Terms and Conditions[1]

of refinancing loans in Pillar I and II of the second phase of the Funding for Growth Scheme[2]

1. SUBSTANTIVE ELEMENTS AND BUSINESS PARAMETERS OF THE FUNDING FOR GROWTH SCHEME

1.1. Objective of the Scheme

As part of its monetary policy instruments, on 1 June 2013 the MNB has launched its three-pillar Funding for Growth Scheme (FGS) to alleviate disruptions observed in lending to small and medium-sized enterprises, to strengthen financial stability and to reduce the external vulnerability of the country. In view of its success, on 11 September 2013 the Monetary Council decided to continue the Scheme. An overall amount of HUF 500 billion is available for the continuation of the Scheme, which may be raised up to HUF 2,000 billion by the Monetary Council, in consideration of the prevailing macroeconomic, credit and financial market environment.

In the framework of Pillar I of the Scheme,[3] in order to stimulate lending to SMEs and to strengthen financial stability the MNB provides forint refinancing loans[4] with preferential interest rate to credit institutions, which the credit institutions lend further to SMEs with a capped annual cost (hereinafter: interest margin). Preferential central bank financing provided in the framework of the FGS reduces the financing costs of SMEs and will make it possible to implement projects whose start has been impeded by high financing costs. The deterioration in bank credit portfolios' quality will slow down as a result of easing debt servicing burdens, thus the scheme may also improve lending capacity through the balance sheet position of the credit institutions.

Pillar II of the Scheme aims to reduce the ratio of foreign currency based loans on the one hand, and to lower the financing costs of enterprises through the redemption of forint loans or financial leases originally borrowed for investment, working capital financing and for pre-financing of EU subsidies, on the other hand. A large part of small and medium-sized enterprises with foreign currency loans do not have natural or artificial hedge, and therefore they are exposed to significant exchange rate risk. The conversion of foreign currency loans to forint loans improves the creditworthiness of the enterprises affected and creates a predictable operating environment for them, while the redemption of the forint-denominated loans reduces the financing costs of enterprises with existing loans.

In the framework of Pillar I and II of the Funding for Growth Scheme, the MNB provides refinancing loans to credit institutions participating in the Scheme at a 0 per cent interest rate and with a maximum maturity of 10 years.

1.2. Conditions of participation

Resident credit institutions subject to reserve requirements, with "VIBER" (Real-time Gross Settlement System) or "BKR" (Interbank Clearing System) membership and a securities account with KELER Zrt. can directly participate in the Scheme as contractual counterparties of the MNB. Other banks and integrated savings cooperatives and cooperative credit institutions may participate indirectly in the Scheme through their directly participating correspondent bank

[1] This document contains only the main parameters of the Scheme, the entire Terms and Conditions, containing all technical details is available only in Hungarian on the following link: http://www.mnb.hu/Root/Dokumentumtar/MNB/Monetaris_politika/NHP/NHP_folyt_termektajekoztato.pdf

[2] This Terms and Conditions only sets out the conditions of the second phase of the Scheme starting 1 October 2013. Conditions applicable to loans provided in the first phase of the Scheme are set out in a different Terms and Conditions, accessible through the following link: http://english.mnb.hu/Root/Dokumentumtar/ENMNB/Monetaris_politika/FGS/NHP_termektajekoztato_EN.pdf

[3] In the Information hereunder, Scheme shall mean the second phase of the Funding for Growth Scheme, while Pillar I and II shall accordingly mean Pillar I and II of the Scheme's second phase.

(umbrella bank). The umbrella bank is required to manage credit institutions participating through their intermediation in accordance with the parameters set out in the framework contract concluded with the MNB and in the Terms and Conditions, i.e. it must apply all terms and conditions to them, which are applied by the MNB to its contractual counterparties.

The fulfilment of the MNB's data provision requirement with identification code AL8 is a condition of participation in the Scheme, in accordance with the prevailing MNB Decree[5], concerning the scope of information to be provided to the central bank information system and of information providers, and the method and deadline of information provision.

