



Agenda Item No. 6

REPORT

**on developments concerning the Hungarian banking
sector in Q2 2019 and on the activities of the
Hungarian Banking Association**

August 2019, Budapest

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I. Executive Summary

In Chapter II of this report, we summarized the main regulatory developments of Q2 with regard to the banking sector.

During this time period, the Ministry of Finance (MF) only launched and involved the Banking Association in one of the EU legal harmonization processes relevant to it. Due to certain provisions of the EU Prospectus regulation ((EU) 2017/1129) it became necessary to amend the Capital Market act and the MNB act. The MF involved professional institutions starting from the preparatory phase and the amendment proposal will be submitted to Parliament during its autumn session. In addition to the legal process mentioned above, two of the European Banking Authority's (EBA) guidelines have been implemented. The MNB recommendation on evaluating the competency of leading body members and persons holding key positions applies from July of this year, while the MNB recommendation on implementing the definition of default according to Article 178 of the CRR must be implemented from the start of 2021. In reference to paragraph (60) of the CRR preamble, the MNB supplemented its expectations on measuring, managing and controlling credit risk within this same time period with a new chapter on risk-taking with regard to enterprises that are under the influence of the shareholders of the credit institutions in question and on the management of internal credit and has issued this as a new recommendation, to be implement from September of this year.

An important development in domestic legislation with regard to retail lending is the active consultation process on the Baby Boom Subsidy (introduced on July 1 of this year) as part of the Family Protection Action Plan, which affected the state guarantee and tax brake (PTI) regulations, in addition to lending schemes. Another important development was the issuing of the MNB recommendation aimed at converting loans with variable interest to fixed interest in April, which primarily targets transactions that were started before the fair bank regulations entered into force (mostly FX loans) and that are still carried out with variable interest. A significant achievement concerning retail lending is that as a result of the consultations between the Ministry of Justice, the Hungarian Chamber of Civil Notaries and the Hungarian Banking Association the new decree on notarial fees came into effect on July 1, 2019 with modified content and due to the discount available in the case of retail housing loans the notarial fee that clients must pay is significantly lower than what was stated in the text of the original decree.

Consultations were launched and continued for several of the MNB's regulatory instruments. Consent between the central bank and market institutions was not reached with regard to the internal rules on the personal transactions of capital market institutions, therefore the consultation is still ongoing. A dialog was started on the technical details of the management information circular on the modification of ICAAP, ILAAP, BMA handbooks that was issued in March as well as on its impact on lending with regard to financial enterprises. Furthermore, the MNB also launched a consultation on extending the Systemic Risk Buffer (SyRB) regulation connected to commercial real estate exposures to foreign currency exposures. It is expected that modifications will be finalized in September.

Chapter III includes the essential infrastructural and operational developments within the sector in which the Banking Association played an active role.

In terms of financing, perhaps the most important developments during the quarter were that MNB announced its corporate bond purchase program and its Green Program, as well as the amendment of the law on the order of taxation, according to which the legal boundaries concerning electronic access to the data on income held by NAV (National Tax and Customs Administration) for banking purposes will be abolished starting from February 2020. Meanwhile, work continued on the creation of a blockchain technology-based register of insurances used as collateral for loans, initiated by MNB and with the collaboration of the HBA and MABISZ. The tender for the Certified Consumer-Friendly Housing Loan was also modified. The most important development concerning payments was that the deadline for the introduction of the instant payment system was pushed back to March 2, 2020. It is also worth mentioning that the OBA 2019 (big bank) repayment stress test has been completed, as required by EU regulation on deposit insurance.

Chapter IV gives an overview of the internal projects of the Banking Association, as well as of the activities of its working committees and working groups.

An important event was the 30th anniversary of the establishment of the Hungarian Banking Association. An event series was held to celebrate the anniversary, which among others consisted of two conferences, a meeting of the banking associations of Central and Eastern Europe and the Anniversary General Meeting.

The annex contains a list of the EU directives and regulations (Level 1) on finance, published from the start of Q2 until the date this report was written. Furthermore, it contains Commission Regulations completed based on the power of legislation of this level, and dossiers in progress of the same type by providing important information on their current status.

In addition, the annex contains a brief macroeconomic overview and depicts the financial data of the banking sector's institutions, aggregated on an individual basis.

II. Changes to the legal and regulatory environment of the banking sector

1. Important developments in legal harmonization and implementation in Hungary

Amendments to domestic legislation in connection with the EU Prospectus Regulation

According to the Ministry of Finance, Regulation (EU) 2017/1129 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, which entered into force on July 21, 2019, necessitates the amendment of the Capital Market Act and the MNB Act, with regard to the differing definitions of public vs. private, the responsibilities of issuers and dealers, and the competence and responsibilities of ESMA and national authorities, as well as with regard to the sanctions for violation of the law. During the consultation and in-person meetings with professional organizations that were initiated by the Ministry, we objected to the narrowing of the scope of definition of private issuing and the excessive transfer of responsibility to the dealer. In addition, we made a proposal to promote digitalization.

The consultation with the experts of the Ministry of Finances is still ongoing at the time of this report.

MNB recommendation on evaluating the competency of leading body members and persons holding key positions

In Q2 Banking Association compiled its preliminary views on the MNB recommendation on evaluating leading body members and persons holding key positions.

The regulation of the competence of such persons is based on the authorizations given by the directives on banking capital requirement and financial markets and its aim is to ensure the circumspect and prudent operation of the institutions supervised by providing the staff to be able to do so.

Based on the indirect authorization above, the MNB recommendation is founded on the normative EBA recommendation and contains the fundamental principles for evaluating competency at individual and collective level, as well as ensuring the constant aptness of leaders for competence requirements by laying down the principles for monitoring compliance and its reevaluation.

In consideration of the above, in order to ensure greater harmony with the EBA guidance, the Banking Association voiced its comments and proposed the practical rationalization of the recommendation.

The Banking Association proposed the clarification of individual and group level suitability as well as of vacant positions at collective level. It also voiced its technical observations.

The recommendation was issued in early May and must be implemented starting from July for new requests for authorization. For persons who do not fall into the previously mentioned category, significant institutions must conduct reevaluations by end-June 2020, while any other institutions must conduct these by end-June 2021.

MNB recommendation on implementing the definition of default according to Article 178 of the CRR

In late April, MNB completed and issued for market consultation the draft recommendation based on the EBA's guidelines on the same subject published in September 2016. Throughout the consultation we voiced several small suggestions related to its content; only a fraction of these were incorporated into the recommendation. The recommendation was published in early July and received the number 13/2019. It will have to be implemented from January 1, 2021.

Completing the MNB recommendation on measuring, managing and controlling credit risk

The MNB recommendation that was issued in 2017 (recommendation 11/2017) has been supplemented with a new chapter on risk-taking with regard to enterprises that are under the influence of the shareholders of the credit institutions in question and on the management of internal credit and has been issued as a new recommendation with reference to paragraph (60) of the CRR preamble. With regard to the new draft, we also indicated the administrative expectations that unnecessarily complicate implementation in the other parts where the content has not been modified. The most important out of these comments are with regard to the excessive scope of expectations for assessing retail loans, the limits of determining the causes leading to the restructuring of retail loans, and the excessive periodicity of tasks expected from compliance and internal audit departments as well as expectations for decisions and documentation that unnecessarily bind banking processes. Out of our suggestions only those concerning the internal audit and the compliance departments were considered.

The recommendation was issued in July under the number 15/2019 and will be in effect from September 1st.

2. Other significant legislative and regulatory developments in Hungary

Re-authentication of customers in line with the act on the prevention of money laundering

The Anti-Money Laundering Working Group held several rounds of consultations with the relevant colleagues of the Ministry of Finance and the Central Bank of Hungary on re-authentication in compliance with Section 79 of the act on the prevention of money laundering. The working group initiated in written form the modification of the deadline set in the act (June 26, 2019). In response to the request of the sector, Parliament moved the deadline to October 31st.

Tasks in connection with the government decree on the Baby Boom Subsidy

After the Baby Boom Subsidy government decree was published in March, the Hungarian Banking Association held further consultations with the ministries concerned (Ministry of Finance, Ministry of

Human Capacities, Ministry for Innovation and Technology) and the Central Bank of Hungary in connection with open issues, which concerns state guarantee and tax brake (PTI) regulations, in addition to lending schemes. The Hungarian Banking Association established an ad hoc working group for this topic under its Family Support Working Group, to help achieve the sector's aims effectively.

