

# Terms and Conditions<sup>1</sup>

## of refinancing loans in Funding for Growth Scheme Plus<sup>2</sup>

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

#### 1.1. Objective of the Scheme<sup>3</sup>

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. With FGS+, launched on 16 March 2015 and also forming part of its set of monetary policy instruments, the MNB improves the access to loans of the small and medium-sized enterprises that until now have not been eligible for FGS. The Monetary Council has earmarked HUF 500 billion for FGS+<sup>4</sup>, and then, by its decision 22 September 2015, it permitted using 100 percent of this facility amount in accordance with the conditions of the second phase of FGS.

The zero interest refinancing loans provided by the central bank under FGS+<sup>5</sup> – similarly to FGS – may be used for lending to small and medium-sized enterprises (hereinafter: SME) subject to charging a capped annual cost (hereinafter: interest margin). Within the framework of FGS+, the MNB assumes SME credit risk from credit institutions for a limited period, to a limited extent and in a limited amount – available under the same conditions to all credit institutions – related to the provision of liquidity.

FGS and FGS+, running in parallel, are the central bank's temporary, targeted monetary policy instruments adjusting the distortions of the SME credit market; they may contribute to the recovery of the operation of the entire SME credit market and the efficiency of the monetary policy transmission may substantially improve.

#### 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, integrated savings cooperatives and cooperative credit institutions and financial enterprise may participate indirectly in the Scheme through their directly participating umbrella bank (in the case of credit institution: correspondent bank). The umbrella bank is required to manage credit institutions and financial enterprises participating through their intermediation in accordance with the parameters set out in the framework agreement 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. Only those credit institutions may participate in the Scheme that indicate their intention to participate by 25 March 2015 – in the form of a duly signed declaration – and return the signed FGS+ framework agreement to the MNB by 15 April 2015, at the latest. Credit institutions and financial enterprises participating in the Scheme may provide only cash loans, financial

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<sup>1</sup> This Terms and Conditions is in effect from 18 October 2021.

<sup>2</sup> This Terms and Conditions only sets out the conditions of the FGS+ starting 16 March 2015. Conditions applicable to loans provided in the first, second and third phases of the Scheme, in the FGS Fix and the FGS Go! are set out in the relevant Terms and Conditions accessible through the following link: <https://www.mnb.hu/en/monetary-policy/funding-for-growth-scheme-fgs>

<sup>3</sup> Hereinafter in this Terms and Conditions Scheme shall mean the Funding for Growth Scheme Plus (FGS+).

<sup>4</sup> Although FGS+ is separated from FGS, and thus its facility amount is in addition to the current facility amount of HUF 1,000 billion available in the second phase of FGS, the HUF 500 billion allocated to FGS+ also utilises the limit of HUF 2,000 billion up to which the Monetary Council – in accordance with its previous decision – may raise the FGS facility amount.

<sup>5</sup> The "refinancing loan" extended by the MNB and mentioned in this Terms and Conditions shall mean the loan specified by the Civil Code. "SME loans" or "loans" granted to SMEs by a credit institution – be it through a correspondent credit institution or financial enterprise – shall include, in addition to the loans specified in the Civil Code, the financial lease and factoring specified in the Credit Institutions Act.

leasing<sup>6</sup> and factoring<sup>7</sup> to SMEs in this Scheme. Credit institutions participating in the Scheme undertake to enforce the decrease in their costs of risk – resulting from the MNB's partial assumption of risk – in full upon setting the interest rate on the loans granted to SMEs.

The fulfilment of the MNB's data provision requirement with identification code AL8 and AL10 is a condition of participation in the Scheme, in accordance with this Terms and Conditions and the MNB Decree referenced in it, concerning data provision to the central bank information system primarily for the performance of the basic tasks of the Magyar Nemzeti Bank<sup>8</sup> (hereinafter as: MNB Decree on data provision). As to SME Contracts concluded by credit institutions and financial enterprises indirectly participating in the Scheme, the umbrella bank will perform data provisions with identification code AL8 and AL10 to the MNB.

