

RISK MANAGEMENT PARAMETERS APPLIED TO ELIGIBLE COLLATERAL ACCEPTED BY THE MNB FROM 3 SEPTEMBER 2018

After reviewing the haircuts and acceptance ratios used in the daily revaluation of collateral, the MNB has changed the acceptance ratios applied, with effect from 3 September 2018.

The MNB has set the size of new haircuts (i.e. those applied for the first time in the end-of-day revaluation of eligible securities on 31 July 2018) in effect from 3 September 2018 by residual maturity and security categories as follows:

| Maturity (years) | L1 | | L2 | | | L3 | | | L4 | | | L5 | L6 | | | L7 | | |
|------------------|-------|-------|-------|-------|------|-------|-------|------|-------|-------|------|-----|-------|-------|-------|-------|-------|-------|
| | Fixed | Zero | Fixed | Zero | Var. | Fixed | Zero | Var. | Fixed | Zero | Var. | | Fixed | Zero | Var. | Fixed | Zero | Var. |
| 0-0,5 | 0,5% | 0,5% | 1,0% | 1,0% | 1,0% | 1,0% | 1,0% | 1,0% | 1,0% | 1,0% | 1,0% | 40% | 3,5% | 3,5% | 3,5% | 4,5% | 4,5% | 4,5% |
| 0,5-1 | 1,0% | 1,0% | 1,5% | 1,5% | 1,5% | 2,0% | 2,0% | 2,0% | 1,5% | 1,5% | 1,5% | | 4,0% | 4,0% | 4,0% | 5,5% | 5,5% | 5,5% |
| 1-3 | 2,5% | 2,5% | 5,5% | 5,5% | 2,5% | 6,5% | 6,5% | 2,5% | 5,5% | 5,5% | 2,0% | | 5,5% | 5,5% | 5,0% | 8,5% | 8,5% | 7,5% |
| 3-5 | 4,5% | 4,5% | 9,0% | 9,5% | 3,0% | 10,5% | 11,0% | 3,5% | 9,0% | 9,0% | 2,5% | | 7,0% | 7,0% | 6,0% | 11,5% | 11,5% | 10,0% |
| 5-7 | 6,0% | 6,0% | 12,0% | 13,0% | 4,0% | 14,0% | 14,5% | 4,0% | 11,5% | 12,0% | 3,0% | | 8,5% | 9,0% | 7,5% | 14,5% | 15,0% | 12,5% |
| 7-10 | 7,5% | 8,0% | 15,5% | 17,0% | 5,0% | 18,0% | 19,5% | 5,0% | 15,0% | 16,0% | 4,0% | | 11,0% | 11,5% | 9,0% | 18,5% | 20,0% | 16,0% |
| 10- | 9,5% | 11,5% | 20,0% | 23,5% | 6,0% | 22,5% | 26,0% | 6,5% | 19,0% | 22,0% | 5,0% | | 14,0% | 15,5% | 11,0% | 24,5% | 28,0% | 20,5% |

where

Security category L1: comprises Hungarian government securities for which primary dealers provide two-way quotes on a continuous basis as well as securities previously belonging to this category but excluded as they were nearing maturity, and highly liquid publicly issued forint-denominated fixed or zero coupon Hungarian government securities with a residual maturity of maximum three months.

Security category L2: comprises forint-denominated corporate bonds and mortgage bonds with contracted market makers accepted by the MNB, bonds issued by the National Deposit Insurance Fund and the Investor Protection Fund under the unconditional payment guarantee of the Hungarian State, as well as the securities where the payment obligations arising from the security are covered by the Hungarian State's unconditional payment guarantee to the debit of the central budget in accordance with the provisions of the law.

Security category L3: comprises unquoted – or the quotes of which are not accepted by the MNB – forint-denominated corporate bonds and mortgage bonds, bonds issued by the National Deposit Insurance Fund and the Investor Protection Fund under the unconditional payment guarantee of the Hungarian State, as well as the securities, where the payment obligations arising from the security are covered by the Hungarian State's unconditional payment guarantee to the debit of the central budget in accordance with the provisions of the law.

Security category L4: comprises forint-denominated Hungarian government securities not included in category L1. The variable coupon and inflation-indexed forint-denominated government securities are included in this category.

Security category L5: comprises forint and foreign currency-denominated securities according to point 6.1.1. of the Terms and Conditions of the Operations of the Central Bank in Forint and Foreign

Currency Markets with limited marketability with institutional investors under the Act on Capital Market.

Security category L6: comprises Hungarian government securities denominated in currencies other than the forint. In the case of Hungarian government securities denominated in currencies other than the euro, a 1 percentage point additional haircut is added to those applied to security category L6.

Security category L7: comprises corporate bonds denominated in currencies other than the forint. In the case of corporate bonds denominated in currencies other than the euro, a 1 percentage point additional haircut is added to those applied to security category L7.

A bond is a zero coupon bond if it has only one cash flow element.

Inflation-indexed bonds are treated as fixed coupon securities according to the type of interest.

The initial price underlying the acceptance ratios – depending on the market of the given securities group – is the discounted reference gross bid market price of the security on the business day preceding the settlement day of the central bank transaction or the price calculated on the basis of the yield curve estimated by the MNB (fair-value).

The money market counterparty may initiate at the MNB the (re)classification of the securities to category L2 by sending the relevant documents in a letter addressed to the MNB's Directorate Money and Foreign Exchange Markets or in electronic document format with at least advanced electronic signature to the pdftit@mnbb.hu address. The MNB makes the decision on the classification of the securities to Security category L2 considering in particular the following securities liquidity aspects:

- number of market makers;
- independence of the market makers from the issuer;
- minimum quote size (the volume at the given price for which the market maker commits to conclude deals);
- maximum simultaneous bid and offer yield spread of the quotes;
- mandatory minimum quotation hours.

If based on the documentation submitted by the money market counterparty the MNB accepts the quote for the securities and thereby the classification of the securities to Security category L2, the MNB will determine the applied acceptance ratio based on the haircuts applicable to Security category L2 from the sixth working day after the submission of the documents confirming the quote, at the latest.

From 2 September 2019, in pledging a mortgage bond to the MNB issued by the counterparty or its affiliated undertaking, an 18 percentage point additional haircut will apply on top of the haircut values published in the above haircut-table if the committed overcollateralisation level of the mortgage bond programme is not less than 10 percent, and a 20 percentage point additional haircut will apply if the committed overcollateralisation is less.

A mortgage bond programme is considered overcollateralised, if the collateral value exceeds or the issuer undertakes an obligation to provide the minimum level of collateral defined in section 14 paragraph 2 of the Act no. XXX. of 1997 on Mortgage Banks and Mortgage Bonds.

Matters not regulated in this announcement shall be governed by the provisions of the Terms and Conditions of the Operations of the Central Bank in Forint and Foreign Currency Markets.

Budapest, 29 June 2018

MAGYAR NEMZETI BANK