The interest risk of mortgage loans with variable interest

The MNB recommendation on the interest risk of mortgage loans with variable interest and on its management was published in April. The recommendation requires that financial institutions provide information on the risk of the repricing of mortgage loans at least once each calendar year by sending up-to-date information in the form set by the recommendation. The information needs to be sent to consumers who have a mortgage loan with variable interest, the contract for which was signed before February 1, 2015, and which had at least 10 years remaining from its maturity before December 31st of the year before the up-to-date information is sent. In addition, it is set in the recommendation that financial institutions must report to MNB on having fulfilled the requirements of the recommendation, when called upon by the central bank. In order to evaluate switching to fixed interest, the Banking Association, with the consent of its members concerned, organized a communications campaign in the period before the recommendation was issued, in compliance with the information provided by the Central Bank of Hungary in the same subject.

Notarial fees

On July 1, 2019 the decree 22/2018. (VIII.23.) of the Ministry of Justice on Notarial fees entered into force. The new decree on fees replaced ministerial decree 14/1991. (XI.26.) on notarial fees. Following the publication of the new decree on fees in August 2018, the Hungarian Banking Association negotiated with the Ministry of Justice and the Hungarian Chamber of Civil Notaries for half a year. In consideration of the consultations held, the entry into force of the decree was postponed several times and as a result of the adopted amendments, the notarial fees related to retail real estate lending became half of what was originally published in the Magyar Közlöny – the official gazette of Hungary (the 33% discount stated in Section 11 became 70% with the new Section 38/A). Corporate notarial fees were raised significantly, due among other things to the ceiling being raised from HUF 200 billion to HUF 1 billion, to the decreased discount in the case of unilateral documents and to the narrowing of the discretion of notaries concerning fee calculation.

Developments in connection with the MNB recommendation on the internal rules concerning the personal transactions of capital market institutions

Consultations continued in Q2 on the recommendation that clarify and complement the rules on concluding the personal transactions of employees that are set within the delegated regulation which regulates the organizational requirements and operating conditions of investment firms, which was issued by MNB in Q1, based on MiFID II and its authorization. During these, we suggested that the implementation of the administrative limits planned by MNB (1-day authorization, obligation to hold instruments for 30 days) should only take place after the arising risks are evaluated, and it should be done in proportion to these. We also thought it important to define that the responsibility of institutions for keeping to the requirements within the recommendation should be limited in the case of the relevant person's family members, transaction representatives and for transactions carried out by another service provider.

The modified draft sets the deadline for the entry into force for September 1, 2019; at the time of this report MNB was in the process of finalizing the recommendation.

MNB management information circular on the modification of ICAAP, ILAAP, BMA handbooks

MNB published its management information circular on the subject in late March. The circular expects credit institutions to use the positive debtor's list of KHR (central credit information system) for calculating the payment-to-income ratio (PTI). If a credit institution does not do so, a 1250% risk weight will be applied during its internal capital calculation in connection with the transactions concerned. The application of a similar risk weight is expected in the case of loans granted to financial enterprises where these institutions grant loans to retail customers without using the positive debtor's list. There was no prior consultation on the circular, we therefore asked for the MNB's resolution on the interpretation problems concerning implementation ex post, as well as indicating the possible consequences of the rules affecting different institutions in a different way – mainly in connection with our associate members (PVOE, Leasing Association). An in-person consultation was held on the subject in July. The MNB supported the Banking Association's interpretation proposals in technical issues. As for other issues, MNB seems open to considering proposals that support the aim of the regulator, but is also capable of managing feasibility issues. However, until these proposals are created it upholds the circular with its previous content.

Amending the Systemic Risk Buffer (SyRB) regulation connected to commercial real estate exposures

The MNB requires a systemic risk buffer for problematic project-financing loans and commercial real estate in Hungary for two credit institutions from mid-2017 and for one from mid-2018. After the mid-year review in 2019 there are no further institutions which are required to create such a capital buffer. In the meantime, the central bank initiated the extension of these capital buffer regulations to FX performing commercial real estate financing exposures. According to the draft, in addition to problematic exposures, the ratio of non-problematic FX exposures in proportion to capital required in Pillar I will also be taken into account in the general decision for the application of the calibration table, with a 10% weight being applied. If the total exposures concerned do not exceed HUF 15 billion at the given institution, a capital buffer is not required. MNB plans to publish the amended general decision in August, individual decisions will be issued in November/December based on the conditions in late September and the new capital buffer rules will have to be applied from the start of 2020. Based on MNB's assessment so far, a capital buffer will most likely not be determined based on the new rules on the first occasion.

III. The operating environment and activities of the banking sector

1. Lending

On July 1, 2019, MNB launched its **corporate bond purchase program** with a facility amount of HUF 300 billion, within the scope of which it will buy the bonds of Hungary-based non-financial corporations of good credit rating. As part of the Bond Funding for Growth Scheme (BGS) MNB will purchase publicly or privately placed bonds with an original maturity of 3-10 years that have a credit rating of at least B+. The central bank may only possess up to 70% of one series of issued bonds as a result of primary and secondary market purchases and its exposure to any corporate group cannot exceed HUF 20 billion. In addition, issuers must commit to listing their bonds in one of the trading platforms of the Budapest Stock Exchange within 180 days of issue.

The MNB launched the **new FGS Fix** at the beginning of 2019, in order to increase the share of predictable and fixed rate loan products within the financing of investments. Until May 8, 2019, participating credit institutions concluded loan or leasing contracts with 3,664 enterprises in the amount of HUF 100 billion. The actual outstanding – i.e. already drawn but not repaid – amount is HUF 73 billion. Within the new contracts, the share of new investment loans and leasing deals are 53 and 47 per cent, respectively. Micro-sized enterprises benefited from more than half of the provided funds.

This year, the MNB announced its **Green Program**, to support financial services in Hungary aiming at the preservation of the environment and to contribute to reducing financial institutions' and its own ecological footprint. Under the program, the central bank initiated a prize entitled **Green Finance Award** in several categories with the purpose of creating a tradition, supporting the "greening" of market participants and recognizing institutions that achieved the most for environmental protection. The awarding ceremony was held on June 3rd. Another recent measure of the MNB aimed at creating - as one of the first central banks to do so - a separate **green bond portfolio** in the foreign currency reserve, a step that also fits the Green Program.

MNB, the Association of Hungarian Insurance Companies (MABISZ) and the Banking Association met several times throughout the quarter in order to build a database with blockchain technology that is capable of keeping an up-to-date register of insurances taken into account as collateral for loans. Both the HBA and MABISZ made a significant number of observations on the specified requirements for creating the **"IT system to support the business process of housing insurance registration and the provision of loan collateral through distributed ledger technology"**. These were consulted on.

In June 2019 the MNB published its resolution on the MNB **Management Information Circular** of 26 February on **managing the risks of balloon/bullet** repayment loans, as had been requested by the HBA. Based on the observations made by the HBA, the text of the Circular was clarified in a few places and was then published on the MNB's website.

The Banking Association contacted the Ministry of Finance to seek clarification in terms of legal interpretation in connection with the implementation of CSOK (Family Housing Allowance Scheme) and the Hungarian Village Program (from July 1st). With regard to this, we asked for clarification on the proceedings to be followed in case the law is amended, the deadlines connected to tax refund rules as well as the connection between the extension, purchase, and updating of the Village CSOK.

We worded our proposal concerning the postponed entry into force of the regulations to simplify the **clearing system of state subsidies for housing**, as the implementation of the Family Protection Action Plan and thus the changeover to the new system has increased the work load of credit institutions considerably.

The current plan is to amend the **Consumer-Friendly Housing Loan tender**. The new tender will be in effect from September 1st, and will include contract terms on salary receipt to the account as well as elements concerning electronic administration. The Banking Association provided its opinion to these in several rounds.

With the amendment of the act on taxation in the summer, the legislator allowed for the possibility to **retrieve data on income electronically**. The amendment will enter into force on February 1, 2019. Through the financial enterprise handling the Central Credit Information System the National Tax and Customs Administration (NAV) will provide an electronic statement of earnings encompassing a 12-month period (prepared based on monthly tax and contributions returns) without delay to the financial institution specified by a natural person, if this request is made by this natural person electronically and consent of the natural person is given electronically. The law also sets the rules for forwarding and

storing. In addition, the law on the order of taxation authorizes the government to create the specifications for the content of the statement of earnings.

