Terms and conditions[1]

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

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

1.1. Objective and structure of the Scheme

As part of its monetary policy instruments, on 1 June 2013 the Magyar Nemzeti Bank has launched the 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. On 6 October 2015, the Monetary Council (MC) decided to launch the third phase of FGS, serving the purpose of its gradual phase-out.

Within the framework of the Scheme[3] the central bank provides credit institutions with zero interest refinancing loan with a maturity of 10 years, at the most (however, in the case of restructuring specified in this Terms and conditions and redeeming of loans granted under the Scheme, the maturity of the refinancing loan in Pillar I may be maximum 20 years[4], while in Pillar II (foreign currency pillar) in the case of restructuring the maximum maturity may be 15 years), which they lend on to SMEs under a capped annual cost (hereinafter: interest margin) in the form of loans or financial leases (hereinafter: SME Contract), on the one hand and refinance financial enterprises for the same purpose, on the other hand[5]. The Funding for Growth Scheme eases the access of SMEs to loans, thereby facilitating the implementation of projects the launching of which has been hindered until now by the high financing costs.

The third phase of the Scheme consists of two pillars. In Pillar II, the forint refinancing loan is linked to a market-priced euro-forint swap (CIRS), which allows credit institutions to provide financing in foreign currency – without exchange rate risk – to SMEs with natural foreign currency hedge. Both pillars were announced with a facility amount of HUF 300 billion, but on 7 June 2016 the MC increased the Pillar I facility amount by HUF 100 billion to HUF 400 billion. Following the MC's decision of 11 October 2016, the HUF 60 billion reallocated from Pillar II, as set out in Section 1.3, was also made available to credit institutions under Pillar I by the MNB. The latest decision of the MC of 22 November 2016 allows the unused part of the credit lines allocated under Pillar II to be used in either pillar. As a result, the volume of forint loan transactions concluded under Pillar I may reach HUF 600 billion, while the combined facility amount of the two pillars remains unchanged at HUF 700 billion.

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 institution may participate indirectly in the Scheme through their directly participating umbrella bank (correspondent credit institution). The umbrella bank is required to manage correspondent 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,

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[1] This Terms and Conditions is in effect from 18 October 2021.

[2] This Terms and Conditions only sets out the conditions of the third phase of the Scheme starting 1 January 2016. Conditions applicable to loans provided in the first and second phases of the Scheme, in the FGS+, 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

[3] Hereinafter, in this Terms and Conditions, *Scheme* shall mean the third phase of the Funding for Growth Scheme, while accordingly Pillar I and II shall mean Pillar I and II of the third phase of the Scheme.

[4] However, if the SME Contract is restructured after 18 October 2021, the maximum maturity may be one and a half times the maturity fixed upon concluding the SME Contract, but shall not exceed 15 years. If the SME notified the credit institution (correspondent credit institution) by 8 October 2021 in writing of its restructuring requirement related to the prolongation of the maturity, the rules of the Terms and Conditions in force until 17 October 2021 may be applied to that restructuring in respect of the maximum maturity, provided that the agreement on the prolongation of maturity is concluded by the parties by 30 November 2021.

[5] The "refinancing loan" extended by the MNB and mentioned in this Terms and Conditions shall mean the loan specified by the Civil Code. The "SME loan" or "loan” and "SME Contract" extended to the SME by a credit institution - even with the involvement of a financial enterprise - shall mean the loan defined by the Civil Code and the financial leasing specified by the Act on Credit Institutions and Financial Enterprises.

which are applied by the MNB to its contractual counterparties. Only those credit institutions are eligible for participating in the Scheme which return the relevant and duly signed framework agreement to the MNB by 8 January 2016 at the latest, indicating the pillar(s) in which they wish to participate. Credit institutions and financial enterprises participating in the Scheme may provide only cash loans and financial leasing[6] to SMEs in this Scheme.

The fulfilment of the MNB's data provision requirement with identification code AL8 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[7] (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 provision with identification code AL8 to the MNB.

1.3. Upper limit of the refinancing loan and availability period

The credit institutions participating in the Scheme may utilise the refinancing loan up to the[8] credit line – defined in forint – allocated to them by pillars[9]. Of the facility amount of HUF 300 billion of each Pillar, the credit line allocated to the individual credit institutions was based on the following figures.

