



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

I. Description of the transaction and access conditions

The Magyar Nemzeti Bank (MNB) is introducing a floating-rate-payer forint interest rate swap (IRS) facility with terms of three and five years starting from 16 June 2014 and one with a term of ten years starting from 24 July 2015, under the terms and conditions set out in this Notice. The facilities are aimed at allowing the credit institutions undertaking the conditions to manage and mitigate their interest rate risk.

Under the facility, 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 in the tender notice. The MNB computes the 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 announces the maturity of interest rate swaps at the time of announcing tenders. The MNB will conduct two variable-price tenders of the three and five-year maturities every other Thursday, with the following Wednesday being the value date. The first auction was held on 26 June 2014. At ten-year maturity, similarly to the other two maturities, the MNB will conduct a floating-rate tender on Thursdays, aligned with the auctions of ten-year benchmark fixed interest government bonds, with a Wednesday value date.

The MNB defines a minimum fixed interest rate for specific tenders 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. If the accepted quantity is lower than the amount of bids submitted, the MNB decides on the acceptance of bids after ranking them by price for each maturity. If the satisfaction of all bids linked to the lowest eligible 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 maximum accepted quantity is reached.

The tenders are open to resident credit institutions (Counterparties) subject to reserve requirements with direct VIBER or BKR membership which commit to raise the adjusted value of their own holdings eligible in this transaction in line with the interest rate swap volume used during the term of the transaction, on a three month average based on the following formula:

$$(X_{t-1} + X_t + X_{t+1})/3 \geq \alpha * \{\text{Base holdings} + (\text{IRS}_{t-1} + \text{IRS}_t + \text{IRS}_{t+1})/3\}$$

where

- "X_t": in the case of a Counterparty that opts for Base1, the Counterparty's own adjusted holdings at nominal forint value on the last day of month t calculated using the exchange rate prevailing on 31 March 2014, while in the case of a Counterparty that chooses Base2, the Counterparty's own adjusted holdings at nominal forint value on the last day of month t calculated using the exchange rate prevailing on 31 May

2015. Eligible securities must satisfy the criteria defined in the “Terms and Conditions of the Operations of the Central Bank in Forint and Foreign Currency Markets” effective on 31 March 2014 in the case of Base1 and on 1 March 2015 in the case of Base2. Securities issued by the MNB and own-issued securities, as well as those issued by affiliates are not included in holdings. Securities received in the context of delivery repo transactions, securities lending and Sell&Buy-Back transactions are deducted from holdings, while securities handed over in the context of these transactions are added to holdings. Local government bonds as defined in II./6.1.2. of the “Terms and Conditions of the Operations of the Central Bank in Forint and Foreign Currency Markets” are deducted from holdings.

- “Base1 holdings”: average holdings of the Counterparty as at the end of January 2014, February 2014 and March 2014 determined in the above manner.
- “Base2 holdings”: average holdings of the Counterparty as at the end of March 2015, April 2015 and May 2015 determined in the above manner.
- “ IRS_t ”: aggregate nominal value of the Counterparty’s IRS volume at the end of month t held vis-à-vis the MNB.
- “ α ”: adjustment factor amounting to 0.99 handling any potential movements in the adjusted securities holdings linked to treasury and liquidity management operations.

Depending on the choice made by the Counterparty that uses the central bank interest rate swap facility, the MNB verifies compliance with the above criteria compared to the Base1 or Base2 holdings. The base period is allowed to be changed once. A Counterparty may notify the MNB about opting for Base2 by sending the scanned version of its declaration bearing its authorised signature in an electronic message to the dsktit@mnbb.hu e-mail address. If the Counterparty fails to do so, the MNB will take Base1 into account upon verifying compliance with the undertaken condition. In order that the MNB take into account the Counterparty’s base amendment request already during the verification due in the given month, the duly signed declaration about changing the base shall be received by the MNB until the 15th of the given month the latest. Otherwise, the amendment can only be taken into account starting from next month’s verification. Base2 may also be chosen by Counterparties that have an outstanding forint IRS holding on the basis of their participation in a tender prior to 15 September 2015; in their case, in terms of the calculation of the criteria of use, the declaration concerning the changing of the base period shall be taken into account in a way that Base2 shall be authoritative for the whole IRS holding, which has already been resorted to.

