Template for notifying national macroprudential measures not covered by CRR/CRD

Please send this template to

- notifications@esrb.europa.eu when notifying the ESRB;
- macropru.notifications@ecb.europa.eu when notifying the ECB.

Emailing this template to the above-mentioned addresses constitutes an official notification, no further official letter is required. In order to facilitate the work of the notified authorities, please send the notification template in a format that allows electronically copying the information.

1. Notifying national authority and scope of the notification		
1.1	Name of the notifying authority.	**Magyar Nemzeti Bank (MNB)**
1.2	Name of the macroprudential measure that is notified.	Start of the operation of a dedicated Asset Management Company (Magyar Reorganizációs és Követeléskezelő Zártkörűen Működő Részvénytársaság - MARK Zrt.) to purchase distressed commercial real estate (CRE) portfolio from financial institutions.
2. Description of the measure		
2.1	Description of the measure.	MNB has set up a dedicated Asset Management Company (AMC), MARK Zrt. to be able to purchase distressed CRE assets from eligible financial institutions. Complete eligible portfolios – consisting of NPL project loans and repossessed real estate – are to be acquired on market value by MARK up- or above HUF 500 million (EUR 1,6 million) offered by financial institutions on a voluntary basis. The overall targeted volume for the whole financial system is HUF 300 billion (EUR 0,96 billion) at market prices. The offer to acquire the assets is available between March 21, 2016 and June 21, 2016, the actual purchases has to be executed by May, 2017, whereas there would be further 8 years for the MARK Zrt. to manage and dispose these assets.
2.2	Legal basis and process of implementation of the measure.	MARK was established by the MNB as a private company limited by shares in November 2014. The MNB owns all of the shares in MARK. This is allowed pursuant to Article 165 of the Act CXXXIX of 2013 on the Magyar Nemzeti Bank (the "**MNB Act**") because MARK is an organisation that has been established in relation to the MNB's basic tasks under its macroprudential mandate. The macroprudential mandate of MNB is stipulated in Act CXXXIX of 2013 on MNB, Section 4, paragraph (7): The MNB shall develop a macro-prudential policy framework relating to the stability of the financial intermediary system as a whole, to increase the resilience of the financial

		intermediary system and to ensure its sustainable contribution to economic growth. To this end, the MNB shall - within the framework provided for in this Act - explore business and economic risks threatening the financial intermediary system as a whole, it shall help to prevent the build-up of systemic risks, and shall help to mitigate or eliminate the systemic risks that may already exist, furthermore, in the event of any disturbance in the credit market it shall introduce incentive measures to stimulate the credit market, or shall adopt measures to control excessive credit growth so as to ensure that the financial intermediary system functions in a balanced way in financing the economy. Furthermore the European Commission issued a Formal No State Aid Decision on 10th of February, 2016 regarding the MARK case. The related communication was published on March 18, 2016: http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3_SA_38843
2.3	Coverage	MARK will purchase, at the current market price, CRE NPLs and repossessed real estate from financial institutions (as defined in Article 7 of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises) or subsidiaries of financial institutions that are active in Hungary and are either registered in Hungary or in the European Economic Area ("**Eligible Entities**")
2.4	Any other relevant information.	MNB also intends to use of the Systemic Risk Buffer (SRB) to mitigate systemic risks stemming from problem project exposures. The related ESRB notification is the following: https://www.esrb.europa.eu/pub/html/index.en.html?skey=12/10/2015%20Magyar The general decision on the main parameters of SRB eligibility was published on November 18, 2015, whereas the effective introduction of the SRB requirements is scheduled for January 1, 2017. Both the SRB requirement and MARK target the excessively high amount of outstanding non-performing CRE loans in the Hungarian banking system, although from different angle. Overall, the planned introduction of the SRB requirement increases the affected credit institutions' shock absorbing capacity to the level that internalizes systemic level risks as well, in order to withstand the effects of collective exposure and collective inaction in problem resolution. On the other hand if banks eliminate problem project exposure risks, it can facilitate the mitigation of the systemic risk. The targeted problem portfolio of the SRB requirement aims at covering the whole range of CRE portfolio items that put a drag on the balance sheet of banks, and as such wider than the MARK Eligible Exposures. The main difference is in the treatment of evergreening, as restructured CRE loans, with the exception of loans restructured more than a year ago that have become performing loans since are subject to SRB requirements but not eligible for MARK. The main reason for that is

