Summary of the Housing Subsidy for Families (CSOK) scheme,

the Green Home Programme by the NBH, the subsidized 'Baby Loan'

and the subsidized home renovation loan

The Hungarian Government launched the **CSOK scheme** in July 2015. Since then the main conditions and criteria have been amended in several steps, and the subsidy amounts have been increased significantly. Following the widening and enlargement of the range and scale of the CSOK scheme, main conditions currently look as follows:

Those resident people[1] are eligible for the CSOK subsidy who have had social security for at least 180 days, have no criminal record or unpaid taxes.

There are two main elements of the scheme:

1. The **non-refundable state subsidy** is linked to the number of existing or planned children. Even those families can take benefit from the scheme who don't have children yet, but commit to have them within a determined period of time, which depends on the number of planned children: 1 child within 4 years, 2 children within 8 years, 3 or more[2] within 10 years.
    a. For the purpose of building or purchasing new flats the subsidy is HUF 0.6 million for 1 child, HUF 2.6 million for 2 children and HUF 10 million for 3 or more children.
    b. For purchasing used flats or the enlargement of existing dwellings the subsidy varies between HUF 0.6 and 2.75 million.

<table>
<tr><th></th><th>1 child</th><th>2 children</th><th>3 children</th><th>4 or 4+ children</th></tr>
<tr><td>Subsidy for acquisition or construction of new residential real estates</td><td rowspan="2">HUF 600,000</td><td>HUF 2,600,000</td><td colspan="2">HUF 10,000,000</td></tr>
<tr><td>Subsidy for acquisition of used residential real estates or enlargement of existing residential real estates</td><td>HUF 1,430,000</td><td>HUF 2,200,000</td><td>HUF 2,750,000</td></tr>
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For the intermediation of the CSOK subsidy credit institutions are entitled to charge a fee amounting to 2% of the disbursed CSOK subsidy amount.

2. Families with 2 or more children are also eligible for a **subsidized loan** for buying or building new homes or purchasing used apartments. The loan is disbursed by credit institutions headquartered in Hungary, or by Hungarian affiliates, from their own funding sources. The loan carries a total fixed interest rate that cannot be higher than *5Y Government bond yield * 1.3 + 3%*, of which the client pays a fixed 3% rate, whereas the State subsidy cannot exceed *5Y Government bond yield * 1.3*. The loan's maturity can be up to 25 years. Families with 2 existing or planned kids are eligible for a preferential housing loan in the amount of HUF 10 million, whereas in the case of families with 3 or more existing or planned children the maximum loan amount was increased to HUF 15 million effective from July 2019.

[1] For detailed eligibility criteria and other details, see the relevant Government Decrees (16/2016 published on 10 February 2016; 17/2016 published on 10 February 2016).
[2] To be eligible for the HUF 2.2 m and 2.75 m grant for buying used homes, applicants already have to have 3 or more kids.

Green Home Programme and Green Mortgage Bond Purchase Programme by the National Bank of Hungary:

As part of its Green Monetary Policy Toolkit Strategy, on 6 July 2021 the National Bank of Hungary announced two new programmes to promote and boost green mortgage lending:

1. The Green Home Programme was launched in October 2021 as part of the Funding for Growth Scheme (FGS), with a total available amount of HUF 200 billion. As in the previous phases of the FGS, the NBH provides refinancing operation to credit institutions at 0% interest rate, which can be lent to retail clients at a maximum of 2.5%, fixed interest rate until the end of the maturity period. Under the scheme, loans of up to HUF 70 million and a maximum term of 25 years can be granted for constructions or purchases of new, highly energy-efficient residential real estates.
2. Green Mortgage Bond Purchase Programme: its strategic goal is to contribute to the development of the domestic green mortgage bond market and encourage green mortgage lending. The NBH said that HUF denominated fix rate covered bonds can take part in the programme, with at least 5 years maturity. The programme started in August 2021. The NBH can buy up to 50% of each issuances, and is ready to use preferential pricing. The NBH will review the programme when the HUF 200 billion purchase volume has been reached.

Partly related to the NBH's Green Home Programme, on 17 August 2021 the Minister of Family Affairs announced several **amendments to the Housing Subsidy for Families (CSOK) scheme**.

Apart from the simplification of the application procedure, the reduction of administrative burden and the further widening of the scope of eligible customers, the most important element was that the client interest rate of the additional subsidized CSOK loan (HUF 10 million in case of 2 children or HUF 15 million for 3 or more kids) will be 0% for families who apply for both the green mortgage loan under the Green Home Programme and the subsidized CSOK loan[3]. In this case both the green mortgage and the subsidized CSOK loans are refinanced by the NBH at 0% rate, and the CSOK subsidized loan carries a total interest rate of maximum 2.5% (as the client rate is 0%, it is paid by the State). Also, when combined with the green mortgage loan, banks can charge a commission amounting to 1.5% of the disbursed CSOK subsidized loan amount.

[3] For details see Government Decree 541/2021. (IX. 24.).

Subsidized 'Baby Loans': 'Baby loans' are available from 1 July 2019 until 31 December 2022. The primary target group of this loan product is young married couples who commit to having (more) children. Under the scheme, married resident women aged 21-41[4], along with husbands, are eligible for a maximum HUF 10 million general-purpose loan. At origination the maximum tenor is 240 months. The 'baby loan' can be taken out from credit institutions headquartered in Hungary, or from a Hungarian affiliate; these financial institutions finance these loans from their own funding sources.

