

Annex 3. SREP questionnaire for small institutions

(The HFSA sends out this questionnaire framed into the characteristics of specific institution types)

Below you find a general description of the questionnaire used by the Supervisory Authority, that is sent at least once a year to all supervised credit institutions and investment firms qualified as smaller institutions. For certain institutions/types of institutions, the questionnaire may differ from the one presented here in accordance with their risk profile and individual characteristics.

General questions

1. What risks and why does the management consider material in the operations of institutions?

Not only the main risk categories (credit, operational risks, etc.) should be indicated but details should also be provided for what is considered to be a problem within those in terms of operation of the institution. (We recommend assessing potential risks by taking into account the provisions of the ICAAP Guidelines Chapter III.2. *Material risks* published on the website of the Supervisory Authority.)

2. What method is used to calculate the internal capital requirement (Pillar 1 + the Building Block principle or other)? Has the method of calculation been changed since the last review, and if yes why? What was the internal capital requirement calculated by the institution in total and broken down by risk types on 30 September 2010? Quantify possible differences in numbers and explain them compared to the regulatory capital requirement. (The second and third sentences of question 2 can also be answered in Annex 2, prepared in excel format, entitled “The calculation of internal capital requirement”.)

3. Are there any factors (e.g. low external risk factors, quality of collaterals), which the institution has taken into account as risk mitigation elements reducing capital requirement in the calculation of internal capital requirement? If yes, describe these and explain the risk mitigating effect!

4. Does the institution apply stress tests in the calculation of internal capital requirement? If yes, describe these and related results.

5. Does the institution have risky portfolios, presented on the homepage of the Supervisory Authority in the Annex to the SREP Guidelines, and has it calculated additional capital requirement for covering such risks? Also describe the steps of calculations. (Gross portfolio, collaterals, impairment, capital requirement calculated for net portfolio). If the institution has not reckoned with additional capital requirement, please provide a detailed explanation for that based on all criteria set out in the guidelines.

6. Does the institution use the opportunity of regulatory capital adjustment? If yes, describe its elements, degree, and explain them.

7. Based on the institution’s current business and capital plans, how is the size of capital required for the operation and available capital expected to change in the following three years? What sources will be employed by the institution in order to increase available capital, if it is deemed necessary?

	30.09.2010*	31.12.2010	31.12.2011	31.12.2012
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Available solvency capital				
Regulatory minimum capital requirement				
Internal capital requirement (ICAAP)				
Capital surplus/deficit**				

* The first column should contain actual data, while the following three projected data

** The higher of the available regulatory minimum capital and the internal capital requirement reduced by available regulatory capital

8. Are the results of the calculation of the internal capital requirement applied in other fields (e.g. risk management, pricing, impairment accounting)? If yes, describe how these are applied.

I. Environment (risks of external factors)

9. What risks does the institution face arising from external factors (such as geographic environment, high unemployment rate, sharp competition, limited funding of financing or fund outsourcing opportunities, low level of financial culture)?

10. To what extent can you identify geographic, industrial or customer segment, where the institution is operating primarily? Describe the breakdown of asset portfolio by the main segments.

11. Is the institution a member of any protection funds (yes/no). If yes, of which? Does it apply this fund's methodology/recommendations in the calculation of internal capital requirement? If it applies the joint methodology not in full or with individual corrections in some of its parts, please list them!

II. Corporate governance

12. Describe the institution's ownership structure! (Whether ownership structure means a number of small owners or it is made up of professional strategic investors, typical behaviour of owners and the impact thereof on the operation of the institution.) Did the institution pay dividend in the last three years? (Yes/no. If yes, when and what percentage per nominal value of shares?) What percentage of the after-tax profit was the dividend paid?

13. Indicate the date when currently effective business strategy was approved or revised. Which forum has approved it, and how long is it in effect? Have the objectives and priorities set in the latest report (submitted for the latest SREP review) changed since its submission date as a result of crisis or for other reasons?

14.1. Does the institution have a risk strategy? (When and what body has accepted it?) Does it apply risk limit systems (industrial, product, deal, etc.).

14.2. Present the institution's risk management system! (Principles and areas of risk taking – products, business lines, markets – extent, measurement, management, limitation of risk taking, position of the risk management function within the organization: organization chart, responsibilities, relationships with management, regulations, reports).

14.3. Have there been any changes at the institution in the risk management, internal auditing, the compliance function or regarding where and by whom problematic assets are handled?

15. Has the management of institution detected any signs of weakening confidence and loyalty of customers and partners, in the last 12 months (e.g. withdrawal of deposits, higher risk premiums for sources, requests for additional collaterals)? In the case of co-operative credit institutions, has the number of members left increased significantly?

16. Has the constitution or educational background of executives (e.g. supervisory board and board of directors members of co-operative credit institutions, Head of lending department, Head of risk management, Head of internal control, chief accountant, Head of lending/deposit taking activities, etc.) who are not affected by the Supervisory Authority's scope of authorisation changed since the latest report?

