



## **Notice on the terms and conditions of the floating rate payer forint interest rate swap conditional on lending activity, announced in Phase 2 of the Market-Based Lending Scheme <sup>1</sup>**

### *I. Access conditions*

In order to reduce credit risk and boost economic growth through lending to SMEs, the Magyar Nemzeti Bank (MNB) will launch Phase 2 of the Market-Based Lending Scheme (MLS2).

As part of the MLS2, the MNB will introduce an interest rate swap of HUF 300 billion, conditional on lending activity (LIRS), to all credit institutions (Counterparty) that hold a stock available in the Market-Based Lending Scheme, bearing a floating interest, tied to a lending condition, arising from an LIRS (MLS1) concluded based on a notice on the conditions of a 3-year interest rate swap, existing on the last day of the month preceding the month of the tender according to this notice (Notice). LIRS may further promote lending through managing banks' interest rate risks arising from lending to SMEs, through the partial assumption of such risks by the MNB.

By submitting bids according to this Notice, the Counterparty declares its acceptance, that its lending commitment made as part of MLS1 will be modified as per the contents of the Notice. Based on the above, by participating in the tenders the Counterparty undertakes that, on the one hand, in accordance with the LIRSs concluded under MLS1 and MLS2, the reference credit aggregate indicator according to the Notice will reach the value defined in the Notice regarding the total LIRS stock of the Counterparty taken under MLS1 and MLS2, on the other hand, the Counterparty also accepts that the MNB will verify its lending commitment made under MLS1 and MLS2 in an aggregate manner, as per the Notice, and in the case of partially or totally unauthorized LIRS the MNB shall apply the sanctions defined in the Notice regarding all LIRSs used under MLS1 and MLS2.

Additionally, by submitting bids according to the Notice, the Counterparty also states its acceptance that it may initiate the full or partial termination of its LIRSs concluded in the framework of MLS1

---

<sup>1</sup> This notice shall be effective from 1 July 2017.

(voluntary termination) according to the Notice, and that the provisions of the Notice shall also be applicable regarding the margin account.

By participating in the tender, the Counterparty also agrees that during the verification of the lending commitment, the MNB may also take into account any data reports submitted by an institution having the legal relationship of intermediary with the Counterparty, concerning Referred Transactions pursuant to the Notice, furthermore, by submitting bids according to the Notice, the Counterparty also undertakes to give a written authorization until 31 July 2017 to institutions with a legal relationship of intermediary with it for the submission of this data report to the MNB.

## *II. Description of the transaction*

Based on the LIRS concluded as per the Notice, under the facility, the MNB pays floating interest rate linked to the six-month BUBOR, calculated as 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 calculated as the actual number of days/365 to the MNB, which may also have a negative sign. Within the framework of LIRS, 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. The MNB computes the floating interest rate for the first period by interpolating the value of the two nearest BUBOR reference interest rates prevailing on the transaction date bracketing the term of the first period.

The MNB undertakes to issue a call for tender at least once, but it is entitled to issue additional tenders in addition to that. The value date of LIRS will be the second working day following the date of the submission of the bids (T+2 value date), its maturity date will be - for transactions concluded in any tender - 28 February 2019.

The MNB shall specify a fixed price in the announcement of the tender. The MNB will define the fixed interest rate in the announcement of the tender and publish 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. If the accepted quantity is lower than the amount of bids submitted, the MNB will satisfy the bids in units of HUF 10 million, according to the rules of card allocation. Each Counterparty will participate in the card allocation until its submitted bid has been fully satisfied, or until the allocation of the LIRS stock has reached the accepted quantity. The MNB defines accepted quantity in such a manner that each of the Counterparties participating in the last round of card allocation has received the LIRS stock of HUF 10 million to be allocated in the given round.

Prior to the maturity the Counterparty shall be entitled to the partial or full closing of the LIRSs concluded under MLS1 or the Notice, with the value date of 28 February 2018 (voluntary

termination). The Counterparty must give advance notice to the MNB of its intention to close the transaction voluntarily by at least 6 working days before the closing date. The MNB provides an indicative valuation at the Counterparty's request prior to the initiation of termination.

The MNB maintains a margin account for the Counterparty and evaluates the transactions concluded in the context of MLS1 and MLS2 daily. The MNB offsets the potential future adverse shift in the value of the LIRS transactions through the margin account.

The Counterparty's margin account balance must correspond to the amount calculated as follows: the MNB manages the future potential valuation changes by the initial margin part and the actually incurred valuation changes by the variation margin part. The initial margin values – applicable to the remaining term of the transactions – are summarised in the table below.

