

## The ESRB template on the O-SII buffer

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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"> <li>OTP Banka Hrvatska d.d. (Croatia) (LEI code: 5299005UJX6K7BQKV086)</li> <li>DSK Bank EAD (Bulgaria) (LEI code: 529900GEH0DAUTAXUA94)</li> </ul>																																																											

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### 3. Timing of the measure

<b>3.1 Timing of the Decision</b>	The decision was taken by the Financial Stability Board of the MNB on 29 November 2020.
<b>3.2 Timing of the Publication</b>	The intended date of publication is 30 November 2020.
<b>3.3 Disclosure</b>	The names of the institutions and their effective and expected O-SII capital buffer requirements will be published on the internet webpage of the MNB.
<b>3.4 Timing of Application</b>	The determined buffers have been applicable since 1 July 2020.
<b>3.5 Phasing in</b>	The current phase-in period for the O-SII buffer requirements runs from 1 January 2022 until 1 January 2024.
<b>3.6 Review of the measure</b>	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

<b>4.1 Scores of concerned institution or group of institutions, as per EBA guidelines on the assessment of O-SIIs (Article 131.3)</b>	<p>No major changes were made to the identification methodology compared to last year's review. The considerable international expansion of the OTP Group through foreign subsidiaries, which continued in the last year, motivated a modification in the calculation of the indicators of the Complexity category, namely in the indicators of Cross-jurisdictional liabilities and Cross-jurisdictional claims. Following the note on the definition of the aforementioned indicators in the EBA/GL/2014/10, it has been attempted to exclude the assets and liabilities of foreign branches and subsidiaries vis-à-vis counterparties in the same host country. In consequence, while the increasing relative importance of the OTP Group in indicator categories of Size and of Importance decreased the relative importance of other O-SIIs, this effect was partially compensated by the modification applied to some of the indicators in the Complexity category.</p> <p>With the above mentioned sophistication, the MNB identified the O-SII institutions according to its methodology determined and published in 2015. First, the scoring methodology described in EBA/GL/2014/10 Title II (6-8) was carried out, applying only the mandatory indicators of Annex 1 of the guidelines. Second, the scores calculated in the first step according to Title II were reweighted and according to Title III weighted optional indicators were added resulting in the final complete indicator set. The final scores are derived from the equally weighted (i.e. a 20 percent weight for each) arithmetic mean of the indicator category scores.</p>																																							
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	MTB Magyar Takarékszövetkezeti Bank Zrt.	548	473	37	908	<b>491</b>	420	<b>477</b>
	CIB Bank Zrt.	429	339	381	456	<b>401</b>	580	<b>437</b>
	MKB Bank Nyrt.	375	273	198	289	<b>284</b>	423	<b>312</b>
<p><b>4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)</b></p>	<p>a. The MNB followed the EBA/GL/2014/10 guidelines on the assessment of O-SIIs. FINREP data were used for every available case following the guidelines' instructions, but it had to be supplemented by supervisory data reported to MNB for a significant number of institutions. In the last two years, the set of significant institutions for which the IFRS data is available has gradually expanded, which has made the scores more comparable to those of international peers, but also resulted in moderate changes in the scores of some O-SIIs.</p> <p>b. With the rapid expansion of the largest O-SII bank in foreign markets, the distribution of the O-SII scores and especially the indicator value distributions of Size and Importance categories show a downward shift. The score of smallest O-SII, the MKB Bank Nyrt., has fallen below the 350 bps threshold which has been the reference so far for the O-SII identification. However, the fall in the scores of the MKB cannot be attributed solely to the expansion of other institutions, rather its decrease in importance could be explained by the temporary limitations imposed on its growth by the resolution process it was subjected to in 2015 and which ended on 31 December 2019 with balance sheet and RWA targets, acquisition bans and other commitments restricting its growth. Despite the halt in its growth, the systemically critical banking functions provided by the MKB, and also by other relatively smaller O-SII banks along with the observed changes in the distribution of scores due to the international activities of OTP motivate the lowering of the threshold to 275 bps in accordance with EBA/GL/2014/10 Title II.</p> <p>c. The MNB followed a two-step identification methodology in accordance with the guidelines. First, all of the institutions which scored equal or higher than 350 bps using the 10 mandatory indicators following the standard identification methodology described in EBA/GL/2014/10 Title II were selected as O-SIIs. Second, a supplementary method was applied in accordance with Title III (13-14) to include the 5 Optional indicators listed below in point d. These indicators were included in order to provide a more robust and relevant country-specific representation of systemic risks in relation to systemic importance. Optional indicators have been quantitatively assessed by aggregating the indicators in a supplementary, additional criterion group. The supplementary criterion group was added to the 4 standard criterion groups with an equal weighting amongst the groups (i.e. 20 percent group weight for every mandatory and for the one supplementary group). In the supplementary criterion group weights for Optional indicators were assigned according to a sum of squares type concentration index. Higher weights were assigned to the Optional indicators which were characterized by higher values of the concentration index. In this way critical activities pursued by fewer important institutions with considerable market shares are deemed to be more important systemically.</p> <p>d. The optional indicators taken from Annex 2 of the guidelines which have been found relevant are the following:</p> <p>d1. Off-balance sheet items – market share based indicator aggregating outstanding credit facilities, guarantees and other off-balance sheet items carrying credit risk.</p> <p>d2. Share in clearing and settlement system – summarizes information about the market share of retail customers' transactions in the clearing system (based on the volume and number of transactions).</p>							