1.3. Upper limit of the refinancing loan and availability period

Credit institutions participating in the Scheme may apply for refinancing loans up to 100% of the amount of their forint and foreign currency SME loan stock, including loans disbursed during the first phase of the FGS, indicated as of 30 September 2013 in line 14HD2, column 16 (p) of supervisor data provision No 14HD.[6]

As opposed to the first phase of the Scheme, credit institutions may obtain funds up to the amount of the available overall amount without an application for an allocated credit line, in the order of the submission of SME contracts in the framework of data provision.[7] The repaid instalments of loans drawn earlier by the credit institution cannot be used again, i.e. there is no revolving option.

The availability period extends from 1 October 2013 to 31 December 2014. The MNB notifies the credit institutions in writing with whom it concluded a framework contract, if the sum of SME contracts reported by the credit institutions has reached 80 per cent of the overall amount. If the Monetary Council does not raise the overall amount, in the course of the aforementioned notification, the MNB will determine the submission deadline (hereinafter 'final submission deadline') until which data provision relating to the SME contracts will be admitted.

The ratio of SME contracts under Pillar II, i.e. concluded for redemption of existing loans, cannot exceed 10 per cent of all SME contracts' total amount concluded by a given credit institution under both pillars, thus if a credit institution places 100 units of loans in the framework of the Scheme, at least 90 units thereof must be new loans. A new loan shall mean an investment loan, working capital financing loan, or a loan provided for the pre-financing of EU subsidy, if it is not used for the repayment of existing loans borrowed earlier from a credit institution, and the SME has not borrowed any other loans for the financing for these purposes. The SME is required to provide documented proof of the targeted use of the loan, which the disbursing credit institution has to verify. The credit institution is required to meet the condition pertaining to the ratio of disbursements under Pillar I and II by the end of the availability period, or on the business day following the final submission deadline if the available overall amount is exhausted earlier.[8] If under Pillar II, the credit institution drew refinancing loans in a higher amount, it is required to repay refinancing loans disbursed in connection with SME contracts of over 10% to the MNB, together with penalty interest corresponding to double the prevailing central bank base rate calculated from the date of disbursement by the MNB.[9] The MNB publishes the current usage of the facility amount on the first business Tuesday of each calendar month once the usage of the Scheme reaches HUF 100 billion, on the basis of the sum of SME contract amounts submitted by the last business day of the previous week.

The final deadline for the submission of data provision relating to the concluded SME contracts is 30 December 2014 in the case of both pillars. In the event of the early exhaustion of the overall amount, it is the final submission deadline published by the MNB, while the final date for dealing and disbursement is 31 December 2014 (end of availability period). The MNB charges a one-off (non-annualized) 2 per cent commitment fee for the portion of SME contracts – reported with data provision – not drawn by the end of the availability period, which may be passed on by the credit institution to the SME.

[5] Decree No 20/2012 (X. 15.) MNB on the date of the entry into force of this Terms and Conditions.

[6] Until SME loan stock data as of 30 September are not available to the MNB, it will use SME loan stock data as of 31 August as a limit, when admitting data on SME contracts. A credit institution, however, cannot submit data relating to more SME contracts than its SME loan stock on 30 September. If the latter proves to be less than the sum of contracts received on the basis of the SME loan stock at the end of August, the MNB will disburse a refinancing loan for only up to the amount of the SME loan stock as of September.

[7] When calculating the use of the available overall amount, the MNB applies the aggregate amount of the submitted SME contracts as a basis. Thus, it is possible to request the disbursement of tranches of already submitted SME contracts until the end of the availability period (31 December 2014), even if the overall amount is exhausted in the meantime.

[8] The ratio is calculated on the basis of the SME contractual amounts in relation to both the total loan applications submitted to the MNB and loan applications submitted in relation to Pillar II.

[9] The credit institution decides at its discretion which contracts to withdraw from the Scheme, subject to the payment of retroactive penalty interest.