

SECOND PARTY
OPINION (SPO)

Sustainability Quality of the Issuer and Sustainable Finance Framework

OTP Group Nyrt

28 March 2024

VERIFICATION PARAMETERS

Type(s) of instruments contemplated

- Sustainable Finance Instruments

Relevant standards

- International Capital Market Association (ICMA) Green Bond Principles (GBP) (as of June 2021 with June 2022 Appendix 1).
- International Capital Market Association (ICMA) Social Bond Principles (SBP) (as of June 2023).
- Loan Market Association (LMA) Green Loan Principles (GLP) and Social Loan Principles (SLB) (as of February 2023).

Scope of verification

- OTP Group’s Sustainable Finance Framework (as of March 28, 2024)
- OTP Group’s Eligibility Criteria (as of March 28, 2024)

Lifecycle

- Pre-issuance verification

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ISS-CORPORATE 

- 1st Update of SPO as of May 18, 2022 (<https://www.iss-corporate.com/file/documents/spo/spo-20220518-otpgroup1.pdf>)

Validity

- Valid as long as the cited Framework remains unchanged

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SCOPE OF WORK

OTP Group Nyrt ("the Issuer", "the Bank", or "OTP") commissioned ISS Corporate Solutions (ISS-Corporate) to assist with its Sustainable Finance Instruments by assessing three core elements to determine the sustainability quality of the instruments:

1. OTP's Sustainable Finance Framework (as of March 28, 2024) – benchmarked against the International Capital Market Association's (ICMA) Green Bond Principles (GBP) and Social Bond Principles (SBP) as well as the Loan Market Association's (LMA) Green Loan Principles (GLP) and Social Loan Principles (SLP).
2. The Eligibility Criteria – whether the project categories contribute positively to the United Nations Sustainable Development Goals (UN SDGs) and how they perform against proprietary issuance-specific key performance indicators (KPIs) (See Annex 1).
3. Consistency of Sustainable Finance Instruments with OTP's Sustainability Strategy – drawing on the key sustainability objectives and priorities defined by the Issuer.

OTP OVERVIEW

OTP Bank Nyrt is a Hungary-based financial institution that provides traditional banking operations in three segments: retail, corporate and private banking. The Bank offers financing solutions for the creation of energy-efficient homes, loans for renewable energy projects, minority and female entrepreneurs, as well as subsidised mortgage loans for disadvantaged groups.

OTP Group provides its universal financial services through several subsidiaries. In Hungary traditional banking operations are performed by OTP Bank while specialized services, including car leasing, investment funds are developed and offered by the Bank's subsidiaries.

OTP Bank offers financial services to retail, private banking, micro and small business, medium and large corporations, as well as municipality clients through both its branch network and its developing digital channels. OTP Bank's corporate business focuses primarily on lending to SMEs.

The Bank provides comprehensive retail and corporate banking services: its activities include deposit collection from customers and raising money from the money and capital markets. On the asset side, OTP Bank offers mortgage loans, consumer credits, working capital and investment loans to companies, as well as loans to municipalities, whereas its liquidity reserves are invested in money and capital market instruments. Moreover, the Bank provides a wide range of state-of-the-art services, including wealth management, investments services, payment services, treasury and other services.

ESG risks associated with the Issuer Industry

OTP is classified in the Commercial Banks & Capital Markets industry, as per ISS ESG's sector classification. Key sustainability issues faced by companies¹ in this industry are: Business ethics, Labour standards and working conditions, Sustainability impacts of lending and other financial services/products, Customer and product responsibility, and Sustainable investment criteria.

This report focuses on the sustainability credentials of the issuance. Part III. of this report assesses the consistency between the issuance and the Issuer's overall sustainability strategy.

¹ Please note, that this is not a company specific assessment but areas that are of particular relevance for companies within that industry.

ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ²
Part I: Alignment with GBP, SBP, GLP, and SLP	<p>The Issuer has defined a formal concept for its Sustainable Finance Instruments regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the ICMA's GBP and SBP as well as LMA's GLP and SLP.</p>	Aligned
Part II: Sustainability quality of the Eligibility Criteria	<p>The Sustainable Finance Instruments will (re)finance eligible asset categories which include:</p> <p>Green categories: Renewable Energy, Green Buildings, and Clean Transportation;</p> <p>Social categories: Employment Generation, and Programmes designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of SME financing.</p> <p>Product and/or service-related use of proceeds categories³ individually contribute to one or more of the following SDGs:</p> <div data-bbox="569 1346 1032 1464"> </div> <p>Process-related use of proceeds categories⁴ individually improve (i) the Issuer's/Borrower's operational impacts and (ii) mitigate potential negative externalities of the Issuer's/Borrower's sector on one or more of the following SDGs:</p>	Positive

² The evaluation is based on the OTP's Sustainable Finance Framework (March 2024 version), on the Eligibility Criteria as received on March 28, 2024.

