

## **Government of Hungary and EBRD join forces to strengthen the Hungarian financial sector and bolster economic growth**

### **Erste Group has invited the Government of Hungary and the EBRD to invest in its local operation**

The Government of Hungary and the European Bank for Reconstruction and Development (EBRD) today sealed an agreement aimed at strengthening the country's financial sector, improving its level of efficiency and profitability and boosting the flow of bank credits to Hungary's private corporations and citizens.

The signing of a Memorandum of Understanding (MoU) in Budapest by EBRD President Sir Suma Chakrabarti and the Hungarian Prime Minister Viktor Orbán is a recognition by the Hungarian Government that with steps taken to address the foreign currency loan issue and the economy showing signs of a sustained recovery, the time has come to gradually reduce the tax burden on the banking sector in order to provide a stable environment and to improve the business climate in the sector for it to support more lending and thus economic growth.

Based on this MoU Erste Group has invited the Government of Hungary and the EBRD to invest in its local operation.

Under the MoU the Government of Hungary pledges to "promote a stable and predictable framework to support macroeconomic stability." The EBRD welcomes this commitment by the Hungarian authorities. It is a strong basis from which to increase the EBRD's engagement in the Hungarian financial sector.

The Hungarian Government also expresses its commitment to the banking sector in the document and underlines that it "does not intend to take direct or indirect majority ownership stakes in systemically important local banks [...] 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."

The MoU also provides for concrete measures such as the substantial reduction of the banking tax for the period 2016-2019 and addressing the persistent challenge of non-performing loans in ways which are in line with international best practice.

Hungary also commits to "refrain from implementing new laws or measures that may have a negative impact on the profitability of the banking sector" and to ensure "fair competition between, and equal treatment of, all financial institutions active on the market" in the country.

EBRD President Sir Suma Chakrabarti welcomed the Memorandum of Understanding as a "good start to open a new chapter for the banking sector". He said: "The document provides for commitments and measures to be implemented by the Government which will allow banks to operate in a stable and predictable framework under which they can resume their crucial role as financiers of the real economy. This represents significant progress towards rebuilding trust and confidence in the financial sector and the EBRD will strongly support its implementation through our activities and careful monitoring."

The MoU comes prior to the adoption of a new EBRD Country Strategy for Hungary, due later this year. The document will set the framework for the Bank's activities in the country in the next period in accordance with common operational priorities. The MoU notes that the EBRD strategy 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."

The EBRD envisages closer involvement in the financial sector in the coming years and is looking to use the shared understanding with the Government to develop projects to benefit the real economy.

Erste Group, which has demonstrated its long-term commitment to the Hungarian market, views these joint measures as an encouraging step towards a sustainable, efficient and resilient financial sector in Hungary.

With a view to stepping up its support for the Hungarian economy, Erste Bank Hungary will be introducing several programmes over a period of three years, as follows:

- A EUR 250 million loan disbursement programme, including a complete financial package for public sector employees
- A EUR 100 million lending package for Energy Efficiency Programme
- A EUR 200 million loan facility to primary agricultural producers.

In line with the Erste Group strategy to focus on core Central and Eastern European markets and in order to support the implementation of the joint measures taken by the Government of Hungary and the EBRD, Erste has invited the two parties to invest in Erste Bank Hungary Zrt. by acquiring a minority stake of up to 15 per cent each. Negotiations are in progress and the completion of the transaction is expected within the next six months.

“Erste Group is one of the largest financial groups of Central and Eastern Europe and the leading retail bank in this region. With Hungary being one of our core markets, we have a strong interest in the success of the local economy and the Hungarian enterprises to have superior growth opportunities. Like in all other countries of our region this will require Hungary to get its fair share of FDIs to support the growth of the Hungarian industry and trade. By having both the Hungarian Government and the EBRD as our partners we want to clearly demonstrate, that our Group is committed to be a strong partner for the creation of wealth and prosperity for the Hungarian people in the years to come” said Andreas Treichl, CEO Erste Group.

In the proposed transaction, the Government and the EBRD will each have the right to appoint one non-executive member of the Board of Directors and one member of the Supervisory Board of Erste Bank Hungary. The purchase price will be negotiated between Erste and the two parties based on market valuation methods after conduct of a due diligence with support from external advisors, as is customary for similar M&A transactions. Through its participation in Erste, the EBRD will support the partnership between Erste and the Hungarian Government. The EBRD is considering this partnership to support Erste, which is still subject to internal approvals, while it rebuilds momentum in Hungary over the coming years and intends to exit once this is achieved. As such, the EBRD's investment is expected to be structured with a pre-agreed exit to Erste Group after an agreed period of time. Erste Bank Hungary will remain majority owned by Erste Group, managed and controlled in line with Erste Group Governance principles and the Group Code of Conduct.

The transaction is subject to all necessary approvals required from Hungarian or European banking supervisory and competition authorities.

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