

This document has been produced for informational purposes only. The Hungarian version of the resolution must be considered as the original version.

File number: 995-56/2022
Contact:
Subject: Subject: Supervisory measures and posing fine towards OTP Bank Plc.

Resolution number: H-JÉ-I-B-256/2022.

Based on the conclusion of the audit procedure against OTP Bank Plc. (registered office: 1051 Budapest, Nádor utca 16.) ("the Bank"), the Bank and its subsidiaries subject to consolidated supervision OTP Mortgage Bank Close Company Limited by Shares Hungary (registered office: 1051 Budapest, Nádor utca 21.) ("Jelzálogbank"), OTP Factoring Ltd. (registered office: 1066 Budapest, Mozsár utca 8.) ("Factoring"), OTP Close Building Society (registered office: 1051 Budapest, Nádor utca 21.) ("Lakástakarék"), OTP Ingatlanlízing Ltd. (registration office: 1012 Budapest, Vérmező út 4. ("Ingatlanlízing"), Merkantil Váltó és Vagyonbefektető Bank Ltd. (registered office: 1051 Budapest, József Attila u. 8) ("Merkantil Bank"), (are collectively referred to as: the Subsidiaries) (the Bank and the Subsidiaries are collectively referred to as: the Banking Group) by the National Bank of Hungary (registered office: 1013 Budapest, Krisztina körút 55., business establishment: 1122 Budapest, Krisztina körút 6.) ("MNB"), the MNB passes the following

Resolution

I. MNB obliges the Bank to fulfill the following supervision measures during its financial activities in order to comply fully with the legislation.

1. In the fields of corporate governance no later than 31st December, 2022, complete and assure continuously thereafter the following:

1.1 It must always comply with its obligation to report outsourcing in accordance with the law, record the reporting process in its regulations, and keep up-to-date records of outsourcing contracts and document the reporting.

1.2 In relation to outsourcing activities, it shall fully comply with the legal requirements of internal audit investigations, furthermore, to introduce control in order to ensure that the indication of contracts in the internal regulations are up-to-date, ensuring the feasibility of annual checks by internal control.

1.3 In the case of foreign subsidiary banks, it shall ensure system-supported traceability of findings made by foreign supervisory bodies, carry out an audit that covers the entire bank group at regular intervals (preferably annually) to an extent proportionate to the risks, which is aimed at either data quality adequacy or compliance with CRR¹ rules, furthermore, in order to perform the control tasks efficiently, always provide the resources necessary to perform the task.

1.4 It shall revise the organizational framework in relation to the management of fraud risks, define uniform principles, create consistency between regulations, define clear tasks and responsibilities between the organizational units participating in the process, furthermore to implement fraud prevention with a unified and complex approach, and to ensure continuous and effective communication between individual organizational units.

1.5. In the course of corporate lending, in connection with the acceptance of the loan application and the post-disbursement phase, as well as the collection phase of retail/corporate lending, it shall establish a procedure aimed at detecting and dealing with emerging abuses, which includes, among other things, the

¹ REGULATION 575/2013/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation 648/2012/EU (CRR).

systems of criteria for the detection of suspected fraud incidents, as well as the form of transmission of the detected cases to the investigation area, furthermore, in relation to the identified suspected fraud events, ensure the appropriate flow of information and control their completeness.

1.6 It shall establish a registration system for suspected fraudulent events, which contains the events and data related to abuse in a clearly identifiable manner and in full, which adequately supports reporting, analyzes and the identification of risk trends, and also aligns its regulations with the reporting tasks and expectations arising in practice.

2. In the area of credit risks, it shall fulfill the following until 31st December, 2022 at the latest, and continuously ensure the following thereafter:

2.1 It shall make the changes of the CRR amendment on the calculation of large risk undertakings through its internal regulatory system.

2.2 It shall eliminate the contradictions revealed in its regulations regarding the formation of customer groups with regard to the scope of the subject, furthermore, it shall uniformly define and apply the concept of risk-taking, which covers the entire range of - defined in legal and other regulatory instruments relevant to the formation of the customer group - risk-taking types in detail.

2.3. At the domestic and international banking group level, it shall always meet the definition of event of default according to the relevant legislation.

2.4. In connection with the identification of the event of default, it shall always act in accordance with the provisions of the relevant MNB regulation.

3. As part of the provision of supervisory data, it shall ensure the following until 31st December, 2022 the latest, and continuously ensure the following thereafter:

3.1 In course of HITREG data provision, it shall always comply with the requirements of the relevant data provision regulation, and it shall correct the errors in accordance with the reasoning of this decision.

