

Magyar Nemzeti Bank closes the restructuring of MKB after a successful market-based sales procedure

30 June 2016

The sales procedure of MKB Bank under close monitoring of the European Commission was successfully closed on 29 June 2016, after the conditions were met, including obtaining permission for the winning consortium members to gain interest and paying the purchase price. The new owners of MKB Bank are members of a consortium established by Blue Robin Investments S.C.A., METIS Private Capital Funds and Pannónia Pension Fund with a share in the Bank of 45%, 45% and 10%, respectively. In the resolution procedure of MKB Bank all necessary resolution actions have been implemented by Magyar Nemzeti Bank (Central Bank of Hungary) and the resolution objectives were achieved. As a result, MNB, acting in its scope as resolution authority, terminates the resolution process of MKB Bank by 30 June 2016. In the following, the ownership rights over MKB Bank will be exercised by the new shareholders.

The Magyar Nemzeti Bank (Central Bank of Hungary, hereinafter: 'MNB'), acting in its scope as resolution authority, placed MKB Bank Zrt (MKB) under resolution on 18 December 2014. In order to place MKB on a more sustainable operational path, MNB developed a resolution action plan to set out the most important steps of restructuring.

As a first step in the frame of the resolution actions, MNB separated the toxic commercial real estate loan portfolio of the bank representing significant exposure and responsible for its critical situation. In this framework, an exposure worth HUF 130 billion has been sold on the market through the sale of business tool at a transaction price of approximately HUF 100 billion. MNB acting in its scope as resolution authority has transferred the gross credit portfolio of HUF 214 billion that could not be sold on the market through the sale of business tool to MSZVK Magyar Szanálási Vagyonkezelő Zrt. (MSZVK) exclusively owned by the Hungarian Resolution Fund applying the asset separation tool. Asset separation has been implemented at a

transaction price of approximately HUF 100 billion (higher than the current market value at that time) set by an independent valuer and approved by the European Commission, that is, at real economic value to stabilise the capital position of MKB.

The difference between the purchase price received for the transferred assets and their market value constitutes State aid under EU law, which was found compatible with the rules of the internal market and have been approved by the European Commission in December 2015, together with the restructuring steps aimed at recovering operability and the medium-term business plan to ensure the viability of the cleaned bank. As compensation for the aid and to ensure the appropriate level of burden sharing by the former owner, as required by the EU competition law, MNB has transferred all shares of MKB to MSZVK (new owner), in accordance with the obligation laid down in the European Commission's resolution.

In the framework of the resolution procedure, investments not closely complementing MKB's core commercial bank activities, but binding capital and finances, have been separated. Almost all shares of MKB in MKB Insurance companies and moreover the interests of MKB Euroleasing Group in vehicle sales and fleet management have been sold, and further measures aimed at reducing costs significantly and improving effectiveness have been implemented.

As a closing step of the resolution actions, MNB sold MKB's shares on the market through an open, transparent and non-discriminatory procedure by applying the sale of business tool. In the course of the sale procedure, MNB as supervisory authority verified whether the acquisition of qualifying holding by the buyers comply with the relevant legal requirements. After the conditions of transferring shares were met, including obtaining permission for the members of the winning consortium to gain interest and paying the purchase price of HUF 37 billion, the shares of MKB were acquired by Blue Robin Investments S.C.A. – METIS Private Capital Fund – Pannónia Pension Fund Consortium on 29 June 2016 with a share of 45%, 45% and 10%, respectively. The purchase price of HUF 37 billion exceeds the State aid of HUF 32 billion, even after deductions under law, hence at the same time with sale, the State aid has also been repaid to MSZVK.

By selling MKB on the market, MNB implemented all necessary resolution actions required under the resolution procedure, and the resolution objectives were fully achieved; therefore, MNB, acting in its scope as a resolution authority, terminates MKB's resolution process by 30 June 2016. As of the completion of the resolution process, the ownership rights over MKB are going to be exercised by the new shareholders instead of MNB.

The restructuring plan and the commitments as drafted in the resolution procedure and approved by the European Commission will ensure the implementation of MKB's business plan. It was confirmed by the fact Moody's Investors Service changed the rating of MKB's long-term deposits from stable to positive and also upgraded the principal credit rating and counterparty default risk rating of MKB by one notch.

The reorganisation of MKB was the first resolution process in Hungary which was implemented on a significant and universal large bank with a country-wide coverage by MNB as the resolution authority, in line with the bank recovery and resolution directive of the European Union, and with the involvement of well-known and highly respected advisors on the global market. Numerous resolution actions have been taken in the resolution process, but the bail-in tool was not applied to creditors. MNB achieved its objective to recover MKB's long-term operability and transferring MKB's shares to its new owners while maintaining the protection of customers and creditors money in full extent and without causing them any losses.