³ Renewable Energy, Green Buildings, Clean Transportation and Employment Generation, and Programmes designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of SME financing

⁴ Green Buildings



	 <p>The environmental and social risks associated with those use of proceeds categories are managed.</p>	
<p>Part III:</p> <p>Consistency of Sustainable Finance Instruments with OTP's Sustainability Strategy</p>	<p>The key sustainability objectives and the rationale for issuing Sustainable Finance Instruments are clearly described by the Issuer. The majority of the project categories considered are in line with the sustainability objectives of the Issuer.</p> <p>At the date of publication of the report and leveraging ISS ESG Research, no severe controversies have been identified.</p>	<p>Consistent with Issuer's sustainability strategy</p>

SPO ASSESSMENT

PART I: ALIGNMENT WITH GREEN BOND PRINCIPLES, GREEN LOAN PRINCIPLES, SOCIAL BOND PRINCIPLES AND SOCIAL LOAN PRINCIPLES

This section evaluates the alignment of the OTP's Sustainable Finance Instruments (as of March 28, 2024) with the ICMA's GBP, SBP and LMA's GLP, and SLP.

GBP, SBP, GLP, AND SLP	ALIGNMENT	OPINION
1. Use of Proceeds	✓	<p>The Use of Proceeds description provided by OTP's Sustainable Finance Framework is aligned with the ICMA's GBP and SBP as well as LMA's GLP and SLP.</p> <p>The Issuer's green and social categories align with the project categories as proposed by the ICMA's GBP and SBP as well as LMA's GLP and SLP. Criteria are defined in a clear and transparent manner. Commitment to provide estimation of the portfolio generation and report by project category will be provided. In addition, environmental and social benefits are described. The Issuer defines exclusion criteria for harmful project categories.</p>
2. Process for Project Evaluation and Selection	✓	<p>The Process for Project Evaluation and Selection description provided by OTP's Sustainable Finance Framework is aligned with the ICMA's GBP and SBP as well as LMA's GLP and SLP.</p> <p>The project selection process is defined and structured in a congruous manner. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with the sustainability strategy of the Issuer and clearly show the intended benefit to the relevant population.</p> <p>During the project selection and evaluation process, the Issuer involves various stakeholders</p>

		<p>in this process, Also the Issuer clearly defines responsibilities in the process for project evaluation and selection and is transparent about it, which is in line with best market practice.</p>
3. Management of Proceeds		<p>The Management of Proceeds provided by OTP's Sustainable Finance Framework is aligned with the ICMA's GBP and SBP as well as LMA's GLP and SLP.</p> <p>The net proceeds collected will be equal to the amount allocated to eligible projects, or the Eligible Loan Portfolio exceeds the balance of net proceeds, with no exceptions. The net proceeds are tracked in an appropriate manner and attested in a formal internal process. The net proceeds are managed per bond (bond-by-bond approach). Moreover, the Issuer discloses the temporary investment instruments for unallocated proceeds. Although OTP has benchmarked with the Green and Social Loan Principles, and confirmed that, in the foreseeable future, OTP will use the framework issuing green or social bonds, issuing loans are not planned.</p>
4. Reporting		<p>The allocation and impact reporting provided by OTP's Sustainable Finance Framework is aligned with the ICMA's GBP and SBP as well as LMA's GLP and SLP.</p> <p>The Issuer commits to disclose the allocation of proceeds transparently and to report in an appropriate frequency. The reporting will be publicly available on the Issuer's website.⁵ OTP explains that the level of expected reporting will be at project category level and the type of information that will be reported. Moreover, the Issuer commits to report annually, until the bond</p>

⁵ OTP,2024,ESG, <https://www.otpgroup.info/sustainability>

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		<p>matures/until the proceeds have been fully allocated.</p> <p>The Issuer is transparent on the level of impact reporting and the information reported and further defines the duration, scope and frequency of the impact reporting, in line with the best market practice.</p>
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PART II: SUSTAINABILITY QUALITY OF THE ELIGIBILITY CRITERIA

A. CONTRIBUTION OF THE SUSTAINABLE FINANCE INSTRUMENTS TO THE UN SDGs⁶

Companies can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible corporate actors, working to minimize negative externalities in their operations along the entire value chain. The aim of this section is to assess the SDG impact of the UoP categories financed by the Issuer in two different ways, depending on whether the proceeds are used to (re)finance:

- specific products/services,
- improvements of operational performance.

1. Products and services

The assessment of UoP categories for (re)financing products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an Issuer's products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the ICMA Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of UoP categories for (re)financing specific products and services is displayed on a 3-point scale (see Annex 1 for methodology):



Each of the Sustainable Finance Instruments' Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

Green Categories

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
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⁶ The impact of the UoP categories on UN Sustainable Development Goals is assessed with proprietary methodology and may therefore differ from the Issuer's description in the framework.

Green Buildings (Acquisition and ownership of buildings)⁷

- Buildings built before December 31, 2020 with EPC label \geq "A"
- Buildings built before December 31, 2020 belonging to the top 15% of the national building stock based on primary energy demand (PED)⁸
- Buildings built after December 31, 2020 with energy performance at least 10% better than the threshold for Nearly Zero-Energy Buildings ("NZEB") in the local market.

