

Annex 1: Supervisory responses to the revealed deficiencies at small institutions

Revealed deficiency, problem	Supervisory measure	Problem category	Primary source of information
Operation under conditions with above average risks, the negative impacts of macroeconomic cycles	Request for the diversification of the activity	II.	Data supply, questionnaire, MNB investigations
High geographic concentration risk	Closer attention to risk management	III.	Questionnaire, MNB investigation, sector analysis
The institution's strategy is not well-founded	Request for changing the strategy	II.	MNB investigation, data supplies
The owners' dividend policy does not provide for the necessary internal capital increase	Call the owner's attention to the potential problems	II.	Data supply, questionnaire
Deterioration of trust (reputation risk)	Closer supervisory monitoring of the activity	I.	MNB investigation, market information, questionnaire
Lack or weakness of ownership control	Request for stronger owner's control	III.	Data supply, MNB investigation
Deficiencies in the capacities or expertise of executives	Request for the elimination of deficiencies, order to conduct training, further training	I.	Investigations of the MNB and other organisations, lessons of prudential discussions
Problems related to the qualification and professional experience of executives out of the scope of the MNB	Request for professional further training	III.	Questionnaire, MNB investigations
Non-compliance with earlier supervisory resolutions	Obligation to comply with supervisory resolutions, penalty	I.	MNB investigation, questionnaire
Non-compliance with MNB recommendations and methodology manuals	Reminder of compliance with recommendations and manuals	II.	MNB investigation
Disregarding other MNB notifications (e.g. management letters, CEO circulars)	Closer monitoring of MNB notifications	II.	MNB investigation, questionnaire
The MNB or any other external investigation reveals	Obligation to rectify risk management and control deficiencies	I.	Investigation documents of the MNB and other organisations

management, risk management or internal control problems			
Significant deficiencies in the market risk management and control systems	Obligation to rectify risk management and control deficiencies	I.	MNB investigation, data supply
The services and products provided by the institution are non-marketable and do not adjust to market demands	Request for the modification of the product and service range and the business model	III.	Investigation documents of the MNB and other organisations, data supply
Performance of activities not typical for small institutions	Closer supervisory monitoring of the activity	III.	Questionnaire, MNB investigation, data supply
New types of activities, markets	Closer supervisory monitoring of new activities and markets	III.	Data supply, MNB investigation, questionnaire
Falling market share/growth rate below the sector average	Request for the modification of the business model and business policy	III.	MNB investigation, questionnaire, data supply, HFSA analyses
The institution's client structure is questionable, it is a highly concentrated sector due to products or debtor age.	Request for the modification of the client structure	II.	Investigation documents of the MNB and other organisations, data supply
The MNB or any other external investigation reveals an unauthorised activity	Obligation to dispense with unauthorised activities	II.	Investigation documents of the MNB and other organisations, data supply
The institution employs unacceptable tools in its acquisition, marketing and disclosure policies.	Request for changing acquisition, marketing and disclosure policies.	II.	Investigation documents of the MNB and other organisations, data supply
Asset quality is in the lowest 10–20% range compared to similar credit institutions	Request for the reduction of credit risks	III.	Data supply
Asset quality is in the bottom 10% compared to similar credit institutions	Request for the reduction of credit risks	II.	Data supply
Substantial credit losses in the past three years exceeding 5% of the equity.	Investigating the cases of credit losses	II.	MNB investigation, data supply, questionnaire
The rate of suspended interests is at least 30% higher than the sector average.	Investigating the cases of credit losses	III.	Data supply

Significant deficiencies in the credit risk management and control systems	Obligation to rectify risk management and control deficiencies	I.	MNB investigation, investigation documents received from other organisations
Clients representing higher credit risk than average based on their ratings and industry risks	Order for more detailed reports and stricter risk management procedures	III.	Questionnaire, MNB investigation
Introduction of new loan products, including especially unusual and new products in the Hungarian market.	Monitoring of new products	III.	Questionnaire, MNB investigation
The credit institution operates with ratios close to the statutory prudential limits (with less than 10% deviations)	Closer monitoring of ratios, prudential limits	III.	Data supply
High country risk	Closer supervisory monitoring of the activity	Additional own funds requirements imposed following a specific methodology	Data supply
Substantial losses in the last three years arising from market risks	Investigating the causes of market risk losses	II.	Questionnaire
Products with exceptional conditions	Call for a review of conditions	III.	MNB investigations, questionnaire
Interest rate sensitivity analysis indicates high risk	Request for the improvement of interest rate risk management techniques	Additional own funds requirements imposed following a specific methodology	MNB investigations, data supply
Frequent liquidity problems, no access to additional capital, GAP analysis indicates high maturity mismatch.	Request for developing the liquidity risk management techniques	II.	Questionnaire, data supply, MNB analysis
Substantial losses in the last three years arising from operational risks	Investigation of the source of losses arising from operational risks	II.	Questionnaire
Outsourcing of significant activities, insufficient attention is paid to the entities performing outsourced activities.	Request for closer attention to the outsourced activity	III.	Data supply, MNB control, questionnaire

Documentation and administrative problems (not only operational risk related problems)	Request for the elimination of documentation and administrative deficiencies	II.	MNB investigation, client complaints, data supplies
IT deficiencies	Request for the elimination of IT deficiencies	II.	On-site and off-site investigations, clients' complaints
The ICAAP value is higher than under Pillar 1	Additional own funds requirements imposed in accordance with the ICAAP value and the result of the MNB's risk assessment	I.	Data supply, questionnaire
Decline in own funds compared to the end of the previous year in excess of 10%.	Obligation for the formulation of a capital plan	II.	Data supply