

The ESRB template on the O-SII buffer

1. Notifying national authority																																																												
1.1 Name of the notifying authority	Magyar Nemzeti Bank (MNB)																																																											
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2.4 Names of subsidiaries	<p>The following subsidiaries of OTP Bank Nyrt. are identified as O-SIIs according to the latest publicly available information of notifications:</p> <ul style="list-style-type: none"> OTP Banka Hrvatska d.d. (Croatia) (LEI code: 5299005UJX6K7BQKV086) DSK Bank EAD (Bulgaria) (LEI code: 529900GEH0DAUTAXUA94) 																																																											

	<ul style="list-style-type: none"> OTP Bank Romania S.A. (Romania) (LEI code: 5299003TM0P7W8DNUF61) <p>For a list of subsidiaries, see OTP Bank's Annual Report 2018, p. 167. available: https://www.otpbank.hu/portal/en/IR/Reports/Annual</p> <p>Other institutions identified as O-SIIs for Hungary do not have any foreign subsidiary identified as O-SII, moreover they do not have relevant foreign presence through subsidiaries in any other country.</p>
3. Timing of the measure	
3.1 Timing of the Decision	The decision was taken by the Financial Stability Board of the MNB on 1 April 2020.
3.2 Timing of the Publication	The intended date of publication is 31 May 2020.
3.3 Disclosure	The names of the institutions and their effective and expected O-SII capital buffer requirements have been published on the internet webpage of the MNB.
3.4 Timing of Application	The determined buffers will be applicable from 1 July 2020.
3.5 Phasing in	The phase in period for the O-SII buffer requirements runs from 1 January 2022 until 1 January 2024.
3.6 Review of the measure	The MNB shall annually review the group of institutions identified as O-SIIs and their respective O-SII buffer requirements. (Sections 89 (3) and 90 (3) <i>b</i>) of the Hungarian Banking Act; Article 131(6) of the CRD IV).
4. Reason for O-SII identification and activation of the O-SII buffer	
4.1 Scores of concerned institution or group of institutions, as per EBA guidelines on the assessment of O-SIIs (Article 131.3)	The decision relates to the release of O-SII buffers and therefore did not require the revision of the results of the last regular review of the O-SII identification exercise, carried out by the MNB at the end of last year. For further information on the currently valid identification results see the related notification: https://www.esrb.europa.eu/pub/pdf/other/esrb.notification200214_osii_hu~fdad1aa469.en.pdf
4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)	The decision relates to the release of O-SII buffers and therefore did not require the revision of the results of the last regular review of the O-SII identification exercise, carried out by the MNB at the end of last year. For further information on the currently valid identification methodology see the related notification: https://www.esrb.europa.eu/pub/pdf/other/esrb.notification200214_osii_hu~fdad1aa469.en.pdf
4.3 Supervisory judgement	The group of O-SIIs was identified by the quantitative approach presented above.
4.4 Calibrating the O-SII buffer	The decision of the MNB to temporarily release and gradually build back the O-SII buffers in the next three and a half years was calibrated with the aim of providing sufficient lending capacity to the systemically important credit institutions. The envisaged buffer build-up paths are based on the latest calibration exercise of the MNB. For further information on the calibration, see:

	<p>https://www.esrb.europa.eu/pub/pdf/other/esrb.notification200214_osii_hu~fdad1aa469.en.pdf</p> <p>In 2022 and 2023, temporary buffer rates are expected to be increased annually by one-quarter of the expected final buffer rates on the planned buffer build-up path. The MNB will modify the amount of the final buffer rates and consistently with the foregoing rates of increase adjust the rates along the build-up path if material future changes in the systemic importance of the credit institutions necessitate adjustments during the annual revisions.</p>
<p>4.5 Effectiveness and proportionality of measure</p>	<p>Due to the extraordinary economic conditions caused by the coronavirus pandemic, it is relevant from a financial stability perspective as well to support the banking system in maintaining a steady credit supply to the real economy, which potentially faces a rundown of its liquid assets and an adverse tightening of liquidity constraints. Under the exceptional circumstances regulatory constraints posed by capital buffers could have counterproductive effects by restraining banks from meeting the extraordinary real economic demand for liquidity and consequently inducing systemic disruption. The temporary release of the O-SII capital buffers is expected to considerably increase the lending capacity of the credit institutions concerned.</p> <p>The MNB is going to closely monitor whether the banks will effectively utilize their increased lending capacity without taking on excessive risk.</p> <p>The one-and-a-half-year complete release and the envisaged two-year-long phase-in is expected to improve effectivity as it provides incentives for institutions to plan with and utilize this time interval for lending. Moreover, the phase-in period leaves enough time for the build-up of the capital buffer without hampering the ability of the banking system to sustainably contribute to economic growth while starting to rebuild its loss absorbing capacity.</p> <p>The final buffer rates applicable after the expected normalization were calibrated as part of the last regular review of the O-SII identification and calibration exercise at the end of last year. Therefore, the reasoning for their effectiveness and proportionality can be found in the related notification: https://www.esrb.europa.eu/pub/pdf/other/esrb.notification200214_osii_hu~fdad1aa469.en.pdf</p>
<p>5. Cross-border and cross-sector impact of the measure</p>	
<p>5.1 Assessment of cross-border effects and the likely impact on the internal market (Recommendation ESRB/2015/2)</p>	<p>a. Based on the assessment of the transmission channels of cross-border risk adjustment and regulatory arbitrage provided by the ESRB Handbook on Operationalising Macroprudential Policy in the Banking Sector (Chapter 11) the possible negative cross-border impact of the measure is expected to be limited.</p> <p>b.</p> <ul style="list-style-type: none"> o Inward spillovers: The possible cross-border impact (leakages and regulatory arbitrage) is expected to be limited in Hungary. A possible channel of circumvention, the extension in systemic importance of branches or systemically less important institutions has not been observed in the previous years, and the release of the buffers mitigates further the likelihood of plausible impact. o Outward spillovers: The MNB still does not expect material negative cross-border effects on other Member States and on the Single Market. Within the identified O-SIIs only OTP Group has substantial cross-border activity. As the O-SII buffers are applied on the highest level of consolidation, the realised O-SII buffer of the OTP Group do not incentivize the cross-border reallocation of banking activities from or to other Member States. Five of the eight identified O-SIIs are foreign parents' subsidiaries operating in

