György H MATOLCSY
GOVERNOR

MAGYAR NEMZETI BANK

THE CENTRAL BANK OF HUNGARY

Mr. Andrea Enria
Chairperson

European Banking Authority

One Canada Square (Floor 46)
Canary Wharf
London E14 5AA UK

Reference number: 1076-246/2016
"30" June 2016

Subject: Publication of Magyar Nemzeti Bank's administrative action with regards to MKB Bank Zrt.

Dear Chairperson Enria,

Hereby we would like to ask the European Banking Authority to publish on its website the attached summary of the decision of the Magyar Nemzeti Bank (The Central Bank of Hungary, hereinafter: 'MNB') acting in its scope as resolution authority.

Our request based on Article 83 paragraph 4 point b) of the Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms.

The decision of MNB terminates the resolution process of MKB Bank Zrt..

Should you have any questions or comments, please do not hesitate to contact us.

Yours sincerely,

MAGYAR NEMZETI BANK
ELNÖK
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György Matolcsy
Governor

Annex:

- Summary of the decision of MNB relating to the termination of the resolution process of MKB Bank Zrt.

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Budapest, 30 June 2016

SUMMARY

OF DECISION NO. H-SZN-I-75/2016. OF THE MAGYAR NEMZETI BANK TO TERMINATE THE RESOLUTION PROCESS OF MKB BANK ZRT.

I. TERMINATION OF RESOLUTION PROCESS

Magyar Nemzeti Bank, as the designated national resolution authority (hereinafter: MNB), terminated the resolution process regarding **MKB Bank Zrt** /seat: 1056 Budapest, Váci utca 38.; court of registry responsible for company records: Metropolitan Court of Budapest (Fővárosi Törvényszék), as court of registry, company reg. No.: 01-10-040952; hereinafter: Bank/ initiated on 18 December 2014 with the effect of 30 June 2016. Following the termination of the resolution process, MNB is not entitled any longer to practice the rights of the general meeting and the board of directors of the Bank within the frames stipulated by the Hungarian Resolution Act[1] . The ownership rights of the Bank are now exercised by the new shareholders.

II. RESOLUTION TRIGGERS, PLACING THE BANK UNDER RESOLUTION

The Bank founded in 1950 was privatised in 1994, and was owned by Bayerische Landesbank until 30 September 2014, when it was purchased by the Hungarian State. The financial crisis highlighted the weaknesses of the business model of the Bank. The high ratio of non-performing loans in the commercial real estate loan portfolio and foreign currency loans extended to SME and retail customers, the inadequate risk management policy, the low cost efficiency and the insufficient profitability together led to the problems of the Bank. In the autumn of 2014, the European Asset Quality Review (AQR) discovered a significant shortfall of provision.

At the time of ordering the resolution, on 18 December 2014, the statutory preconditions for the resolution process were met. Based on the available data, the MNB found that in the near future but within 12 months at the latest the Bank is likely to be in breach of the requirements constituting the conditions for the maintenance of its licence to such an extent that would justify the withdrawal of its licence, in particular, due to the institution's suffering of losses or presumable suffering of losses that would result in the loss of its regulatory capital as defined in Regulation (EU) No. 575/2013 either in full or in a significant part. Apart from the resolution process, no other alternative solution to stabilise the Bank was available, considering the fact that the owner, the Hungarian State did not intend to spend additional state funds on the capital increase of the Bank, at least not on the short term. Based on the evaluation conducted by MNB, the ordering of the resolution served public interest, as it was necessary for the achievement of the identified resolution objectives, it was proportionate to them, and by terminating the institution in a winding up procedure, these objectives would not have been realised to the extent that was feasible with the application of a resolution process.