	<p>d3. Assets under custody – market share in outstanding assets under custody.</p> <p>d4. Interbank claims and/or liabilities – centrality based analysis transformed into an additive indicator of unsecured interbank loans and deposits.</p> <p>d5. Market transaction volumes or values – centrality based analysis transformed into an additive indicator of FX swap transactions between credit institutions.</p> <p>e. The Optional indicators add substantial information about critical financial activities which are the least likely to be represented by the mandatory indicators. These indicators were selected based on analysis of correlations between basic and supplementary indicators and further expert judgement. Also these indicators proxy critical functions with high country specific importance and problematic substitutability for agents of the real economy (d1. and d2.) or the financial system (d3.) and help to describe financial interconnectedness of credit institutions including network analysis approach highlighting the most important inter-bank market segments (d4. and d5.).</p> <p>f. The scores resulting from the weighted aggregate of the optional indicators are listed in the Table of 4.1 for every institution (see column Additional optional indicators (Title III)). There is no institution which has been identified as O-SII solely as a result of the inclusion of the Optional indicators and which has not been identified as an O-SII based on the standard (Title II) indicators and scores in step 1 (see point c. about the two-phases identification process followed by the MNB). The inclusion of Optional indicators is motivated by their contribution to the accuracy of the representation of relative systemic importance as the buffer calibration is based on the final scores.</p> <p>g. No credit institution domiciled in Hungary has been excluded because of its total asset size.</p> <p>h. See the annexed excel file.</p> <p>Non-bank institutions have not been included in the calculation, because their sectoral and institutional-level systemic importance has been assessed as marginal.</p>
<p><b>4.3 Supervisory judgement</b></p>	<p>The group of O-SIIs was identified by the quantitative approach presented above.</p>
<p><b>4.4 Calibrating the O-SII buffer</b></p>	<p>The decision of the MNB on 1 April 2020 to temporarily release and gradually build back the O-SII buffers in the next three years was calibrated with the aim of providing sufficient lending capacity to the systemically important credit institutions.</p> <p>The envisaged buffer build-up paths are based on the latest calibration exercise of the MNB. For further information on the calibration, see:  <a href="https://www.esrb.europa.eu/pub/pdf/other/esrb.notification200214_osii_hu~fdad1aa469.en.pdf">https://www.esrb.europa.eu/pub/pdf/other/esrb.notification200214_osii_hu~fdad1aa469.en.pdf</a></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><b>4.5 Effectiveness and proportionality of measure</b></p>	<p>Due to the still prevailing extraordinary economic conditions and uncertainty in economic outlook 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</p>

	<p>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:  <a href="https://www.esrb.europa.eu/pub/pdf/other/esrb.notification200214_osii_hu~fdad1aa469.en.pdf">https://www.esrb.europa.eu/pub/pdf/other/esrb.notification200214_osii_hu~fdad1aa469.en.pdf</a></p>
<b>5. Cross-border and cross-sector impact of the measure</b>	
<p><b>5.1 Assessment of cross-border effects and the likely impact on the internal market</b> <b>(Recommendation ESRB/2015/2)</b></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 Macro-prudential 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"> <li>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.</li> <li>o Outward spillovers: The MNB still does not expect material negative cross-border effects on other Member States or 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.</li> </ul>
<p><b>5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</b></p>	<p>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.</p>
<b>6. Combinations and interactions with other measures</b>	
<p><b>6.1 Combinations between G-SII and O-SII buffers (Article 131.14)</b></p>	<p>The MNB has not identified any institutions as G-SIIs within its jurisdiction.</p>

<p><b>6.2 Combinations with SRB buffers</b> (Article 131.14 + Article 133.5)</p>	<p>The MNB applies the SyRB and the O-SII buffers for mitigating different kinds 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 <a href="https://www.esrb.europa.eu/pub/pdf/other/esrb_notification20190918_srb_hu~ea5f538696.en.pdf?26a7ce8fe8c8dd0dc5e91c566542bef5">https://www.esrb.europa.eu/pub/pdf/other/esrb_notification20190918_srb_hu~ea5f538696.en.pdf?26a7ce8fe8c8dd0dc5e91c566542bef5</a>)</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>																								
<p><b>6.3 O-SII requirement for a subsidiary</b> (Article 131.8)</p>	<table border="1" data-bbox="443 965 1401 1294"> <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 Sanpaolo 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 Sanpaolo S.p.A.	0.75%	-
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<p><b>6.4 Interaction with other measures</b></p>	<p>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.</p>																								
<p><b>7. Miscellaneous</b></p>																									
<p><b>7.1 Contact person(s) at notifying authority</b></p>	<p>Contact person(s) for further inquiries (name, phone number and e-mail address)</p> <p><b>Mr. Gergely Fábán,</b> Executive Director for Financial System Analysis and Statistics Phone: +36 (1) 428 2600/1874 E-mail: fabiang@mnb.hu</p> <p><b>Mr. Tamás Nagy,</b> Director Directorate for Financial System Analysis Phone: +36 (1) 428 2600/2639 E-mail: nagy@mnb.hu</p>																								

<b>7.2 Any other relevant information</b>	
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