### **1.3. Method of allocation and availability period**

The MNB shall allocate a credit line to the credit institutions participating in the Scheme, of which it shall notify the credit institutions in writing by 31 March 2015. The HUF 500 billion facility amount of the Scheme will be allocated in proportion to the ratio of the amount of SME Contracts reported by credit institutions in the AL8 data supply until 31 December 2014 under the second phase of FGS<sup>9</sup>. Credit institutions may also use 100 percent of the credit line allocated to them under the terms of the second phase of FGS, as set out in its prevailing Framework Agreement and Terms and Conditions, provided that the extent of such use shall reduce the portion of the allocated credit line that may be used in FGS+, as set out in the relevant Framework Agreement and herein. The conditions of FGS+ shall not apply to transactions concluded under the second phase of FGS, i.e. for example the loss compensation specified in Section 1.8 shall not be available either. Accordingly, the credit institutions participating in the Scheme may apply for the refinancing loans granted by the MNB under partial assumption of risk up to the amount of the allocated credit line not utilised in the second phase of FGS during the availability period<sup>10</sup>.

Loans drawn down to refinance financial enterprises are also charged to the allocated credit line of the credit institution being in contractual relationship with the MNB, forwarding the funds, similarly to the SME Contracts concluded by it directly. As a general rule, the repaid parts of loans already drawn down by a credit institution cannot be drawn down repeatedly, i.e. it is not a revolving facility (except for factoring and loans drawn down to refinance loans for the pre-financing of EU grants that can be applied for annually, and working capital loans secured by warehouse warrants). For the purposes of FGS+, the working capital loan secured by warehouse warrant is a working capital financing loan where the degree of the financing may not exceed 100 percent of the (goods) value indicated on the warehouse warrant deposited with the credit institution as collateral, reduced by fees payable to the public warehouse, recorded on the warehouse warrant.<sup>11</sup>

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<sup>6</sup> Including open-end and closed-end financial leasing, but excluding operative leasing.

<sup>7</sup> Factoring shall mean the debt purchase activity within the meaning of the Credit Institutions Act, subject to the restrictions specified in Section 1.6.

<sup>8</sup> On the effective date of this Terms and Conditions, MNB Decree 41/2020. (XI. 18.). The provisions of the Decree related to the SME loans granted under Pillar I and II of FGS shall apply mutatis mutandis without special reference to FGS+.

<sup>9</sup> In the case of those credit institutions that have not joined the Scheme when the second phase of FGS commenced, the basis of the allocation shall be 20 percent of their SME loan portfolio outstanding at the end of 2014, which shall not be less than HUF 500 million. The central bank of the integration of cooperative credit institutions was free to distribute the credit line allocated to it between itself and each correspondent credit institution participating in the Scheme through it at its discretion, but this must be done in a manner that does not hinder the achievement of the objective of FGS+.

<sup>10</sup> For the purposes of calculating the utilisation of the available credit line, the MNB shall set out from the full amount of the submitted SME Contracts.

<sup>11</sup> The warehouse warrant deposited as a collateral may only secure the respective FGS+ loan.

Availability period: 16 March 2015 – 30 December 2016. except for the purposes and form of disbursement shown below (for the summary see Table 1)<sup>12</sup>

- Refinancing loans may be drawn down in the case of loans granted for the pre-financing of EU grants that may be requested annually (i.e. not linked to investments, e.g. normative), until 30 December 2016; after this, in respect of the repeated drawdown of already repaid loans, until 31 December 2018,
- in the case of working capital loans secured by warehouse warrant until 30 December 2016, in respect of the repeated drawdown of already repaid loans, until 31 December 2018,
- in the case of factoring until 4 December 2018,
- in the case of investment loans and financial lease until 30 June 2017

subject to the conditions detailed below and in Section 1.6.

