

**Business conditions of the conduction of repo transactions
concluded for the purpose of managing the state's temporarily
free financial assets**

Budapest, 28 November 2017

1. Purpose of the repo transactions to be concluded on the basis of these business conditions

In order to manage effectively the state's temporarily free financial assets in accordance with Paragraph (d) of Subsection (1) of Section 13 of Act No. CXCV of 2011 on the economic stability of Hungary ÁKK wishes to keep in a target range the end-of-day stock of the state's temporarily free financial assets, by lending the stock above it, and by withdrawing the resources from the market if further resources are required in order to achieve the minimum target value (this activity hereinafter referred to as: "liquidity management"). One of the means of this liquidity management is the conclusion of active and passive physical delivery repo transactions.

2. Partners

Contract partners qualified as acceptable by ÁKK for this purpose in accordance with specific requirements are entitled to conclude repo transactions for the purpose of liquidity management performed by ÁKK ("Repo Partner").

3. Regulation of the contractual relationship

The acceptance, mutual signing and observing of the Hungarian translation of the European Master Agreement (EMA) framework agreement and its relevant annexes (January 2001 Edition) supported by the European Banking Federation (FBE) and recognised by the Hungarian Banking Federation is a requirement for the participation in repo transactions aiming liquidity management. (In case of a Repo Partner not having a registered office in Hungary the signing of the English language version of the EMA framework agreement's January 2001 Edition was also acceptable. In case of signing an agreement with new Repo Partners ÁKK applies the bilingual version – Hungarian and English together – of the Agreement).

4. Date of market entry by ÁKK

On any working day if required in accordance with the provisions of Section 14. (A day is to be considered as a working day, on which the banks are open for the public in Hungary, and KELER and the National Bank of Hungary have a settlement date.)

5. Type of the transaction to be concluded

The repo transactions aiming liquidity management may be either 'passive' or 'active' repo transactions. In the former case ÁKK is the seller of the government security, in the latter case ÁKK is the buyer of the government security regarding the first leg of the repo transaction. In both cases only physical delivery repo may be concluded (transfer of ownership of a government security with the obligation of repurchase for a definite price on a date defined or to be defined simultaneously with the conclusion of the contract, where the purchaser acquires the government security being the subject of the transaction, and may freely dispose of it during the maturity of the transaction).

6. Maturity

Within the framework of repo transactions aiming liquidity management ÁKK concludes 1-day (Overnight, Tomnext and Spotnext repo), and 1-week, that is 7-day (Spotweek repo) repo transactions.

7. The interest rate of repo transactions

The interest rate of repo transactions aiming liquidity management depends on the bids submitted by Repo Partners, and the bids accepted by ÁKK.

8. Government securities being the subject of repo transactions aiming liquidity management

In case of passive repos

In the framework of passive repo transactions aiming liquidity management ÁKK exclusively sells those publicly issued and in the primary dealer price quotation included¹ Hungarian Government Bonds, whereof remaining maturity exceeds 90 days at the time of concluding the transaction.

In case of active repos

ÁKK accepts any Hungarian Government Bond or Discount Treasury Bill denominated in HUF in case of active repo transactions subject to the following restrictions:

- It must be taken into consideration when defining the maturity of the repo transactions and selecting the government securities being the subject of the transactions, that Hungarian Government Bonds and Discount Treasury Bills may not be the subjects of open repo transactions on the second day - as on a value date - prior to the interest payment and maturity (E-2nd day).

9. Definition of funds (defining the starting price of the government security)

Passive repo

In case of publicly issued Hungarian Government Bonds under price quotation:

The definition of funds takes place on the basis of the most favourable **selling price** specified by the Primary Dealers in the afternoon of the working day before the day of the transaction in the course of their quoting obligation in respect of the given Hungarian Government Bond series (as appearing on pages GDMA/11,12 of the Bloomberg monitor at or around 2.30 p.m. on the same day) by taking into consideration the following:

The level of the applied margin by the Repo Partner may not exceed the level of the respective haircuts applied by ÁKK at the active repos.

¹ Under price quotation the quoting obligation - in accordance with such agency contracts - of the Primary Dealers is to be understood, who have entered into agency contracts with ÁKK in respect of the placement and trading of government securities issued by the Hungarian State.

The level of the starting price is the gross price corresponding to the total of the net price evolving on the basis of the above by applying the margin (considered as percentage points) and the accrued interest regarding the commencement day of the repo transaction.

Active repo

In case of Hungarian Government Securities under price quotation:

The definition of funds takes place on the basis of the most favourable **purchase price** specified by the Primary Dealers in the afternoon of the working day before the day of the transaction in the course of their quoting obligation in respect of the given Hungarian Government Security series (as appearing on page GDMA/11,12 of the Bloomberg monitor at or around 2.30 p.m. on the same day) by taking into consideration the haircuts in the following table.