When ordering the resolution, the MNB focused on the following objectives:

a) protection of public funds by minimising the need for and the use of extraordinary public financial support in any form;
b) ensure the continuity of critical functions;
c) eliminate the generation of impacts that endanger the stability of the financial intermediary system, or the termination of already generated impacts;

[1] Act XXXVII of 2014 on the further development of the system of institutions strengthening the security of the individual players of the financial intermediary system

d) protecting the deposits covered by the deposit insurance scheme (including the National Deposit Insurance Fund - NDIF) and the investments covered by the investment protection scheme (including the Investor Protection Fund - IPF);
e) maintain the confidence of deposit holders and investors for the stability of the financial intermediary system.

Following the ordering of the resolution - within the frames defined by the Hungarian Resolution Act - the MNB exercised controlling influence over the Bank, and exercised the ownership rights and the management rights over the Bank.

III. THE RESOLUTION ACTION PLAN AND ITS IMPLEMENTATION

In order to reach the resolution objectives, MNB completed successfully the resolution action plan, in which the primary objective was to separate the portfolio of bad loans that represented a significant exposure, and in connection with that, terminate business lines that were responsible for the critical situation and did not serve long-term viability. In addition to the resolution action plan, successful resolution was greatly facilitated by the resolution commissioners appointed by the MNB, and after the termination of their appointment, the present management of the Bank, who took several reorganisation steps to restore long-term viability and build the pillars of a permanently viable financial institution.

The MNB applied the sale of business resolution tool on several occasions, in the course of which a significant ratio of assets selected for sale were sold under market conditions to recipients who made binding purchase offers. The assets of the Bank that were not possible to sell by applying the sale of business tool were transferred first to the fully owned subsidiaries of the Bank, MKB Pénzügyi Zrt. (claims) and to Resideal Zrt. (real estates), then the shares issued by these two subsidiaries and the Bank's loan claims against MKB Pénzügyi Zrt. were transferred by applying the asset separation tool to MSZVK Magyar Szanálási Vagyonkezelő Zrt. (Hungarian Resolution Asset Management Company) which is fully owned by the Resolution Fund.

For the transferred assets, the Bank received a price (real economic value) that was higher than their low market value stemming from the unfavourable market conditions, so that the Bank's capital position could be stabilised. The difference between the price collected for the transferred assets and their market value qualifies as State aid based on the EU law, and it was qualified and approved by the European Commission (Commission) in December 2015 as being in line with the internal market. In exchange for the purchase price that was higher than the market price, and based on the commitment stated by the Commission, MNB transferred all the shares issued by the Bank to MSZVK - with an obligation to sell them on the market later - so it became the exclusive owner of the Bank. The changes envisaged by the restructuring plan approved by the Commission will be fully accomplished by 31 December 2019 (end of restructuring period). With the above resolution actions, the portfolio of the Bank has been cleaned as planned, and the bases of long-term viability and revenue generating power were laid down. The MNB continuously monitors the performance of the commitments assumed towards the Commission, and if necessary, it takes the necessary steps in time, therefore it stipulated extraordinary reporting obligations for the Bank.

The commitments approved by the Commission and assumed with the purpose of minimising the possible competition distorting impacts of State aid, eliminating the reasons that were responsible for the troubles of the Bank, and ensuring long-term viability without State aid including that all the shares (100%) issued by the Bank shall be sold to market participants in sales procedure that is open, transparent, competitive, non- discriminatory, and fully complies with the State aid requirements in the sense of the EU competition law, and meet the requirements of Directive 2014/59/EU of the European Parliament and Council on the framework for the recovery and resolution of credit institutions and investment firms. In a sales procedure that fully satisfied the above requirements, MNB transferred the shares of the Bank to buyers who offered the highest price, applying the sale of business tool. MSZVK and the winner buyers satisfied all the conditions required for the acquisition of the shares by 29 June

2016. In order to further improve the capital adequacy of the Bank and to facilitate its cost effective operation, the buyers undertook additional obligations.