If the sum of the contractual amount of the contracts concluded by the credit institution in the second phase of FGS against the credit line originally allocated in FGS+, and the concluded under FGS+ and reported until 31 October 2015 in the AL8 data supply fails to reach 50 percent of the credit facility originally allocated to the credit institution in FGS+, the MNB may reallocate maximum 50 percent of this latter amount among the credit institutions. The MNB shall inform the credit institutions that concluded a framework agreement accordingly in writing.

Only new loans may be granted under FGS+, no refinancing is permitted. New loans shall include investment loans and financial lease specified in Section 1.6, working capital loans, factoring provided for the financing of trade receivables<sup>13</sup> and loans granted for the pre-financing of EU grants as long as they are not used for the repayment of an already existing loan or financial lease at a credit institution or financial enterprises, and the SME has not drawn down any other loan for the financing of those.

According to paragraph 1.7, the SME is required to provide documented proof of the targeted use of the loan, which the disbursing credit institution or the financial institution has to verify. Starting from the date when the usage of the Scheme<sup>14</sup> reaches HUF 100 billion, the MNB publishes the current usage of the facility amount on the first business Tuesday of each calendar month, on the basis of the sum of SME contract amounts submitted by the last business day of the previous week.

The last day when the data supply on the concluded SME Contracts may be submitted for the first time is 30 December 2015, or – if the credit line allocated to the credit institution exhausts earlier – then the date thereof. Deals may be concluded and disbursed until 30 December 2016, the latest, subject to following restrictions and exceptions:<sup>15</sup> 1) in the case of investment loans, minimum 30 percent of the contracted amount must be drawn down and used by the SME until 30 June 2016, while the deadline for the remaining part is 30 June 2017; 2) in the case of financial lease the last possible date of the disbursement is 30 June 2017; 3) in the case of loans granted for the pre-financing of EU grants that may be requested annually (e.g. normative), the already repaid part of the loan – from the grant received – may be drawn down for the same purpose until 31 December 2018; 4) in the case of working capital loans secured by warehouse warrant, the already repaid part of the loan may be drawn down repeatedly until 31 December 2018 with the proviso that the drawdown can be made only on the first Tuesday of each month<sup>16</sup>; 5) in the case of factoring financing, the disbursement of the refinancing loan may be requested until 4 December 2018, and it shall operate as a revolving facility throughout the tenor of the loan, but the first drawdown and the amendment of the stock drawn

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<sup>12</sup> The deadlines listed here apply to all SME Contracts concluded under the Scheme, both in terms of the submission of data supply and the drawdown.

<sup>13</sup> Factoring granted for the financing of trade receivables shall qualify as new loan, if it is linked to the financing of invoices not covered by factoring before.

<sup>14</sup> Excluding the part of the allocated credit line used in the second phase of the FGS.

<sup>15</sup> The deadline for concluding the SME Contract and for the first submission of the related data supply to the MNB is 30 December 2015 or the final submission deadline.

<sup>16</sup> The repaid part may be drawn down repeatedly even before 31 December 2016.

down (increase and decrease; up to the amount of the SME Contract) is permitted only on the first Tuesday of each month (hereinafter: drawdown day)<sup>17</sup>. The actual factoring financing receivables portfolio may differ from the outstanding refinancing loans drawn down from the MNB; in respect of the monthly average of the actual outstanding factoring financing receivables and the outstanding refinancing loans drawn down, the MNB shall settle accounts with the credit institutions quarterly in the manner detailed in Annex 1, calculated at the prevailing central bank base rate. The credit institution shall submit separate data supply on the actual outstanding factoring financing receivables portfolio – in addition to the AL8 data supply – with the data content specified in Annex 1.

