

Notice on the terms and conditions of the preferential deposit facility linked to the FGS *fix* programme and the Bond Funding for Growth Scheme¹

I. Description of the transaction, terms of use

At the beginning of 2019 the Magyar Nemzeti Bank (MNB) launched the Funding for Growth Scheme Fix (FGS *fix*) and on 1 July 2019 the Bond Funding for Growth Scheme (BGS). With the preferential deposit instrument described in this Notice the MNB intends to sterilise the surplus liquidity resulting from the FGS *fix* and BGS programmes at the central bank base rate.

Any credit institution (hereinafter: Counterparty) shall be eligible to take recourse to the preferential deposit facility if it meets at least one of these conditions:

- It participates in the FGS *fix* as a direct counterparty;
- It holds securities from the series of securities purchased by the MNB under the BGS.

The preferential deposit account is a deposit account separated from the Counterparty's bank account, where the Counterparty can place an overnight (O/N) deposit on any VIBER business day specified in the settlement calendar, solely by the way of a transfer from its bank account held with the MNB. Deposits placed on this preferential deposit account are not part of the reserve requirement system; Counterparties shall comply with the reserve requirement in accordance with MNB Decree No. 10/2005 (VI. 11.). Counterparties may initiate placing preferential deposit transactions via SWIFT messages. The placed preferential deposit and the amount of the interest due is credited to the Counterparty's bank account upon maturity; i.e. before the opening of VIBER on the first central bank working day following the deposit placement, in accordance with the business terms and conditions for bank accounts managed by the Magyar Nemzeti Bank and the settlement of forint and foreign exchange transactions.

By signing the Framework Contract linked to the FGS *fix*, the Counterparty entrusts the MNB – without any further action – to open a preferential deposit account for the Counterparty. A preferential deposit account shall be opened automatically for any Counterparty that has no preferential deposit account linked to the FGS *fix* but holds securities which meet the criteria defined in the Notice on the terms and conditions of the BGS based on Report E04 specified in the relevant MNB Decree. From 1 March 2019 until the MNB's revocation of the preferential deposit facility, the MNB shall provide the opportunity to place deposits from bank accounts held with the

¹ Consolidated with the modifications (related to the Bond Funding for Growth Scheme) effective from 1 July 2019..

MNB. The preferential deposit account may be cancelled with a revocation by the MNB, its balance shall be transferred to the Counterparty's bank account.

At the end of the third working day (T-3) preceding the first working day of the each month (T), the MNB sets an upper limit for the availability of the deposit facility, which is valid on the days of the given month. Daily deposit placements shall not exceed this limit (hereinafter: daily limit). The whole submitted bid will be rejected if the resulting deposit holdings would exceed the value of the daily limit.

The MNB determines the daily limit for the given month as the sum of two factors:

$$\text{Daily limit} = \text{FGS limit} + \text{BGS limit}$$

The *FGS limit* to be applied in the given month equals the actual value of the Counterparty's refinancing loans from the MNB under the FGS *fix* as at the end of the third working day (T-3) preceding the first working day of the given month (T). The *BGS limit*, in turn, is the limit calculated as detailed below based on the value of the Counterparty's share in the purchases of all Counterparties from the series of securities purchased by the MNB under the BGS by the end of day (T-5)th, projected to the MNB's purchases.

The MNB defines the *BGS limit* applicable to institution j in the given month according to the following formulas:

$$\text{BGS limit}_j = \alpha_j * \sum_i K_{i,MNB}$$
$$\alpha_j = \sum_i K_{i,j} / \sum_j \sum_i K_{i,j}$$

where

i: specific series of securities purchased by the MNB under the BGS,

j: counterparty credit institutions which, based on Report E04, hold and report under their own code securities from the series of securities purchased by the MNB under the BGS,

$K_{i,j}$ = based on Report E04, credit institution j's monthly² average portfolio as at the end of the fifth working day (T-5) preceding the first working day of each month (T) of the specific series of securities, reported under their own code number and calculated at face value,

$K_{i,MNB}$ = the MNB's cumulated purchases of securities series i calculated at the purchase price reduced by cumulated sales calculated at the sales price and by the maturities, as at the end of the fifth working day (T-5) preceding the first working day of each month (T),

α_j : share of credit institution j in the aggregate portfolio $K_{i,j}$.