Contribution



Green Buildings (Construction and ownership of new buildings)⁹

- with energy performance at least 10% better than the threshold for Nearly Zero-Energy Buildings ("NZEB") in the local market
- for buildings larger than 5000 m²
 - robust and traceable quality control processes are in place during the construction process OR testing for air-tightness and thermal integrity upon completion
 - the life-cycle Global Warming Potential (GWP) of the building resulting from the construction has been calculated for each stage in the life cycle and is disclosed

Contribution



⁷ OTP focuses on the main technical screening criteria of the EU Climate Delegate Act and, where possible, OTP may report on compliance with the remaining technical screening criteria as well Do No Significant Harm (DNSH) criteria. In addition, the OTP plan to be aligned with taxonomy activity 7.7 on a best effort basis.

⁸ OTP may engage external consultants to define the top 15% and NZEB-10% in the context of the national building stock in the countries where any eligible green building assets are located. In countries where there is no definition of NZEB or there is no practical solution to implement NZEB, OTP may choose to rely on the top 15% approach.

⁹ OTP focuses on the main technical screening criteria of the EU Climate Delegate Act and, where possible, OTP may report on compliance with the remaining technical screening criteria as well Do No Significant Harm (DNSH) criteria. In addition, the OTP plan to be aligned with taxonomy activity 7.1 on a best effort basis.

Green Buildings (Acquisition, Construction and ownership of buildings)

- Commercial buildings which hold at least one of the following valid certifications:
 - BREEAM "Very Good" or above
 - LEED "Gold" or above
 - DGNB "Gold" or above
 - HQE "Excellent" or above

Renewable Energy

- Solar: Photovoltaics (PV), concentrated solar power (CSP) and solar thermal facilities.
- Wind: Onshore and offshore wind energy generation facilities and other emerging technologies, such as wind tunnels and cubes
- Geothermal: Geothermal energy projects with life cycle emissions of less than 100g CO₂e/kWh
- Hydropower: Small-scale hydropower projects (less than 25MW) with either
 - Life cycle emissions of less than 100g CO₂e/kWh or
 - Power density greater than 5W/m² or
 - The electricity generation facility is a run of river plant and does not have an artificial reservoir

Clean Transportation

- Low-carbon vehicles and rail rolling stock.
 - Fully Electric, Hydrogen or otherwise zero-emission passenger vehicles
 - Electrified rail transportation for passenger and freight (e.g light rail transit, metro, tram, trolleybus, bus and wagons)¹⁰
- Low-carbon transportation infrastructure:
 - EV charging, electrified railway, hydrogen fuelling stations.

Contribution



Contribution




Contribution



¹⁰ OTP confirms that the current financing is for passenger trains and will not be used to transport fossil fuels.

Social Categories

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p>Employment Generation, and Programmes designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of SME financing</p> <ul style="list-style-type: none"> Loans dedicated to the financing of SMEs, meeting the following criteria: <ul style="list-style-type: none"> SMEs are enterprises as defined in European Commission Recommendation 2003/361/EC.¹¹ SMEs are subject to negative screening based on their activity, as per SMEs Exclusion List (see Appendix 1)¹² SMEs must be located in socioeconomically disadvantaged areas in the countries, where OTP Group operates in socioeconomically disadvantaged areas defined as NUTS 2 (2021) regions,¹³ meeting the following criteria: the GDP PPS¹⁴ per capita is lower than 75% of the EU-27 average.¹⁵ <p>In case of EU candidate countries, where timely standardized data at Eurostat are not available (i.e. Serbia, Montenegro, Albania), OTP Group will select loans based on latest available published data of the official national statistic providers</p>	<p>Contribution</p>	

¹¹ European Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (<https://eur-lex.europa.eu/eli/reco/2003/361/oj>)

The SME selection, and the negative screening of SMEs according to the OTP Framework's Exclusion List (appendix 1) is made on the data of internal controlling, or reporting databases of OTP Bank Plc.

¹² The SME selection, and the negative screening of SMEs according to the OTP Framework's Exclusion List (Appendix 1) is implemented based on the data of internal controlling, or reporting databases of OTP Bank Plc.






¹³ NUTS 2 (2021) regions: The NUTS classification (Nomenclature of territorial units for statistics) is a hierarchical system for dividing up the economic territory of the EU and the UK, and also of EU candidate countries. The currently valid [NUTS 2021 classification](https://ec.europa.eu/eurostat/web/nuts/background) is valid from 1 January 2021. (<https://ec.europa.eu/eurostat/web/nuts/background>).

¹⁴ PPS: purchasing power standard, derived by dividing any economic aggregate of a country in national currency by its respective [purchasing power parities](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Purchasing_power_standard_(PPS)). ([https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Purchasing_power_standard_\(PPS\)](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Purchasing_power_standard_(PPS))).

¹⁵ In case of Montenegro, the entire country is a NUTS 2 region (called Crna Gora), therefore only condition (ii) applies.

2. Improvements of operational performance (processes)

The below assessment aims at qualifying the direction of change (or “operational impact improvement”) resulting from the operational performance projects (re)financed by the UoP categories, as well as related UN SDGs impacted. The assessment displays how the UoP categories are mitigating the exposure to the negative externalities relevant to the business model and the sector of the Issuer. from the operational performance improvement projects. The outcome displayed does not correspond to an absolute or net assessment of the operational performance.

