



Notice on the terms and conditions of primary market purchases in the rollover of the MNB's mortgage bond holdings

I. Conditions of participation

1. Pursuant to the decision taken by the Monetary Council on 22 October 2019, the Magyar Nemzeti Bank purchases mortgage bonds from October 2019 to preserve market stability and reduce rollover risks, with the purpose of rolling over its mortgage bond holdings maturing within 12 months (hereinafter: Mortgage Bonds Eligible for Rollover). Under this scheme, the MNB places bids (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 and are issued by the mortgage loan companies with their seat in the territory of Hungary whose maturing mortgage bonds are held by the MNB (hereinafter: Issuers).

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 purchases 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. 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.

4. During the purchases, 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, also purchases mortgage bonds in the primary market from non-VIBER or non-BKR member mortgage loan companies that have their seat in Hungary.

II. Conditions concerning the Issuer and the mortgage bond

1. In the primary market, the MNB purchases only mortgage bonds (hereinafter: 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 the terms and conditions of the bond do not limit the acquisition of ownership by the MNB.
- Mortgage bonds, at least 90 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 *maturity* of the mortgage bond is at least 3 years at the time of the issue, or at the time of the tap issue.
- The time of the issue shall not precede by more than 12 months the maturity of the mortgage bonds held by the MNB and issued by the same Issuer.

2. The MNB's participation at the mortgage bond auctions is initiated by the Issuer, as described below. On the 2nd working day prior to the day of the issue the latest, the Issuer shall indicate that it requests the MNB to participate at the announced Mortgage Bond auction, specifying the time of the issue, the indicative amount sought to be sold (hereinafter: indicative amount) and the Mortgage Bonds Eligible for Rollover for which the MNB's purchase is initiated (hereinafter: Mortgage Bonds to be Rolled Over). If the Issuer publishes the announced amount prior to the given issue, and informs the MNB accordingly, the MNB considers that value to be the indicative amount. If the Issuer has only one mortgage bond held by the MNB that matures within 12 months, the MNB considers that to be the Mortgage Bond to be Rolled Over.

3. At the same time, Issuers' request pursuant to Point 2 can be considered a declaration that upon issue of the Mortgage Bonds that are in line with the conditions determined in Point 1, the Issuer assumes an obligation to comply with the commitments set out in this Notice, 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.

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 seceded lien behind which the collateral is mortgage loan granted to consumers declines to below 90 percent within the ordinary collateral of the Issuer's Mortgage Bond.

7. The Issuer may provide the notifications required in Points 2 and 6 in letters or in the form of electronic documents sent to the MNB's Directorate Money and Foreign Exchange Markets to the forexdesk@mnbb.hu email address.

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

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

2. The MNB's purchase based on the Mortgage Bond purchase auction specified by the Issuer pursuant to Point II.2 pertains to the rollover of the Mortgage Bond to be Rolled Over determined by the Issuer.

3. The MNB establishes limits for the Mortgage Bonds to be Rolled Over (hereinafter: Rollover Limit), which is the face value of the Mortgage Bond to be Rolled Over less the face value of the Mortgage Bond purchased by the MNB in connection with the Mortgage Bond to be Rolled Over pursuant to the present Notice. If the Issuer initiates the MNB's purchase for multiple Mortgage Bonds to be Rolled Over at the same auction, the MNB deems that the purchases always count first towards the Rollover Limits of the Mortgage Bonds to be Rolled Over with a shorter residual maturity.

4. If the mortgage bond planned to be issued at the auction complies with the conditions set out in the Notice and the Rollover Limit is positive, 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*):

4.1 The *undertaken bid quantity* shall be 70 percent of the indicative amount specified by the Issuer, but not more than the Rollover Limit.

4.2 If the Issuer holds an auction for multiple Mortgage Bond series at the same time, the MNB shall divide the above-mentioned *undertaken bid quantity* in the proportion of the auctions' indicative amounts.

5. 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 NBHS09 and Bloomberg NBH9 pages.

6. 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.

7. The MNB reserves the right to depart from the conditions of the primary market purchases as set out in Point 4 and to notify the Issuer about it not later than on the 1st working day preceding the issue if it is justified by the MNB's limits determined in Point III.6.

8. The MNB will calculate the price determined in its statement made during the issue by taking into account the primary market yields observed since the start of the central bank's mortgage bond purchase programme launched in 2018, with the proviso that the yield of the bid submitted by the MNB shall not fall short of the yields generated by the government securities with the corresponding maturity.

9. In order to motivate Money Market Counterparties that undertake the market making of mortgage bonds, the MNB shall extend the mortgage bond lending facility to the mortgage bonds purchased under the present Notice.

The issues not regulated in this Notice shall be governed by the 'Terms and Conditions of the Operations of the Central Bank in Forint and Foreign Currency Markets'.

Budapest, 24 October 2019

MAGYAR NEMZETI BANK