		these periodically restructured loans in such concentration and large volume also deter banks from lending to creditworthy borrowers and from fulfilling their role in sustainable contribution to economic growth. The minimum eligible asset size also differs, while the SRB requirement falls on every asset worth more than HUF 100 million (EUR 0,3 million), the minimal eligible size to offer for MARK purchase is HUF 500 million (EUR 1,6 million). MARK, on the other hand will enter the distressed asset market on the demand side, in a complementary manner. As the MNB has seen that over the past 8 years there was no meaningful market-based clean-up of such distressed assets it has established the MARK Zrt. to be able to buy up large scale distressed assets over a relatively short period and be able to manage and dispose them effectively and with economies of scale. As the financial institutions are free to find other partners or other ways of portfolio cleaning, no distortive effects on competition or trade are expected.
3. Timing		
3.1	Timing of the decision	MARK became ready to take offers following the publication of the Commission communication from 21 March, 2016.
3.2	Timing of the publication	The timing of the publication was February 10, 2016, when the Commission Decision was issued.
3.3	Disclosure	Actual information is available on the website of MARK Zrt. (www.markzrt.hu). Moreover MARK publicly announced the start of MARK's asset purchasing program through a press conference and in Hungarian newspapers, such that all Eligible Entities become aware of the start of MARK's asset purchasing program and be able to apply for participation on a voluntary basis. MARK may also contact Eligible Entities directly to notify them of the publicly announced asset purchasing program. If an entity meets the definition of an "Eligible Entity", MARK cannot reject an Eligible Entity's application for participation in MARK's asset purchasing program.
3.4	Timing of the application	Banks are able to contact MARK Zrt. from March 21, 2016. During the first 3 months they can register their portfolios to become subject of further procedures which could end in an indicative offer. This notification period is followed by a 1 year period when binding purchase agreements can be reached, however MARK is committed to set up the majority of the deals already in 2016.

3.5	End date (if applicable)	MARK will hold and manage the assets that it purchases until the end of 2024.
4. Reason for the activation of the measure		
4.1	Description of the macroprudential risk to be addressed.	The banking sector in Hungary is burdened with a high level of NPLs related, in the main, to CRE. NPLs represented 14.1% of total corporate loans outstanding as of June 2015, which is extremely high by international comparison. CRE NPLs account for a significant and growing proportion of total corporate NPLs in Hungary: project financing NPLs (which are predominantly CRE NPLs) account for more than half of total corporate NPLs in Hungary (as of the second half of 2015). Project loan NPLs as a proportion of total project loans were still extremely high at 27.3% as of June 2015, without any material decrease in the past seven years, while other corporate loan NPLs as a proportion of total other corporate loans has recently fallen to 9% (from a peak of around 15% in the second half of 2012). If the broader definition of NPLs under the Capital Requirements Directive ("**CRD IV**") is used[1], project loan NPLs would account for 47% of total project loans, and other corporate loan NPLs would account for 17% of total other corporate loans. Approximately half of the NPLs in Hungary that fall within the definition of NPLs under CRD IV have been restructured. The high level of NPLs is notable given the fact that, in most cases, banks have had the opportunity to exercise their call option right, which would have allowed them to avoid the legal procedure of collateral enforcement. There is around EUR 1 billion of repossessed commercial real estate, making the total portfolio of distressed CRE assets EUR 2.5 billion at net book value. The European Commission has recognised that this represents one of the main risks for financial stability in Hungary. The European Commission's paper on Macroeconomic Imbalances: Hungary 2014 stated: *"The banking sector's balance sheet is heavily burdened with non-performing credit representing one of the main risks for financial stability in Hungary."*[2] The main reason for the lack of material portfolio-cleaning on the market is attributed to the wait-and see strategy used by the banks. Therefore, the MNB's view is that policy intervention is needed to address this issue. Despite the high levels of NPLs, the banks in Hungary are solvent and there is no evidence that individual banks in Hungary are in difficulty or require restructuring (apart from MKB Bank which is currently in a restructuring process). Moreover, the loan loss coverage for corporate NPLs as well as for CRE NPLs was high at 74% and 71% respectively as at the end of H1 2015. The high coverage ratio reduces the possibility of substantial additional provisioning needed by banks in the future.

[1] The definition of NPLs under the CRD IV is broader than loans that are more than 90 days delinquent. The definition of NPLs under the CRD IV includes loans that are more than 90 days delinquent, as well as loans where the creditor assumes that final repayment cannot be made without realising the value of the security.