2. Payments

The Instant Payments Project

The MNB decree set the date for providing electronic payments services and for its use by the public for July 1, 2019. To reach this target, the preparations of individual actors were constantly monitored by the Project Steering Committee (PIB). After it was proposed by the PIB, at its meeting in May, the Financial Stability Council considered all possible risks related to the launch of instant payment services and decided to postpone the start date of its public use to March 2, 2020. One reason for this decision was that participation in the project is mandatory for Hungarian payment service providers and when connecting to the central system all participants must meet the requirements both individually and together – therefore the system may only start to operate if risks are held under maximum control and all are 100% prepared. At the same time, the central infrastructure may start to operate from July 1, 2019 and from this date on real interbank transaction may be carried out through it between participating payment service providers, although there is a limit to the transaction amount and client entries cannot be put through the system until March 2, 2020. The PIB set higher requirements and a schedule for operation testing for the parties concerned for the remaining three-quarters of a year until the full and live launch of the system.

Developing Cash Trade

As was the decision of the Board, expectations for the electronic interbank cash trade marketplace were reevaluated and consultations were started with a new developer company in order to reduce investment and operation costs. Costs for system use have been recalculated based on the new offer; these costs may change with the number of members who are users. Further calculations are in progress in order to plan how to utilize the system to the best possible capacity.

3. Other activities

The National Deposit Insurance Fund (NDIF - OBA) and the Investor Protection Fund (BEVA)

As part of the usual annual report to the Board, the managing director of OBA presented OBA's activities in 2018, discussing the revenues, expenses, assets of the institution, as well as developments in 2019, including the new concept for calculating contributions. In addition, the Banking Association also received information on the operations of BEVA in 2018, on the development of its assets, credit and fee, and on the changes to the number of investors protected by BEVA and the protected portfolios pertaining to them.

OBA's 2019 (big bank) repayment stress test was conducted between March 25 and May 2, 2019. This test is a requirement of EU deposit guarantee regulation. The Banking Association participates in the stress test as an observer, with the power to comment. Both the report that contains the results of the stress test (and which must be sent to the European Banking Authority) and the action plan built on the risks that have been identified have been completed and have been submitted to the OBA Board of Directors.

IV. The Banking Association's events, projects and the activities of its working groups and working committees

The Hungarian Banking Association turns 30

The Hungarian Banking Association celebrates the 30th anniversary of its establishment in the year 2019. In honor of this, the Banking Association organized an international two-day program on April 4-5, 2019.

The aim of this festive series of events was to provide a worthy commemoration of the anniversary and to remember and summarize our experiences of the past three decades as well as to evaluate the current situation and future opportunities, challenges and tasks of the banking sector in Hungary. Furthermore, together with our high-level foreign guest presenters, we reviewed the financial and economic processes and trends in Hungary, Europe and across the globe.

In addition to Hungarian bank leaders and government and central bank leaders the event welcomed delegations from thirteen different countries, ranging from the banking associations of Central Eastern Europe to high-level representatives from the financial sector of China.

The General Meeting

The Banking Association's annual, ordinary General Meeting was held on April 5th, as part of the Anniversary Event Series. As has become tradition within the Banking Association, the Golden Beehive Awards were handed out on this occasion to senior executives who have contributed significantly to the development of the banking sector as well as to professional experts, who performed exceptionally in their work at the Banking Association.

Mihály Patai leaves, new officials are elected

Due to his new tasks, the former president of the Hungarian Banking Association, Mihály Patai, resigned from his post, effective as of April 21, 2019. After serving 2 years as Vice-President, Mr. Patai assumed his role as President of the Hungarian Banking Association and spent 8 years as its leader. The first half of this decade was spent trying to find solutions to the complex financial impact of the global economic crisis. The second half concentrated on starting to boost the national economy and then rendering it sustainable. Under the leadership of Mihály Patai the Hungarian Banking Association has become a defining and recognized advocacy group of the entire financial sphere. The Hungarian Banking Association wishes to say thank you to Mr. Patai through the professional and personal recognition of his work as President.

The Hungarian Banking Association organized an extraordinary General Meeting on July 1st, where it held elections to fill the empty positions of President and Board Member (vacated previously). Members elected the following officials:

- András Becsei, President
- Radovan Jelasity, Vice-President
- Éva Búza, Board Member
- József Vida, Board Member

Integration of advocacy activities for building societies

After it was initiated by the Association of Building Societies (LtpE) in September 2018 and after conducting consultations on the subject, the Banking Association's Board made a decision in principle to integrate the Association of Building Societies into the Banking Association at its meeting in March. The integration made it necessary to amend the Charter of the Banking Association. The amendment was approved by the General Meeting in April, at its ordinary meeting. Following this, the General

Assembly of LtpE approved the documentation containing the details of the integration in April. The same was also approved by the Board of the HBA at its meeting in May. The agreement was signed on May 6th.

To be able to carry out advocacy activities for building societies, the HBA will launch a Building Societies Working Committee and two working groups under it: the Building Societies Legal Working Group and the Building Societies Banking Operations Working Group.

PÉNZ7 (Money Week)

The one-week, financial and enterprise literacy development-themed program continued in the 2018/2019 school year, once again drawing a number of participants that proves outstanding even at European level. 1,235 schools and their 205,000 students participated in the programs of PÉNZ7 with 700 financial and entrepreneurial experts sharing their experiences with students and supporting the method of learning by experiencing. The organizers of the program, the Ministry of Human Capacities, the Ministry for Innovation and Technology, the Ministry of Finance, the Hungarian Banking Association, the Money Compass Foundation and Junior Achievement Hungary would like to thank the members of the banking sector for the success (achieved jointly) in the past 5 years. At the final round of the European Financial Quiz in Brussels, Hungary's team of students made it to the 10 best contestants of the program, out of teams from 29 countries. Hungary's PÉNZ7 was the only European Money Week program to be nominated for the Global Money Week program series' Excellence Award. The global program has 170 participating countries.

Working Groups

Reporting Contacts

- At the meeting of the HITREG working group, established by MNB to create the central bank analytical credit register, the central bank informed participants about the rules for inspection with regard to accepting data.

Taxation Working Committee

- The working committee commented on the bill amending certain tax laws and relevant legislation. Following this, it provided its technical and coherency-related observations to the amending proposals submitted by the government on June 4, 2019.
- The WG paid special attention to rules entering into force with the amendment of Act XXXVII of 2013 on Certain Rules of International Administrative Cooperation in the Field of Taxes and Other Public Charges, (DAC6). Due to the many questions in need of clarification, the WG asked the Ministry of Finance for another consultation in the fall.
- The WG asked for and received the resolution of the Ministry of Finance on the law providing revenue tax exemption on retail state securities for private individuals as of July 1, 2019 to ensure its uniform interpretation.

Agriculture Sector Working Committee

- Several consultations were held with the representatives of the Ministry of Agriculture (MA) and the HBA's Real Estate Valuation Working Group on the principles of methodology for defining the value of arable land as collateral in connection with the amendment of decree of the Ministry of Agriculture. Following this the WG sent amendment proposals to the MA.

- Consultations were held with the representative of the MA on the carryout of the Rural Development Program, as part of which HUF 435.7 million has been paid to applicants, out of which 43.2%, HUF 1274.6 billion are with commitment.
- Consultations were held with the political and scientific expert (in agriculture, fishing and agricultural commerce affairs) of the European Parliament on the future of EU Agricultural Policy, including topics concerning the budget for agriculture and regulations.
- The working committee commented on the proposal to introduce the interest support program for agriculture, forestry and food industry investment loans.

Bank Security Working Committee

- A presentation and consultation was held in connection with the data requests and the creation of the signal system according to Section 40-41 of the Act on National Security.

Bank Cards Working Group

- Preparing for Strong Customer Authentication (SCA) was a very important part of this time period, therefore the working group regularly held consultations with the separate participation of MNB and the card companies, while continuing to follow international developments;
- The working group set the bank card topics relating to the amendment of Regulation (EU) 924/2009 as an item on its agenda;
- the change in the order of payment (and therefore bank card) data supply towards MNB was also added to the agenda;
- studies and professional materials on restricting cash us are constantly being processed.

