

Green Mortgage Bond Framework 2021

This document is an English translation of the Green Mortgage Bond Framework of OTP Mortgage Bank Ltd.
If there are any differences, the original Hungarian language version prevails.



Overview

OTP Mortgage Bank Ltd. (hereinafter: OTP Mortgage Bank or Company) is committed to achieving environmental and climate goals. To that end, the Company has crafted its Green Strategy¹, which contains all principles and goals that enable the Company to contribute to protecting the environment actively and efficiently. It identified four areas through which it can contribute to sustainable development:

- **green lending;**
- **green mortgage bond issuance;**
- **green operations; and**
- **corporate social responsibility for sustainability.**

It is the intention of OTP Mortgage Bank to support, within the limits of its own capabilities, the international and domestic efforts aimed at sustainable development. One of its strategic goals is to facilitate energy-efficient retail real estate investment projects by offering appropriate credit instruments and thus, to contribute to improving the energy efficiency of Hungary's stock of buildings. OTP Mortgage Bank was the first company in Hungary to join the Energy efficient Mortgages Action Plan (EeMAP)² initiative, whereby it pledged to establish a framework for green lending and green mortgage bond issuance. In the future, OTP Mortgage Bank wishes to issue green mortgage bonds, the proceeds of which will be allocated for the purposes of financing green mortgage loans.

The objective of the Green Mortgage Bond Framework of OTP Mortgage Bank is to define which instruments are deemed green mortgage bonds by the Company. We present all concepts, procedures and commitments that define green mortgage bonds: eligibility criteria for green mortgages during the lending activity, selection process of green instruments, use of proceeds from green mortgage bond issuance and related reporting commitments.

In establishing the Green Mortgage Bond Framework, the Company considered all recommendations that are included in the Green Bond Principles³ issued by the International Capital Market Association. OTP Mortgage Bank continuously monitors – and strives to consider during its operations – the changes in international and Hungarian standards, good practices, and regulatory and investor requirements related to green mortgage bonds.

The Company strives to inform its customers of its efforts expended on supporting green goals and the environmental sustainability aspects of mortgage lending. The Company's Green Strategy and Green Mortgage Bond Framework are also intended to present the sustainability criteria clearly and transparently to customers.

The Green Mortgage Bond Framework is intended to comply with the requirements of the four components set out below as defined in the Green Bond Principles, as well as the recommendations on the Green Bond Framework and on External Review.

- 1. Use of Proceeds**
- 2. Process for Project Evaluation and Selection**
- 3. Management of Proceeds**
- 4. Reporting**

To ensure compliance with investors' requirements and with the recommendation included in the Green Bond Principles, OTP Mortgage Bank publishes an annual report on the allocation of the proceeds from green bond issuance to suitable green instruments. It is the Company's intention to provide adequate information to investors in order to enable them to assess the sustainability impacts of their investments. The first annual report will be published after the issuance of the Company's first green mortgage bond, which will coincide with the publication of the Annual Report of OTP Mortgage Bank.

The Green Mortgage Bond Framework of OTP Mortgage Bank was approved by the Company's Board of Directors on 6th July 2021.

1 OTP Mortgage Bank Green Strategy 2021 (<https://www.otpjzb.hu>)

2 Energy efficient Mortgages Action Plan (<https://eemap.energyefficientmortgages.eu>)

3 ICMA Green Bond Principles (<https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-update/s/Green-Bond-Principles-June-2021-140621.pdf>)



Introduction of the Company

OTP Group

Incorporated in Hungary, OTP Mortgage Bank is a specialised credit institution engaged in mortgage lending and a member of OTP Group. The parent company of OTP Group is OTP Bank, a universal commercial bank operating as a public company limited by shares, the largest participant in the Hungarian banking market. Owing to its international expansion strategy commenced in the early 2000s, OTP Group has become a dominant regional player in the Central and Eastern European market, one of the largest financial service providers of the region, with presence in numerous countries in addition to Hungary.

