

Internal Lines of Defence



The Bank has a framework regulation in place for internal governance and internal control functions which, in accordance with MNB Recommendation No. 27/2018 (XII. 10.), defines the role and responsibility of the internal governance and internal control functions. The regulation is to be implemented at Group level.

The primary responsibility of business lines and organisational units is to manage risks. The general principles pertaining to the **first line of defence** are defined by the Bank's internal regulation on the Bank's internal lines of defence and other relevant documents.

As the **second line of defence**, the risk management and compliance functions are responsible for the appropriate risk management of S and G risks.

As the **third line of defence**, during its activity the independent internal audit unit also inspects (reviews) S&G factors.

The Bank started to operate the ESG Programme in November 2020. The Programme was approved by the Bank's Management Committee. All areas of the Bank affected by ESG (including climate change and environmental risks) participated in the Programme. The Programme also had a steering committee and an operating committee. The steering committee comprised the Bank's deputy CEOs, the heads of the compliance, HR, legal and marketing/communication areas, as well as the head of the Green Programme Directorate. The steering committee reported to the Bank's management on the activity of the Programme. A conceptual proposal was prepared for setting up the functional units comprising the Bank's ESG organisation – including but not limited to the ESG Committee, the ESG Sub-Committee and the control function specified in Section 14 of the MNB's Green Recommendation –, which was discussed by the Management Committee and approved by the Board of Directors. In line with the decision made by the Board of Directors on 17 November 2021, the Bank's ESG organisation was established in December 2021. As part of setting up the ESG organisation, the tasks (workflows), responsibilities and reporting obligations of the organisational units concerned were also determined. Internal regulations, reporting lines, and the ESG-relevant competences and tasks of committees and management bodies, as well as the internal control functions are being defined based on the above and the legislation, recommendations and requirements published in relation to ESG.

In relation to risk management – as an internal control function – a policy was drawn up in the framework of the ESG Programme on the sustainability risk management of investments, which came into effect on 7 July 2021. The inclusion of sustainability aspects in risk management activity was expanded further in respect of operational risks: ESG considerations are now included – in addition to scenario analysis – in risk self-assessment and loss data collection. A new practice was introduced in order to indicate the ESG implications of the effects of loss events, broken down by risk type. By 30 June 2021, an ESG credit risk assessment was also completed and included in the Credit Policy; its extension to the Group as a whole is in progress. ESG reporting will be in place by mid-2022, and the incorporation of ESG risks into the collateral assessment methodology will be completed by 2023.