



NOTICE ON THE CONDITIONS OF CONDITIONAL EURO SALE TRANSACTIONS RELATED TO ENERGY IMPORT COVERAGE

Description of the transaction

With a view to satisfying the foreign currency funding requirement related to energy imports in November and December 2022, the Magyar Nemzeti Bank (MNB) concludes conditional EUR/HUF spot and EUR/HUF forward foreign exchange transactions (hereinafter: transaction) between 7 November 2022 and 30 December 2022. The purpose of the transaction is to ensure that the foreign exchange market transactions related to energy imports take place in an orderly manner, preserving the stability of the financial system and without a material impact on the forint exchange rate developments.

Conditions of use

The transaction may be concluded by domestic credit institutions with direct VIBER (RTGS) or BKR (ICS) membership, subject to reserve requirements that send to the MNB 3 working days prior to the conclusion of the transaction a declaration with the content and in the form defined below (hereinafter: declaration), signed by the authorised signatory of a non-financial corporation specified in Annex 2 to MNB Decree 54/2021 (XI. 23) on reporting obligations, the net import balance of which resulting from trading with foreign entities exceeded HUF 40 billion in the first half of 2022 in the markets of the following commodities: crude oil, oil products and oil derivatives, natural and artificial gas, electricity¹ and nuclear material.² (hereinafter: Energy Importer Company).

The declaration shall include that the Money Market Counterparty has an agreement with the Energy Importer Company (hereinafter: FX funding relation) based on which (i) the Money Market Counterparty provides the Energy Importer Company with the foreign currency consideration for the energy products imported by the Energy Importer Company and (ii) the Energy Importer Company has or may have an outstanding foreign exchange receivable from the Money Market Counterparty.

The declaration shall specify the amount of euro requested.

Money market counterparties may send the declaration to the MNB either on paper or in the form of an electronic document.

Declarations sent electronically shall be in the form of an electronic instrument sent to the jdktit@mnbb.hu email, signed by the Energy Importer Company's authorised signatory using qualified electronic signature or enhanced security electronic signature based on a qualified certificate sent to the MNB through an encrypted channel (TLS). Electronic signature shall be accepted only from an authorised signatory of whom the certificate of the electronic specimen signature is included in the trade register.

¹ Energy products under KN codes 27070010-27160000 defined in Annex 1 to Council Regulation No 2658/87/EEC of 23 July 1987 on the tariff and statistical nomenclature and on the Common Customs Tariff.

² Nuclear material under point 4 of Article 2 of Act CXVI of 1996 on Atomic Energy, particularly the products under 284410-284430.

The Money Market Counterparty shall send the paper-based declaration to the MNB's postal address of Magyar Nemzeti Bank, 1850 Budapest addressed to the Directorate Monetary Policy Instruments, Foreign Exchange Reserves and Risk Management, duly confirming the authorisation of the signatories to sign for the company (with the original specimen signature, or by a notarised specimen signature). If the Money Market Counterparty makes the declaration on paper, the scanned version of it shall be also sent to the jdktit@mnbb.hu email.

The MNB sets the estimated facility amount applicable to the respective Money Market Counterparty in euro (hereinafter: estimated facility amount) based on the content of the declaration and other available data, consulting the respective Money Market Counterparty and it shall notify the Money Market Counterparty of estimated facility amount within 3 working days from the receipt of the declaration.

Concluding the transaction

Following the notification on the acceptance of the declaration, the Money Market Counterparty shall become entitled to make the first request for quote related to the estimated facility amount. The MNB undertakes to make a quote for the transaction – indicating the spot or forward exchange rate – as soon as possible, but not later than within 15 minutes after receiving a request for quote during business hours, on working days between 9 a.m. and 4 p.m. The Money Market Counterparty shall notify the MNB on the acceptance of the quote as soon as possible, but within 15 minutes, at the latest.

The total amount of requests for quote submitted by the Money Market Counterparty until 30 December 2022 for the purpose of concluding transactions shall not exceed the estimated facility amount. The MNB shall make a quote up to the amount of the estimated facility amount less the euro amount already provided to the Money Market Counterparty based on its transaction concluded under this Notice (hereinafter the 'limit'). The MNB undertakes to inform to Money Market Counterparty, upon its request on the actual limit amount on the next business day after such request, at the latest.

