

Appendix 1 – EBRD-Government MoU

MEMORANDUM OF UNDERSTANDING

BETWEEN

THE GOVERNMENT OF HUNGARY

AND

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

**COOPERATION IN SUPPORT OF THE BANKING SECTOR AND REAL SECTOR
IN HUNGARY**

MEMORANDUM OF UNDERSTANDING (hereinafter referred to as the “**Memorandum**”) between the Government of Hungary and the European Bank for Reconstruction and Development (hereinafter referred to as the “**Bank**”), hereinafter separately referred to as a “**Party**” and jointly referred to as the “**Parties**”.

WHEREAS the Bank is an international organization established under public international law pursuant to the Agreement Establishing the Bank dated 29 May 1990, as amended (the “**Agreement**”) and Hungary acceded to the Agreement and became a member of the Bank on 10 June 1992;

WHEREAS the Parties agree that a sound banking sector represents a key foundation for long-term sustainable economic growth;

WHEREAS the Government of Hungary is seeking to strengthen its relationship with the banking sector in order to promote a stable and predictable framework to support macroeconomic stability;

WHEREAS the Government of Hungary does not intend to take direct or indirect majority ownership stakes in systemically important local banks, except in case of a threat to the stability of the overall banking system, and is committed to transferring all direct and indirect majority equity stakes it currently holds in local banks to the private sector within the next three years;

WHEREAS the Parties wish to work together on various initiatives to develop the financial sector in Hungary;

WHEREAS in this connection the Parties wish to set out the broad priorities for co-operation in support of the real economy in Hungary over the coming years;

The Parties have come to the following understanding:

Section 1 – Measures for enhancing the effectiveness of the Hungarian financial sector

The Parties consider that in order to enhance the effectiveness of the Hungarian banking sector, a series of measures would need to be implemented over the short to medium term. Such measures should include, but not be limited to:

- (a) Adjustment of the banking tax for the period 2016-2019 so that it is calculated based on banks’ balance sheets as of the end of 2014, with the percentage applied being reduced to 31 bps from the beginning of 2016 and to 21 bps from the beginning of 2017 to the end of 2018. From 2019 the level of the banking tax will be further aligned with the prevailing European Union norms. To this end, the Government of Hungary will take the necessary steps for developing and proposing appropriate legislation to its legislative body by June 2015.
- (b) Ensuring that the conversion of mortgages denominated in foreign currency into Hungarian forints regulated by Act LXXVII published on 15 December 2014 would be completed in such a way as to avoid imposing further costs related to exchange rate risks on the banking sector;
- (c) Ensuring that initiatives designed to help the banking sector to reduce its stock of non-performing loans would be designed to reflect international best practices, in particular with

respect to the transparent and market-based operation of these programmes. In addition, further restrictions on foreclosures and evictions to be eschewed and the scope of the existing programme aimed at purchasing the properties of troubled retail borrowers is to be expanded, while the eligibility criteria are to be relaxed;

- (d) Signalling to the market and the public that new laws and/or regulations on private bankruptcy and retroactive termination rights of the banks' clients will not be enacted without due consultation with and support of the Hungarian Banking Association;
- (e) Without prejudice to Hungary's obligations pursuant to applicable EU legislation, the Government of Hungary is to refrain from implementing new laws or measures that may have a negative impact on the profitability of the banking sector, other than those the Government of Hungary may be obliged to implement due to its membership of the European Union; and
- (f) Ensuring that there is fair competition between, and equal treatment of, all financial institutions active on the market in Hungary, irrespective of size or nationality of ownership, in line with the single market rules of the European Union and the principles of free and fair competition.

Section 2 - Common operational priorities

The Parties will cooperate to identify common operational priorities which the EBRD would support in Hungary, subject to approval by the EBRD Board of Directors of a new EBRD Country Strategy for Hungary in 2015 which would include the priorities identified by the Parties. In the financial sector, the EBRD will support the stabilisation and rebuilding of confidence, in line with the efforts of the Government of Hungary to improve the operating environment of the banking industry. EBRD interventions may include: (i) facilitating NPL resolution (policy dialogue and investment); (ii) equity and debt transactions in support of further private sector driven consolidation of the sector; (iii) promoting where possible instruments facilitating lending to SMEs and corporates.

The EBRD wishes to increase its lending activity in the wider Hungarian economy in line with its Country Strategy for Hungary and will allocate the resources to do so as needed.

Section 3 – Publicity

The Parties wish to publicise their cooperation under this Memorandum for the development and strengthening of the financial sector of Hungary. To this end, the Parties will organise a joint event, upon the signature of the Memorandum.

Section 4 – Communications

Any notice or other communication to be given or made under this Memorandum will be addressed and sent to the following contact points or at such other address as either Party designates by notice to the other Party:

For the Government of Hungary:

Address:

Attention of:

Fax:

E-mail:

For the Bank:

Address:

Attention of:

Fax:

E-mail:

Section 5 - Final Provisions

This Memorandum reflects the views and intentions of the Parties to co-operate on a non-exclusive basis, expressed in good faith but without the creation of any legal obligation under any applicable law or the incurrance of any liability on the part of any of them. Nor shall any third party obtain any legal benefit from this Memorandum.

It is understood and agreed that nothing in this Memorandum will constitute, or be construed as, an offer, promise or undertaking by either Party to finance all or part of any activity or project identified in or pursuant to this Memorandum and the financing of any project and/or activity by the EBRD is subject to the approval, as required, by its governing bodies and internal policies and procedures.

In the event that opportunities are identified, specific arrangements for any such activity or project would need to be agreed upon between the Parties. Each of the Parties will incur its own expenditures arising as the result of the implementation of this Memorandum, unless otherwise specified in relevant separate agreements.

Nothing in this Memorandum will limit the right of, or prevent the Parties from entering into memoranda or arrangements with other parties with respect to any activity, project or area of co-operation covered by this Memorandum.

The Parties will meet periodically, but not less frequently than once every six months, to review and discuss the implementation of this Memorandum, assess the achievement of the objectives as set out herein above, and consider necessary adjustments, if any.

Nothing in this Memorandum will constitute nor be construed as a waiver, renunciation or other modification of any of the privileges, immunities and exemptions granted to the Bank under the Agreement Establishing the European Bank for Reconstruction and Development, international conventions or any applicable laws.

Any dispute arising out of, or in connection with, the interpretation or application of any provision of this Memorandum of Understanding will be settled amicably through consultations.

This Memorandum will become effective on the date it is signed by the last Party and will remain in effect until either Party notifies the other Party in writing of its intention to terminate this Memorandum. In such case, this Memorandum will terminate upon receipt of such notice by the other Party, unless otherwise specified in the notice.

This Memorandum may be amended by mutual written consent of the Parties.

IN WITNESS WHEREOF, the Parties, each acting through its duly authorized representative, have signed this Memorandum of Understanding in four originals, in the English language.

* * *

[Signature page follows]

FOR THE GOVERNMENT OF HUNGARY:

By: _____

Name: Viktor Orban

Title: Prime Minister

Date: February 9, 2015

FOR THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT:

By: _____

Name: Sir Suma Chakrabarti

Title: President

Date: February 9, 2015