Initial margin value of the LIRS transactions

Maturity	Margin %
0–1 year	0.5
1–2 years	1

The margin is calculated based on the following formulas:

$$M_i = \frac{NPV_{fixleg,i}}{c_i} * (c_i + s_i) + NPV_{float.leg,i} + N_i * h_i$$

$$M = \sum_i M_i$$

where

M is the margin account balance expected in the context of the IRS, by Counterparty

M<sub>i</sub> the margin account balance part expected in the context of the i<sup>th</sup> IRS

NPV<sub>fixleg,i</sub> is the present value of the i<sup>th</sup> IRS' fixed rate leg

c<sub>i</sub> is the interest rate of the i<sup>th</sup> IRS' fixed rate leg in basis points

s<sub>i</sub> is the difference between the interest rate of the i<sup>th</sup> IRS' fixed rate leg and the market reference rate prevailing at the start of the transaction, in basis points

NPV<sub>float.leg,i</sub> is the present value of the i<sup>th</sup> IRS' floating rate leg

$N_i$  is the nominal value of the  $i^{\text{th}}$  IRS

$h_i$  is the multiplier applicable to the maturity of the  $i^{\text{th}}$  IRS, which may take the values shown in the table above.

### *III. The lending commitment*

By participating in the tenders the Counterparty undertakes to comply with the condition pertaining to net lending to micro, small and medium-sized non-financial enterprises as well as self-employed persons during the term of the transaction in each calendar year, that is, in line with the LIRS volume used during the term of the LIRSs in the framework of MLS1 and MLS2, it ensures in each calendar year that the value of the reference credit aggregate indicator, based on the formula below, reaches 25 per cent of the aggregate nominal value of the LIRSs used in the framework of MLS1 and MLS2 (lending commitment).

$$Indicator_t = \sum_{n=0}^{11} Tr_{t-n} - \sum_{n=0}^{11} El_{t-n} - 0.25 * \sum_{n=0}^{11} NHP_{t-n}$$

where

$Tr_{t-n}$ : The balance of the loans disbursed to micro, small and medium-sized enterprises as well as self-employed persons during the period preceding the reference period by  $n$  months and repaid by them during the same period, based on reports SF07HT, SF07HA, SF07HB according to the MNB Decree and the consolidated equivalent of these reports (K7HT, K7HA, K7HB reports), where  $n=0,1,2,\dots,11$ .  $t$ =December of the respective calendar year.

At the initiative of the Counterparty the MNB leaves the part of redemption volumes out of consideration that was generated from prevailing non-performing stocks upon inspection of the indicator. The amount of redemption volume left unconsidered is determined by the MNB on the basis of the report of the Counterparty detailed in the Annex (NPLKKV) and all other data accessible to the MNB.

Furthermore, when assessing the reference indicator, the MNB will take into account, based on data provided by an institution having a legal relationship of intermediary with the Counterparty, of the credit type financial facilities (such as loan, leasing provided by the credit institution on its own or in credit programmes combined with non-refundable support) provided to micro, small and medium enterprises and self-employed persons, from sources of the European Union available in the Union budget cycle between 2014 and 2020, the outstanding balance of 75 per cent of principal lent related to transactions referred by the Counterparty (referred

transactions) and completed in the given period, on the one hand, and the repayment of principal completed in the same period on the other hand.

*El<sub>t-n</sub>*: Gross value of the performing outstanding lending to micro, small and medium-sized enterprises as well as self-employed persons, sold *n* months before the reference period based on reports with table code SF07HT, SF07HA, SF07HB according to the MNB Decree, onwards and the consolidated version of the same reports (reports K7HT, K7HA and K7HB). *n*=0,1,2,...,11, where *t*= December of the respective calendar year.

In order to eliminate the exchange rate effect, the forint equivalent of the disbursements, repayments and sold items denominated in foreign currency is calculated at the same exchange rate, which is achieved by dividing it with the average (quarterly) exchange rate applicable to the reporting period and multiplying it with the average exchange rate valid for the first quarter of the year 2016.

*NHP<sub>t-n</sub>*: The volume of loans disbursed to micro, small and medium-sized enterprises as well as self-employed persons *n* months before the reference period within the framework of the Funding for Growth Scheme and the Funding for Growth Scheme + based on report AL8, where *n*=0,1,2,...,11. *t*= December of the respective calendar year.

The lending commitment must be satisfied on a consolidated basis, as set out in the related reports; credit institutions forming part of the list of eligible MNB counterparties must satisfy the conditions jointly with their affiliates. In the case of Counterparties in which the Hungarian State has a qualifying holding, the lending commitment shall be satisfied exclusively in respect of the credit institution and its own affiliated companies. Cooperative credit institutions keeping their account with the Magyar Takarékszövetkezeti Bank Zrt. may comply with the lending commitment in a consolidated manner with the Magyar Takarékszövetkezeti Bank Zrt.