If the Money Market Counterparty has FX funding relationship with several Energy Importer Companies and wishes to conclude deals for the same value date in respect of several Energy Importer Companies, it shall submit an individual request for quote to the MNB in respect of each Energy Importer Company.

Settlement of the transaction

On the transaction settlement date, the Money Market Counterparty shall ensure that the amount corresponding to its payment obligation to be fulfilled in forint based on the transaction is available on its bank account held with the MNB in forint.

Based on the transaction, the MNB shall pay the foreign currency at the choice of the Money Market Counterparty indicated in its request for quote:

- a) to the account specified by the Money Market Counterparty upon concluding the transaction, indicating the account-keeping institution and the account number, or
- b) based on the Standard Settlement Instructions applicable to spot foreign currency/forint conversions.

The MNB applies the Payment after Payment (PaP) principle to the transaction, meaning that the MNB meets its payment obligations stemming from transactions only after the money market counterparty's fulfilment of its payment obligation.

Margin account connected to forward contracts

The MNB keeps a margin account for the Money Market Counterparty, performing on it a daily revaluation of all the Money Market Counterparty's forward (EUR/HUF forward FX transactions) specified in this Notice.

The balance of the Money Market Counterparty's margin account shall provide cover from the deal date for the difference of the MNB's outstanding forint receivable and 96 percent of the euro liability. The amount of each receivable shall be determined by charging the accrued interest calculated for the amounts specified on the deal date. The euro amount is converted to forint at the MNB's official EUR/HUF exchange rate on that date.

The balance of the Money Market Counterparty's margin account shall correspond to the sum of the Money Market Counterparty's outstanding forint payables based on its individual transactions at each revaluation. If the forint margin of the Money Market Counterparty falls short of the required amount upon the daily revaluation, the MNB shall, simultaneously notifying the Money Market Counterparty, debit the Money Market Counterparty's bank account held with the MNB with the amount needed to achieve the required coverage level and transfer the amount to the Money Market Counterparty's margin account. If the forint margin exceeds the required amount upon the daily revaluation, the MNB shall transfer the surplus amount from the Money Market Counterparty's margin account to bank account held with the MNB. The MNB shall pay interest on the Money Market Counterparty's positive balance on the margin account at the prevailing central bank base rate, crediting it to the Money Market Counterparty's bank account held with the MNB on the last working day of the month. The Money Market Counterparty shall pay interest to the MNB at the prevailing central bank base rate on the negative balance on the Money Market Counterparty's margin account, which the MNB shall debit to the Money Market Counterparty's bank account held with the MNB on the last working day of each month.

Purpose of the transaction and verification

By concluding the transaction, the Money Market Counterparty undertakes to provide the Energy Importer Company complying with the conditions stipulated by the MNB with the amount corresponding to the foreign currency purchased under the transaction within 30 days from the deal date, or – in the case of forward deals – by 31 January 2023, at the latest, under the title of foreign currency sales/purchases (hereinafter: earmarked utilisation of foreign currency).

The Money Market Counterparty undertakes to inform the Energy Importer Company after concluding the deal with the MNB of the exchange rate and volume of the transaction concluded with the MNB.

The MNB reserves the right to verify the existence of the FX funding relation, the fulfilment of the earmarked utilisation of foreign currency and compliance with the provisions of this Notice. The MNB shall verify the fulfilment of the earmarked utilisation of foreign currency in accordance with the provisions hereof based on the monthly data reporting. By submitting the request for quote, the Money Market Counterparty undertakes that from the date of concluding its first transaction until 1 month after the last foreign currency utilisation it shall provide the MNB with monthly data reporting with the content specified in Table 1, sending it to the jdktit@mnbb.hu email address.