*Table 1: Availability period by loan purpose*

Purpose of refinanced loan and form of financing	Last possible date of the drawdown	Is it possible to draw down the repaid part(s) of the refinancing loan repeatedly
Investment loan	30 June 2017	No
Financial lease		
Pre-financing of EU grant related to investment	30 December 2016	Yes
Pre-financing of EU grants that may be requested annually (e.g. normative subsidies)	30 December 2016 (in the case of the repeated drawdown of already repaid loans	
Working capital loan secured by warehouse warrant	31 December 2018)	
Factoring	4 December 2018	Yes, but only on the first Tuesday of each month
Working capital loan	30 December 2016	No

#### **1.4. Partial assumption of the credit risk of financed SMEs<sup>18</sup>**

Of the SME loans disbursed under FGS+, in respect of those SME loans where within 5 years after the disbursement of the first tranche (but not later than on 31 December 2020) an event occurs that triggers an entitlement to loss compensation, the MNB shall reimburse the credit institutions for 50 percent of the capital loss arising from the individual SME loans<sup>19</sup> (for the detailed conditions of the compensation see Section 1.8). The degree of the reimbursement for losses is also limited at portfolio level: in the case of a single credit institution, it may not exceed 2.5 percent of the quarterly average of the SME loans granted under FGS+ by the respective credit institution and the correspondent credit institution and financial enterprise participating through it, outstanding between 1 January 2016 and 31 March 2020 – or from 1 April 2016 – the annual average of those, with the proviso that the limits calculated on the basis of the average stock of the 5 reference periods shall be added. The reimbursement for losses can be paid until 31 March 2027 against the limits calculated on the basis of the average stock of the individual reference periods after the end of the respective period (from the second Tuesday of April); however the credit institution may submit its request for reimbursement also before that date<sup>20</sup>.

<sup>17</sup> The credit institution shall fulfil the AL8 data supply related to the amendment of the current stock to the MNB on the previous working day.

<sup>18</sup> The partial assumption of risks, forming part of FGS+, contains state aid falling within the scope of Article 107(1) of the Treaty on the Functioning of the European Union and can therefore only be granted in accordance with the European Commission Regulations on the application of Articles 107 and 108 to de minimis aid. For the methodology of quantifying the aid intensity see Section 1.7. For further details of the de minimis aids see the website of the State Aid Monitoring Office at <http://tvi.kormany.hu/de-minimis>.

<sup>19</sup> When a debt is forgiven, in accordance with the limitation specified in Section 1.8.

<sup>20</sup> If the cumulative available limit for a given year is fully used in that year, the limit for the following year cannot be used in advance; instead the MNB will only make payments on the second Tuesday in April of the following year in respect of requests received by that date, based on the

*Table 2: Method of calculating the upper limit of the reimbursement for losses*

<b>Stock on which the calculation is based</b>	<b>Use of annual reimbursement limit</b>
1 January 2016 - 31 March 2016	12 April 2016 - 31 March 2027
1 April 2016 - 31 March 2017	11 April 2017 - 31 March 2027
1 April 2017 - 31 March 2018	10 April 2018 - 31 March 2027
1 April 2018 - 31 March 2019	9 April 2019 - 31 March 2027
1 April 2019 - 31 March 2020	14 April 2020 - 31 March 2027

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request for reimbursement for losses submitted by the credit institution. From then on, the MNB will continue to pay the requests for the reimbursement for losses until the available limit for the year in question is fully used. The MNB will notify the participating credit institutions of the amount of their portfolio loss reimbursement limit and its utilisation on the second Tuesday of April each year between 2016 and 2020. The MNB does not set a separate limit for the financial enterprises: credit institutions shall ensure the forwarding of the reimbursement for losses received from the MNB to them up to the proportionate part of limit provided to us (in proportion to their share in the loan stock underlying the calculation). The MNB will also set a limit on the total amount of all loans outstanding under the Scheme for the umbrella bank and the correspondent credit institutions participating through it. The central bank of the cooperative credit institutions' integration may set at its discretion the allocation of the portfolio-level reimbursement limit calculated by the MNB within the integration, but this must be done in a way that does not hinder the achievement of the objective of FGS+.