

Methodological notes on the time series based on credit institutions' reporting for supervisory purposes and on the press release

- 1 The time series contain data aggregated from individual data of credit institutions. The last time series is an exception ('Developments in credit institutions' ownership structure based on control'), which, in contrast with the other time series, presents consolidated data of banking groups and individual data of credit institutions not belonging to a banking group on an aggregated basis.
- 2 The time series for credit institutions include data for credit institutions operating as joint-stock or cooperative companies, branches of credit institutions, but do not include data for financial enterprises treated as equivalent to credit institutions under prudential requirements (Magyar Vállalkozásfinanszírozási Zrt., Garantiqa Hitelgarancia Zrt., and Agrár-Vállalkozási Hitelgarancia Alapítvány).
- 3 From 2015 Q1, due to the change in the structure of the Hungarian banking sector (the establishment of the Integration Organisation of Cooperative Credit Institutions, which includes credit institutions operating as joint-stock or cooperative companies credit institutions), only data for branch offices of foreign credit institutions are treated separately.

The data for sub-sectors published earlier (credit institutions operating as joint-stock companies, cooperative credit institutions and specialised financial institutions) continue to be available back to the reference period of end-2014.

- 4 The time series published have been produced by aggregating data reports for supervisory purposes provided to the MNB.
- 5 In the beginning of 2017, 14 credit institutions of the banking sector changed over from the Hungarian accounting standards to the application of the International Financial Reporting Standards (IFRS). At the end of 2016 the balance sheet total of credit institutions that changed over to IFRS accounted for 56.5 per cent of the entire sector. In order to ensure the comparability of the data prepared with the use of different accounting valuation principles, the tables containing the main balance figures (Assets, Liabilities, Non-performing loans) also contain the IFRS opening data for 1 January 2017, in addition to data prepared under the Hungarian accounting standards. In the case of those reporting agents that continue to use the Hungarian accounting standards, the end-2016 closing balances correspond to the start of 2017 opening balances.

In addition to key stock data, in respect of the profit and loss account we also present 2016 comparative data, which contain, in respect of the entities that changed over to IFRS, 2016 profit and loss data under IFRS. 2016 comparative data will facilitate the comparison at sector level in respect of the cumulative profit or loss of 2017, as well as the separation of the impact of the change in the accounting system. When comparing the mid-year results these data may be considered on a time proportional basis.

- 6 Households: retail customers and freelance entrepreneurs together. Retail customers: within the household sector this includes natural persons and private individuals with tax numbers, employing employees within the household.
- 7 Net loan portfolio: book value adjusted by impairment (-) and valuation difference and value adjustment (+/-).

- 8 Gross loan stock: upon applying the Hungarian accounting standard, it is book value not adjusted for impairment and valuation difference; upon applying the IFRS, in the case of loans valued at amortised historic cost or at fair value against other overall income, it means book value not reduced by accumulated impairment, while in the case of loans valued at fair value against profit/loss, it means book value not adjusted for the cumulative amount of the change in fair value resulting from the change in credit risk.

From 2018, the book value of debt securities valued at fair value against profit/loss, except those held for resale, depends on the rating of the given instrument. In the case of performing instruments, gross book value is equal to fair value. For non-performing instruments, gross book value is book value of the instrument unadjusted by the cumulative amount of the negative change in fair value resulting from a change in credit risk.

- 9 Data on past due loans are assigned to the various past due categories by contract, according to the number of days that have passed since the first date on which the customer fell into arrears.

10 Renegotiated loans:

- until 31 December 2016, the notion specified in Government Decree 250/2000 (XII.24) on the Special Provisions Regarding the Annual Reporting and Bookkeeping Obligations of Credit Institutions and Financial Enterprises
- from 1 January 2017, the notion specified in MNB Decree 39/2016 (X.11) on the Prudential Requirements Related to Non-performing Exposures and Restructured Receivables

Main differences between the two notions:

– Until end of 2016, according to the provisions of Government Decree 250/2000 a renegotiated loan keeps the renegotiated classification until maturity. However, according to the new notion effective from 1 January 2017, upon fulfilling certain conditions (the loan qualifies as performing and at least 2 years elapsed since its classification as performing, the debtor is not delinquent over 30 days in respect of any of his liabilities, etc.) the credit institution no longer states the loan as renegotiated.

– Before 2017 all accumulation account loans granted on the basis of the Act on Foreign Currency Loans, and the related foreign currency loan or the loans converted into forint had to be treated as renegotiated loans, irrespective of whether or not upon enrolling to the exchange rate cap scheme the debtor struggled with financial difficulties. From 2017 these portfolios are not to be regarded as renegotiated loans either, if upon joining the exchange rate cap scheme the debtor had no financial difficulties.

- 11 Because modifications regarded as 'significant', which have been received in the meantime, are taken into account, the data may sometimes differ from those published earlier. The data are revised and, if necessary, modified once a year, at the time data for the first quarter are published.
- 12 From 2017 time series 4, 5 and 6, presenting the composition and quality of the loan portfolio, do not contain loan stocks classified as available for sale and registered at fair value.
- 13 Act LXXVII of 2014 on the change in the foreign currency denomination of certain household loans and interest rate rules (hereinafter: Forint Conversion Act) requires that a certain range of foreign currency-denominated mortgage loans shall be converted into forints at an exchange rate provided by the Act.

In the case of unaudited (preliminary) data for the end of 2014, forint values of foreign currency-denominated loans published by the MNB containing aggregated balance sheet items of credit institutions are calculated using unchanged methodology, at the MNB's official end-of-month mid-rates, in line with past publication practice, in order to present outstanding lending to households at uniform exchange rates.

A December amendment to Government Decree no 250/2000 (XII. 24.) on special provisions regarding the annual reporting and book-keeping obligation of credit institutions and financial enterprises allows credit institutions to value foreign currency-denominated mortgage loans affected by mandatory forint conversion as well as the related stocks of loans at the exchange rate provided by the Forint Conversion Act. Part of credit institutions using this opportunity show the difference between the official exchange rate of the MNB for the end of the year and the fixed exchange rate in the row Provisions/Valuation difference. Consequently, the net stock of loans affected has already been recorded at the fixed exchange rate in the balance sheet and the statements detailing it. Some credit institutions show the difference among accounts receivable with a negative sign, instead of using the row Provisions/Valuation difference.

- 14 The time series 'Developments in credit institutions' ownership structure based on control' presents consolidated data of banking groups and individual data of credit institutions not belonging to a banking group on an aggregated basis. The time series presents the ownership structure of credit institutions on a control-based approach. The balance sheet total of individual credit institutions is shown either in the line 'Domestic' or in the line 'Foreign', i.e. the balance sheet total is not broken down according to domestic/foreign ownership ratio, but is placed in one category (domestic or foreign) based on the nationality of the controlling owner. The time series takes into account whether a bank is in the majority ownership of a foreign professional or portfolio investor and whether the domestic management has the capability of making strategic decisions despite majority foreign ownership of subscribed capital (in that case, the institution's balance sheet total is recorded among domestically controlled credit institutions).