I) In Pillar I: the arithmetic mean of the share of credit institutions wishing to participate 1) expressed as a percentage of the SME loan portfolio outstanding on 30 September 2015 (based on row 7HT1501 of data supply 7HT) and 2) expressed as a percentage of the credit substitute guarantee and surety portfolio undertaken until 30 September 2015 (based on row C12H111 of table C12H of the supervisory data supply decree[10]).

II) In Pillar II: the percentage ratio of the credit institutions wishing to participate within the SME loan stock outstanding on 30 September 2015 (based on row 7HT1501 of data supply 7HT).

The MNB shall notify the individual participating credit institutions on the amount of the credit lines allocated by pillars in writing by 13 January 2016[11].

If the sum of the contractual amount of the contracts concluded by the credit institution against the credit line allocated in Pillar I of the third phase of FGS, and reported until 30 June 2016 in the AL8 data supply, fails to reach 50 percent of the credit facility originally allocated to the credit institution for Pillar I of the third phase of FGS, the MNB may reallocate maximum 50 of the unutilised amount of the credit line allocated to Pillar I among the credit institutions. If the sum of the contractual amount of the contracts concluded by the credit institution against the credit line allocated in Pillar II of the third phase of FGS, and reported until 8 July 2016 in the AL8 data supply, fails to reach 30 percent of the credit facility originally allocated to the credit institution for Pillar II of the third phase of FGS, the MNB may reallocate maximum 50 percent of the credit line allocated to Pillar II, not utilised until 9 September 2016, among the credit institutions. The MNB shall inform the credit institutions that concluded a framework agreement

[6] Including open-end and closed-end financial leasing, but excluding operative leasing.

[7] On the effective date of this Terms and Conditions, MNB Decree 41/2020. (XI. 18.).

[8] Not including the refinancing loan – detailed below in this section – utilised for the purpose of assuming SME loans taken over under a portfolio transfer arrangement, provided that it takes place after the end of the availability period, and the refinancing loan utilised for the refinancing of loans granted under the Scheme in accordance with Section 1.9. The first utilises the credit institution's allocated credit line only in the availability period and not after that, while the latter does not utilise it already after the end of the contracting period. For the purposes of redeeming loans provided in the Scheme and transferring portfolios, the MNB is entitled to unilaterally limit the amount of refinancing provided to credit institutions, by modifying the Terms and Conditions, and this limitation comes into force at the earliest on the 60th day following the publication of the relevant modification in the Terms and Conditions.

[9] Loans applied for the refinancing of financial enterprises will also be taken from the allocated credit line of the credit institution that has a contract with the MNB and that forwards the funds, similarly to the SME Contracts concluded by it directly.

[10] In the case of branch offices based on column 4d of row 101 of data supply table F3CB.

[11] The central bank of the integration of cooperative credit institutions is free to allocate 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+.

with it accordingly in writing. The MNB shall inform the credit institutions participating in the respective pillar on the result of the reallocation in writing by 8 June 2016 in the case of Pillar I and by 14 October 2016 in the case of Pillar II. The MNB will also notify the credit institutions by 8 July 2016 of the individual credit lines allocated to the individual credit institutions from the surplus facility resulting from the raising of the credit facility by HUF 100 billion in June 2016 for Pillar I. This amount increases the allocated credit line of the credit institution. Upon the allocation of this, the MNB shall take into consideration the utilisation of the individual allocated credit lines until 30 June 2016 and the volume of the HIRS transactions concluded under the Market-Based Lending Scheme, underlying the commitment to increase lending to SMEs.

The MNB shall provide the credit institutions with the amount reallocated from the part of the HUF 300 billion facility amount of Pillar II that was not used until 9 September 2016, in Pillar I, with effect from 24 October 2016. The credit institution may request the MNB, in an officially signed letter, to reallocate a part or all of the additional credit line specified in Pillar I – compared to the amount stated in the previous notification as shown in the notification 14 October 2016 – to its credit line allocated in Pillar II, if it wishes to utilise it there. Furthermore, from 5 December 2016, the credit institution may also request the MNB to reallocate part or all of the credit line allocated in Pillar II to its credit line allocated in Pillar I (and later on the partial “reverse reallocation” of the reallocated amount to Pillar II). Credit institutions may do so until 17 March 2017 on 4 occasions, at the most.