USE OF PROCEEDS (PROCESSES)	OPERATIONAL IMPACT IMPROVEMENT ¹⁶	SUSTAINABLE DEVELOPMENT GOALS
Green Buildings⁷ <ul style="list-style-type: none"> Buildings that have been refurbished resulting in a reduction of primary energy demand of at least a 30%¹⁷ The building renovation complies with the energy performance standards set out in the applicable building regulations for “major renovations” transposing the Energy Performance of Buildings Directive¹⁸ 	✓	 
Green Buildings⁷ <ul style="list-style-type: none"> Existing or refurbished commercial buildings which hold at least one of the following valid certifications: <ul style="list-style-type: none"> BREEAM “Very Good” or above LEED “Gold” or above DGNB “Gold” or above HQE “Excellent” or above 	✓	  

¹⁶ Limited information is available on the scale of the improvement as no threshold is provided. Only the direction of change is displayed.

¹⁷ The energy performance before the renovation can be based on actual or reference energy data, energy labels or estimated energy use based on the building regulation that was applicable in the building year of the building.

¹⁸ The EU Taxonomy classifies environmentally sustainable economic activities across the economy, including for the building sector. Under the EU Taxonomy Climate Delegated Act, building renovation is considered a sustainable activity where it achieves at least 30 % energy savings, complies with minimum energy performance requirements for major renovation of existing buildings, or consists of individual measures related to the energy performance of buildings, such as the installation, maintenance or repair of energy efficiency equipment or of instruments and devices for measuring, regulating and controlling the energy performance of buildings, where such individual measures comply with the criteria set out. Building renovation to comply with Union-wide minimum energy performance standards is typically in line with the EU Taxonomy criteria related to building renovation activities. (https://www.europarl.europa.eu/doceo/document/TA-9-2023-0068_EN.html)

B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE FINANCIAL INSTITUTION AND THE ELIGIBILITY CRITERIA

The table below evaluates the Eligibility Criteria against issuance-specific KPIs. The entirety of the assets are and will be located mainly in Hungary, Bulgaria, Serbia and Croatia, with the rest in Albania and Slovenia, and with future potential in Montenegro.

ASSESSMENT AGAINST KPIs

ESG guidelines into lending process

OTP takes into consideration ESG aspects into lending processes through policies and guidelines driven by risk management. General ESG Risk Management has been defined by OTP to be one of the key programs of OTP's Risk Strategy for 2023-25, where its Non-retail ESG Credit Risk Management Framework has been updated and incorporated into OTP's Group Credit Risk Policy (GCRP), extending its risk appetite to include ESG-related elements. OTP developed IFC-advised Environmental and Social Risk Management System (ESMS) in its headquarter in Hungary and implemented in major subsidiaries, including, Bulgaria, Serbia and Croatia starting from March 31, 2024. (OTP confirms that the ESMS will be introduced to Albania, Slovenia and Montenegro in a later date), while assets financed prior to the date does not fall into the ESMS process and are managed according to previous Framework KPIs (dated 2021).¹⁹ The ESMS is applicable across all green projects defined in the sustainable finance instruments, applying various principles, including:

- Ensuring that all activities undertaken by the borrowers are consistent with requirements of Environmental & Social Management Principles (E&S requirements)
- Reviewing all loans and projects against the E&S requirements stipulated for their asset class, including green financing and social small and medium enterprises (SME) asset classes
- Making best efforts to ensure that all financed projects are operated in compliance with the E&S requirements on an ongoing basis
- Ensuring transparency in lending activities
- Ensuring that borrowers understand the environmental and social policy commitments made by OTP.

OTP has also detailed its procedures of the ESMS for green projects, which include:

- Exclusion list check
- Project risk categorization, where categorization referencing IFC definitions are used and that no Category A (high risk) projects are financed in eligible categories
- IFC Environmental and Social Performance Standard compliance, including the national environmental and social legislation compliance, checked via a Due Diligence

¹⁹ OTP Bank Nyrt, 2021, Green Mortgage Bond Framework 2021 p.10,
https://www.otpbank.hu/OTP_JZB/file/OTPMortgageBank_GreenMortgageBondFramework.pdf

(ESDD) process. ESDD for larger projects are conducted by external legal or technical advisors, while smaller projects are conducted by OTP E&S experts. The Issuer confirms that on best effort basis uses external legal or technical advisors to conduct ESDD. When hiring external legal or technical advisers is not feasible for the project, then OTP E&S experts will complete the ESDD process instead.

