Preferential capital requirements program for green corporate and municipal financing

– English summary –

Due to the transition risks related to climate change and other environmental anomalies, the Central Bank of Hungary (MNB) considers it desirable that the share of environmentally sustainable (green) assets increase in banks' balance sheets compared to "brown" exposures (i.e. polluting or carbon-intensive assets that may be subject to stricter environmental regulations, business model risks etc.)

In the beginning of 2021, MNB introduced a preferential capital requirement program for green corporate and municipal financing starting with the ICAAP reviews of 2021. The program allows the remission of part, or all of the Pillar II capital requirements for environmentally sustainable corporate and municipal exposures that meet the criteria set out in the detailed terms and conditions.

The scope of the program

The preferential capital treatment program initially covered the financing of renewable energy assets, as well as green bonds. In August 2021 the sector scope of the preferential capital requirement program was expanded to several other industries that bear high importance in the sustainable economic transition. The MNB has established a detailed set of eligibility criteria for the sustainable economic activities within these industries.

A. Eligible exposures by industry classification (non-comprehensive list of main technical criteria)

Industry	Eligible Activities and Assets
A.1 Renewable energy generation	Renewable energy technologies in line with the EU Taxonomy
A.2 E-mobility	
A21 E-mobility infrastructure investments	Charging stations and electric grid connection points in line with the EU Taxonomy
A22 Procurement of zero emission vehicles for passenger transport or freight transportation	Cars, buses, vans and large vehicles in line with the EU Taxonomy
A.3 Sustainable agriculture and food industry	
A3.1 Farmers participating in agri-environment or eco-farming subsidy programs	VP-4-10.1.1-15, VP-4-10.1.1-16 and Agri-Environment Scheme programs (to be announced) VP-4-11.1-11.2-15, VP-4-11.1-11.2-18 and Organic Farming programs (to be announced)

	VP-4-12.11-16 Natura 2000 programs
A3.2-A3.3 Farmers and food producers in possession of an eco-label	Animal breeding Fungiculture Marketable processing: packaging, selecting, storage Food processing Eco label certification required
A3.4 Apiculture	Apiculture Bee pasture plantation Multi-species perennial floral zones plantation Tree and shrub zones plantation
A3.5 Procurement of sustainable farming equipment	Precision investments for digital transition Soil-friendly farming equipment Mechanical weed-control equipment Lawn management equipment
A3.6 VP habitat development investments	Non-farming activities for habitat protection
A3.7 Agri-business renewable energy and energy efficiency investments	Renewable energy investments Energy efficiency investments resulting in an improvement in energy performance of at least 30%
A.5 Corporate and municipality energy efficiency investments	At least 30% improvement in energy performance to be confirmed through energy audit
A.6 Acquisition and buy-out of green business equity	The target company operates in one of the eligible industries listed above The financing is used for full refinancing of existing debt The financing tenor is not longer than the payback period of the core assets of the target company

B. Eligible exposures under frameworks

In addition to the industry-specific criteria, MNB introduced a new type of eligibility based on green financing frameworks. Exposures which are created under green financing frameworks can also benefit from the preferential capital requirements program regardless of the industry classification of such exposures. The green financing frameworks may be established by a borrower company/ municipality or by a bank as part of a green financing strategy. The green financing frameworks are to be certified by acceptable external auditors to be eligible for the program.

Eligible exposures	Requirements (non-comprehensive)
B.7 Green bond exposures	Adherence to ICMA's Green Bond Principles or Climate Bond Standards. External review required by approved reviewers.
B.8 Exposures created under green financing frameworks established by debtors	Adherence to ICMA' Green Loan Principles. External review required by approved reviewers.
B.9 Exposures created under green financing frameworks established by banks	Alignment with ICMA's Green Loan Principles. Eligible categories to be based on EU Taxonomy or CBI Taxonomy. External review required by approved reviewers. The MNB confirms final eligibility of the framework.

Capital discount

The capital discount is 5% or 7% of each eligible gross exposure, which reduces the Pillar II capital requirements of the participating institution. The discount rate varies between industries and the type of standards adhered to (in most cases EU Taxonomy triggers 7% and the CBI Taxonomy 5%; for the exact criteria and corresponding discount consult the Hungarian policy document). The preferential capital treatment may not decrease the capital requirement of the exposure below 0.

In order to best realize the potential of sustainable financing for the broadest range of Hungarian banks, the MNB decided to merge the caps on the two existing 'green' preferential capital requirements programs. The 1% RWA cap of the preferential capital treatment for green corporate and the 0.5% RWA cap of municipal financing altogether with the preferential capital treatment for green mortgages will be summed up in a joint cap set at 1.5% of the institutions total RWA, effective for the two green preferential capital treatment programs altogether.

In case of any inconsistency between this English summary and the Hungarian policy document, The Hungarian version prevails:

Green Corporate and Municipal Financing Capital Requirement Discount Framework
(only available in Hungarian)