Notice on the terms and conditions of primary market purchases in the MNB’s Green Mortgage Bond purchase programme

I. Description of the Programme and conditions of participation

1. Based on the Monetary Council’s decision on 6 July 2021, the Magyar Nemzeti Bank (MNB) announces a Green Mortgage Bond Purchase Programme (hereinafter: Programme) with the aim to enforce environmental sustainability considerations, foster the disbursement of green housing loans and support a modern housing market. Within the framework of the Programme - in accordance with the provisions of this Notice (hereinafter: Notice) - the MNB purchases mortgage bonds issued in Hungary by mortgage banks with registered office in Hungary (Issuers) in the primary (primary market purchases) and the secondary market (secondary market purchases).

2. With a view to developing the domestic green mortgage bond market and supporting mortgage lending that enforces environmental sustainability and energy efficiency considerations, the MNB makes its purchases conditional upon the compliance of the mortgage bond and mortgage loans securing those with the conditions stipulated herein as well as upon the fulfilment of conditions that increase the liquidity and transparency of the market.

Green mortgage loans referred to in the Notice (hereinafter: Green Mortgage Loan) include all mortgage loans disbursed by the Issuer or a group belonging to the Issuer, or – in the case of refinancing agreement – by the refinanced credit institution, and which

a) are consumer mortgage loans for house purchase or home construction, and

b) qualify as a collateral for the mortgage bond issued under the Programme, and

c) the specific primary energy consumption – based on the energy performance certificate – of the property specified as a collateral for it, does not exceed the threshold value stipulated by the MNB, applicable to the date of the disbursement of the Green mortgage loan, or the energy efficiency classification of which reaches the specified rating. The MNB publishes the threshold value applicable to the specific primary energy consumption and the rating levels applicable to the energy efficiency classification on its website. If the threshold or the rating is amended, it will be published 3 months before the effective date of the amendment.

3. During the Programme, the MNB – contrary to the general rules laid down in the Terms and Conditions of the Operations of the Central Bank in Forint and Foreign Currency Markets – may purchase mortgage bonds in the primary market also from non-VIBER or non-BKR member mortgage banks that have their seat in Hungary.

4. In the Notice, group shall mean a group that contains credit institution as well and is subject to consolidated supervision pursuant to Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises and Act CXXXV of 2013 on the Integration of Cooperative Credit Institutions and Amendments to Economy-related Legislation. In the Notice, investment fund managers, insurance companies as well as home savings and loan associations belonging to the same group with the Issuer shall be considered as ones outside the Issuer’s group.
II. Conditions applicable to the Issuer, the Refinanced Entity and the mortgage bond

1. In the primary market, the MNB purchases only from the mortgage bonds (hereinafter: the Green Mortgage Bond) that meet the following conditions:

1.1 Forint-denominated, fixed-rate mortgage bond planned to be publicly issued by the Issuer on the territory of Hungary, in line with the relevant Hungarian legislation, provided that the documentation of the bond does not contain any limitation concerning acquisition of ownership by the MNB.

1.2 Based on the documentation published by the issuer, the mortgage bond complies with one of the environmentally sustainable financing principles specified in the Climate Bonds Standard V3.0 and subsequent versions issued by the Climate Bonds Initiative or in The Green Bond Principles 2018 issued by the International Capital Market Association and subsequent versions. Moreover, the Issuer or Issuer's mortgage bond issuance must be certified as compliant by an external independent party that is duly authorised to issue such certificate as well as approved by the MNB. The certificate of compliance needs to be accepted by the MNB. Issuer shall submit to the MNB the certificate of compliance and the supporting documentation or inform the MNB on the availability of the documentation by the 5th working day preceding the issuance, at the latest. The MNB is entitled to assess the conformity of the certificate of compliance, issued by an external independent party, on a stand-alone basis. As regards the approval of the external independent party, the MNB also takes into consideration the lists published by the organisation that issued the directive (Climate Bonds Initiative and International Capital Market Association).1

1.3 By providing information on the indicative amount, specified in Section II.2, the Issuer also undertakes to disclose a public report that presents the characteristics of the Green Mortgage Bonds issued under the Programme and, if available, the aggregate indicators by energy efficiency classification of the collateral properties of mortgage loans (e.g. aggregate energy performance, energy quality classification), the progress made in reducing carbon dioxide emissions and the proportion of new and used properties within the collaterals. Furthermore, Issuer undertakes to present in the report the ratio of consumer mortgage loans within the total mortgage loan portfolio and within the mortgage loan portfolio that uses the mortgage bonds as collateral, together with the ratio of Green Mortgage Loans within consumer mortgage loans, and the practical implementation of the provisions of subsection II.1.4. The report shall be published on the Issuer’s website at the same time as the Issuer’s annual financial statements. The reference period of the data to be disclosed in the public report corresponds to the period covered by the annual accounts. Issuer undertakes to prepare the report in accordance with Section 55 of Recommendation No 47/2021. (IV. 14.) of the Magyar Nemzeti Bank on climate-related and environmental risks and the integration of environmental sustainability considerations into the activities of credit institutions. Furthermore, by providing the information under Section II.2 on the indicative amount, Issuer also