[2] European Commission, *Macroeconomic Imbalances: Hungary 2014*, Occasional Papers 180, March 2014, page 39.

		The MNB's proposal is therefore fundamentally different in terms of its goal from the asset management companies set up in Europe since the onset of the financial crisis to rescue banks in stress. In Hungary the banking sector and individual large banks are solvent and resilient to shocks. However, the issue is that for so long as the banks keep these exposures on their balance sheets, their willingness to enter into new loans is reduced, as explained below. **Impact on lending in Hungary** The high level of NPLs weighs on the lending capacity and decreases the willingness of banks in Hungary to lend. The reason for the impaired lending channel is that the higher NPL ratio increases the need for provisioning, which reduces the profitability and capital accumulation capacity of the banks. Willingness to lend is decreased because, given the risks embedded in these NPLs, banks are cautious about taking additional risks. The poor quality of the outstanding portfolio requires banks to exercise caution, thereby reducing their risk appetite. This has led to a subdued level of lending in Hungary. The MNB has reduced interest rates significantly from 7% on 21 December 2011 to 1.2% currently. The MNB also introduced a Funding for Growth Scheme which gave some temporary relief in access to credit for small and medium sized enterprises ("**SMEs**"). Despite these measures, corporate lending (even in the SME sector) is still below its equilibrium level. No permanent improvement in lending has occurred yet, and the growth of the corporate credit portfolio, which is essential for long-term and sustainable economic, has not yet commenced. The MNB recognises that the high level of NPLs is a significant brake on the healthy lending activity of banks. Because of this, the MNB devotes particular attention to portfolio cleaning to support lending activity and the banking sector's sustainable contribution to economic growth, in line with the European Commission's view that "*improving capital accumulation possibilities as well as incentives to portfolio cleaning are essential to ease supply-side conditions in bank lending*".[3] The MNB, in pursuit of its macroprudential policy objective, therefore established a Hungarian asset management company that will address the high level of CRE NPLs and therefore encourage banks to increase their lending.
4.2	Description of the indicators on the basis of which the measure is activated.	• NPL to total corporate loans outstanding, • CRE NPL to total corporate NPL, • project loan NPL to total corporate NPL, • volume of repossessed CRE compared to overall distressed CRE, • loan loss coverage for CRE NPLs,

[3] European Commission, *Macroeconomic Imbalances: Hungary* 2014, Occasional Papers 180, March 2014, page 10.

4.3	Effects of the measure.	The objective is to encourage the Eligible Entities to reduce the NPL levels in their balance sheets. This is expected to free up significant amounts of capital and liquidity of the banking sector in Hungary, which in turn is expected to increase their ability and willingness to lend and to thereby facilitate a resumption of lending to creditworthy borrowers. By this measure MNB promotes that the banking system would resume to its core activity to finance the real economy and helps the financial system to fulfil its sustainable contribution to economic growth. MARK will operate on a voluntary basis (for both MARK and the participating Eligible Entities) and will acquire assets at the current market price. The entry of a significant player to the distressed asset market with an offer to purchase at the current market price is expected to catalyse sufficient number of deals, and will have a considerable impact on the systemic level of NPLs. This therefore represents the most proportionate solution that avoids the distortive effects on competition or trade as a result of the provision of subsidies.
5. Cross-border and cross-sector impact of the measure		
5.1	Assessment of cross-border effects and the likely impact on the internal market (Article 133(11)(d) of the CRD IV and Recommendation ESRB/2015/2)	As the setting up of MARK aims at mitigating a market failure by entering the market for distressed assets on the demand side it can effectively accelerate the clean-up of the balance sheets of financial institutions active in Hungary. Overall it can enhance financial stability in Hungary and by enhancing the soundness of the Hungarian subsidiaries of EU-domiciled banking groups it can have beneficial effects for the liquidity and capital position of the banking groups themselves as well.
5.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	Not relevant.

5.3	Request for reciprocation	Not relevant.
	6. Miscellaneous	
6.1	Contact person(s) at notifying authority.	Gergely Fábián *Director, Financial System Analysis Directorate* Phone: +36 (1) 428 2600/1874 Email: fabiang@mnb.hu
6.2	Any other relevant information.	MNB is ready to provide further information on the details of the measure on any fora of ESRB, like ATC, IWG or the Assessment team.