If the LIRS stock of a Counterparty arising from MLS2 transactions reaches its LIRS stock existing on the last day of the month preceding the month of the tender, then the MNB shall treat that Counterparty as a Counterparty committed to dynamic lending, thus in the Notice and in the notice on the preferential deposit placement options for Credit Institutions participating in Phase 2 of the Market-Based Lending Scheme the different rules defined for such a Counterparty shall be applicable.

#### *IV. Verification of the lending commitment*

The MNB will verify compliance with the lending commitment annually, in arrears, based on data reports with codes SF07HT, SF07HA, SF07HB, as defined in the MNB Decree, the consolidated equivalents of these data reports (data reports K7HT, K7HA, K7HB), furthermore, the annual data report with AL8 ID code and detailed in the Annex, submitted following the last quarter of the calendar year (NPLKKV). The first verification will be conducted in February 2018. The MNB will assess in the verification what is the percentage of compliance by the Counterparty with its lending commitment in the calendar year preceding the verification. In the case of non-compliance with the lending commitment, the MNB shall become entitled to assess the external circumstances and the actions of the Counterparty. After the verification of the given year, the MNB will notify non-compliant Counterparties by e-mail, until the last working day of February.

When assessing compliance with the lending commitment, the MNB will determine the ineligibility ratio of the Counterparty. The ineligibility ratio shows the degree of the shortfall in the Counterparty's actual net lending in the given calendar year of the net lending value it has undertaken by concluding the LIRS transaction (stipulating that the ratio is not negative and may not exceed 100 per cent):

$$\text{ineligibility ratio} = \frac{(LIRS_t * 0.25) - Indicator_t}{(LIRS_t * 0.25)}$$

Where

$LIRS_t$ : Nominal value of the LIRS stock existing at the end of the relevant period.  $t$ = December of the calendar year.

The MNB undertakes to announce at least one auction, but shall be entitled to announce further auctions in addition to that. The maturity of LIRS transactions concluded at any tender will be 28 February 2019.

If new lending by the Counterparty does not reach at least 50 per cent of the lending level committed in the given calendar year according to the Notice, or 75 per cent thereof according to the Notice in the case of Counterparties with a commitment to dynamic lending, then the MNB will regard as ineligible to use the LIRs concluded under the MLS1 and according to the Notice and it will close the LIRs of the Counterparty concluded under MLS2 in full (involuntary termination), furthermore, the Counterparty shall pay a penalty to the MNB corresponding to the realised income content.

The realised income content in respect of the calendar year preceding the verification (the ineligible period) shall be the value of the difference between the closing interest rate of the given transaction and the fixed interest rate for the period between March of the calendar year preceding the verification and the February of the calendar year of the verification, increased by the interest accrued on it at the base rate (uncapitalised), to be calculated by the following formula:

$$\text{Realised income content} = -FV \left( \frac{CF_{fixleg,i}}{c_i} * s_i \right)$$

Where

- $c_i$  is the interest rate of the  $i^{\text{th}}$  IRS' fixed rate leg in basis points
- $s_i$  is the difference between the interest rate of the  $i^{\text{th}}$  IRS' fixed rate leg and the market reference rate prevailing at the start of the transaction, in basis points
- FV is the given amount increased by the prevailing central bank base rate from the due date until the value date of the closing
- $CF_{fixleg,i}$  is the cash flow of the  $i^{\text{th}}$  IRS' fixed rate leg due at the end of February of the calendar year of the verification

The MNB calculates the closing value of the LIRS based on the following formula:

$$\text{Closing value} = \frac{NPV_{fixleg,i}}{c_i} * (c_i + s_i) + NPV_{float.leg,i}$$

Where

- $c_i$  is the interest rate of the  $i^{\text{th}}$  IRS' fixed rate leg in basis points
- $s_i$  is the difference between the interest rate of the  $i^{\text{th}}$  IRS' fixed rate leg and the market reference rate prevailing at the start of the transaction, in basis points
- $NPV_{fixleg,i}$  is the present value of the  $i^{\text{th}}$  IRS' fixed rate leg
- $NPV_{float.leg,i}$  is the present value of the  $i^{\text{th}}$  IRS' floating rate leg

If the new lending of the Counterparty reaches 50 per cent of its lending commitment according to the Notice in the given calendar year, or in the case of a Counterparty committed to dynamic lending, 75 per cent thereof, but falls short of 100 per cent, then the MNB regards the Counterparty as partially ineligible to use the LIRSs taken under MLS1 and MLS2. In this case the Counterparty

shall pay a penalty to the MNB corresponding to the undue realised income content, being the product of the realised income content and the ineligibility ratio.