1 The lists are published under menu items Sustainable finance/ External reviewers in the case of ICMA and under Approved Verifiers in the case of CBI.
undertakes to publish the updated version of the report annually, following the first publication of
the report, until such time as any Green Mortgage Bond series issued under in Programme is
outstanding.

1.4 Furthermore, by providing the information under Section II.2 on the indicative volume, Issuer
also undertakes to acquaint its related customers with the environmental sustainability
considerations connected to the consumer mortgage loans and the contribution of consumer
mortgage loans to the environmental sustainability objectives, in line with Section 10 of
Recommendation No 47/2021. (IV. 14.).

1.5 In addition to the foregoing, if the Issuer has a refinancing agreement with a refinanced credit
institutions (hereinafter: "Refinanced Entity") during the period when any refinanced Green
Mortgage Bond series issued by the Issuer under the Programme is outstanding, the Issuer –
together with the information on the indicative amount specified in Section II. – undertakes to also
have, during the term of the refinancing agreement, an agreement concluded with the Refinanced
Entity participating in the Programme, which ensures the fulfilment of the conditions stipulated in
the subsections of Section II.1. In this case Issuer’s obligations to publish the report specified in
Section II.1.3 and provide the information specified in Section II.1.4 to customers shall be fulfilled
by the Refinanced Entity participating in the Programme. Issuer shall submit to the MNB its written
agreement concluded with the Refinanced Entity on the provisions hereof by the 5th working day
preceding the issuance, at the latest.

1.6 The original maturity of the Green Mortgage Bond is at least 5 years following the very first
issue. When calculating the original maturity, in the case of multiple issues and tap issues, the
maturity is determined by the date of the very first issue. The MNB only buys mortgage bonds
whose remaining maturity reaches or exceeds 1 year at the time of the issue.

2. At the latest on the 5th working day preceding the date of the issue, the Issuer shall make the
date of the issue and the indicative amount planned to be sold (hereinafter: indicative amount)
public and inform the MNB about it in writing. If the Issuer discloses the announced amount before
the given issue, and informs the MNB accordingly, the MNB will consider this value as indicative
amount.

3. The information on the indicative volume, specified in section II.2, shall also qualify as a
declaration that during the distribution of the Green Mortgage Bond, complying with the
conditions specified in all subsections of Section II.1, Issuer undertakes to comply with the
commitments set out in this Notice and agrees that upon the issuance of the Mortgage Bonds the
related prospectuses and the documents that contain the final conditions do not contain rules that
would limit or prevent the MNB’s participation in the course of the issuance during the time of the
Programme.

4. The Issuer shall inform the MNB in writing on its green lending activity by the 5th working day
preceding the date of issue, at the latest, by submitting the aggregate stock of Green mortgage
loans used as mortgage bond collateral by the Issuer or by the Refinanced Entity granting the green
mortgage loans underlying the classification as Green Mortgage Bond, and had been disbursed
between 1 November 2020 and the first the day of the month of issue (or if the issuance takes place on the 4th working day of the respective month or before, then on the working day preceding this information). Should the Issuer miss this deadline, the MNB will make a decision on the assessment of the lending activity based on the available data.

5. Simultaneously with the information provided on the indicative volume under Section II.2, the Issuer is entitled to apply to the MNB for an indicative price with respect to the bid price connected to the respective issuance, which the MNB will send to the Issuer on the second working day following the receipt of the application, at the latest.

6. By providing the information under Section II.2 on the indicative volume, the Issuer undertakes to initiate the introduction of the Green Mortgage Bond to the debt securities section of the Budapest Stock Exchange Ltd. (hereinafter: BSE) within 15 days after the closing of the issue.

7. By providing the information under Section II.2 on the indicative amount, the Issuer undertakes to conclude an agreement for the entire term of the Green Mortgage Bond with at least one market maker (market maker agreement) for the maintenance of a binding quote on the stock exchange within which

- on each trading day, the market maker makes own-account bilateral proposals (simultaneous bids and offers for sale) and maintains them for at least 15 minutes,
- the nominal value of the offer reaches at least HUF 10,000,000 on both the buying and selling sides,
- the difference between the yields related to the bid and ask prices calculated for the second trading day following the day of the quotation does not exceed 200 basis points.