Internal Audit Working Group

- At the end of July, the working group held a broad professional consultation with the participation of MNB on the MNB recommendation on internal defense lines and on the expected changes to the regulations on outsourcing.
- In response to MNB's request the working group compiled a **benchmark summary** on how the internal audit departments of individual financial groups that are also present in Hungary distribute their work between parent and subsidiary.

Family Support Working Group

- The working group assessed what kind of family-friendly process are currently ongoing in the sector and what other further tasks there are to be expected.
- The working group evaluated the ideas and commitments sent by members to support families and reach a positive change in demographics and defined further tasks for the future.

Baby Boom Subsidy Ad Hoc Working Group

- Based on the Board's decision the ad hoc expert working group on the Baby Boom loan was established and held its first meeting in May in order to implement the government decree on the Baby Boom Subsidy as effectively as possible.
- The working group held regular meetings and consulted regularly with the departments and ministries concerned. It compiled questions and asked the relevant ministries and departments for their resolutions, while at the same time monitoring the IT developments that were necessary.

Anti-Fraud Working Group

- The head of the newly established Asset Reclamation Subdivision within the Budapest Police Headquarters (BRFK), who presented the subdivision's tasks and aims.

- BRFK discussed the Hungarian aspects of BEC (Business Email Compromise) and their successful collaboration with a member.
- The developer company presented a patent system currently under registration that works with a new-type of detection and monitoring technology where structure metadata travel together with transaction and offer real-time data for tracking the money.
- Members could familiarize themselves with how Citibank Fusion Center operates.
- The WG analyzed the new P12 payments data reporting requirements and compiled questions, the answers to which it expects from MNB.
- The WG analyzed the security issues in connection with the introduction of the Instant Payments System.

Digitalization Working Group

- Starting work on a study entitled "Proposals to Reduce Cash Use".
- Providing views on the "Hungarian FinTech Strategy" and on the "Digital Prosperity, the Trademark of Finance" under the Digital Prosperity Program.

Energy Working Group

- A consultation was held with the representative of the Hungarian Energy & Utilities Regulatory Agency on the topicalities of the support system for renewable electricity production.
- Consultations were held with the representative of the Global Green Growth Institute (GGGI) on the West Balkans Green Center, created by the Ministry of Innovation and Technology and GGGI together. The Center helped to carry out climate protection activities in 6 countries.
- A consultation was held and proposals were worded concerning the details of MNB's Green Program.

EXIM Working Group

- Providing views on the public product descriptions for EXIM's draft credit line contract for domestic working capital loan refinancing and for the individual refinancing of domestic investment loans and export-promoting working capital loans.

Credit Guarantee Working Group

- Consultations with the representatives of Garantiqa Hitelgarancia Zrt. (GHG) on topicalities in 2019 and on continuing reverse guarantee proceedings. The Banking Association's comments for the modification of the GHG business rules will be incorporated into the new procedure in accordance with the time of redemption.
- Letter sent to the Ministry of Finance and ITM on the settlement of insurance premiums in 2017-2018.

Human and Physical Safety Working Group

- Péter Jakab (Raiffeisen Bank) was succeeded by István Németh (CIB) as chair of the Human and Physical Safety Working Group, as was proposed by the working group and decided on by the Board.

IT Security Working Group

- The working group started working on solutions to strengthen IT security collaboration between banks, an element of this being the creation of a Guideline-type document, that defines cooperation policy in order to that the sector may react as efficiently and be as prepared as possible for attacks in the future.

Real Estate Valuation Working Group (Mortgage Bank WG)

- The working group held several rounds of consultation with MNB on the feasibility, usability and aims of the real estate valuation database, however the data content still remains an open issue.
- The working group examined the possible ways in which the department reduction applied by financial institutions may be unified. The WG also contacted the MNB to this end.
- The WG prepared an amendment proposal for this Ministry of Agriculture on the methodology principles of defining the market and collateral value of agricultural land. The WG also consulted on the proposal with the Agriculture working group.
- The Brussels-based European Mortgage Federation and the Valuation Committee of the European Covered Bond Council held its May off-site working group meeting in Budapest.

KHR Working Group

- The WG defined the state of development of the new version of the Central Credit Information System (KHR), and clarified its expected schedule, the timing of the transition project for switching standards and technical parameters.
- Representatives of BISZ Zrt. informed the WG on improving standards for KHR 4.0 and on the comments and questions received from member banks concerning the KHR business rules as well as the responses to these.
- Representatives of MNB informed the working group on steps taken to harmonize the KHR and the HITREG databases and the comments received on it.
- Financial institutions participated in a meeting of the working group where the new income database concept's main parameters and its schedule were presented.

SME Working Committee

- Consultations with the representatives of MNB on MNB's 330-point Competitiveness Program, specifically on the productivity of the SME sector and on options to include liquidity.
- After we contacted it, the National Judicial Office informed us that the Judicial Payment Portal supports two types of payment processes: the prepayment of procedural duty and of other judicial proceedings and the payment of procedural duty ex post.
- Consultation with the representatives of the ITM on the EU budget and national planning for the 2021-2027 time period.
- MNB consultation on the introduction and process of simplified and uniform application process for SME loans.
- Consultation with the representatives of the Hungarian Chamber of Civil Law Notaries with regard to the form for inheritance requests within the frame software for filling in forms (ÁNYK).
- Meeting with the representatives of the ITM to create the measures for financing the program for switching from one generation to the next, to inform the ministry about what solutions credit institutions have found to be rational with regard to financial product development and about how they evaluate the potential market role and opportunities of these.

Communications Working Group

- We called customers' attention to the mandatory data reconciliation required by the act against money laundering and terrorist financing in join informative campaign with the Ministry of Finance and the Central Bank of Hungary. We informed the public about obligations, tasks and the fact that Parliament postponed the deadline to October 31, 2019 in response to the request of the Banking Association through several rounds of press communications and press releases. Our member institutions informed their customers through active, autonomous communication (on emphasized parts of bank web pages and through direct channels).
- We called for the attention of corporate clients who fell behind on their data reconciliation with the help of the Chamber of Hungarian Auditors and its Center for Education.

- Concerning the introduction of the strong customer authentication required by the EU, we held an informative meeting in June with the participation of the card companies. MNB's director of communications also participated in the meeting and provided information on his campaign on central bank fixing and on the communication planned for the Instant Payment System.

Leasing Working Group

- Providing comments on amending decree of the Ministry of Agriculture to FVM decree 114/2008. (IX. 5.) on the detailed conditions for using loan and leasing support to modernize and develop agricultural holdings within national scope.
- Consultations with the representatives of the Ministry of Human Capacities and the Hungarian Association of Automobile Dealers in connection with government decree 45/2019. (III.12.) on support for large families to purchase passenger cars.
- A flow diagram is being completed for the Ministry of Interior to aid in rationalizing and digitalizing administration within Offices of Government Issued Documents.

Documentary Transactions Working Group

- Consultation and the exchange of many letters with the representatives of the Ministry of Finance in connection with the possibility to release commitment documents used in customs administration as customs guarantee.

Payments Working Group

- Testing of the instant payment system continued. To process the results and experiences gained from testing, we operates test-forums regularly, with the participation of experts from MNB and GIRO Zrt.
- The PAD working group continued to work on the practical transposition of EU regulations in close collaboration with the statistical department of MNB. Thus, work continued on clarifying and interpreting the definition catalogue, and the harmonization of the fee catalogue and the fee statement with the data to be provided to the PADWEB national comparative page through commenting on the Guidelines prepared by MNB, meanwhile preparing the initial database population that is now due.
- With regard to PSD2, we processed the EBA documents on TPPs (authorization, registration, domestic and international record, cross-border scope, affected certification bodies), the rules of strong customer authentication and the cases of exceptions during its implementation as part of a workshop, with the participation of the MNB directorate dealing with financial infrastructures. We also provided our opinion to the MNB recommendation in the subject.
- We continued to process and interpret the finalized content of the amendment to Regulation (EU) 924/2009 (Regulation (EU) 2019/518) in expert circles, regulators were consulted and in cases where guidance was needed, we asked for guidance in writing.

Anti-Money Laundering and Anti-Terrorist Financing Working Group

- after continued consultation, the WG sent its amendment proposals to the Ministry of Finance, which it believes would be worthwhile to consider during the implementation of the 5th AML Directive and the next time the Act on the Prevention of Money Laundering is amended. At the latest in-person consultation, representatives of the Ministry of Finance indicated that the proposal package is under review and an answer can be expected towards the end of the summer;
- the WG held its second round table discussion together with the Central Bank of Hungary, the Ministry of Finance, the National Tax and Customs Administration (NAV) and its representatives on current issues in the prevention of money laundering. At the beginning of the meeting NAV held a brief presentation on the required content and form of reports of money laundering.

