

SUMMARY

In 2014, the MNB (the central bank of Hungary), as Founder, established the Pallas Athene Foundations **with a HUF 266.4 billion capital infusion**, with the aim of supporting and developing education, culture and science, promoting and facilitating the training and research of economists and financial experts, and encouraging the creation of knowledge, as well as research and development applicable in the economy. Initially, there were six foundations, which have since merged. In 2019, the functions of the discontinued foundations were taken over by the successor Pallas Athene Domus Meriti Foundation (hereinafter referred to as the Foundation), with a total asset allocation of HUF 259.6 billion in cash and HUF 6.8 billion in real estate by the Founder.

In accordance with the Foundation's Deed of Foundation, the Board of Trustees has the right to use and dispose of the Foundation's assets, and shall ensure that the Foundation operates in accordance with its purpose and that its assets are managed prudently. The Foundation's conservative investment policy, as set out in its investment regulations, states that the main objective of its investment activities is to make safe, low-risk investments using the Foundation's assets, generating regular income to sustain its activities in the long term. In 2015, the Pallas Athene Foundations established Optima Investment Ltd. (OPTIMA Befektetési Zrt.) to manage the assets and support the preparation of investment decisions. By investing the major part of the assets made available to it in the 20-year bond of Optima Investment Ltd. in 2020, in which it has a sole interest, the Foundation has entrusted the management of the assets and, with it, the implementation of the objectives of its investment policy, to the business organisation.

In addition to the bonds subscribed by the Foundation (in the value of HUF 279.1 billion), Optima Investment Ltd. has raised additional funds to finance its investments – bonds subscribed by the John von Neumann University Foundation (hereinafter referred to as the NJE Foundation) (HUF 127.5 billion) and bank loans (EUR 170 million). **As a result of the fund-raising**, Optima Investment Ltd. was responsible for managing **nearly HUF 500 billion of assets, a significant part of which (HUF 407 billion) came from public funds**. The investments were made by Optima Investment Ltd. through an essentially **opaque corporate and investment structure** (OPTIMA Group) of companies and private equity funds owned directly or indirectly by Optima Investment Ltd., which makes it almost impossible to assess the real size of the assets. Contrary to its founding objectives, the OPTIMA Group has built up, through the intervention of private equity funds, a highly complex network of companies across several countries and entrepreneurial levels, for which the SAO has not identified any rational economic justification.

For the investment activities carried out by the OPTIMA Group, the Foundation's trustees with effective responsibility **did not ensure an adequate system of controls to be in place**, and therefore the determination of the fair value of the investments and the decision-making mechanisms for changes in value were not identifiable. The Foundation

did not set up an adequate system of controls for the entire company structure, did not define reporting rules on the investment activities of the companies that actually invested the assets, and the reporting system it operated did not provide information on the performance of indirect investments. The Founder received only formal, incomplete reports on both the decisions of the Board of Trustees and the decisions taken by the Supervisory Board of the Foundation, which did not allow the effective exercise of controls. The Founder was not fully informed of all material matters as required by the Deed of Foundation (e.g. the text of the Board of Trustees' resolution on a decision involving hundreds of billions of HUF was sent to the Founder without indicating the amount).

The Executive Board of the MNB began to exercise Founder's controls in a meaningful way only after the SAO's notification, when, in the spring of 2024, it asked the Supervisory Board of the Foundation to conduct an extraordinary investigation and inform the Founder. In December 2024, based on the prepared report, the Governor of the MNB himself stated that *'The information received is in sharp contrast to the annual founder's information notices provided in recent years by the Board of Trustees and the Supervisory Board of the PADME Foundation in accordance with the Foundation's Deed of Foundation'*, which shows that the control functions exercised until then were not working. According to the Director of the Foundation, the proposals for decisions prepared by Optima Investment Ltd. were submitted to the members of the Board of Trustees and the decision-makers of investment transactions without any real controls by the Foundation. *'Optima Investment Ltd. commissioned and analysed the expert, consultancy and pre-decision analyses and background materials related to investment decisions, and the Board of Trustees could only get to know as much of them as was included in the proposals';* *'the Foundation's work organisation does not have and did not have the organisational resources necessary for materially checking these proposals from an investment, return and financial point of view'*. However, the SAO is of the opinion that it is the responsibility of the Board of Trustees to base its decision on sufficient, true and fair information of appropriate quality and, to this end, it is expected to assess the facts and data, or lack thereof, supporting its decision. This is particularly true in the case of the Foundation, which has taken decisions on the management of hundreds of billion HUF of public money.

As an investment of the assets entrusted to it by the foundations, Optima Investment Ltd. **acquired indirect participations in foreign real estate investment companies**, contrary to the established conservative investment policy and the prudent management expected of public funds. At the end of 2023, the OPTIMA Group held 62.61 percent of the shares of the Polish real estate investment company GTC S.A., as well as two packages of shares of the Swiss company Ultima Capital S.A., amounting to 33 percent and 25 percent of the shares, respectively, with a total **book value of HUF 450 billion**, paid as agreed and exercisable. **The OPTIMA Group financed the amount of foreign**

investments exceeding the Founder's contribution from borrowings, thereby significantly increasing their risk.

