

VALIDATION GUIDELINES PART II ANNEX 2¹:

EXAMPLES TO BE USED FOR BUSINESS LINE MAPPING

CORPORATE FINANCE

In our view, mapping to the list of activities mentioned in the table included in the CRD (Annex X Part 2 Table 2) may be possible not only for services provided to corporate clients, but also for services listed in the CRD table and here, that are provided to municipalities and states.

The following could be mapped to the corporate finance business line:

- ◆ Management fees and commissions related to syndicated lending;
- ◆ Privatisation advisory;
- ◆ Securitisation advisory;
- ◆ Venture capital advisory and risk taking;
- ◆ Business consultancy closely linked to services provided to the firm. Thus, if it can be clearly separated, it can be assigned to commercial banking rather than corporate finance. The mapping must be regulated in documents.
- ◆ Fees for collaboration in equity issues by clients (with or without underwriting);
- ◆ Fees for investment analysis and advisory and financial analysis provided to non retail clients, as long as these are presented as separate items.

TRADING AND SALES

- ◆ Trading on own account. For credit institutions maintaining trading books of their own, this includes the profit or loss achieved on trading book positions. This business line is also relevant for credit institutions not maintaining trading books of their own, in their case this business line should include profit or loss on positions that would otherwise be recorded in the trading book;
- ◆ Transactions executed with or on behalf of institutional clients (including inter-bank loans or deposits);
- ◆ If separate negotiations are conducted with the client and the transaction is priced individually, the related income is to be mapped here. (Irrespective of whether the client is a private individual, SME, large corporation, etc.);
- ◆ Market-making;
- ◆ Profit or loss from treasury sales to corporate clients, regardless of whether individually priced or not.

¹ It is to be noted that the examples are not exclusive and other approaches may also be used if properly justified. The list is therefore not exhaustive.

RETAIL BANKING

- ◆ In addition to loans to retail clients (and SMEs classified here) this may also include profit or loss from transactions used to hedge items in the retail banking book. The cost of funds for the loans may be other than the cost of funds from retail deposits, and internal transfer prices may also be used;
- ◆ This should include the portion of leasing income related to retail clients;
- ◆ Change of money;
- ◆ Income (commissions, etc.) from cards related to card companies should be included here. If the credit institution pays some – directly related – commission to the card company, that cost may be included in the calculation of the relevant indicator. For cards the identity of the holder (individual person, SME, large corporation, etc.) need NOT be taken into account, as it makes no difference for operational risk.

COMMERCIAL BANKING

- ◆ For credit institutions maintaining trading books of their own, this includes profit or loss from securities held in the banking book (held to maturity, available for sale). For credit institutions not maintaining trading books of their own this business line should include profit or loss from positions other than quasi trading book (quasi banking book) positions to be followed under the conditions for the exemption from the obligation to maintain a trading book as described in the ACI under Article 78 Paragraph (6) Section b).
- ◆ Transactions used to hedge items in the corporate banking book;
- ◆ Corporate loans;
- ◆ Factoring, corporate financial leases;
- ◆ Project finance;
- ◆ (Foreign) trade finance;
- ◆ Documentary credit;
- ◆ Corporate bank guarantees;
- ◆ Change of money.

PAYMENT AND SETTLEMENT

- ◆ Fees and commissions from the operation of settlement systems;
- ◆ Fees and commissions on transfers executed for external² clients (e.g. correspondence banking payment services);
- ◆ Payment services to institutions;
- ◆ Cards issued by the institution itself, which are rare in Hungary, can be considered "issuing means of payment" and may be included here.

² External should mean that the institution is not in a contractual relationship with the final mandatory.

AGENCY SERVICES

- ◆ If the institution sells products as an agent of another institution, the resulting commission and fee revenue;
- ◆ Custodian services;
- ◆ Safe-keeping of securities and related record-keeping;

RETAIL BROKERAGE

- ◆ Income should be mapped to Retail Brokerage if a NON INDIVIDUALLY priced transaction is executed on the order of a client that has contacted the institution himself. The correct classification is in Retail Brokerage if the price is not individually set, even if the client is an SME (i.e., not an individual).

OTHER PRINCIPLES AND ISSUES

- ◆ The Treasury may execute transactions not only for liquidity reasons but also to hedge the risks of certain transactions. For such cases the following procedure should be followed: Items used to hedge certain items in the banking book should be mapped to the respective business line. If the institution can demonstrate that a transaction is used for hedging, it may map it accordingly.
- ◆ In general: if the institution is unable to map the transaction but the Treasury function is involved in it in some way, it is then prudent to map it to the Trading and Sales (T&S) business line.
- ◆ Agency services: if commissions are explicitly charged, they should be mapped to agency services. In contrast, where revenue is part of the margin and is closely related to a certain business line (e.g., home insurance for home loans), it should be mapped to that business line.
- ◆ Individuals and businesses are rated very differently in the course of leasing activities. The HFSA expects institutions to be able to break down revenues between retail banking and commercial banking. If this is not done, leasing activities should be mapped to the category with the higher risk.
- ◆ Private Banking has no “independent revenue” as such, as it sells the products of other business lines. If revenue is generated from fees charged for consultancy specifically under “private banking” services, it should be mapped separately to private banking services and thus to retail banking activities. The controlling system should allocate additional income to Private Banking using some internal transfer price or some other method based on the products sold. With regard to operational risk, revenue must be re-allocated to its original source, and revenues from Private Banking must be mapped accordingly, even if split between several business lines. If a *loss event* related to Private Banking must be recorded in the data base, it should be mapped to the business line corresponding to the product or service that the event is related to (and potentially it may be indicated as related to PB). If the product or service that the loss is related to can not be identified, or if it is closely related to Private Banking advisory, it should then be included under retail banking losses.

When mapping *loss events* to business lines – if an event spans several business lines –, it is expedient to map the entire event to the most significant affected business line.