- Leaders of the working group lent their professional support to help carry out the mandatory client data reconciliation process efficiently and to communicate the tasks associated with it.

Court of Arbitration Ad Hoc Working Group

- Based on the decision of the Board the Court of Arbitration Ad Hoc Working Group was established in June and held its first meeting in order to launch and promote a common thought process, to hold competition-neutral consultations within the sector on the operations and experiences of the court of arbitration up until now and to make further proposals aimed at the alternative settling of disputes.
- After its meeting, the working group evaluated further international experiences, taking into account the results of the meeting.

Capital Requirements Regulation Working Group

provided its opinion on:

- the MNB recommendation on implementing the definition of default according to Article 178 of the CRR;
- the MNB recommendation on measuring, managing and controlling credit risk;
- the MNB management information circular on the modification of ICAAP, ILAAP, BMA handbooks, ex post, and;
- the amendment of the Systemic Risk Buffer (SyRB) regulation connected to commercial real estate exposures. A professional consultation also took place with MNB on this matter.

Treasury Working Group

- Amendments to domestic legislation related to the EU Prospectus Regulation; participation in the consultation with the Ministry of Finance.
- Expert-level consultations with MNB on the draft MNB recommendation on the internal rules on the personal transactions of capital market institutions.

Workout Working Group

- The WG reviewed the draft concept for the new act on insolvency and in connection with this:
- the members of the working group undertook to complete subtasks (standpoint on separate assets, elaborating a proposal for the set of rules for the selling of assets with regard to separate assets; elaborating the proposal, standpoint for the preliminary and comprehensive control of assets; determining the definition of insolvency and the situation that threatens to lead to insolvency).

V. Annex

1. . Regulatory development in the European Union in Q2

Regulations – Level 1,2 and Level 3 (EBA, ESMA guideline) – published throughout the quarter, up until the time this report was completed¹

Title	Date of Announcement	In effect from	Transposition deadline (only for directives)	Implementation deadline
REGULATION (EU) 2019/630 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) No 575/2013 (CRR) as regards minimum loss coverage for non-performing exposures	25/04/2019	26/04/2019	-	26/04/2019
REGULATION (EU) 2019/834 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) No 648/2012 as regards the clearing obligation, the suspension of the clearing obligation, the reporting requirements, the risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty, the registration and supervision of trade repositories and the requirements for trade repositories	28/05/2019	17/06/2019	-	17/06/2019 (exc. 18/12/2019 18/06/2020 18/06/2021)
DIRECTIVE (EU) 2019/713 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 April 2019 on combating fraud and counterfeiting of non-cash means of payment and replacing Council Framework Decision 2001/413/JHA	10/05/2019	30/05/2019	31/05/2021	31/05/2021
COUNCIL REGULATION (EU) 2019/796 concerning restrictive measures against cyber-attacks threatening the Union or its Member States	17/05/2019	18/05/2019	-	18/05/2019
DIRECTIVE (EU) 2019/770 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on certain aspects concerning contracts for the supply of digital content and digital services	22/05/2019	11/06/2019	01/07/2021	01/01/2022
COUNCIL IMPLEMENTING REGULATION (EU) 2019/798 implementing Regulation (EU) No 36/2012 concerning restrictive measures in view of the situation in Syria	20/05/2019	21/05/2019	-	21/05/2019

¹ 10 August 2019

COUNCIL IMPLEMENTING REGULATION (EU) 2019/855 implementing Regulation (EU) No 267/2012 concerning restrictive measures against Iran	28/05/2019	29/05/2019	-	29/05/2019
<i>Banking Package</i> REGULATION (EU) 2019/876 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012	07/06/2019	27/06/2019	-	2021.06.28 (exc. 28/12/2020 27/06/2021 01/01/2022 28/06/2023 01/01/2019)
<i>Banking Package</i> DIRECTIVE (EU) 2019/878 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures	07/06/201	27/06/2019	28/12/2020	29/12/2020 (exc. 01/01/2022)
<i>Banking Package</i> REGULATION (EU) 2019/877 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) No 806/2014 as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms	07/06/2019	27/06/2019	-	28/12/2020
<i>Banking Package</i> DIRECTIVE (EU) 2019/879 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC	07/06/2019	27/06/2019	28/12/2020	28/12/2020 (exc. 01/01/2024)
REGULATION (EU) 2019/881 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on ENISA (the European Union Agency for Cybersecurity) and on information and communications technology cybersecurity certification and repealing Regulation (EU) No 526/2013 (Cybersecurity Act)	07/06/2019	27/06/2019	-	27/06/2019 (exc. 28/06/2021)
DIRECTIVE (EU) 2019/882 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the accessibility requirements for products and services	07/06/2019	27/06/2019	28/06/2022	28/06/2025 (exc. 28/06/2027)
DIRECTIVE (EU) 2019/1023 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on preventive restructuring frameworks, on discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and amending Directive (EU) 2017/1132 (Directive on restructuring and insolvency)	29/06/2019	16/07/2019	17/07/202 (exc. 14/07/2024)	17/07/2021.07.17 (exc. 14/07/2024)

Capital Markets Union REGULATION (EU) 2019/1156 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on facilitating cross-border distribution of collective investment undertakings and amending Regulations (EU) No 345/2013, (EU) No 346/2013 and (EU) No 1286/2014	12/07/2019	01/08/2019	-	01/08/201 (exc. 02/08/2021)
Capital Markets Union DIRECTIVE (EU) 2019/1160 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directives 2009/65/EC and 2011/61/EU with regard to cross-border distribution of collective investment undertakings	12/07/2019	01/08/2019	02/08/2021	02/08/2021
Capital Markets Union REGULATION (EU) 2019/1238 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on a pan-European Personal Pension Product (PEPP)	25/07/2019	14/08/2019	-	Publications of the RTS defining specifications + 12 months
<i>COMMISSION DELEGATED REGULATION (EU) 2019/667 amending Delegated Regulations (EU) 2015/2205, (EU) 2016/592 and (EU) 2016/1178 to extend the dates of deferred application of the clearing obligation for certain OTC derivative contracts</i>	<i>29/04/2019</i>	<i>30/04/2019</i>	-	<i>30/04/2019</i>
<i>COMMISSION DELEGATED REGULATION (EU) 2019/758 supplementing Directive (EU) 2015/849 of the European Parliament and of the Council with regard to regulatory technical standards for the minimum action and the type of additional measures credit and financial institutions must take to mitigate money laundering and terrorist financing risk in certain third countries</i>	<i>14/05/2019</i>	<i>03/06/2019</i>	-	<i>03/09/2019</i>
<i>COMMISSION IMPLEMENTING REGULATION (EU) 2019/791 amending for the 302nd time Council Regulation (EC) No 881/2002 imposing certain specific restrictive measures directed against certain persons and entities associated with the ISIL (Da'esh) and Al-Qaida organisations</i>	<i>17/05/2019</i>	<i>17/05/2019</i>	-	<i>17/05/2019</i>
<i>COMMISSION IMPLEMENTING REGULATION (EU) 2019/808 amending Council Regulation (EC) No 1210/2003 concerning certain specific restrictions on economic and financial relations with Iraq</i>	<i>21/05/2019</i>	<i>22/05/2019</i>		<i>22/05/2019</i>
<i>COMMISSION IMPLEMENTING REGULATION (EU) 2019/850 amending for the 303rd time Council Regulation (EC) No 881/2002 imposing certain specific restrictive measures directed against certain persons and entities associated with the ISIL (Da'esh) and Al-Qaida organisations</i>	<i>27/05/2019</i>	<i>28/05/2019</i>	-	<i>28/05/2019</i>
<i>COMMISSION DELEGATED REGULATION (EU) 2019/885 of supplementing Regulation (EU) 2017/2402 of the European Parliament and of the Council with regard to regulatory technical</i>	<i>29/05/2019</i>	<i>18/06/2019</i>	-	<i>18/06/2019</i>