The decision **to acquire the shares of GTC S.A.** was taken by the trustees in a matter of hours, on the basis of a preparatory document that contained blatant professional shortcomings and therefore being unsubstantiated regarding the risks and expected returns. The same fact, the impact of the COVID-19 pandemic, was sometimes presented as a benefit and sometimes as a risk to investment in the material. The decision to buy the shares of GTC S.A. was taken on 3 April 2020, when the negative trend of the share price of GTC S.A., which started in 2020 and ultimately resulted in a 34 percent decrease in three months, was already visible. The rationale for timing a purchase at a significant premium is also questionable. In the preparatory proposal, an expected return of 11 percent on the amount invested was indicated as a major advantage of the investment, without providing support for the calculation. However, the yield calculation presented at the request of the SAO was found to be economically unreasonable, meaning that the **preparatory material** – and therefore the decision taken – **was not sufficiently substantiated**. The expected return and the 31 percent premium paid for the GTC S.A. shares were not confirmed by the subsequent actual dividend payments, as the dividend actually paid by GTC S.A. on the shares to investors within the OPTIMA Group remained significantly below the expectation at the time of the decision, relative to the cost value (on average 2.0 percent in the period between 2021 and 2024). The SAO's **finding that the investment decision was unsound is supported by Fitch Ratings'** September 2023 downgrade of GTC S.A. Based on the rating, the company's stock was reclassified from investment to speculative. In the latest Fitch Ratings, dated November 2024, the outlook on GTC S.A.'s future rating was changed from stable to negative due to short-term liquidity risks and the large debt stock.

Compared to the average price of GTC S.A. shares on the stock exchange at the time of purchase (PLN 6.86), **OPTIMA Group paid the seller an unjustified 31 percent premium of almost HUF 60 billion, which represented an average cost price of PLN 9 per share.** The business expectation expressed in the premium and paid in the purchase price was unfounded, and neither the SAO nor the proposal to purchase the shares portfolio of GTC S.A. could provide an economic justification. **After the purchase, the share price of GTC S.A. fell dramatically, by more than 50 percent compared to its cost value, and it fell permanently below PLN 4 by the end of 2024.** The value of the acquired share portfolio, calculated on the basis of the stock exchange price at the end of 2024, decreased by HUF 162 billion. **The OPTIMA Group is not just a helpless victim of the drop in the share price of GTC S.A., as it owns a 62.61 percent stake in the company and therefore exercises a significant influence on its operations.**

The share price of Ultima Capital S.A., another significant foreign investment of the OPTIMA Group, **also showed a downward trend, with a share price of CHF 88 on 30**

December 2024, a **20 percent decrease compared to the cost price** of CHF 110.12 per share. The economic rationality of the investment is questionable, given the company's activity profile, as concentrated real estate investments carry a high risk due to the lack of diversification. In connection with the Ultima package, Optima Group entered into purchase commitment agreements with additional minority shareholders, which resulted in a liability of approximately CHF 250 million in 2024 and 2025.

According to the internal audit report assessing the liquidity situation at the end of 2024, especially in relation to Ultima Capital S.A., further significant expenses will be incurred until 30 June 2025, resulting in a projected liquidity shortfall of HUF 80.5 billion. **The seriousness of the liquidity situation is also indicated by the** letter of 18 January 2025 from **the Supervisory Board of the Foundation** addressed to the Governor of the MNB, in which the Chairman of the Supervisory Board **stated that 'the Foundation's ability to operate and remain solvent in accordance with its purpose is in imminent danger'**. In view of the above, there is a serious risk that additional commitments related to investments that are partly financed through loans are not covered.

In the SAO's opinion, **the book value of the bond issued by OPTIMA Investment Ltd. in the Foundation's financial accounts did not reflect the actual market value of the investment**. The Foundation has carried the bond at cost, in spite of the fact that, **in 2024, an impairment of up to HUF 150 billion would have been warranted**. The failure to carry out a comprehensive assessment of the investment structure and the missing content that was due to the incorrect format of the financial accounts **compromised the presentation of a true and fair view in the Foundation's financial accounts**, which was reported by the SAO to the Auditors' Public Oversight Authority of the **Ministry of Finance**. For the financial years 2021–2023, the Ministry of Finance has carried out an extraordinary quality control, as a result of which **the Foundation's auditor was obliged to withdraw the reports issued**. At the close of the SAO audit in January 2025, the Foundation did not have audited accounts for 2021, 2022 and 2023.

In the mandatory valuation, the Foundation failed to take into account the decline in the stock market price of the underlying equity portfolio of the indirect investments, the yield-generating capacity of the investment, the market perception of the issuer Optima Investment Ltd. or its expected ability to repay at maturity. **In the period between 2021 and 2023, the interest rate** of the bond issued by Optima Investment Ltd., **as subsequently determined by the issuer, was 0.12–0.96 percent**, which was a fraction of the interest rates accepted as the standard risk-free rate, which fact would have, in itself, justified a significant impairment charge.

In addition to the assets of the Foundation, Optima Investment Ltd. **also used the countervalue of the bonds subscribed by the NJE Foundation in the amount of HUF 127.5 billion** as a source of funds used for the realisation of its investments. The bonds were backed by short-term agreements with a redemption option expiring within 8

banking days and 90 calendar days, respectively, and commitment letters issued by the Foundation; however, Optima Investment Ltd. failed to provide the terms of redemption. With the commitment letters, **the OPTIMA Group made it appear** to the NJE Foundation **that its bonds were actually liquid investments**; however, in January 2024, when the NJE Foundation sought to exercise its right to sell the bonds, Optima Investment Ltd. was unable to comply. Negotiations between Optima Investment Ltd. and the NJE Foundation were still ongoing in January 2025 regarding the method and timing of the settlement of the purchase price of the bond, but there is no prospect of the full amount being settled as contracted.

Optima Investment Zrt, in the assessment sent by the Governor of the MNB to the President of the SAO, in relation to the liquidity problems and the additional contractual obligations not fulfilled on time, stressed that *‘in view of the revenue and resource possibilities and the liabilities, it appears that without external assistance, we see no possibility for the current situation of the PADME/Optima Group to be resolved in a satisfactory manner’*.

Based on the audit findings, the SAO established the suspicion of several criminal offences and filed a complaint with the prosecutor's office pursuant to Article 30(1) of the SAO Act.