OTP Mortgage Bank

OTP Bank established OTP Mortgage Bank in 2001 as a vehicle through which the OTP Group was able to effectively penetrate the dynamically developing mortgage lending market in Hungary and become an active participant in the emerging mortgage bond market. As a core activity, the Company is engaged in the financing of the development and purchase of residential properties and the provision of general purpose mortgage loans. OTP Mortgage Bank is 100% owned by OTP Bank Plc.

OTP Mortgage Bank is the largest actor in the Hungarian mortgage lending market: it is market leader both in terms of its mortgage bond portfolio and its mortgage loans outstanding. The product range of the Company features housing loans and construction loans as well as loans for property refurbishing purposes, including market and state-subsidised versions. In 2020, nearly a third of retail mortgage loans disbursed in Hungary were granted by OTP Mortgage Bank.

The operation of OTP Mortgage Bank is regulated by Act XXX of 1997 on Mortgage Banks and Mortgage Bonds (Mortgage Act).⁴ As a specialised credit institution, the business activity of the Company is limited to providing housing and general purpose mortgage loans to the retail segment, refinancing the mortgage loan portfolio of commercial banks, and determining the market and collateral value of real properties; in consideration of statutory constraints and the business model of OTP Group, it pursues no other commercial banking activity.

Funding

In Hungary, only credit institutions operating in a mortgage bank form are permitted to issue mortgage bonds. For the most part, OTP Mortgage Bank obtains the funds required for financing its assets by issuing mortgage bonds.

Mortgage bonds are registered negotiable instruments issued by a mortgage bank, which are subject to the same legislative provisions as bonds with the derogations specified in the Mortgage Act. When a liquidation or winding-up procedure is initiated against the Issuer, the debt embodied in the mortgage bonds is considered senior to any other commitments of the Issuer.

Mortgage banks must have sufficient collateral at all times, the value of which must be higher than the sum of the face value of – and the interest payable on – outstanding mortgage bonds; assets pledged as collateral do not constitute a part of the assets subject to liquidation.



⁴ Act XXX of 1997 on Mortgage Banks and Mortgage Bonds (<https://net.jogtar.hu/jogszabaly?docid=99.700030.tv>)

Corporate social responsibility and ESG Policy

Corporate social responsibility

The Green Strategy of OTP Mortgage Bank is aligned with the corresponding initiatives of OTP Group, the cornerstones of which were set out in OTP Bank's Environmental Policy. It is the task of OTP Bank's Green Programme Directorate to contribute to implementing OTP Group's environmental, social and governance vision, and supporting all members of the Group in taking maximum advantage of the opportunities in green financing. OTP Group's commitment to sustainable development is reflected in all markets served by the Banking Group, for example, through the introduction of green products and its corporate social responsibility for sustainability. It is owing to these efforts that the Group was the first company to receive the National Bank of Hungary's Green Finances Award in 2019.

Corporate social responsibility is a Group-level task. Headed by the Director of Marketing and Communication, OTP Bank's Marketing and Communication Directorate is responsible for managing and coordinating corporate social responsibility operations at Group level; in addition, all foreign subsidiaries have a designated responsible manager. From 2020 onwards, the performance-based incentives of the Chairman & CEO of OTP Bank, all Deputy CEO's and the Chief Executive Officers of foreign subsidiaries include a sustainability goal for each executive.

Each year, OTP Bank publishes its Sustainability Report⁵, which is prepared in accordance with the GRI⁶ reporting standards. The 2019 Sustainability Report complies with the criteria of the Core option.