The MNB verifies compliance with the above criteria every month based on reports E21 and E60. At the three and five-year maturities, the first check took place in October 2014. At that time, the MNB will check the Counterparty’s compliance for August 2014. At ten-year maturity, the first check will take place in October 2015. At that time, the MNB will check the Counterparty’s compliance for August 2015. Affiliates forming part of the list of eligible MNB counterparties must satisfy the above conditions jointly.

Interest rate swaps cannot be terminated at the Counterparty’s initiative prior to the 52nd week following payment. Past the 52nd week following payment, the MNB allows the termination of swaps at the Counterparty’s initiative prior to maturity. In this scenario, Counterparties can terminate the swap subject to providing at least one week in advance a notice given to the MNB through any of the transaction channels defined for bidding in these terms and conditions of tender. The MNB defines the closing value of the transaction on the second value date preceding the termination (T-2) which is then settled among the parties in forint on the value date. By determining the closing value of transaction, the MNB defines the fixed interest rate for the remaining term at a value exceeding the mid interest rate swap rate prevailing on the market at the time of start of the transaction by 2 basis points. The resulting net present value of the corrected cash flows at termination of transaction is determined based on the mid interest rate swap rate prevailing on the market at the time of the termination. The MNB can provide an indicative valuation at the Counterparty’s request prior to the initiation of termination. The MNB is not available in the 30 days following closing value date in relation to the transaction presented in this Notice.

If the access conditions are not met, the MNB will issue a warning letter to the Counterparty and instruct it to promptly meet such conditions. If the access conditions are repeatedly not met, the MNB is entitled to close the

concluded transaction(s) and to exclude the Counterparty from some or all of the MNB's forint or FX transactions serving monetary policy objectives. In the event of repeated non-compliance with the conditions, the MNB will examine the Counterparty's liability. If closing an interest rate swap due to non-compliance with the conditions, the MNB defines the closing value of transaction for the remaining term using a fixed rate exceeding the mid interest rate swap rate prevailing on the market at the time of start of the transaction by 10 basis points, instead of the fixed interest rate paid under the interest rate swap.

The MNB maintains a margin account for the Counterparty and evaluates the transactions concluded in the context of tenders daily. The margin requirement per transaction is equal to the net present value at the termination of transaction plus the amount needed to offset any potential adverse shifts in transaction value from the Counterparty's perspective. The required value due to potential shifts is the product of the transaction's nominal value and a parameter defined based on the remaining transaction term (see table).

Remaining term	Multiplier (%)	Remaining term	Multiplier (%)
0-1 year	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+ years	3.0	9-10 years	4.0

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 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 day of the month.

The "Terms and Conditions of the Operations of the Central Bank in Forint and Foreign Currency Markets" shall govern the transaction terms not specified herein.

II. Detailed parameters and technical criteria

Type of transaction	Floating rate forint interest rate swap
Date, place and contents of notice/invitation	The MNB will announce the tender every two weeks at 12:00 pm on Thursdays and, at ten-year maturity, on Thursdays, aligned with the auctions of ten-year benchmark fixed interest government bonds, on Reuters NBH0 and Bloomberg NBH5. The first auction at the three and five-year maturities was held on 26 June 2014. The invitation defines the transaction date, the interest period starting dates, the last day of the interest period, the interest payment settlement date, the date for defining floating interest, the floating interest rate of the first period, the minimum eligible fixed rate, the announced quantity and

	the interest rate applicable upon the termination of transaction.
Eligible counterparties	Resident credit institutions subject to reserve requirements with direct VIBER or BKR membership committing to the terms set out herein by participating in the tender.
Maturities	Defined in the tender notice.
Proposed by	Counterparty
Business hours for receiving bids	Every other Thursday, between 12:00 pm and 12:20 pm, aligned with the auctions of three, five and ten-year fixed interest government bonds
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, an 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
Date and place of announcements	On the day of the tender at 1:00 pm on Reuters' NBH0 and Bloomberg's NBH5
Contents of announcements	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	Time of account transactions: between 12:00 pm and VIBER closing

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

Budapest, 15 September 2015
MAGYAR NEMZETI BANK