<i>standards specifying information to be provided to a competent authority in an application for authorisation of a third party assessing STS compliance</i>				
<i>COMMISSION IMPLEMENTING REGULATION (EU) 2019/917 establishing technical specifications, measures and other requirements required for the system of interconnection of insolvency registers in accordance with Article 25 of Regulation (EU) 2015/848 of the European Parliament and of the Council</i>	<i>05/06/2019</i>	<i>25/06/2019</i>		<i>30/06/2021</i>
<i>COMMISSION DELEGATED REGULATION (EU) 2019/979 of 14 March 2019 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council with regard to regulatory technical standards on key financial information in the summary of a prospectus, the publication and classification of prospectuses, advertisements for securities, supplements to a prospectus, and the notification portal, and repealing Commission Delegated Regulation (EU) No 382/2014 and Commission Delegated Regulation (EU) 2016/301</i>	<i>21/06/2019</i>	<i>11/07/2019</i>	<i>-</i>	<i>21/07/2019</i>
<i>COMMISSION DELEGATED REGULATION (EU) 2019/980 of 14 March 2019 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation (EC) No 809/2004</i>	<i>21/06/2019</i>	<i>11/07/2019</i>	<i>-</i>	<i>21/07/2019</i>
<i>COMMISSION IMPLEMENTING REGULATION (EU) 2019/1083 amending Council Regulation (EU) 2017/1509 concerning restrictive measures against the Democratic People's Republic of Korea</i>	<i>26/06/2019</i>	<i>01/07/2019</i>	<i>-</i>	<i>01/07/2019</i>
<i>COMMISSION IMPLEMENTING REGULATION (EU) 2019/1103 amending Council Regulation (EC) No 1210/2003 concerning certain specific restrictions on economic and financial relations with Iraq</i>	<i>28/06/2019</i>	<i>29/06/2019</i>	<i>-</i>	<i>29/06/2019</i>
<i>COUNCIL IMPLEMENTING REGULATION (EU) 2019/1169 of 8 July 2019 implementing Regulation (EU) 2017/2063 concerning restrictive measures in view of the situation in Venezuela</i>	<i>09/07/2019</i>	<i>10/07/2019</i>	<i>-</i>	<i>10/07/2019</i>
<i>COUNCIL IMPLEMENTING REGULATION (EU) 2019/1207 of 15 July 2019 implementing Regulation (EU) 2017/1509 concerning restrictive measures against the Democratic People's Republic of Korea</i>	<i>17/07/2019</i>	<i>18/07/2019</i>	<i>-</i>	<i>18/07/2019</i>
<i>COUNCIL IMPLEMENTING REGULATION (EU) 2019/1208 implementing Article 20(3) of Regulation (EU) 2015/735 concerning restrictive measures in respect of the situation in South Sudan</i>	<i>17/07/2019</i>	<i>18/07/2019</i>	<i>-</i>	<i>18/07/2019</i>

<i>COUNCIL IMPLEMENTING REGULATION (EU) 2019/1292 implementing Article 21(2) of Regulation (EU) 2016/44 concerning restrictive measures in view of the situation in Libya</i>	02/08/2019	03/08/2019	-	03/08/2019
<i>COMMISSION DELEGATED REGULATION (EU) 2019/564 amending Delegated Regulation (EU) 2016/2251 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council as regards the date until which counterparties may continue to apply their risk-management procedures for certain OTC derivative contracts not cleared by a CCP</i>	10/04/2019	11/04/2019	-	to be implemented from BREXIT
<i>COMMISSION DELEGATED REGULATION (EU) 2019/565 amending Delegated Regulation (EU) 2015/2205, Delegated Regulation (EU) 2016/592 and Delegated Regulation (EU) 2016/1178 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council as regards the date at which the clearing obligation takes effect for certain types of contracts</i>	10/04/201	11/04/2019	-	to be implemented from BREXIT

Regulatory dossiers that have not yet been concluded - Level 1

Topic	Normative text of the Commission (date)	Conclusion of the Council phase (date)	Conclusion of the Parliamentary phase (date)	Conclusion of trilogue (date)	Impact on Hungarian legislation (implementation or deregulation; entry into force, transposition deadline, implementation)
<i>Securitization Directive and CRR</i> COMMISSION IMPLEMENTING REGULATION (EU) .../... of XXX on amending Commission Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council	N/A (EBA consultation concluded on: 28/11/2018, evaluation in progress)	N/A	N/A	N/A	Likely date of implementation: 01/03/2020
<i>Securitization Directive and EMIR</i> COMMISSION DELEGATED REGULATION (EU) No .../. of XXX [...] amending Delegated Regulation (EU) 2016/2251 supplementing	N/A (EBA final draft: 12/12/2018)	N/A	N/A	N/A	N/A

Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on risk-mitigation techniques for OTC derivative contracts not cleared by a CCP under Article 11(15) of Regulation (EU) No 648/2012 with regard to derivatives used in simple, transparent and standardised securitisations					
<i>Sustainable Finance Package</i> Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the establishment of a framework to facilitate sustainable investment 2018/0178(COD)	24/05/2018	N/A	18/04/2019	N/A	In effect from: N/A Implementation: 01/07/2020 (phase 1), other elements: 31/12/2021 and 31/12/2022
<i>Sustainable Finance Package</i> Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/2341 2018/0179(COD)	24/05/2018	N/A	18/04/2019	N/A	In effect from: N/A Implementation: 12 months
<i>Capital Markets Union</i> Covered bond package ¹⁾ Directive 2018/0043/COD and CRR 2018/0042/COD	12/03/2018	26/11/2018	26/11/2018	09/01/2019 - 18/04/2019	In effect from/likely date of publication: November 2019 Transposition: April 2021 Implementation: April 2021
<i>Capital Markets Union</i> Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the prudential supervision of investment firms and amending Directives 2013/36/EU and 2014/65/EU (ISD) 2017/0358(COD)	21/12/2017	N/A	16/04/2019	N/A	In effect from: N/A Transposition: 18 months Implementation: at the time of transposition

<i>Capital Markets Union</i> Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the prudential requirements of investment firms and amending Regulations (EU) No 575/2013, (EU) No 600/2014 and (EU) No 1093/2010 (ISR) 2017/0359(COD)	21/12/2017	N/A	16/04/2019	N/A	In effect from: N/A Transposition: 18 months
<i>Capital Markets Union</i> Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the prudential requirements of investment firms and amending Regulations (EU) No 575/2013, (EU) No 600/2014 and (EU) No 1093/2010 (ISR) 2017/0359(COD)	14/03/2018	N/A	13/02/2019	N/A	18 months after its entry into force
<i>Consumer protection directive „omnibus”²⁾</i> Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Council Directive 93/13/EEC of 5 April 1993, Directive 98/6/EC of the European Parliament and of the Council, Directive 2005/29/EC of the European Parliament and of the Council and Directive 2011/83/EU of the European Parliament and of the Council as regards better enforcement and modernisation of EU consumer protection rules 2018/0185(COD)	11/04/2018	21/03/2019	21/01/2019	17/04/2019	entry into force: summer 2019 transposition: summer 2021 implementation: end of 2021
Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on sovereign bond-backed securities 2018/0171(COD)	24/05/2018	N/A	16/04/2019	N/A	In effect from: N/A Implementation: 20 days after publication
Amendment of 25 May 2018 to Directive 2011/16/EU on mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements (DAC6)	25/05/2018				Transposition: 31/12/2019 Implementation: 31/08/2020 In effect from: 25/06/2018

Proposal for a COUNCIL REGULATION amending Regulation (EU) No 904/2010 as regards measures to strengthen administrative cooperation in order to combat VAT fraud 2018/0413(CNS)	12/12/2018	N/A	N/A	N/A	In effect from: 01/01/2022
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- ¹⁾ The covered bond EU legislative package (directive and regulation) was not published on the official EU website in May 2019, as was planned, the reason behind being the busy election schedule of the European Parliament. Consequently, the European Parliament will only formally approve legislative text, which will be translated into all official languages, in October, at its plenary meeting. Its publication will probably take place in November 2019. As such, it is likely that implementation and deregulation processes of the directive and the CRR linked to it will be postponed from Q2 to Q4, thus pushing the date of its implementation (which is linked to the date of publication) further back as well.
- ²⁾ The “consumer protection omnibus” package, which amends a directive, was approved in April, in order to promote the more efficient execution and updating of EU consumer protection regulation. The package primarily concerns Directive 2005/29/EC concerning unfair business practices and Directive 2011/83/EU on consumer rights, but as consequence two other directives were are modified, although only in terms of their sanctions: Directive 93/13/EEC on unfair terms in consumer contracts and Directive 98/6/EC on consumer protection in the indication of the prices of products offered to consumers. The reason behind this proposal is the experience-based review of consumer protection regulations existing at EU level, to which end the implementation of sanctions with more proportionate and dissuasive powers for cross-border, extensive infringements is expected. The proposal also contains enhanced steps in consumer protection that respond to the challenges posed by digitalization.