- Risk assessment of the environmental and social due diligence done by an Environmental & Social Risk Working Group (which includes the relationship manager, members of risk management and E&S experts), where topics and questions regarding environmental and social risks are assessed and given different risk levels (including low risk, acceptable risk, manageable risk and excessive risk). Assets assessed to have excessive risks are automatically categorized as a Category A project, which will not be financed under this Framework.
- Manageable risk assessment of environmental and social due diligence corrective action plans where applicable, developed by the Environmental & Social Risk Working Group and agreed with the client. Corrective action plans are required to include all necessary actions to ensure the projects' compliance, target completion dates of the actions, and monitoring procedures of the corrective actions. The Issuer confirms that in case no corrective action plans can be formed for the project, it will be deemed an "excessive risk" and cannot be selected as a green eligible project.
- Annual monitoring

Meanwhile, procedures of the ESMS for social projects include exclusion list checking for all Social SME clients, and due diligence on the compliance with all national laws and required permissions, based on OTP Group due diligence processes. OTP also has an exclusion list that defines OTP's "zero tolerance" industries.

Labour, health and safety



OTP has measures in place to ensure that high labour, health and safety standards are respected for the projects financed under this framework. OTP confirms to adhere to the IFC Performance Standards 2 and 4 regarding labour, health and safety and enforce them on assets financed through conducting Due Diligence on green projects based on the IFC Performance Standards. Specific corrective actions for specific green projects are defined and initiated in the case where due diligence results, concluded by OTP's Environmental & Social Risk Working Group, show specific negative environmental and social impacts that are site-specific and reversible. OTP confirms to comply with domestic and international (EU) statutory regulations as well as commit to eight fundamental conventions of the International Labour Organisation (ILO) to the creation and

maintenance of a safe and healthy working environment.²⁰ Social projects financed under the sustainable finance instruments are primarily aimed for employment generation for SMEs, hence the financing is more likely linked to the operations within the SMEs rather than labour, health and safety-relevant projects such as construction and infrastructure. Further, OTP has in place legal screening of national laws in its screening process,²¹ where OTP's Due Diligence on green projects is also built upon. In terms of health and safety, the majority of countries (where the assets are financed) have high country standards for health and safety, including Hungary, Bulgaria, Serbia, Croatia and Slovenia. Albania and Montenegro are not EU member states, however they have been granted an EU candidate status, the national laws should be harmonized with the EU standards during the membership negotiation process. OTP also confirms to be committed to relevant international human rights standards, including UN Guiding Principles on Business and Human Rights (UNGPR), Children's Rights and Business Principles, the eight fundamental conventions of the International Labour Organisation (ILO), OECD Guidelines for Multinational Enterprises (the chapter on human rights), United Nations Global Compact, and United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP).

Biodiversity



OTP has measures in place ensuring that assets financed under this framework feature the respect of biodiversity as an integral part of the planning process. OTP confirms to adhere to the IFC Performance Standard 6 regarding biodiversity and enforce them on assets financed through conducting Due Diligence on green projects based on the IFC Performance Standard. Specific corrective actions for specific green projects are defined and initiated in the case where due diligence results, concluded by OTP's Environmental & Social Risk Working Group, show specific negative environmental and social impacts that are site-specific and reversible. Further, OTP has in place legal screening of

²⁰ OTP confirms that the eight conventions of the ILO include Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87), Right to Organise and Collective Bargaining Convention, 1949 (No.98), Forced Labour Convention, 1930 (No. 29)(and its 2016 Protocol), Abolition of Forced Labour Convention, 1957 (No.105), Minimum Age Convention, 1973 (No. 138), Worst Forms of Child Labour Convention, 1999 (No. 182), Equal Remuneration Convention, 1951 (No. 100) and Discrimination (Employment and Occupation) Convention, 1958 (No.111). Information can be found in OTP's "Documents guiding the application of the Code of Ethics of OTP Bank Plc and the OTP Group",

https://www.otpbank.hu/static/portal/sw/file/OTP_EtikaKodex_iranyado_dokumentumok_EN.pdf

²¹ The legal screening for labour, health and safety includes the following national laws: Laws on Health and Safety at Work (Official Gazette of RS No. 101/2005, 91/2015 i 113/2017), Rulebook on preventive measures for safe and healthy work at the workplace (Official Gazette of RS, No. 21/2009), Rulebook on preventive measures for Health and Safety at work when using equipment with screens (Official Gazette of RS, no. 106/2009, 93/2013) in Serbia; The Labour Code and Health and Safety at Work Act in Bulgaria; and Occupational Health and Safety Act (Official Gazette 71/14, 118/14, 94/18, and 96/18) in Croatia; Regulation on waste (Official Gazette of the Republic of Slovenia no. 77/22 and 113/23) and Regulated in Act on Safety and Health at Work (Official Gazette of the Republic of Slovenia, No. 43/11) in Slovenia; the Labour Code, Law no. 10237 "for safety and health insurance in work" and Council of Ministers decision 563 in Albania; Labor Law (Official Gazette of Montenegro no. 074/19, 008/21, 059/21, 068/21, 145/21), Law on Safety and Health at Work (Official Gazette of Montenegro no. 034/14, 044/18) and other labor, health and safety-related laws in Montenegro; and Act I of 2012 on Labour Code, Act XCII of 1993 on Labour Safety, Act LXXVII of 2013 on adult education, ACT C of 2012 on Criminal Code and Act CLXXXV of 2012 on waste in Hungary.