3.2 When filling out the 20AA report tables, it shall always comply with the provisions of the relevant MNB decree and it shall correct the deficiencies set out in the reasoning of this decision.

3.3 It shall always comply with the relevant data provision regulation when filling in the 20AC report forms, it shall correct the deficiencies set out in the reasoning of this decision, and it shall establish checkpoints to ensure compliance in order to meet the provision of the regulations.

3.4. In order to comply with the provision of data on project loan portfolios, it shall modify its regulations and processes accordingly, in order to fill in the 7F information sheet and project designation of transactions in all cases in accordance with the applicable legal regulations and internal regulations.

4. In the area of capital adequacy and impairment provision, it shall ensure the following until 31st December, 2022 at the latest, and thereafter continuously:

4.1

a) it shall apply lifetime PD as a Stage 2 trigger, or it shall demonstrate that its current methodology is not significantly different from a lifetime PD-based methodology, or it shall substantiate with analyzes why it is not advisable to use the methodology based on lifetime PD;

b) it shall record the schedule for the introduction of IFRS 9 methodologies for each portfolio in the valuation regulations, furthermore it shall also ensure that schedules related to individual methodological changes are up-to-date;

c) it shall also use its current methodology PD deterioration as a SICR trigger in rating category nine.

4.2 In connection with the filling in of the COREP tables, it shall continuously ensure the provision of accurate and reliable supervisory data in accordance with the law.

4.3 With controls built into the process, it shall ensure that the indication of the prudential consolidation circle is done in a consistent manner in the supervisory reports.

4.4 It shall review the applicability of 0% risk weighting for public sector institutions at both individual and group level in cases where the partner is not on the list issued by EBA².

4.5 It shall review the applicability of the 0% risk weighting for state guarantees at individual and group level in cases where the currency of the exposure differs from the currency of the guarantee denominated in the borrower's domestic currency.

4.6 It shall comply with the rules for the substitution effect of risk mitigation during client segmentation in any case and present the original exposure in the exposure class assigned to the counterparty before risk mitigation.

4.7. It shall examine whether the different definition of speculative real estate financing between the regulations is justified and eliminate the resulting differences if necessary.

² European Banking Authority (EBA).

5. It shall in the field of IT and information security, fulfill the following by 31st March, 2023 at the latest - with the exception of those written in point 5.6.b), whose completion deadline is 31st January, 2023 – and continuously ensure the following thereafter:

5.1 It shall always ensure that the IT knowledge required for each employment is defined in internal regulations.

5.2. It shall define the management of IT changes based on the catalog in internal regulations and in connection with the approval of firewall rules, ensure the consistency of regulation and practice, taking into account the relevant MNB recommendation.

5.3. It shall create automated loading and updating of its configuration record, make its data content complete and up-to-date, complete its software and license records, and organize the control of its software licenses in such a way that it can verify the completion of the control and its completeness, and complete the list of programs used for software verification, allowed or prohibited, and perform a device-wide software scan based on this.

5.4 It shall ensure that software and devices no longer supported by the manufacturer are updated or replaced, install the current security updates, comply with its regulatory environment and install security patches at regular intervals, furthermore, the Information Security Officer (IBF) should regularly perform vulnerability analysis on all operated servers, and in case of deviation, report it to the operators in a documented manner.

5.5 It shall provide controlled, verifiable and regularly checked user administration of systems in a manner proportionate to the security risk, and strengthen the eligibility review process.

5.6.

a) It shall create comprehensive Disaster Recovery (DR) plans for its critical IT systems, check the feasibility of these with tests, clarify the definition of RPO (Recovery Time Objective) close to 0 hours in its regulation, then check compliance with this in documented form in its systems, in the case of critical systems, also supported by tests;

b) Based on the action plan named in the reasoning of this decision, it shall perform the test of the four service-based group disaster response plans defined in the action plan (cash flow, securities, monitoring, infrastructure).

