



NOTICE ON THE TERMS AND CONDITIONS OF PRIMARY MARKET PURCHASES IN THE MNB'S MORTGAGE BOND PURCHASE PROGRAMME II.¹

I. Description of the Programme and conditions of participation

1. Pursuant to the decision taken by the Monetary Council on 28 April 2020, the Magyar Nemzeti Bank is announcing a mortgage bond purchase programme (hereinafter: the Programme), within which the MNB makes offers (primary market purchase), as set forth in this notice (hereinafter: the Notice), during the public issue on the territory of Hungary of mortgage bonds, which meet predetermined conditions, of mortgage loan companies that have their seat on the territory of Hungary (hereinafter: the Issuer), and purchases the Issuer's specified mortgage bonds issued on the territory of Hungary (secondary market purchase), up to 50 percent of the nominal value of the Issuers' current aggregate holdings of forint-denominated mortgage bonds issued on the territory of Hungary.

2. For the development of the domestic mortgage bond market, the MNB makes its purchases dependent on the meeting of conditions that increase the liquidity and transparency of the market. The MNB considers it to be in line with the objective of the Programme if the group to which the Issuer belongs uses the Issuer's mortgage bonds for the financing of fixed-rate consumer mortgage loans with repricing corresponding to their maturity.

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 – purchases mortgage bonds in the primary market also from non-VIBER or non-BKR member mortgage loan companies 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 concerning the Issuer and the mortgage bond

1. In the primary market, the MNB purchases only from the mortgage bonds that meet the following conditions:

- 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

¹ Effective from April 30, 2020 until November 15, 2020

the documentation of the bond does not contain any limitation concerning acquisition of ownership by the MNB.

- Mortgage bonds, at least 80 percent of whose ordinary collateral defined in the Act on Mortgage Loan Companies and on Mortgage Bonds is equity claim originating from mortgage loans to consumers or from the repurchase of refinancing mortgage loans or independent lien as well as equity claim ensured by the transfer of seceded lien, behind which the collateral is mortgage loan granted to consumers.
- The *original maturity* of the mortgage bond is at least 3 years following the very first issue. When calculating the original maturity, in the case of multiple issues and tap issue, the maturity determined by the very first issue is authoritative. The MNB only buys mortgage bonds whose *remaining maturity* reaches or exceeds 1 year at the time of the issue.

2. Participation in the primary market purchases of the Programme is initiated by the Issuer, as described below:

2.1. Until 15 May 2020 the Issuer indicates its intention to participate in the Programme. Together with indicating its intention to participate, the Issuer also indicates to the MNB the ratio of claims originating from consumer mortgage loans within the ordinary collateral of the already issued mortgage bonds or where the related data are available publicly.

2.2. Issuers may apply for participation in the primary market purchases of the MNB's mortgage bond purchase programme as of 18 May 2020. This application shall, at the same time, be considered a declaration that upon issue the mortgage bond that is in line with the conditions determined in Point 1 the Issuer assumes an obligation to comply with the commitments set out in this Notice (hereinafter the mortgage bond involved in the Programme: the Mortgage Bond), and agrees that during the issue of the Mortgage Bonds the related notices 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 issue during the time of the Programme.

3. At the latest on the 3rd 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.

4. The Issuer assumes an obligation that within 15 days from the closing of the issue it will initiate the introduction of the Mortgage Bond into the debt securities section of the Budapest Stock Exchange Ltd. (hereinafter: BSE).

5. The Issuer assumes an obligation that for the whole term of the Mortgage Bond it will conclude an agreement with at least one market maker (market making contract) about the maintenance of binding stock exchange market making, 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.

6. The Issuer agrees to notify the MNB in writing within 3 working days from the change if the ratio of equity claim originating from mortgage loans to consumers or from the repurchase of refinancing mortgage loans or independent lien as well as of equity claim ensured by the transfer of secured lien behind which the collateral is mortgage loan granted to consumers declines to below 80 percent within the ordinary collateral of the Issuer's Mortgage Bond.

7. In addition, with its application according to Point 2.2 of this Notice for the primary market purchases of the Programme, the Issuer undertakes to send to the MNB, within 5 working days following the issue, but not later than 3 working days prior to the next issue, the amount of the nominal value acquired by the group member of the Mortgage Bond sold during the issue or to indicate where the relevant data are available publicly.

8. The Issuer may provide the information and notifications required in Points 2, 3 and 6–7 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@mn.hu email address.

9. This obligation undertaken by the Issuer does not prevent the Issuer from issuing mortgage bonds without participating in the Programme.

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 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 mortgage bond planned to be issued complies with the conditions set out in the Notice, during the issue of the given Issuer's Mortgage Bonds the MNB determines the quantity of 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 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 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 50 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 50 percent of the indicative amount stated by the Issuer.
- Until the nominal value of the Mortgage Bonds acquired by the MNB during the issue does not exceed 50 percent of the recalculated corrected issue amount, the undertaken bid quantity is 50 percent of the indicative amount stated by the Issuer.
- If the nominal value of the Mortgage Bonds acquired by the MNB during the issue exceeds 50 percent of the recalculated corrected issue amount, the bid quantity undertaken at the next issues will be the half of the recalculated corrected issue amount increased by the indicative amount, less the nominal value of the 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 Mortgage Bonds within 3 working days from the issue on its website as well as on the Reuters NBHS01-02 and Bloomberg NBH8 pages.

4. The MNB will purchase an amount corresponding to at most 70 percent of the nominal value of the Issuer's Mortgage Bonds in circulation. The MNB will strive not to acquire ownership of more than 70 percent of the Mortgage Bonds in circulation 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 if it is justified by the MNB's limits determined in Points I.1 and III.4.

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.2.2 or fails to disclose the indicative amount planned to be sold in line with Point II.3. In these cases, however, the MNB is not bound by the objectives concerning the undertaken bid quantity according to Point 2.

7. The MNB will calculate the price determined in its statement made during the issue by taking into account the secondary market quotations of the period preceding the issue.

8. In order to motivate Money Market Counterparties that undertake the market making of mortgage bonds issued after 18 May 2020, 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 not later than 18 May 2020.

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, 30 April 2020

MAGYAR NEMZETI BANK