8. By providing the information under Section II.2 on the indicative amount, the Issuer also undertakes to send to the MNB, within 5 working days following the issue, but not later than 5 working days prior to the next issue, the amount of the nominal value of the Green Mortgage Bond sold during the issuance and acquired by the group member the issue or to indicate where the relevant data are available publicly.

9. The Issuer may provide the information and notifications required in Points 1.2, 1.5, 2, 4, 5 and 8 in letters or in the form of electronic documents with advanced electronic signature sent to the MNB’s Directorate Money and Foreign Exchange Markets to the forexdesk@mnb.hu email address.

III. Terms and conditions of the MNB’s purchases in the primary market

1. During the primary market purchases of the Programme, the MNB only purchases Green Mortgage Bonds issued within the framework of securities auctions carried out through the trading system of the BSE.

2. If the Issuer initiates the participation in the primary market purchases of the Programme, and the Green Mortgage Bond planned to be issued complies with the conditions set out in the Notice,
during the issue of the given Issuer’s Green Mortgage Bonds the MNB determines the quantity of Green Mortgage Bonds intended to be acquired within the framework of individual issues in the following manner (undertaken bid quantity):

2.1 During all issues of the Green Mortgage Bond, the MNB calculates an adjusted issued amount, deducting the amount acquired by the member of the Issuer’s group during the issue from the total amount of every Green Mortgage Bond issued within the framework of the Programme, with the exception of the investment fund managers, insurance companies as well as home savings and loan associations belonging to the same group with the Issuer.

2.2 The MNB’s undertaken bid quantity shall not exceed 40 percent of the indicative amount stated by the Issuer in the course of the given issue.

2.3 The MNB determines the undertaken bid quantity in the following manner:

- During the first issue, the undertaken bid quantity is 40 percent of the indicative amount stated by the Issuer.

- Until the nominal value of the Green Mortgage Bonds acquired by the MNB during the issue does not exceed 40 percent of the recalculated corrected issue amount, the undertaken bid quantity is 40 percent of the indicative amount stated by the Issuer.

- If the nominal value of the Green Mortgage Bonds acquired by the MNB during the issue exceeds 40 percent of the recalculated corrected issue amount, the bid quantity undertaken at the next issues will be the 40 percent of the recalculated corrected issue amount increased by the indicative amount, less the nominal value of the Green Mortgage Bonds acquired by the MNB during the issue. If the undertaken bid quantity is less than or equals zero, the MNB will not make an offer during the issue.

3. The MNB undertakes to disclose the amount of the acquired Green Mortgage Bonds within 3 working days from the issue on its website as well as on the appropriate pages of Refinitiv NBHS and Bloomberg NBH8 page.

4. The MNB will strive not to acquire ownership of more than 50 percent of the Green Mortgage Bonds outstanding within one mortgage bond series.

5. The MNB reserves the right to depart from the conditions of the primary market purchases and to notify the Issuer about it not later than on the 2nd working day preceding the issue.

6. The MNB reserves the right to make an offer during the issue even if the Issuer does not initiate participation in the primary market purchases of the Programme according to Point II.2. In this case, the MNB is not bound by the objectives concerning the undertaken bid quantity according to Point III.2.

7. Upon noncompliance with the conditions applicable to the Refinanced Entity or the Green Mortgage Bond, and particularly upon the inadequate fulfilment of Issuer’s data supply obligation under Section II.4 related to green lending activity, the MNB shall warn the Issuer in a letter and
call upon it to fulfil the conditions immediately. Upon multiple non-compliance with the conditions or repeated erroneous fulfilment of the data supply related to the activity, the MNB reserves the right the suspend Issuer’s right to participate in the Programme.

8. The MNB will calculate the price specified in its declaration made during the issuance based on the market quotes in the period preceding the issuance, reserving the right to also take into consideration for this purpose Issuer’s lending activity under the Programme after 1 November 2020, as determined under Section II.4.

9. In order to encourage Money Market Counterparties that undertake the market making of mortgage bonds issued after 2 August 2021, the MNB allows the borrowing of mortgage bonds during the period of the Programme; the relevant conditions will be laid down in separate rules and published by the MNB.

In respect of issues not regulated in this Notice, the ‘Terms and Conditions of the Operations of the Central Bank in Forint and Foreign Currency Markets’ shall be authoritative.

Budapest, 2 August 2021

MAGYAR NEMZETI BANK