17. How does the owners' control system operate at the institution (operational regulations of the supervisory board, subjects discussed, presentation of the documents prepared by internal control, their frequency, whether the inspections of owners took place, whether the supervisory board has external professionals to carry out inspections, whether there is a feedback schedule for the decisions of the supervisory board; whether management reports to supervisory board, etc.)?

18. Present the institution's remuneration policy regarding employees whose professional activities have a material impact on the institution's risk profile. (What jobs does it apply to, what are the main principles, what ratios are set regarding fixed and performance-related payments, how and over how many years are performance-based pays disbursed, etc.? Please summarize if the institution's remuneration policy complies with HFSA recommendation no. 1/2010.)

III. Market presence

19. Which products are of key importance for the institution? Is there a product that was introduced in the past year, which is expected to generate substantial increase in turnover? What new risks are expected to emerge regarding the introduction of new products and what do you do in order to mitigate them?

20. Does the institution measure its market share on the whole and in the market segments most important for them? If yes, describe the market shares of institution on the whole and in the most important service and product segments in the last three years. What estimates are available for the forthcoming period? If the change of market share is not measured, do you measure your own growth rate against county, regional and national averages?

21. Was there a review by the Competition Authority at the institution in the last three years and is it incriminated in a lawsuit at the initiation of a client? If yes, what is the object of and the possible amount disputed in the lawsuit?

IV. Business procedures and capital

22. To what extent does the institution carry out activities of higher than average risk (e.g. trading derivatives, buying securities issued abroad, HUF loans denominated in foreign currencies, stock exchange transactions, OTC securities trading, products with specific conditions, capital or yield guarantees, cross-border activities, providing investment services in their own right, investment funds with majority share components, financing financial enterprises, exchange index swap deals)?

23. Describe the five most significant losses of the institution in the last 12 months by credit, market, operational and other risks in detail. (The losses incurred in connection with the sale of assets received must be presented under credit risks.)

1. Credit risk, description of deal	Date when loss occurred and way of disclosure	Cause of loss	Net* loss in the period concerned (million HUF)	Actions taken in order to avoid future loss

* Expected loss - after taking into account the value of collaterals - for which impairment was charged in the given period

2. Market risk, description of loss or deal*	Date when loss occurred and way of disclosure	Cause of loss	Net loss in the period concerned (million HUF)	Actions taken in order to avoid future loss

* Including trading book and non-trading book (banking book) interest rate risks, foreign exchange risk, exchange risk of securities, commodities risk, etc. Only realised losses must be indicated!

3. Operational risk, description of loss	Date when loss occurred and way of disclosure	Cause of loss	Net* loss in the period concerned (million HUF)	Actions taken in order to avoid future loss

* In the case of operational losses, gross losses must be indicated!

Please name the risk event even if there is no quantifiable financial loss currently.

4. Other risk, description of deal or event	Date when loss occurred and way of disclosure	Cause of loss	Net loss in the period concerned (million HUF)	Actions taken in order to avoid future loss

24. Regarding credit activity, list the five most substantial losses written off in the past 12 months by indicating the name of client, the type of claim and its industry rating as well as the reason for the write off for the loss.

1. Credit risk, description of deal	Loss written off in the given period or the total loss written off since disbursement (HUF million)	Reason of the loss write-off	Actions taken in order to avoid future loss

25. Considering the Government Decree No. 361/2009 (XII.30), present what percentage of the property’s market value is taken into account as collateral (for homes and commercial properties separately) in the case of mortgage loans (including partial mortgage exposure).

26. Describe the institution’s practice of accepting mortgage collaterals and present how legal provisions are adopted in the institution’s internal regulations. Does it apply uniform terms and conditions or does it differentiate according to the types of settlements or perhaps to other considerations when accepting mortgage collaterals?)

27. In the case of actually signed contracts and resulting portfolios, what was the average ratio of disbursed loan amount or exposure compared to the collateral value in the last twelve months?

28. How do the financial conditions of products offered by the institution relate to conditions available in the market? Describe and justify the terms and conditions of assets and liabilities.

29. Has the scope of outsourced activities changed since the latest report (submitted for the last SREP review)?? Have any problems occurred since the last review regarding outsourced activities? How does the institution control the entity performing outsourced activities? What activities are planned to be outsourced in the next 12 months?

30.1. Present the methodology of liquidity management. (Identification, measurement, tracking of liquidity risks, monitoring of cash flows, financing of investment loans, deferred payments and security deliveries, provision for their liquidity, credit lines and loan portfolios, etc.)

30.2. Were there any liquidity problems at the institution in the last 12 months? If yes, what were the reasons for and how could the problems be managed and at what cost? Explain what percentage of government/public securities hold in portfolio or interbank deposits were pledged as collateral in favour of any other institution.