The MNB permits the Money Market Counterparty to provide the data reporting in aggregate on the related companies or separately by each Money Market Counterparty. The deadline for the fulfilment of the data reporting for the first reference month shall be 12 p.m. on the 2nd working day of the month following the value date of the first transaction concluded. If this deadline falls within 15 working days after the value date, the deadline shall be postponed to 12 p.m. on the 20th working day after the value date. Upon failure to fulfil the data supply, the MNB may exclude the Money Market Counterparty from the use of the facility, and thus the Money Market Counterparty shall not submit any further request for quote.

If based on the available data or publicly available information the MNB deems it justified, it may call upon the Money Market Counterparty to confirm compliance with the conditions specified in this Notice in respect of the concluded

transactions. As part of the verification, the MNB may call upon the Money Market Counterparty to confirm beyond doubt that the FX funding relation exists and the transaction complies with the provisions hereof. If a legal declaration of the Energy Importer Company or a document possessed by the Energy Importer Company is necessary to confirm compliance, it shall be the duty of the Money Market Counterparty to obtain it, except for the documents containing information qualifying as trade secret or classified information of the Energy Importer Company.

Legal consequences of inadequate performance

The MNB may withdraw from the transaction if during the verification it finds that the transaction has not complied with the provisions hereof in part or in full, particularly if the Money Market Counterparty was not eligible for utilising the transaction or it failed to fulfil its obligation related to the earmarked utilisation of the foreign currency. The MNB may exercise its right of withdrawal within 90 days from the deal date by declaration of any form addressed to the Money Market Counterparty. If the MNB exercises its right of withdrawal, the obligation to repay the forint and euro amounts settled based on the transaction shall become due on the first working day after the communication of the declaration of withdrawal.

Upon non-fulfilment of the conditions of the earmarked utilisation of foreign currency specified in this Notice, the MNB may exclude the Money Market Counterparty from the utilisation of the transaction, and also impose sanctions on the Money Market Counterparty. Basis of the sanction

- a) if the Money Market Counterparty provides the Energy Importer Company with an amount lower than the foreign currency purchased under the transaction: the forint equivalent, calculated at the official EUR/HUF exchange rate quoted by the MNB, of the euro amount that the Money Market Counterparty failed to put at the Energy Importer Company's disposal
- b) if the Money Market Counterparty does not provide the Energy Importer Company with the foreign currency amount by the deadline specified in this Notice: the forint equivalent of the euro amount purchased under the transaction, calculated at the official EUR/HUF exchange rate quoted by the MNB.

The amount of the sanction shall be 25 percent of the basis of the sanction.

Upon applying sanction, the MNB may ponder the individual circumstances and the degree of the basis of the sanction. The MNB shall notify the Money Market Counterparty of the application of the sanction by email. The MNB shall determine the amount of the sanction using the official EUR/HUF exchange rate quoted by the MNB, prevailing on the day of the notification. The payment obligation of the Money Market Counterparty shall become due on the first day after the notification, as a result of which the MNB shall be entitled to debit the Money Market Counterparty's bank account with the amount of its receivable on the same day, by enforcing its security interest right.

Transaction title	Conditional euro sale related to energy imports
Transaction type	spot or forward
Time of request for quote	on working days between 9 a.m to 4 p.m.
Content of the request for quote	amount, value date
Method of request for quote	in accordance with the Business Terms and Conditions, and through Bloomberg
Eligible counterparties	resident credit institutions (subject to reserve requirements) which are direct member of VIBER or BKR and meet the conditions set out in this Notice
Initiator	money market counterparty
Transaction limit	limit
Minimum transaction size	EUR 5 million
Financial settlement / date of settlement	in the case of spot transactions T+2 in the case of forward transactions as agreed, but not later than by 31 January 2023, with the proviso that the settlement date shall not be earlier than the second working date after the deal date

The issues not regulated in this Notice shall be governed by the 'Terms and conditions of the operations of the central bank in forint and foreign currency markets'.

Budapest, 4 November 2022

MAGYAR NEMZETI BANK

Table 1: Content of the data reporting

1. Transaction serial number
2. Money market counterparty GIRO code
3. Money market counterparty short name
4. Deal date
5. Value date
6. Transaction type (spot/forward)
7. Amount sold to energy importer company
8. Currency of the amount sold
9. Forint amount purchased from energy importer company
10. Energy importing company name