Regulatory dossiers that have not yet been concluded - Level 2

<i>L1 Regulation requiring delegation</i>	<i>Topic</i>	<i>EBA/ESMA normative proposal (date)</i>	<i>text</i>	<i>Approval by the Commission (date)</i>	<i>Impact on Hungarian legislation (implementation or deregulation; entry into force, transposition deadline, implementation)</i>
CRD IV	COMMISSION IMPLEMENTING REGULATION (EU) .../... amending Implementing Regulation (EU) 2016/2070 as regards benchmark portfolios, reporting templates and reporting instructions to be applied in the Union for the reporting referred to in Article 78(2) of Directive 2013/36/EU of the European Parliament and of the Council C(2019)1027	08/02/2019		N/A	N/A

CRR	Draft Regulatory Technical Standards on the specification of the nature, severity and duration of an economic downturn in accordance with Articles 181(3)(a) and 182(4)(a) of Regulation (EU) No 575/2013	16/11/2018	N/A	implementation: 01/01/2021
CRR	Draft Regulatory Technical Standards on the conditions to allow institutions to calculate K_{IRB} in accordance with the purchased receivables approach under Article 255 of Regulation (EU) 2017/2401 amending Regulation (EU) No 575/2013	EBA final draft: 08/04/2019	N/A	N/A
CRR	COMMISSION IMPLEMENTING REGULATION (EU) No .../... amending Implementing Regulation (EU) 2016/1799 as regards the mapping tables specifying the correspondence between the credit risk assessments of external credit assessment institutions and the credit quality steps set out in Regulation (EU) No 575/2013 of the European Parliament and of the Council	ESA final draft: 20/05/2019	N/A	Implementation: 20 days after publication
CRR	COMMISSION DELEGATED REGULATION (EU) No .../. of XXX [...] supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the mapping of derivative transactions to risk categories, for the supervisory delta formula for interest rate options and for the determination of long or short positions in the Standardised Approach for Counterparty Credit Risk under Article 277(5) and Article 279a(3)	N/A (EBA consultation concluded on: 28/11/2019, evaluation in progress)	N/A	N/A
CRR (COREP)	COMMISSION IMPLEMENTING REGULATION (EU) .../... of XXX on amending Commission Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council	EBA final draft: 28/05/2019	N/A	likely dates of implementation: 01/03/2020 and 01/04/2020
CRR	COMMISSION IMPLEMENTING REGULATION (EU) .../... of [] amending Implementing Regulation (EU) 2016/1646 as regards the main indices and recognised exchanges in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms	N/A (EBA consultation concluded on: 05/07/2019,	N/A	20 days after publication

		evaluation in progress)		
Financial Conglomerates Directive	COMMISSION IMPLEMENTING REGULATION (EU) No .../... laying down implementing technical standards with regard to supervisory reporting of risk concentrations and intra-group transactions according to Directive 2002/87/EC of the European Parliament and of the Council of XXX	N/A (ESAs consultation in progress, until 15/08/2019)	N/A	likely date of implementation: 01/01/2020
Securitization Regulation and CRR	COMMISSION IMPLEMENTING REGULATION (EU) .../... of XXX on amending Commission Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council	N/A (EBA consultation concluded on: 28/11/2018., evaluation in progress)	N/A	likely date of implementation: 01/03/2020
Securitization Regulation and EMIR	COMMISSION DELEGATED REGULATION (EU) No .../.. of XXX [...] amending Delegated Regulation (EU) 2016/2251 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on risk-mitigation techniques for OTC derivative contracts not cleared by a CCP under Article 11(15) of Regulation (EU) No 648/2012 with regard to derivatives used in simple, transparent and standardised securitisations	12/12/2018	N/A	N//A
Securitization Regulation and EMIR	COMMISSION DELEGATED REGULATION (EU) No .../.. supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on the clearing obligation	12/12/2018	N/A	N/A
PSD 2	C(2019)1997 COMMISSION DELEGATED REGULATION (EU) .../... on supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards on the criteria for appointing central contact points within the field of payment services and on the functions of those central contact points	14/03/2019	N/A	20 days after publication

PRIIPS Regulation	COMMISSION DELEGATED REGULATION (EU) .../... of XXX amending Delegated Regulation (EU) 2017/653 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance based investment products (PRIIPs) by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents)	08/02/2019	N/A	date of implementation planned for: 01/01/2020
Securitization Regulation	COMMISSION DELEGATED REGULATION (EU) .../... supplementing Regulation (EU) 2017/2402 of the European Parliament and of the Council with regard to regulatory technical standards on the homogeneity of the underlying exposures in securitisation C(2019)3785	28/05/2019	N/A	20 days after publication
PRIIPS Regulation	COMMISSION DELEGATED REGULATION (EU) .../... amending Delegated Regulation (EU) 2017/653 to align the transitional arrangement for PRIIP manufacturers offering units of funds referred to in Article 32 of Regulation (EU) No 1286/2014 of the European Parliament and of the Council as underlying investment options with the prolonged exemption period under that Article C(2019) 4912	03/07/2019	N/A	planned postponement of deadline: 31/12/2021

EBA/ESMA Guidelines under preparation - Level 3

- EBA Draft guidelines on ICT and security risk management
(consultation concluded on: 13/03/2019, evaluation in progress)
- EBA Draft Guidelines on harmonised definitions and templates for funding plans of credit institutions under Recommendation A4 of ESRB/2012/2
(consultation concluded on: 05/05/2019, evaluation in progress)
- ESMA Draft Guidelines on liquidity stress testing in UCITS and AIFs,
(consultation concluded on: 01/04/2019, evaluation in progress)

- EBA Draft Guidelines on Credit Risk Mitigation for institutions applying the IRB Approach with own estimates of LGDs
(consultation concluded on: 25/05/2019, evaluation in progress)
- ESMA Guidelines for reporting under Articles 4 and 12 SFTR
(consultation concluded on: 29/07/2019, evaluation in progress)
- EBA Draft Guidelines on loan origination and monitoring
(consultative period: June 19 to September 30, 2019)
- ESMA Draft Guidelines on disclosure requirements under the Prospectus Regulation
(consultative period: July 12 to October 4, 2019)
- ESMA Draft Guidelines on certain aspects of the MiFID II compliance function requirements
(consultative period: July 15 to October 15, 2019.)
- ESMA Draft Guidelines on performance fees in UCITS
(consultative period: July 16 to October 31, 2019)
- EBA Draft Guidelines on the determination of the weighted average maturity of the tranche in accordance with point (a) of Article 257(1) of Regulation (EU) No 575/2013
(consultative period: July 31 to October 31, 2019)

2. Macroeconomic outlook and the Hungarian banking sector's financial indices

The growth rate of the world economy continued to slow in Q2 of 2019. Growth proves very fragmented in individual regions, as the impact of the trade war between the United States and China becomes clearly noticeable in the Chinese and European economies, which additionally struggle with structural problems. The IMF further reduced expectations for this year and the next (to 3.2% and 3.5%, respectively). Money market conditions became volatile at global level due to the strong direction changes at developed market stock exchanges, while both the ECB and the Fed may significantly ease monetary conditions, which has led to a plunge in bond yields globally with a record number of bond yields falling into the negatives. Oil prices decreased significantly at the beginning of the year due primarily to concerns about demand and have thus become much less expensive compared to a year ago.

The growth of the European Union's economy once again slowed down in the second quarter. The slight contraction of the German economy due to a fallback in industrial production compared to the first quarter is decidedly unfavorable and economic indicators may possibly point to a mild technical recession in the next quarter. Prospects have therefore become worse in terms of the real economy. At the same time sectors more exposed to global commerce performed worse in the majority of economies while internal demand continues to grow, which renders the picture even more bleak. Downward risks continue to be present in terms of future growth prospects, due to the threat of a trade war, internal tension in large EU member states and EU-level political tensions, as well as the uncertain outcome of Brexit.

