

Unofficial translation, for the official version

please consider the Hungarian one



Notice on the terms and conditions of the preferential deposit facility linked to the Funding for Growth Scheme Fix, Funding for Growth Scheme Go! programmes and the Bond Funding for Growth Scheme

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), followed by the Funding for Growth Scheme Go! in April 2020. With the preferential deposit instrument described in this Notice the MNB intends to sterilise the surplus liquidity resulting from the FGS *fix*, FGS *Go!* and BGS programmes at the central bank base rate.

Within the preferential deposit account, the Preferential deposit Plus limit will be distinguished from 4 May 2020 to 2 January 2022. In this period, the MNB will offer a preferential annual interest rate of 4% on deposits up to this limit. The detailed parameters of interest payment are included in Section II of the Notice.

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 participates in the FGS *Go!* as a direct counterparty;

The holder of the securities belonging to the security series purchased by the MNB under BGS, or whose affiliated company complying Terms and Conditions of the Central Bank's Operations in Hungarian Forint and Foreign Exchange Market holds securities belonging to the security series purchased by the MNB under the BGS, which is a credit institution subject to reserve requirements (hereinafter: correspondent group member), pursuant to MNB Decree No 10/2005 (VI. 11.) on the Calculation, the Method of Allocation and Placement of the Minimum Reserve.

By signing the Framework Contract linked to the FGS *fix* and FGS *Go!*, 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* or FGS *Go!* but holds securities¹ which

¹ In their own right or correspondent group member

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, but at least until the end of December 2021, the MNB shall provide the opportunity to place deposits from bank accounts held with the 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 (T) day of each month, the MNB sets an upper limit for the availability of the deposit facility, which is valid on the days of the reference 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 reference month as the sum of two factors:

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

The *FGS limit* to be applied in the reference month equals the actual value of the Counterparty's refinancing loans from the MNB under the FGS *fix* and FGS *Go!* as at the end of the third working day T-3 preceding the first working day of the given month (T). The *BGS limit* will be determined in respect of the series of securities purchased by the MNB under BGS until the end of day T-5 based on the value of Client's share within all purchases made by the Client in relation to the purchases made by the MNB with the proviso that from May 2020 until December 2021 upon calculating the daily limit, the limit amount calculated on the basis of the securities issued under BGS not later than on 7 April 2020, between 8 April 2020 and 7 July 2020 and after 7 July 2020 will be differentiated,² the sum of which amounts will be the BGS limit.

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

$$NKP \text{ limit}_j = \alpha_j * \sum_i K_{i,MNB} + \beta_j * \sum_l K_{l,MNB}$$

$$\alpha_j = \sum_i K_{i,j} / \sum_j \sum_i K_{i,j}$$

$$\beta_j = \sum_l K_{l,j} / \sum_j \sum_l K_{l,j}$$

where:

² The limit is determined for the respective series based on the date of the first issuance.

i: specific series of securities purchased by the MNB under the BGS until 7 April 2020³,

l: specific series of securities purchased by the MNB under the BGS after 7 April 2020⁴,

j: counterparty credit institutions which, based on Report E04, in their own right or via a correspondent group member, 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 (in its own right or via a correspondent group member⁵) monthly⁶ average portfolio as at the end of the fifth working day (T-5) preceding the first working day of the reference month (T) of the specific series of securities issued until 7 April 2020⁷, reported under their own code number and calculated at face value,

$K_{l,j}$ = based on Report E04, credit institution *j*'s (in its own right or via a correspondent group member) monthly average portfolio as at the end of the fifth working day (T-5) preceding the first working day of the reference month (T) of the specific series of securities issued after 7 April 2020⁸, 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 the reference month (T),

$K_{l,MNB}$ = the MNB's cumulated purchases of securities series *l* 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 the reference month (t),

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

β_j : share of credit institution *j* in the aggregate portfolio $K_{l,j}$.

If the MNB has already purchased securities under the BGS until or after 7 April 2020, while the value of any BGS limit cumulated for each Counterparty is zero, the additional limit allocated to quantity β and/or $\sum_i K_{i,MNB}$ is distributed proportionately among the Counterparties with FGS

³ From 1 July 2021 in respect of portfolios issued until 7 July 2020.

⁴ From 1 July 2021 in respect of portfolios issued after 7 July 2020.

