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Magyar Nemzeti Bank, the central bank of Hungary – Notification of the start of operation of MARK Zrt. to mitigate systemic risks stemming from non-performing project exposures

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THE CENTRAL BANK OF HUNGARY

Francesco Mazzaferro
Head of Secretariat
European Systemic Risk Board

Ref.no: 65066-1/2016

Budapest, 23 March 2016

Subject: Magyar Nemzeti Bank, the central bank of Hungary - Notification of the start of operation of MARK Zrt. to mitigate systemic risks stemming from non-performing project exposures

Dear Mr. Mazzaferro,

Please find enclosed a document whereby Magyar Nemzeti Bank, the central bank of Hungary notifies you of the start of the operation of a dedicated asset management company, Magyar Reorganizációs és Követeléskezelő Zártkörűen Működő Részvénytársaság - MARK Zrt., to address the high level of Commercial Real Estate (CRE) non-performing levels. MARK Zrt. has been founded and operated under MNB's macroprudential mandate.

The aim of the activities of MARK is to help solvent financial institutions to sell distressed commercial real estate portfolio - on a voluntary basis - at market price. High levels of non-performing loans are weighing on banks' balance sheets and hampering their lending activity. The idea of managing distressed assets as a central bank was drawn from the example of Stabfund of the Swiss National Bank.

Please find herewith briefly the most important aspects of the functioning of MARK:

- The European Commission validated the acquisition process by February 2016, including the pricing methodology as a market pricing method, meaning that it does not contain state aid and thus capital relief. Furthermore, there has been a positive tone about the MARK project on the market and also by IMF, EBRD, OECD and the European Commission.
- MARK has announced the start of the registration process, which means that all financial institutions have the possibility to register their own distressed commercial real estate portfolio from 21 March 2016 for a period of 3 months.
- The registration is free and there are no commitments to sell. Based on the registered portfolio, MARK is to make its own due diligence, valuation, and then issue an indicative offer to the financial institution.
- The intensive sale process starts right after the acceptance of MARK's indicative offer.
- All the due diligence and the valuation process are in line with international market standards and supervised by the European Commission.
- MARK kindly invited all institutions to take part in the process – without any commitments or obligations.
- MARK and its shareholder, the Magyar Nemzeti Bank are committed to be as transparent and cooperative to the ultimate owners of international banks as possible.

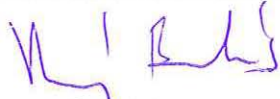
MARK is a unique macroprudential tool and thus it can clearly and fundamentally be distinguished from previous bad banks or asset management companies established within the European Union, where capital relief had occurred in case of banks in severe financial distress.

As presented in the latest Risk Assessment of ESRB in front of the General Board on March 17 the weak profitability and NPLs, if unaddressed, impair banks' ability to provide credit in several other EU member countries as well. In light of the above, I would like to take this opportunity to offer you that my colleagues would present in front of any of the dedicated committees or working groups of ESRB like ATC, AWG or IWG the ideas and main principles underlying the establishment and functioning of the Hungarian asset management company. We are convinced that such an opportunity could be mutually beneficial for several ESRB member institutions and could contribute to common discussions on the important issue of handling NPL portfolios in an inspiring way.

Should you have any further questions on the issue, please do not hesitate to contact us!

Yours Sincerely:

MAGYAR NEMZETI BANK



Barnabás Virág
Executive Director
Monetary policy, Financial Stability and Lending Incentives

Enclosure: Magyar Nemzeti Bank – Notification of the start of operation of MARK Zrt.