IV. ELIMINATION OF CONDITIONS TRIGGERING RESOLUTION, MEETING OF RESOLUTION OBJECTIVES

Pursuant to the Hungarian Resolution Act, MNB terminates the resolution process in a decision, when the conditions that triggered resolution have been eliminated and the objectives of the resolution have been achieved, or the resolution process cannot be expected to achieve the objectives of the resolution any longer. Based on the available documents and data, the MNB found that the contents of the decisions made with the purpose of applying the resolution tools and actions in the resolution process have been fully accomplished. In particular, the obligations established by applying the sale of business and the asset separation resolution tools have been satisfied, the parties entitled to the price of the transferred assets have received the full amounts due to them, and all the transfers are final in every respect, and there is no need in any case to arrange reverse transfers by MNB.

a) Protection of public funds by minimising the need and the use of extraordinary public financial support in any form

In the respect of asset separation, the provision of State aid was absolutely necessary, as the sale of these assets on the market was not successful within a short deadline, but it was not possible to wait for favourable changes in market conditions in the hope of a better market price - considering the conditions of the rapid application of the resolution action - , therefore the sale at a price higher than the current market value - based on the obligation to strive for the highest sales price and preserve the value of assets of the institution under resolution - had to result in extraordinary financial support from the State, but in the case of this support, the requirement of minimisation was met. Based on the above points, the protection of public funds has been achieved.

b) Ensure the continuity of critical functions

The business continuity of the Bank was not interrupted during the resolution process, the Bank was able to perform its functions qualified as critical continuously and in permanently improving their quality.

c) Eliminate the generation of impacts that endanger the stability of the financial intermediary system, or the termination of already generated impacts

MNB has examined the capital and profit and loss plans of the Bank, which are based on the capital and business plan until the end of 2019, as sent to the Commission, and which are tailored to the frames provided by commitments that ensure the prudent and sustainable operation and eliminate the competition distorting impacts of State aid. With the help of the resolution, it was possible to avoid that the Bank would actually get into a position that its operating licence should have been withdrawn, and impacts endangering the stability of the financial intermediary system would have emerged, considering the fact that according to the latest data available at the time of ordering the resolution, based on its balance sheet total, the Bank had a market share of 6.66 per cent, and as a player of special importance on the Hungarian banking market, it had an influence over the stability of the financial intermediary system.

As a result of the above actions, the circumstance that triggered the resolution, i.e. the situation that threatened with insolvency within 12 months, has been eliminated.

d) Protection of the deposits covered by the deposit insurance scheme (including the National Deposit Insurance Fund) and the investments covered by the investment protection scheme (including the Investor Protection Fund)

The Bank has maintained its continuous operation all the time, and no effective insolvency situation has emerged that would have jeopardised either insured or non-insured deposits and investments. The application of the planned resolution tools (sale of business, asset separation) did not affect deposits or investments, and owing to the performed resolution actions, the creditors of the Bank did not have to suffer any losses. At the same time, the application of the asset separation tool and other related actions ensured the burden-sharing by the former owners of the Bank in line with the resolution principles. Therefore the protection of insured deposits and investments was feasible without triggering compensation payout by NDIF and IPF.

e) Maintain the confidence of deposit holders and investors for the stability of the financial intermediary system

No negative impact of the resolution of the Bank on the confidence in the financial intermediary system can be detected. The protection of the customers funds and assets was not jeopardised at all during the resolution.

V. SUMMARY

As a summary, it can be stated that the new business plan of the Bank and the actions to be taken during the restructuring period will ensure that the Bank does not get into a position that would require resolution again. Based on the above points, MNB came to the conclusion that following the successful resolution actions, with the complete achievement of the resolution objectives, there is no reason to continue the resolution process, therefore it is appropriate to terminate the resolution with immediate effect.

Decision No. H-SZN-I-75/2016 has no impact on the retail customers of the Bank, and owing to the successful resolution, they were able to use the services of the Bank without any interruption during the whole process.

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