ÁKK haircut				
Remaining maturity of fixed-rate bonds/interest period of floating-rate bond	<1 year	1-3 years	3-7 years	>7 years
1 day repo	0.0%	0.5%	0.75%	1.0%
1 week repo	0.0%	1.0%	1.5%	2.0%

The level of the starting price is the gross price corresponding to the total of the net price evolving on the basis of the above by applying the haircut (considered as percentage points) and the accrued interest regarding the commencement day of the repo transaction.

In case of Hungarian Government Securities not under price quotation:

The initial price is the theoretical price calculated from the yield determined on the basis of the linear interpolation method between the last HUFONIA rate available on the website of MNB at the time of the call for bids by ÁKK and the 3-month benchmark yield published in the afternoon prior to the day of the transaction and determined by applying the haircuts (considered as percentage points) below.

ÁKK haircut				
Remaining maturity of fixed-rate bonds and Discount Treasury Bills/interest period of floating-rate bonds	<1 year	1-3 years	3-7 years	>7 years
1 day repo	0.6%	2.0%	3.75%	4.0%
1 week repo	1.5%	5.0%	8.5%	9.0%

10. Definition of the repurchase price of the government securities

The definition of the repurchase price takes place on the basis of the starting price, where the difference between the selling and repurchase price of the government security being the subject of the repo comprises the interest of the repo, having regard to a year of 360 days.

11. Increment, lot size

The increment is Hungarian Government Bonds or Discount Treasury Bills of a face value of HUF 1,000,000,000, that is one billion Hungarian forints.

The lot size is to be a whole multiple of 1 billion Hungarian forints.

12. Settlement date

The settlement of the repo transactions takes place on the below working days having regard to the trade date (“T”) unless otherwise provided by ÁKK:

Overnight repo - T+0

Tomnext repo - T+1

Spotnext repo - T+2

Spotweek repo - T+2

13. Limits

Partner limit:

ÁKK sets up an individual partner limit in respect of each Repo Partner.

14. The procedure of the transaction

The transaction takes place in all cases at ÁKK’s initiative.

ÁKK concludes its repo transactions aiming liquidity management through a call for bids.

ÁKK informs the Repo Partners each working day by 9.15 a.m. at the latest in respect of the intended completion and direction of the Tomnext, Spotnext and Spotweek repo calls for bids to be completed on the same day. The fact and the parameters of Overnight repo call for bids are specified exclusively at the announcement of the given call for bids.

If a call for bids takes place on the given working day, ÁKK requests the bids from the Repo Partners between 10.05 a.m. and 10.15 a.m. in case of Tomnext, Spotnext and Spotweek repos, and between 3.45 p.m. and 3.55 p.m. in case of Overnight repos.

The call for bids includes the type of the repo (active or passive repo), the total amount intended to be borrowed or lent and the maturity, as well as the increment, if it is different from that specified in Section 11.

The requested Repo Partners may submit only one bid upon each call for bids, which is to include the amount intended to be contracted and the repo interest. The Repo Partners are bounded by their submitted bids until the notification of ÁKK on the acceptance or rejection of the bid, however until 10.25 a.m. of the day of the call for bids at the latest in case of Tomnext, Spotnext and Spotweek repos, and until 4.05 p.m. in case of Overnight repos.

The received bids are sorted by ÁKK on the basis of the repo interest, and it may accept them in accordance with the provisions of this Business Conditions up to the amount of the call for bids, or reject them wholly or partly.

After the decision ÁKK informs the bidders without delay, however by 10.25 a.m. at the latest in case of Tomnext, Spotnext and Spotweek repos, and by 4.05 p.m. in case of Overnight repos of their possible transactions, starting from the bidder having the best accepted bid according to the scale of the offered repo interests.

If ÁKK is not able to send the above notification by 10.25 a.m. at the latest in case of Tomnext, Spotnext and Spotweek repos, or by 4.05 p.m. in case of Overnight repos on the day of the call for bids, then all bids become invalid, and subject to ÁKK's decision a possible new call for bids may take place on the same day at a later time, however by applying mutatis mutandis the above requirements.

15. The venue of the call for bids, the notification and the transaction

The call for bids, the notification and the transaction as defined by ÁKK may take place on the following platforms: telephone, Reuters FX Trading, Bloomberg or e-mail.

The primary communication platform is the Reuters FX Trading, in other cases ÁKK will inform the Repo Partners on the applied platform.

16. Consequences of non-performance

In case of non-performance the relevant provisions of the Contract are applicable.

ÁKK