR/HUF exchange rate
Re-pricing at prevailing market rates (FX reset)	Not applicable
Time of daily valuation and of margin account operations	Disclosure: 12:00 a.m. on each trading day Time of account operations: 12:00 hours – closing time of the RTGS system
Fulfilment of euro settlement obligations vis-à-vis the MNB	To the euro account designated in the standing correspondent accounts of the Magyar Nemzeti Bank used in spot FX market operations

Any issue that is not regulated in this Information Document is governed by the “Terms and conditions of the central bank in forint and foreign currency markets”.

Budapest, 29 May 2013

MAGYAR NEMZETI BANK

Annex 1: Checking the reduction in short-term foreign liabilities

Legend:

Numbering of months: April 2013 is the 4^{th} month, May 2013 is the 5^{th}, etc.

rka_i: short-term external debt as at end-month “i” adjusted for revaluation, on the basis of data reporting AL7, expressed in HUF

Q_i: Monthly changes to the FGS portfolio expressed in HUF

min_i: definite minimum value in month “i”

F_i: Compliance indicator in month “i”

Determination of minimum value in certain cases:

For the first use of the facility in month “i”:

$min_i = min\ (rka_4, rka_5, \ldots, rka_{i-1})$

In any month “i” when the FGS portfolio changes, if, before month “i”, the last FGS portfolio change occurred in month “h” ((h<i):

$min_i = min\ (rka_h, rka_{h+1}, \ldots, rka_{i-1}) + min(F_h, 0)$

If in any month “i” the FGS portfolio does not change, the minimum value is identical to that in the previous month less the change in the FGS portfolio in the previous month:

$min_i = min_{i-1} - Q_{i-1}$

Monthly compliance for each month “i”:

$F_i = min_i - rka_i - Q_i$

The Magyar Nemzeti Bank requires three-month revolving compliance, i.e. in respect of each i ≥ 8 months (with effect from August 2013) if the FGS portfolio as at end-month “i” is above zero,

$F_{i-2} + F_{i-1} + F_i \geq 0$

Annex 2: Data table designed for data reporting entitled “Components of Changes to Foreign Debt-type Liabilities” (identification code no. AL7) and a guide for completion

The data table and the guide for completion is accessible on the MNB’s website on the following link:

http://english.mnb.hu/Statisztika/data-suppliers/regulations-and-resolutions