There is a 100% Government guarantee for the whole amount of the loan.

The client pays the principal and the guarantee fee on a monthly basis. The guarantee fee amounts to 1/12 of 0.5% of the outstanding principal balance at the beginning of every calendar year, and banks shall transfer the collected guarantee fees to the Government. There is also a one-off opening support fee of 0.8% of the original principal and 0.3% handling fee of the outstanding amount p.a., all paid by the Government to banks.

The maximum interest rate of the loan is determined by the Government Decree and set at *5Y Government bond yield * 1.3 + 2%*. The interest rate is fixed for 5 years. The loan is free of interest for the client in the first five years of the loan, at the same time banks receive an interest subsidy from the Government where the interest subsidy is equal to the interest rate of the loan. If a baby is born within 5 years, the loan remains free of interest for the client for the whole maturity. The Government pays the due amount of interest subsidy to banks on a monthly basis.

Upon the request of the client, the principal repayment can be suspended for three years when the first child is born; for another three years when the second baby arrives, at the same time 30% of the outstanding principal is assumed by the Government. After the birth of the third child the then outstanding full principal is paid by the Government to the bank (thus, by the client's request, it is waived from the client's perspective).

In case the first new baby is not born within 5 years or the couple divorces, the client must pay back the interest subsidy to the Government within 120 days, in a lump sum retroactively, and the exposure will carry a punitive interest rate computed as follows: the then prevailing *5Y Government bond yield * 1.3 + 5%*. The total monthly instalment payable by the client can exceed HUF 50,000 only if the interest subsidy is discontinued by the Government, which triggers an increase in the client interest rate.

If the client declares delinquency, the State guarantee becomes effective. The banks run a risk scoring and the relevant PTI limits also apply. The loan can be used for refinancing existing loans, as well. 75% of the 'baby loan' amount can also be used as a down payment when applying for a housing loan.

[4] For detailed eligibility criteria and other details, see the relevant Government Decree (44/2019 published on 12 March 2019).

<u>Subsidized home renovation loan:</u> starting from 1 January 2021 the Hungarian Government provides a **non-refundable home renovation subsidy** to families raising or expecting children by way of refunding certain part of their home renovation costs[5]. Eligible families can get back 50% of their proven improvement expenses following the completion of the renewal, but maximum HUF 3 million. The subsidy can be applied for within 60 days after completing the home renovation and also paying the bills by the families, or until 31 December 2022 the latest.

In order to help eligible families to take advantage of the home renovation subsidy, **a subsidized home renovation loan**[6] was introduced by the Government. Those families can apply for this subsidized loan that are eligible for the non-refundable home renovation subsidy. The subsidized home renovation loan is collateralized and its amount can be up to HUF 6 million. The loan can be distributed by credit institutions from 1 February 2021, from their own funding sources. If the client takes out the subsidized loan, the application for the non-refundable home renovation subsidy itself can be submitted after 1 March 2021.

The annual interest rate charged by the credit institution in the period of the interest rate subsidy is fixed for 5 years and cannot exceed the following formula: *5Y Government bond yield * 1.3 + 3%*, of which the client pays a fixed 3% rate, whereas the State subsidy cannot exceed *5Y Government bond yield * 1.3*. The interest rate subsidy is paid by the Government for the whole maturity of the loan, for maximum 10 years.

For the disbursement of these loans credit institutions are entitled to a commission amounting to 1.5% of the disbursed loan amount. No other fees and commissions can be charged.

In order to be eligible for the interest rate subsidy, the client must prove to the credit institution the payment of the renovation bills within one year after the disbursement of the subsidized loan. If this is not fulfilled, or the borrower loses its eligibility for the non-refundable subsidy, or the non-refundable subsidy is lower than 25% of the loan amount, the client loses eligibility for the interest rate subsidy and the previously received interest subsidy must be repaid within 60 days in one sum.

If all criteria are met, the non-refundable home renovation subsidy will be settled as a prepayment of the subsidized loan, thus reducing the outstanding loan amount. In this case the credit institution will recalculate the monthly instalment within 10 days after the entry of the non-refundable grant, leaving the loan maturity unchanged.

This summary was updated on 24 November 2021.

General note: these conditions may be subject to changes. OTP Bank does not guarantee the accuracy of the above information. The purpose of this summary was to inform equity analysts and investors about the main conditions of certain housing and other subsidies that influence the banks' operating environment in Hungary. Therefore the above information cannot be regarded as full and exhaustive and are only informative. For more details, see the relevant regulations. This communication is not intended as investment advice, an offer or solicitation for the purchase or sale of any financial instrument, and it does not constitute legal, tax or accounting advice. Please seek for competent, independent (legal etc.) advice on this matter to be able to fully understand and estimate all the concerning relevant issues, thus you must consult your own advisers prior to making any decision in respect of the information contained herein in order to be capable of making a well-advised decision.

[5] For all details, see Government Decree 518/2020 published on 25 November 2020.
[6] For all details, see Government Decree 641/2020 published on 22 December 2020.