national laws in its screening process,²² where OTP's Due Diligence on green projects is also built upon. OTP also confirms that, in relevant cases, environmental impact assessments are performed following relevant European Directives for relevant green projects, while in non-EU member states, local environmental impact assessment-related legislation with scopes, objectives and requirements in line with the European Directives are in place.²³

Community dialogue



OTP has measures in place ensuring that assets financed under this framework feature community dialogue as an integral part of the planning process. OTP confirms to adhere to the IFC Performance Standard 5 and enforce them on assets financed through conducting Due Diligence on green projects based on the IFC Performance Standard. On best effort basis specific corrective actions for specific green projects are defined and initiated in the case where due diligence results, concluded by OTP's Environmental & Social Risk Working Group, show specific negative environmental and social impacts that are site-specific and reversible. Further, OTP has in place a notification/information/reporting channel for the public to submit queries and concerns related to OTP's Environmental and Social Policy or projects financed by OTP.

Inclusion



OTP confirms that it relies on the legislations and regulations to ensure that vulnerable and disadvantaged populations can have access to basic services it finances.

²² The legal screening for biodiversity includes the following national laws: Law on Environmental Impact Assessment (Official Gazette of the RS No. 135/04 and 36/09) and Regulation on Determining the List of Projects for which the Impact Assessment is Obligatory (List I) and List of Projects for which the Environmental Impact Assessment can be Required (List II) (Official Gazette of the RS No.144/08) in Serbia; the Protected Areas Act in Bulgaria; and the Nature Protection Act (Official Gazette 80/13, 15/18, 14/19, and 127/19) in Croatia; Environmental Protection Act (Official Gazette of the Republic of Slovenia no. 44/22, 18/23-ZDU-10, 78/23-ZUNEPEOVE) in Slovenia; Law 10431 "for the protection of environment" and Law 10448 "for the environment permit type A, B, C" in Albania; Law on the Protection of Cultural Property (Official Gazette of Montenegro no. 049/10, 040/11, 044/17, 018/19) and the Law on the Protection of the Natural and Cultural-Historical Area of Kotor (Official Gazette of Montenegro no. 056/13, 013/18, 067/19) in Montenegro; and Act LIII of 1996 on Nature Conservation in Hungary.

²³ European Directives followed regarding environmental impact assessment include Directive 2014/52/EU. For Albania, which is an EU candidate state, follows Law No. 10440 "for environmental impact assessment" for environmental impact assessment-related legislation, and is supported by other environment-related legislations. In Montenegro, which is an EU candidate state the EIA implementation has some level of preparation. Limited progress was made in further aligning national legislation with the EU acquis on water, nature protection and climate change.

Responsible treatment of customers with debt repayment problems

The Issuer has measures in place to ensure assets financed provide for pre-emptive actions to prevent client debt repayment problems, internal or external debt counselling services, and debt restructuring options under non-detrimental conditions. The Issuer confirms that under the sustainable finance framework, clients financed are professional investors, where loan agreements drive detailed terms and conditions of loans.

Specific measures are detailed in the terms and conditions includes pre-emptive actions to prevent client debt repayment problems:

- Covenants limiting indebtedness
- Conservative loan-to-value ratios
- Long-term fixed or floating interest rates
- Financial models, sensitivity analysis of financial models are applied, in most cases conducted by independent third party advisers, and are validated by the Issuer's Risk Management

For debt counselling, OTP operating "Special Case Management" system for debt solution finding in co-operation with clients, and in has internal regulation for applying external experts during pre-risk management, monitoring and work out tasks.



Debt restructuring options under non-detrimental conditions:

- OTP's restructuring system includes various restructuring options:
 - Modifying the term and/or conditions of the original contract to be more favorable from the customer's point of view
 - Full or partial refinancing of the original risk undertaking with the conclusion of a new contract
 - Additional agreement for the purpose of repaying the outstanding debt and for avoiding the increase of risk and mitigating the loss
 - The application of built-in restructuring, i.e. the implementation of the conditions built into the original risk assumption contract
- Restructuring agreements may apply various measures, including grace periods, reduced repayment amounts over an extended timeframe, debt consolidation, waiving financial covenants to enhance cash flow, debt for equity swaps, mortgage leaseback, lowering of effective interest rate, and interest and/or principal forgiveness

The Issuer also confirms to have internal regulations for the debt restructuring for professional investors. For private clients where large loans involve

mortgages and housing loans, the Issuer confirms to have internal regulations that provide instructions on its debtor protection program used in events of difficulties in repaying home and mortgage loan.