6. In the field of deposit insurance and deposit registration, it shall complete the following by 31st December, 2022 at the latest and continuously ensure the following thereafter:

6.1

a) In order to provide adequate information to the National Deposit Insurance Fund (OBA), it shall prepare its Consolidated Insured Deposit File (KBB data file) in the data structure and data content specified in the document titled "Description of the National Deposit Insurance Fund's Consolidated Deposit Data Record Structure and Instructions for Completion" (KBB Description);

b) it shall ensure that foreign currency deposits are converted at the foreign exchange rate specified in the legal provision;

c) in accordance with the effective KBB Description, it shall ensure that each identification data is unique;

d) it shall ensure that the uniqueness of the customers in the KBB data file complies with legal requirements;

e) it shall ensure that the type of customers is always established in accordance with the effective KBB Description;

f) it shall only include deposits provided by OBA in the KBB data file, it shall not list deposits that are not registered;

g) it shall take the necessary and documented measures in order to replace missing identification data from the KBB customer file and to correct inappropriate data;

h) it shall review and amend its Start account records;

i) it shall review and improve the display of deposit identification data in the KBB data file;

j) it shall review and, if necessary, modify the application of insurance claims and, accordingly, the formation of the compensation value limit;

k) it shall examine the algorithm used to calculate the indemnification obligation and the consolidated amount.

6.2 In order for the deposit register system to be consistent with the KBB database, it shall ensure that the KBB data file only contains the data found in the Bank's records with regard to insured deposits.

6.3. When informing customers about deposit insurance

a) it shall always provide its customers with information on deposit insurance in accordance with applicable law;

b) it shall display the consumer protection logo of OBA in its announcements in accordance with the provisions of the relevant legislation as prescribed by the OBA.

II.

1. In the context of extraordinary data provision, MNB requires the Bank to submit its internal audit reports – having been negotiated by the board of directors and approved by the supervisory board – on the full implementation of the measures related to the obligations contained in point I of the operative part of the decision and the documents supporting the implementation of the measures to MNB as follows:

- a) for measures to be completed by 31st December, 2022, until 28th February, 2023
- b) for measures to be completed by 31st January 2023, until 31st March, 2023
- c) for measures to be completed by 31st March, 2023, until 31st May, 2023.

2. In the context of extraordinary data provision, MNB requires the Bank in the field of IT and information security, in connection with deficiencies revealed in connection with point I.5 of this decision and in order to continuously monitor the elimination of such deficiencies

- a) to make a detailed schedule
 - with regard to decision I.5.4. to the removal of software no longer supported by the manufacturer, furthermore
 - with regard to point decision I.5.5. for connecting applications with a risk rating of 4 to 5, in relation to the system to be used, and provide the detailed schedules to MNB until 30th November, 2022.
- b) prepare a detailed schedule for the action plan named in the reasoning of the decision in order to achieve the goal stated in connection with switching the engine room until 2023, and a high-level plan for 2024 and 2025, and send it to MNB until 31st January, 2023.

III. MNB obligates the Bank to pay a supervisory fine in the total amount of HUF 55,000,000, i.e. Fifty-five million HUF due to the legal violations that are the basis of the provisions of point I of the operative part of the decision and established in the reasoning of the decision.

The MNB draws the Bank's attention to the fact that if it does not comply, or does not comply fully or if it complies late with the obligations stipulated in the decision, MNB has the option of applying additional supervisory measures provided by law and imposing fines.

No procedural costs were incurred during the procedure.

The imposed fine has to be paid to the account number 19017004-01678000- 30900002 of the MNB within 30 days after this resolution becoming enforceable by indicating „supervisory fine” as a comment and the number of the resolution. In the absence of the voluntary payment of the fine, the rules of administrative enforcement are applied. In the event the deadline for the payment of the supervisory fine is missed, default interest will be charged, the extent of which will be calculated at the rate of 365th of the double of the central bank rate in effect on the date of imposition after every calendar day following the date of imposition. After the late payment of default interest, no further default payment can be charged. The default interest has to be paid to the cited account of the MNB by indicating the number of the resolution and the comment “default interest”. The tax authority shall enforce the fine imposed and unpaid in the MNB’s final decision in a manner of taxes, as well as the default interest due to the fact of unpaid or overdue fine.

No appeal can be made against the resolution within the framework of an administrative procedure, at the same time, the client, or other party of the proceedings with respect the provision applicable to him/her, may initiate administrative proceeding against the resolution at Budapest-Capital Regional Court within 30 days of the publication of the decision citing violation of law. Legal representation is mandatory. The application shall be submitted to the MNB addressed to the Budapest-Capital Regional Court. (The assistance service of form’s submission: <https://www.mnb.hu/felugyelet/engedelyezes-es-intezmenyfelugyeles/hatarozatok-es-vezesek-keresese>.) The submission of the application has no suspensory effect on the entry into force of the decision, but the client can request immediate legal protection. The court will, in principle, decide the trial out of court. The hearing will be taken, if the client requests that in the application. There is no place for excuse, if the request is not made.

Dated: Budapest, 15th September, 2022.

Financial Stability Council acting on behalf of the Hungarian National Bank

ELECTRONICALLY SIGNED DOCUMENT