The credit institution may renounce part or all of its allocated credit line within the individual pillars in favour of another credit institution participating in the Scheme. The respective credit institutions shall notify the MNB of their intention to do so in a letter duly signed by both institutions.

The MNB shall notify the respective credit institutions on the amended allocated credit line in writing after receiving the notification on the reallocation of the allocated credit lines between the pillars or their transfer between the credit institutions.

The credit institutions or correspondent credit institution participating in the Scheme, subject to the conditions specified in the Credit Institutions Act[12], may transfer between them the SME Contracts concluded under Pillar 1 of the Scheme (hereinafter: portfolio transfer), as long as both the recipient and the transferor credit institution (or if the recipient or transferor is a correspondent credit institution, its umbrella bank) have signed a framework agreement with the MNB containing the conditions of this. Following the date of the portfolio transfer, the MNB will provide the refinancing loan to the recipient credit institution, and not to the transferring credit institution, in connection with the transferred SME Contracts. The transferring and the recipient credit institution inform the MNB about their intention of transferring the portfolio in a joint statement duly signed by them (and by the correspondent credit institutions, too, if applicable), at least 5 working days before the date of the portfolio transfer. The joint statement shall include the date of the portfolio transfer, the contract identifiers of transferred SME Contracts used at the transferring credit institution (or correspondent credit institution) and at the recipient credit institution (or correspondent credit institution), the contractual amounts and the current loan amounts expected at the time of the transfer, and they shall declare that both the transferring and the recipient party (and the correspondent party, if applicable) have all the official permits required for the transfer. For the transferred SME Contracts, the recipient credit institution or the umbrella bank of the recipient correspondent credit institution may request a refinancing loan against its allocated credit line (similarly to the SME Contracts concluded by the credit institution or the correspondent credit institution), as long as the portfolio transfer takes place within the availability period and it has provided the collaterals, and other conditions prescribed in the framework agreement and in the Terms and Conditions[13].

[12] Section 17/A of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises

[13] Simultaneously with the portfolio transfer the transferor credit institution may renounce part or all of its allocated credit line in favour of the recipient credit institution; however, this is not triggered automatically by the fact of the portfolio transfer, and thus the parties shall separately notify the MNB of their intent to do so, and the degree of it may differ from the amount of the transferred SME Contracts. After the end of the availability period, irrespective of the size of the allocated credit line, refinancing loan may be requested even in excess of the credit line for the takeover of the transferred portfolio.

The repaid instalments of loans drawn earlier by the credit institution cannot be used again, i.e. there is no revolving option. An exception to this is the refinancing loan repaid by the transferor credit institution, which may be used for the refinancing of other non-revolving SME contracts within the availability period up to the amount of credit institution's allocated credit line.

SME Contracts may be concluded under both pillars between 1 January 2016 and 31 March 2017 (contracting period)[14]. The refinancing loan may be drawn down for the first time on 14 January 2016 in Pillar I and on 16 March 2016 in Pillar II (value date). The last possible date of the first submission of the data supply on the concluded SME Contracts is 31 March 2017 under both pillars. Disbursement under Pillar I shall be done on 28 June 2019 and under Pillar II on 17 June 2019, at the latest (end of the availability period). A portfolio transfer is possible even after the end of the contracting or availability period, therefore the first data provision - by the recipient credit institution - on SME loans related to the portfolio taken over may also be sent in, and the related refinancing loan may be drawn down, too. A refinancing loan related to those parts of the contractual amounts of the SME loans taken over that were not disbursed earlier by the transferring credit institution may be drawn down until the end of the availability period, in the case of portfolio transfers, too.

Only new investment loans may be disbursed in both pillars[15]. An investment loan and a financial leasing defined in point 1.5 qualifies as a new investment loan if it is not used for the repayment of a loan or financial leasing that already exists at a credit institution or a financial enterprise, or the SME did not take any other loan to finance these.

According to paragraph 1.6 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. 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 60 billion per Pillar, on the basis of the sum of SME Contracts amounts submitted by the last business day of the previous week.

[14] The different dates related to SME Contracts concluded for the replacement of loans provided in the Scheme shall be included in point 1.9.

[15] It is also possible to redeem new investment loans extended previously in Pillar I of the third phase of the Scheme.