Exclusion criteria

The Issuer has an exclusion list that lists out the exclusion criteria of OTP across its entire lending activity. The exclusions within the list include:

- Activities deemed illegal by national laws or international treaties, which are likely to be against public morals or social ethics, or is connected to crime such as illegal arms trade, prohibited gambling and illegal trading in drugs
- Production of or trade in Controversial weapons (anti-personnel landmines, biological, chemical and nuclear weapons etc.)
- Financing of contracts for manufacturing of / trade in weapons when the buyer is located in a territory of civil war or international armed conflict
- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as products containing PCBs (Polychlorinated biphenyls are a group of highly toxic chemicals); pharmaceuticals, pesticides/herbicides and other hazardous substances subject to international phase-outs or bans; ozone depleting substances subject to international phase out; trade in wildlife or wildlife products regulated under CITES; Transboundary movements of waste prohibited under international law
- Trade in goods without required export or import licenses or other evidence of authorisation of transit from the relevant countries of export, import and, if applicable, transit
- Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage
- Drift net fishing in the marine environment using nets in excess of 2.5 km in length
- Shipment of oil or other hazardous substances in tankers which do not comply with IMO requirements
- Mining, exploration and upgrading of shale gas in Europe
- Coal mining using Mountain Top Removal technique
- The keeping of animals for the primary purpose of fur production or any activities involving fur production.
- The manufacture, placing on the market and use of asbestos fibres, and of articles and mixtures containing these fibres added intentionally.
- The export of mercury and mercury compounds, and the manufacture, export and import of a large range of mercury added products.

Furthermore, OTP has included an exclusion list tailored for its sustainable financing activities. The list of activities excluded are defined by NACE nomenclature of the European Union,²⁴ and includes:

- Forestry and logging (NACE A2)
- Mining and quarrying (NACE B) except division 8, as Other mining and quarrying (8.1 Quarrying of stone, sand and clay, 08.91 Mining of chemical and fertiliser minerals and 08.92 Extraction of peat, 08.93 Extraction of salt)
- Distilling, rectifying, and blending of spirits (NACE C11.01)
- Growing of tobacco (NACE A1.1.5)
- Manufacture of tobacco products (NACE C12)
- Wholesale of tobacco products (NACE G46.3.5)
- Retail sale of tobacco products in specialised stores (NACE G47.2.6)
- Manufacture of coke and refined petroleum products (NACE C19)
- Processing of nuclear fuel (NACE C24.46)
- Gambling and betting activities (NACE R92)
- Activities of membership organisations (NACE S94)
- Activities of extraterritorial organisations and bodies (NACE U99)
- Manufacture of weapons and ammunition (NACE C25.4)
- Manufacture of military fighting vehicles (NACE C30.4)
- Trade of weapons and ammunition and military fighting vehicles²⁵

OTP also has specified its commitment towards fraud prevention across OTP within its Code of Ethics but does not have pinpoint policies for the exclusion of entities found to have engaged in prohibited conduct.²⁶

²⁴ The French acronym NACE refers to the "Statistical Classification of Economic Activities in the European Community". Developed since 1970, NACE provides a framework for the collection and presentation, according to economic activity, of a wide range of statistics in the economic areas (for example: production, employment, national accounts) or others – See Regulation (CE) No. 1893/2006 of the European Parliament and of the Council of 20/12/2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC Regulations on specific statistical domains.

²⁵ Not NACE defined activities, OTP Group will exclude these activities from the Social SME financing by professional judgement.

²⁶ OTP Group Nyrt, Code of Ethics of OTP Bank Plc. And the OTP Group,
https://www.otpgroup.info/static/sw/file/OTP_EtikaiKodex_EN.pdf

PART III: CONSISTENCY OF SUSTAINABLE FINANCE INSTRUMENTS WITH OTP'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the Issuer

TOPIC	ISSUER APPROACH
Strategic ESG topics	<p>The Issuer confirms that it has a sustainability strategy that categorises its sustainability efforts into three main pillars, including Responsible Provider, Responsible Employer and Responsible Social Actor. Each pillar includes objectives that involves the sustainability for various functions that could affect different stakeholders. Along with business opportunities, the strategy includes the management of the relevant risks, as well as social and corporate governance goals. The time horizon of the strategy covers the period until 2025 with the objective to implement the comprehensive ESG integration at the Group level.</p>
ESG goals/targets	<p>The Issuer has set ESG goals for its sustainability strategy:</p> <ul style="list-style-type: none"> ▪ Building the green book: Green credit portfolio of a total of HUF 1,500 billion by 2025 ▪ Reducing own emissions: Carbon neutrality on a group level by 2030 ▪ Transparent responsibility: OTP to be part of the DJSI ESG index by 2025 <p>The Issuer publicly discloses its targets and tracks its progress on an annual basis in the Issuer's Integrated Report.²⁷</p>
Action plan	<p>The Issuer has various action plans that facilitate the Issuer to achieve the goals from the three pillars of the Issuer's sustainability strategy and disclose the information publicly on the Issuer's website and annual report.^{28,29} On its Responsible service provider pillar, the Issuer focuses on managing marketing communication and handling customer complaints, as well as provision of financial well-</p>

²⁷ OTP Group Nyrt, April 2023, Integrated Annual Report 2022, https://www.otpgroup.info/static/sw/file/230428_Annual_report.pdf

²⁸ OTP Group Nyrt, Sustainability Strategy, <https://www.otpgroup.info/sustainability/strategy>