In the second quarter, the external environment of the Hungarian economy once again started to weaken. In spite of this, domestic economic growth barely decelerated, to 4.9%, which is the most dynamic growth currently demonstrated in the EU. Consumption dynamics stayed strong despite a strengthening base thanks to the two-digit rise in wages, and therefore managed to remain a defining factor of GDP growth. Investments further contribute to growth, with the real estate, industry and services sectors all playing their parts. Industry performance slowed in the second quarter, but its growth on our main markets still managed to greatly surpass that of the German industry, with the support of inaugurated production industry capacities, the upswing in the domestic manufacture of new vehicle models, the favorable development of industry confidence indices and the recent surge in new industry orders. A very promising sign for future production is that while a decision was made last year in favor of a record quantity of working capital investments (with a value of HUF 1380 billion), this period already saw decisions being made on a volume of HUF 1220 billion. Net export trends are gradually unfolding: the surplus of foreign trade deteriorated at a lower rate in the second quarter, since increased export partially compensated for the need for import arising from strong consumption and investments. The smaller decrease in the balance sheet may also have been supported by the fact that the balance of trade stopped worsening.

Employment and unemployment once again showed minimal improvement on the labor market, the former increased by .2 percentage points, while the latter decreased by .3 percentage points compared to the previous quarter. The increase in the rate of employment slowed due to a narrowing labor supply, the primary and almost exclusive cause of which is job creation in the primary labor market. The lack of labor supply may effectively limit several sectors, therefore wage dynamics may stay high not only due to the rise of minimum wage and guaranteed wage, but due to increasing market wages. The annual rate of inflation decreased from 3.9% to 3.4% from April to June due partly to oil prices and seasonal food prices, however both the fast rise in core inflation and core inflation after taxes peaked in the spring months, therefore price pressure seems to be easing up. After last year's 11% rise in wages, this year's increase (which is also a two-digit value) and the rise in demand that it results in can be felt more and more strongly in the prices of certain service providers. Its impact may somewhat be moderated by persistently low imported inflation and reduced wage and enterprise burdens.

The general government deficit only amounted to HUF 390 billion up until June, this is the lowest it has ever been in the first half of the year. The primary reason for the deficit is the pre-financing of

projects to be funded from EU sources – which up until now amounts to a total of HUF 710 billion for the year, while the EU has only transferred HUF 346 billion. Therefore, not considering this, a HUF 26 billion surplus appears in the first four months of the annual budget. Revenue is increasing dynamically in almost all tax types, with revenues from VAT rising the most spectacularly: by 22%. The relevant ministry believes that the 1.8% target budget deficit calculated with EU methodology (EU pre-financing adjusted) can still be kept to and that the reduction of the state debt-to-GDP ratio may continue, despite the pre-financing of EU payments. Based on the financial accounts published by the MNB, the state net financing capacity (surplus) was HUF 120 billion in the second quarter, which accounts for 1.1% of the GDP. The state debt-to-GDP ratio calculated with Eximbank decreased to 68.7%.

External balance indicators also turned out favorably, despite the robust surplus of external accounts becoming more moderate owing to a surge in internal demand. The capital account may improve substantially due to the increase in EU transfers, which may contribute to net financing capacity rising to over 4% of the GDP.

The MNB Monetary Council significantly transformed monetary policy instruments starting from the beginning of the year. Looking forward, the central bank wishes to create the monetary conditions necessary for sustainably reaching the target inflation through an optimal combination of two instruments – the swap portfolio granting forint liquidity and the interest rate corridor. At the same time, interbank forint liquidity, which remains significant, keeps short-term yields well under the 0.9% base rate. Short-term yields may also remain well under the base rate in the coming months, which may result in the central bank base rate staying ineffective until the mid-term and yield rates staying persistently unchanged. The central bank will sterilize the liquidity emerging within the Funding for Growth Scheme (introduced from the start of 2019) through a preferential deposit design yielding interest at the base rate. In order to improve the efficiency of monetary policy transmission the Monetary Council launched its corporate bond purchase program on July 1, 2019, with a budget of HUF 300 billion. The Bond Funding for Growth Scheme (BGS) is the new monetary policy tool with which the Council aims to achieve the targeted diversification of the financing of the domestic corporate sector. As part of the program, the central bank will purchase bonds of good rating issued by non-financial enterprises. The MNB will neutralize the surplus money gained from the bonds purchased by means of a preferential deposit instrument, also yielding interest at the base rate.

The MNB Monetary Council kept the base rate at 0.90% in March, while raising the overnight deposit interest by 10 basis points, to -0.05%. At the same time, overnight credit interest stayed at 0.90%. In addition, the MNB Monetary Council will reduce the size of the surplus liquidity targeted for elimination in the second quarter by HUF 100 billion to HUF 300-500 billion from 400-600 billion in Q1, and will take this into consideration when defining the set of central bank swap instruments. This step was necessary because tax-adjusted core inflation surpassed the 3% target level in February. At the same time, the Monetary Council announced that an uncertain international environment and external inflation which continues to be quite low are causes for caution, therefore these steps do not indicate the beginning of a new cycle. Consequently, the Monetary Council will decide which monetary conditions are necessary on a quarterly basis. Since, as the international outlook becomes worse, expectations increase greatly for the leading central banks to lower their interest rates and core inflation after taxes seems to be becoming milder as well, the Monetary Council may stop normalization in the next quarter. In fact, it has announced that it is ready to expand liquidity, if deemed necessary.

The EUR-HUF exchange rate stayed within a narrow range throughout the quarter, fluctuating between 320-327 HUF/EUR. At the end of the quarter the common foreign currency was worth HUF 323.50.

*Important financial indices in Q2 of 2019
(aggregated data from individual bank reports)*

Billion HUF	2019 Q1	2019 Q2	Δ%
Balance Sheet ¹⁾	40,280	40,522	0.6%
Loan portfolio (customer, gross)	18,621	19,372	4.0%
Corporate loans (gross) ²⁾	9,783	10,212	4.4%
Retail loans (gross)	6,244	6,408	2.6%
Foreign (gross)	3,244	3,271	0.8%
Credit impairment, margin and accumulated interest ³⁾	-664	-616	-7.2%
Interbank deposits, loans	7,795	7,787	-0.1%
Securities	12,346	11,836	-4.1%
Government securities	9,103	8,587	-5.7%
Liabilities	35,764	36,014	0.7%
Customer deposits ⁴⁾	22,552	22,387	-0.7%
Issued securities	2,301	2,293	-0.4%
Interbank securities, loans ⁵⁾	8,794	8,819	0.3%
Equity	4,516	4,509	-0.2%
Loan-to-deposit ratio (gross, interbank not included)	82.6%	86.5%	

¹⁾ Forint instruments stagnated, while Euro stocks increased by almost 3.5% more than the weakening of the forint (by 4.3%). The change in the exchange rate of other important currency types took the opposite direction, their value denominated in forints decreased by 3.1%.

²⁾ A balanced increased was visible in the forint and euro, while there was a decreased in other currency types.

³⁾ Credit impairment loss decreased further, corporate loans fell by over 5%, while retail loans fell by over 8%.

⁴⁾ Both retail and corporate deposits grew by under 1%, while deposits related to public finance decreased by 14.5%.

⁵⁾ Restructuring took place from foreign to domestic securities, loans, while terms increased.

Billion HUF	2018 Q2 ¹⁾	2019 Q2 ¹⁾	Δ%
Profit before taxes ²⁾	320.9	284.6	-11.3%
Profit after taxes	300.9	266.6	-11.4%
ROA (before taxes, annualized) ²⁾	1.7%	1.4%	-
ROE (before taxes, annualized) ²⁾	15.6%	12.8%	-
Interest profit	374.50	398.0	6.3%
Profit from fees and commissions	266.3	288.2	8.2%
Dividend	85.3	99.0	16.2
Other profit ³⁾	-81.5	-127.0	55.8%
General administrative expenses	345.7	354.8	2.6%
Personnel-type expenses	191.1	204.0	6.8%
Provisioning and impairment loss	55.5	27.5	-50.5%

¹⁾ Cumulative values at the end of the quarter

- ²⁾ In Q2 2019 the value of the dividend, not counting provisions and impairment loss, was HUF 158 billion, the annual ROE and ROA calculated based on this were 4.9%, and 0.5%, respectively.
- ³⁾ Two-thirds of this is related to the net loss on other financial and investment services, one-fifth is due to the increase of the special bank tax and the financial transaction levy compared to the year before.