The Counterparty shall pay the penalty to the MNB by authorising the MNB to debit the Counterparty's settlement bank account – subject to prior notice to the Counterparty – within 30 days from the assessment of the penalty. If the Counterparty's MNB forint settlement account does not provide sufficient cover for the debit entry, the MNB shall – without the Counterparty's separate request, but subject to simultaneous notification – shall provide the Counterparty with an overdraft up to the required amount. The repayment of this overdraft shall become due simultaneously with the disbursement. The interest rate on this overdraft shall be the double of the prevailing central bank base rate; the MNB charges no default interest on the overdraft.



## V. Detailed parameters and technical criteria of the MLS2 tender

<b>Name of the transaction</b>	A forint floating interest rate swap conditional on lending activity (LIRS), provided in Phase 2 of MLS.
<b>Date, place and contents of notice/invitation</b>	The MNB will announce the tender on Reuters NBHO2 and Bloomberg NBH5 at 12:00 pm on the tender day. The invitation defines the transaction date, the fixed rate, the spread on the floating interest rate applied in the transaction, the floating interest rate of the first period, the announced quantity and the interest rate applicable upon the termination of transaction.
<b>Eligible counterparties</b>	Credit institutions participating in MLS1, having an LIRS stock on the last day of the month preceding the month of the tender.
<b>Maturity</b>	28 February 2019
<b>Proposed by</b>	Counterparty
<b>Business hours for receiving bids</b>	On tender days between 12:00 pm and 1:00 pm
<b>Content and formal requirements for the bids</b>	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 interest rate specified as a percentage rounded to the second decimal place
<b>Number of bids accepted from any bidder</b>	1
<b>Offer limit</b>	At least HUF 100 million per bid, as an integer multiple of HUF 10 million
<b>Corrections</b>	The last bid is valid among the amended bids submitted within the window of acceptance.
<b>Bid increment</b>	HUF 10 million
<b>Date, place of announcements</b>	On the day of the tender at 3:00 pm on Reuters' NBHO2 and Bloomberg's NBH5
<b>Contents of the announcement</b>	Amount of the bids submitted, amount of the bids accepted

<b>Time of daily revaluation and margin account transactions</b>	The Counterparty will receive notification in the form of a SWIFT message, time of account transactions: until the closing of VIBER.
--	--

The "Terms and Conditions of the Operations of the Central Bank in Forint and Foreign Currency Markets" shall be valid for any matters not regulated herein.

Budapest, 7 June 2017

MAGYAR NEMZETI BANK

## *Annex – NPLKKV report: instructions for completion*

At the initiative of the Counterparty, upon inspection of the reference credit aggregate indicator the MNB leaves out of consideration the part of redemption volumes calculated in reports SF07HT, SF07HA, SF07HB according to the MNB decree and in their consolidated versions (reports K7HT, K7HA and K7HB) that are related to the prevailing non-performing resident SME stocks, if the Counterparty makes the required data available for the MNB using the report in this Annex, in a manner and by the deadline specified in this Annex.

For the Counterparty where the review of compliance is completed on a consolidated basis cumulatively and is based on reports with identification codes K7HT, K7HA and K7HB, report NPLKKV shall also be done in a consolidated manner.

The report shall be submitted by Counterparties that concluded LIRs, and who initiate that the MNB should not consider the amount of the redemption volume of non-performing stocks upon the review of the reference credit aggregate indicator.

Reports shall be submitted through the KAP system once every calendar quarter, by the last day of the month following the relevant quarter. The classification and value definitions of the report are identical with those applied in reports SF07HT, SF07HA, SF07HB and in their consolidated equivalents (reports K7HT, K7HA and K7HB) (this way e.g. the non-performing loan, SME classification, the gross redemption volumes, the definition of gross opening and closing stocks in particular).

Details regarding the volumes and transactions of the residents' non-performing SME transactions must be recorded in a breakdown by quarters. The transaction should be reported for first time from the quarter, when the transaction became non-performing.

### **The rows in the template**

Transactions with a gross outstanding principal not exceeding HUF 100 million shall be reported together in row ***NPLKKV2 Not detailed***. Volumes over the maximum amount shall be reported by contracts on a stand-alone basis, in rows ***NPLKKV3 Detailed in total***.

### **The columns in the template**

In the opening stock in the reference quarter [columns d1), e1), f1), g1)] only transactions shall be reported that were reclassified as non-performing at the end of the previous quarter.

Redemptions in the reference quarter [columns d2), e2), f2) and g2)] contain the amount of redemption of transactions that are included in the opening stock and became non-performing in the specified quarter.