²⁹ OTP Group Nyrt, April 2023, Integrated Annual Report 2022, https://www.otpgroup.info/static/sw/file/230428_Annual_report.pdf

	being and social impact products; Responsible employer focuses on diversity and inclusion, including staff remuneration, training, and health and working environment; and Responsible social actor focuses on developing financial literacy, community involvement and environmental protection. ³⁰ However, the Issuer does not disclose its relevant financial budget regarding action plans.
Climate Transition Strategy	The Issuer confirms that a decarbonization plan is under development within OTP, which includes climate scenario analysis, assessment of climate change risks and other climate transition-related strategies. OTP has also initiated joining the UNEP FI's Net Zero Banking Alliance (NZBA). The Issuer has not publicly disclosed relevant climate transition strategy information, but has committed to publishing its portfolio decarbonization baseline, targets and pathways in 2025, as part of its annual integrated report.
Top three areas of breaches of international norms and ESG controversies in the industry³¹	Financial market irregularities, Failure to mitigate climate change impacts, and Failure to prevent money laundering.
Breaches of international norms and ESG controversies by the Issuer	At the date of publication and leveraging ISS ESG Research, no controversy in which the Issuer would be involved has been identified.
Sustainability Reporting	The Issuer reports on its ESG performance and initiatives on an annual basis. The report is prepared according to GRI Standards, UNEP FI Principles of Responsible Banking, and the recommendations from the Task Force of Climate-related Financial Disclosures (TCFD).
Industry associations, Collective commitments	Signatory of the United Nations Principles for Responsible Banking (UN PRB), Business Council for Sustainable Development in Hungary, KÖVET Association for Sustainable Economies, Hungarian Banking Association, CECE SRI EUR index.
Previous sustainable/sustainability-	The Issuer has previously issued a green bond with project categories including Green Buildings, Renewable Energy,

³⁰ For more details, please, visit the Issuer's website at <https://www.otpgroup.info/sustainability/strategy>.

³¹ Based on a review of controversies identified by ISS ESG over a 2-year period, the top three issues that have been reported against companies within the Commercial Banks & Capital Markets industry are displayed above. Please note that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

**linked issuances or
transactions and publication
of sustainable financing
framework**

and Clean Transportation. As of December 31, 2022, a total of EUR 456 million has been allocated, making up 45% of the total portfolio.³²

Rationale for issuance

In alignment with the broader OTP Group corporate responsibility strategy, OTP Group has established a Sustainable Finance Framework to be able to issue Sustainable Finance Instruments to finance and refinance projects which enable the transition to a low carbon and climate resilient economy, and/or provide positive societal impact and to mitigate social problems. OTP Group is committed to promoting sustainable business activities in the industry sectors and regions where the bank is operating. By issuing Sustainable Finance Instruments, the Issuer will provide additional transparency around funded projects and assets that carry environmental and social benefits. The Issuer aims to promote further investments into environmentally and socially sustainable assets that will assist in reaching the targets set forth by the Paris Climate Agreement and the UN SDGs.

Opinion: *The key sustainability objectives and the rationale for issuing Sustainable Finance Instruments are clearly described by the Issuer. The majority of the project categories financed are in line with the sustainability objectives of the Issuer.*

³² For further details, please visit the Issuer's Allocation Report at https://www.otpbank.hu/static/portal/sw/file/OTP_Zold_Kotveny_Allokacios_jelentes_2022_ENG.pdf

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ANNEX 1: METHODOLOGY

The ISS-Corporate SPO provides an assessment of labelled transactions against international standards using ISS-Corporate proprietary methodology.

ANNEX 2: QUALITY MANAGEMENT PROCESSES

SCOPE

OTP commissioned ISS-Corporate to compile a Sustainable Finance Instruments SPO. The Second Party Opinion process includes verifying whether the Sustainable Finance Framework aligns with the ICMA's GBP and SBP as well as LMA's GLP and SLP and to assess the sustainability credentials of its Sustainable Finance Instruments, as well as the Issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion:

- ICMA Green Bond Principles (GBP)
- ICMA Social Bond Principles (SBP)
- LMA Green Loan Principles (GLP)
- LMA Social Loan Principles (SLB)

ISSUER'S RESPONSIBILITY

OTP's responsibility was to provide information and documentation on:

- Framework
- Eligibility Criteria
- Documentation of ESG risks management at the Framework level.

ISS-CORPORATE'S VERIFICATION PROCESS

Since 2014, ISS Group, of which ISS-Corporate is a part of, has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

This independent Second Party Opinion of the Sustainable Finance Instruments to be issued by OTP has been conducted based on a proprietary methodology and in line with the ICMA's GBP and SBP as well as LMA's GLP and SLP.

The engagement with OTP took place between February and March 2024.

ISS-CORPORATE'S BUSINESS PRACTICES

ISS-Corporate has conducted this verification in strict compliance with the ISS Group Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About this SPO

Companies turn to ISS Corporate Solutions (ISS-Corporate) for expertise in designing and managing governance, compensation, sustainability and cyber risk programs that align with company goals, reduce risk, and manage the needs of a diverse shareholder base by delivering best-in-class data, tools, and advisory services.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the Issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.iss-corporate.com/solutions/sustainable-finance/bond-issuers/>

For more information on SPO services, please contact: SPOsales@iss-corporate.com

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