² Arithmetic mean computed from the first working day of the current month to the second working day preceding the limit calculation (T-5) based on the data available on day T-4.

If the MNB has already purchased securities under the BGS while the value of the BGS limit cumulated for each Counterparty is zero, the additional limit allocated to quantity $\sum_i K_{i,MNB}$ is distributed proportionately among the Counterparties with FGS limits; in other words, these quantities shall be added to the daily limits calculated in accordance with the above.

The Counterparty is notified through GIROHáló of the value of the daily limit for the given month – separately including the *FGS* and the *BGS limits* – after the closure of VIBER on the third working day preceding the first working day of the given month (T-3).

If the *FGS limit* set by the MNB for the given month differs from the limit calculated by the Counterparty based on its own records, the Counterparty may submit a request for modification of the daily limit until the closure of VIBER on the next working day (T-2). This request shall be submitted in an official letter sent to the NHPupdate@mnbb.hu email address. If the modification request was granted, the MNB notifies the Counterparty of the modified value of the daily limit through GIROHáló by the end of the working day preceding the first working day of the given month (T-1).

The MNB shall not take into consideration any modification to Report E04 for the given month unless it was initiated by the data supplier KELER Zrt. and the data modification took place no later than two working days before the beginning of the given month (T-2). If the BGS limits need to be modified after the data modification, the MNB shall notify the Counterparties concerned of the modified value of the daily limit through GIROHáló by no later than the end of the last working day preceding the beginning of the given month (T-1).

The MNB reserves the right to modify the *FGS limit* – even during the month – if it learns that under the terms and conditions of the *FGS fix*, the Counterparty was not eligible to take recourse to a part or all of its refinancing loans granted under the *FGS fix* programme. The MNB informs the Counterparty about the modification of the limit on the working day preceding the day of the modification.

The interests on the preferential deposit shall be calculated based on the end-of-day closing balance of the preferential deposit account. The interest rate of the preferential deposit equals to the central bank base rate effective on the day of the deposit placement. The MNB calculates the interest amount payable on the preferential deposit according to the following formula:

$$\frac{\text{deposit amount} \times \text{deposit rate} \% \times \text{number of deposit interest days}}{36000}$$

, where the deposit rate is the central bank base rate as at the end of the day.

Any conditions not regulated in this Notice are subject to the provisions of the Terms and Conditions of the Central Bank's Operations in Hungarian Forint and Foreign Exchange Markets, the Framework Contract of the Funding for Growth Scheme Fix and the Notice thereon, and the Notice on the Terms and Conditions of the Bond Funding for Growth Scheme.

II. Detailed parameters and technical requirements

Description of the transaction	Standing preferential deposit facility
Maturity	Overnight
Date and place of notice/invitation	Standing facility
Eligible counterparties	Resident credit institutions subject to reserve requirements that are direct members of the Hungarian real-time gross settlement system (VIBER) or direct members of the Interbank Clearing System (BKR) which participate as direct counterparties (as Credit Institutions) in the Funding for Growth Scheme Fix, and/or hold securities purchased by the MNB under the BGS.
Initiator	Counterparty
Business hours for receiving bids	Identical with the business hours of the O/N deposit facility
Formal requirements and content of the bids	In SWIFT MT298 SMT550 messages as specified in Annex 9 to the business terms and conditions for maintaining bank accounts, or in accordance with the format defined in Annex 12 to the business terms and conditions for bank accounts, in letter, encrypted fax or through the “viber” channel of the GIROFile service of GIROHáló.
Maximum number of offers per bidder	No limit
Transaction limit	In accordance with the daily limit
Corrections	not permitted
Financial settlement / date of settlement	T (day of the transaction)

Budapest, 1 July 2019

MAGYAR NEMZETI BANK