	Hungary. The relatively limited size of these subsidiaries within their respective banking groups does not make a significant impact likely.																											
5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	Because systemically important institutions face an additional regulatory requirement when the O-SII capital buffers are prescribed compared to other institutions, the release of the O-SII buffers mitigates incentives to allocate financial resources through channels and mechanisms of leakages and regulatory arbitrage. Furthermore, the temporality of the release limits the likelihood of significant further growth of systemic significance which might be contributed to it and any such increase is going to be assessed during the regular annual reviews.																											
6. Combinations and interactions with other measures																												
6.1 Combinations between G-SII and O-SII buffers (Article 131.14)	The MNB has not identified any institutions as G-SIIs within its jurisdiction.																											
6.2 Combinations with SRB buffers (Article 131.14 + Article 133.5)	<p>The MNB applies the SyRB and the O-SII buffers for mitigating different kind of systemic risks. Therefore the SyRB is not applied to mitigate risks related to those targeted by the O-SII buffer. The SyRB and the O-SII buffer are cumulative as the SyRB applies only to domestic exposures in Hungary.</p> <p>Since 1 July of 2019 no bank is required to maintain a systemic risk buffer following the appropriate cleaning of problem exposures. The SyRB is still in place as a backstop measure against any future build-up of problem domestic commercial real estate project loans. From 1 January 2020 the scope of the regulation is extended to cover foreign currency domestic CRE project loan exposures qualified as non-problem in order to mitigate potential systemic risks related to the dynamically growing CRE project financing segment. (For further information on the intended use of a systemic risk buffer see https://www.esrb.europa.eu/pub/pdf/other/esrb.notification20190918_srb_hu~ea5f538696_en.pdf?26a7ce8fe8c8dd0dc5e91c566542bef5)</p> <p>Currently there are no banks which are required to maintain a systemic risk buffer based on their institution specific CRE project exposures. Moreover the regulation is suspended until the next review of the SyRB rates to mitigate the impacts of the emergency situation related to the coronavirus outbreak on the financial intermediary system.</p> <p>SyRB and O-SII buffers are applied on the highest consolidation level achievable under the jurisdiction of the MNB. This means that for the Hungarian banks with foreign parent institutions, the buffers are applied on a sub-consolidated level.</p>																											
6.3 O-SII requirement for a subsidiary (Article 131.8)	<table border="1"> <thead> <tr> <th>Institution</th> <th>EU Parent Institution</th> <th>Final O-SII buffer</th> <th>G-SII buffer</th> </tr> </thead> <tbody> <tr> <td>UniCredit Bank Hungary Zrt.</td> <td>UniCredit S.p.A.</td> <td>1%</td> <td>1%</td> </tr> <tr> <td>Kereskedelmi és Hitelbank Zrt.</td> <td>KBC Group NV</td> <td>1.5%</td> <td>-</td> </tr> <tr> <td>Raiffeisen Bank Zrt.</td> <td>Raiffeisen Bank International AG</td> <td>2%</td> <td>-</td> </tr> <tr> <td>ERSTE BANK HUNGARY Zrt.</td> <td>Erste Group Bank AG</td> <td>2%</td> <td>-</td> </tr> <tr> <td>CIB Bank Zrt.</td> <td>Intesa San Paolo S.p.A.</td> <td>0.75%</td> <td>-</td> </tr> </tbody> </table>				Institution	EU Parent Institution	Final O-SII buffer	G-SII buffer	UniCredit Bank Hungary Zrt.	UniCredit S.p.A.	1%	1%	Kereskedelmi és Hitelbank Zrt.	KBC Group NV	1.5%	-	Raiffeisen Bank Zrt.	Raiffeisen Bank International AG	2%	-	ERSTE BANK HUNGARY Zrt.	Erste Group Bank AG	2%	-	CIB Bank Zrt.	Intesa San Paolo S.p.A.	0.75%	-
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6.4 Interaction with other measures	O-SIIs are subject to intensified supervisory attention and appropriate resolution planning, but currently there are no other measures applied to mitigate risks covered by the O-SII buffer.
7. Miscellaneous	
7.1 Contact person(s) at notifying authority	<p>Contact person(s) for further inquiries (name, phone number and e-mail address)</p> <p>Mr. Gergely Fábián, Executive Director for Financial System Analysis and Lending Incentives Phone: +36 (1) 428 2600/1874 E-mail: fabiang@mnf.hu</p> <p>Mr. Ádám Banai, Director Directorate for Financial System Analysis Phone: +36 (1) 428 2600/1864 E-mail: banaia@mnf.hu</p>
7.2 Any other relevant information	