⁵ The range of affiliated companies is revised on the last working day of the second month of each quarter, while the range of correspondent group members is determined on the last working day of each month.

⁶ From 1 July 2021 in respect of portfolios issued until 7 July 2020.

⁷ Arithmetic mean computed from the first working day of the reference month to the second working day preceding the limit calculation (T-5) based on the data available on day T-4.

⁸ From 1 July 2021 in respect of portfolios issued after 7 July 2020.

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 reference 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 reference 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@mnb.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 reference 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 reference 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 reference 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* and/or *FGS Go!*, the Counterparty was not eligible to take recourse to a part or all of its refinancing loans granted under the *FGS fix* and *FGS Go!* programmes. In such cases the MNB informs the Counterparty about the modification of the limit on the working day preceding the day of the modification.

II. Definition of the basis of interest payment, way of interest payment

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 way of a transfer from its bank account with the MNB. Deposits placed on this preferential deposit account are not part of the reserve requirement system; Counterparties shall comply with the reserve requirements in line with MNB Decree No. 10/2005 (VI. 11.). Counterparties may initiate preferential deposit transactions via SWIFT messages.

The preferential deposit and the amount of the interest due is credited to the Counterparty's bank account upon maturity; i.e. before VIBER opens, on the first central bank working day following the deposit, in accordance with the business terms and conditions for bank accounts with the Magyar Nemzeti Bank and the settlement of forint and foreign exchange transactions.

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:

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

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

The extra interest calculation due on a preferential deposit is based on the Preferential deposit Plus balance in the reference month. The interest is calculated after the reference month, from the monthly average of deposits not exceeding the limit of the Preferential deposit Plus in the reference month.

The MNB defines the limit for the Preferential deposit Plus in the period between 4 May 2020 and 30 June 2021 as follows:

Preferential deposit Plus limit = FGS Go! limit + the part of the BGS limit resulting from issuance following 7 April 2020;

which shall be modified in the period from 1 July 2021 to 2 January 2022 as follows:

Preferential deposit Plus limit = specific part of FGS Go! limit + the part of the BGS limit resulting from issuance following 7 April 2020;

where:

Specific part of the FGS Go limit: the outstanding volume of the refinancing loans granted to the credit institution in relation to investment loan and lease contracts (not including transactions with interest subsidy) concluded between 7 July 2020 and 31 December 2020 under FGS Go (and reported to the MNB in data supply AL8).

The Client is informed about the total amount of the Preferential deposit Plus for the reference month, on the third business day before the first working day in the reference month (T-3) after the VIBER closes, through the GIRO net.

The MNB uses the following formula to calculate the extra interest due on the portfolio of the Preferential deposit Plus in the reference month:

$$\frac{\text{Preferential deposit Plus balance} * \text{extra interest rate}\% * \text{number of days in reference period}}{36000}$$

where:

Preferential deposit Plus balance: The minimum of the Client's total amount of Preferential deposit Plus in the reference month and the average amount deposited to the preferential deposit account by the Client in the reference month.

Extra interest rate: The subsidised 4 per cent interest rate of the Preferential deposit Plus, reduced by the average value of the base rate in the reference month.

On the second business day of the month following the reference month, the amount of interest due on the Preferential deposit Plus will be credited to the Client's payment account after the VIBER closes, pursuant to the provisions of business conditions regarding bank accounts with the Magyar Nemzeti Bank and forint and foreign exchange settlements.

The MNB reserves the right to reclaim the extra interest based on FGS refinancing loan portfolio amounts that were not used by the Client to disburse loans to SMEs, or that were used after lending non-compliant to the terms of FGS Go!. The Client pays this extra interest to the MNB by giving authorisation to the Bank to debit the bank account with the MNB with an amount equal to the extra interest that was not used rightfully.

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 or Funding for Growth Scheme Go! and the Notice thereon, and the [Notice on the Terms and Conditions of the Bond Funding for Growth Scheme](#).

III. 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, in the Funding for Growth Scheme Go! and/or hold securities purchased by the MNB under the BGS or whose affiliated companies hold securities belonging to the security series purchased by the MNB under the BGS, which is a credit institution subject to reserve requirements,

	pursuant to MNB Decree No. 10/2005 (VI. 11.) on the Calculation, the Method of Allocation and Placement of the Minimum Reserve.
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, 8 July 2020

MAGYAR NEMZETI BANK