Unofficial translation, for the official version
please consider the Hungarian one

Notice on the terms and conditions of five- and ten-year floating rate forint monetary policy interest rate swaps

I. Description of the transaction and access conditions

Starting from 18 January 2018, until withdrawal, the Magyar Nemzeti Bank is introducing a floating-rate-payer forint monetary policy interest rate swap facility (MIRS) with terms of five and ten years for resident credit institutions subject to reserve requirements with direct VIBER or BKR membership (Counterparties) under the terms and conditions set out in this notice (the Notice). The objective of the MIRS is to let loose monetary conditions be effective on the longer section of the yield curve as well.

Under the MIRS, the MNB pays the six-month BUBOR interest rate based on the interest rate computation algorithm of the actual number of days/360 to the Counterparty during the six-month interest period, while the Counterparty pays the annual fixed interest rate defined in the transaction based on the interest rate computation algorithm of the actual number of days/365 to the MNB. All mutual obligations between the MNB and the Counterparty applying to the same value date will be offset and settled on a net basis by paying the resulting balance only. Interest settlement dates will be defined by the MNB in the tender notice published on the website. The MNB computes the interest rate for the first period by applying linear interpolation to the value of the two nearest BUBOR reference interest rates prevailing on the transaction date bracketing the term of the first period.

The maturity of the MIRS is the day corresponding to the third Wednesday (if it is a working day; otherwise the next working day) of the last month of the calendar quarter following the quarter of the value date by five and ten years. The MNB determines the date of maturity in the tender notice. The MIRS may not be closed before the date of maturity.

The MNB will conduct two variable-price tenders of the five- and ten-year maturities every other Thursday, with the following Wednesday being the value date (provided that it is a working day; otherwise the next working day). The date of the first tender is 18 January 2018. It is the Counterparties that are allowed to participate in the tenders.

The MNB defines the minimum fixed interest rate in the tender notice, and publishes the announced quantity. Following the submission of bids, the MNB is entitled to define the accepted quantity, which may diverge upwards or downwards from the announced quantity. The MNB reserves the right to declare the tender unsuccessful. If the accepted quantity is lower than the amount of bids submitted, the MNB decides on the acceptance of bids after ranking them by yield

for each maturity. If the satisfaction of all bids linked to the lowest accepted fixed rate would entail exceeding the accepted quantity, the MNB will satisfy these bids based on the rules of card allocation in units of HUF 10 million until the accepted quantity is reached.

In order to ensure the parties' claim stemming from a MIRS transaction, initial and variable margins are related to the transaction. The initial margin in asymmetrical – the Counterparty gives it to the MNB – in order to ensure the favourable future revaluation of the transaction for the MNB. In a symmetrical manner, the variable margin is given to the other party by the one for whom the transaction has a negative present value. The MNB defines the values of the two margins regarding MIRS transactions every day for each Counterparty, and accounts for them after netting. The MNB keeps records of the balance of the margin on a margin account kept for the Counterparty.

The multipliers to be used for calculating the initial margin – which are different according to the remaining term – are shown in the table below.

Initial margin multipliers of MIRS transactions (the MNB reserves the right to change it)

Remaining term	Multiplier (%)	Remaining term	Multiplier (%)
0–1 years	0.5	5–6 years	3.0
1–2 years	1.0	6–7 years	3.5
2–3 years	2.0	7–8 years	3.5
3–4 years	2.5	8–9 years	3.5
4–5 years	3.0	over 9 years	4.0

The required balance of the margin account is calculated on the basis of the following formulas:

$$M_i = NPV_{fixed.leg,i} + NPV_{var.leg,i} + N_i * h_i$$

$$M = \sum_i M_i$$

where

M	the margin account balance required because of the MIRS by Counterparty
M_i	the part of the margin account balance required because of the i^{th} MIRS
$NPV_{fixed.leg,i}$	present value of the fixed-rate leg of the i^{th} MIRS
$NPV_{var.leg,i}$	present value of the variable-rate leg of the i^{th} MIRS
N_i	nominal value of the i^{th} MIRS
h_i	multiplier corresponding to the maturity of the i^{th} MIRS; the value of this multiplier can be as shown in the above table

The Counterparty's margin account balance must be equal at every evaluation to the margin requirement on the Counterparty's transactions. If the forint margin of a counterparty does not reach the required amount upon daily revaluation, the MNB, simultaneously notifying the Counterparty, will debit the Counterparty's MNB settlement account by the amount needed to restore the required margin and will credit the amount to the Counterparty's margin account. If the forint margin exceeds the required amount upon daily revaluation, the MNB will subtract the amount in excess of the required margin from the Counterparty's margin account and add to its MNB settlement account. The MNB remunerates the Counterparty's positive balance on the margin account at the prevailing central bank base rate, with interest settled on the Counterparty's MNB settlement account on the last working day of the month. The Counterparty pays interest to the MNB at the prevailing central bank base rate for the negative balance on the Counterparty's margin account, with interest debited by the MNB to the Counterparty's MNB settlement account on the last working day of the month.

II. Detailed parameters and technical criteria

Description of the transaction	Floating rate forint monetary policy interest rate swap
Date, place and contents of notice/invitation	The MNB will announce the tender on its website (www.mnb.hu) as well as on Reuters NBH0 and Bloomberg NBH5 every two weeks at 12:00 p.m. on Thursdays. The tender notice published on the website defines the transaction date, the interest period starting dates, the last day of the interest periods, the interest payment settlement date, the date for defining floating interest, the floating interest rate of the first period, the minimum eligible fixed rate and the announced quantity.
Eligible counterparties	Resident credit institutions subject to reserve requirements with direct VIBER or BKR membership
Maturities	Defined in the tender notice
Proposed by	Counterparty
Business hours for receiving bids	Between 13:00 and 13:30 hours on the day of the tender
Content and formal requirements for the bids	Bids can be submitted via Reuters Dealing platform or, alternatively, by fax, specifying the nominal forint value of the requested interest rate swap and the offered/required interest rate specified as a percentage rounded to the second decimal place

Number of bids accepted from any bidder per maturity	5
Offer limit	At least HUF 100 million per bid, which can be increased by the integer multiple of HUF 10 million
Corrections	The last bid is valid among the amended bids submitted within the window of acceptance
Bid increment	HUF 10 million
Time and place of the announcement of results	14:30 hours on the day of the tender, on Reuters' NBH0 and Bloomberg's NBH5
Content of announcement of results	Amount of the bids submitted, amount of the bids accepted, average accepted fixed rate, minimum accepted fixed rate and maximum accepted fixed rate
Time of daily revaluation and margin account transactions	Counterparties are notified via a SWIFT message. Time of account transactions: until VIBER closing

In respect of issues not regulated here, the 'Terms and Conditions of the Operations of the Central Bank in Forint and Foreign Currency Markets' shall be authoritative.

Budapest, 21 December 2017
MAGYAR NEMZETI BANK