The commitment to green goals is also reflected in the internal operation of OTP Mortgage Bank. The enforcement of sustainability criteria and the implementation of the relevant tasks are coordinated – in accordance with the guidelines of the Green Programme Directorate – by the Chief Sustainability Officer (CSO) designated by the CEO. The tasks of the CSO include supporting the regular drafting and review of the Green Strategy, supporting the implementation of the objectives and principles laid down in the Green Strategy in all areas of the Company's operation, and preparing regular and comprehensive information supplies for the Board of Directors and Supervisory Board of OTP Mortgage Bank on the implementation of green goals in order to support the relevant decisions of these bodies.



Enforcement of environmental, social and governance criteria

Although OTP Mortgage Bank is a small-sized organisation in terms of its number of employees (the average headcount was less than 50 persons in the past few years), within these limits, it strives to organise its internal operation in the most sustainable manner possible in accordance with the relevant initiatives of OTP Group. In relation to the operation of the Group, its environmental activity covers the efficient use of resources, waste management and the area of responsible procurement.

Beyond its immediate scope of activity, OTP Mortgage Bank ensures that its sustainability criteria are also incorporated into its corporate social responsibility. In this context, it participates in policy consultations aimed at the fight against climate change and the promotion of efficient energy consumption.

In its CSR Strategy, OTP Group declares its commitment to the protection of the environment, and integrates environmental aspects into its business activity in order to minimise the negative environmental impacts arising from its continued operation. Its goal is to protect environmental and natural resources, to improve the efficiency of energy consumption and to reduce paper use; these goals are also supported by the effective and measurable results of digitalisation. The regularly launched attitude shaping campaigns are also intended to increase the environmental awareness of employees.

Further information on OTP Group's environmental, social and governance contribution to sustainability is available on the website of OTP's ESG Programme⁷ and in its Sustainability Report.

5 Global Reporting Initiative (<https://www.globalreporting.org>)

6 <https://www.otpbank.hu/portal/hu/IR/ESG>

7 <https://www.otpbank.hu/portal/hu/IR/ESG>

ESG ratings

OTP Group's environmental, social and governance (ESG) performance⁸ is rated by a number of agencies, primarily for providing information to investors.

CDP Climate Change⁹: **B-**

On a scale of F to A, OTP Bank's rating in the climate change category of the CDP environmental protection disclosure system was B- in 2020, which corresponds to the 'management' category.

Sustainalytics ESG Risk Ratings¹⁰: **23.5**

In the ESG risk assessment system of Sustainalytics, in 2020 OTP Bank scored 23.5 points on a scale of 40+ to zero, which translates to 'Medium ESG Risk'. On a global scale, the Bank falls within the best 25% of the sector in terms of ESG risk.

MSCI ESG Ratings¹¹: **A**

In the assessment of MSCI, on a scale of CCC to AAA OTP Bank has been rated 'A' since 2019, falling within the 'Average' category. The Bank is included in several ESG indices of MSCI.

Vigeo Eiris¹²: **27%**

As regards the 2019 assessment of the Vigeo Eiris ESG ratings agency, OTP Bank scored 27% on a percentage scale of 0 to 100, which corresponds to the 'advanced' category, and translates to performing slightly above the sector average.

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

9 <https://www.cdp.net>

10 <https://www.msci.com/our-solutions/esg-investing/esg-ratings>

11 <https://www.sustainalytics.com/esg-ratings>

12 <https://vigeo-eiris.com>

Green Mortgage Bond Framework

In establishing the Green Mortgage Bond Framework, OTP Mortgage Bank considered all recommendations that are included in the Green Bond Principles. In the document, the Company wishes to comply with the requirements of all four components listed below.

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

The Green Mortgage Bond Framework of OTP Mortgage Bank and any amendment thereof are approved by the Company's Board of Directors.

Use of Proceeds

Due to the constraints imposed by the Mortgage Act, the assets side business activity of OTP Mortgage Bank is strictly limited to retail lending secured by real estate collateral, refinancing the retail mortgage loan portfolio of commercial banks and other related ancillary activities; thus overall, the services rendered by the Company support customers' property-related goals. As a result, the Company has an opportunity to support the cause of sustainable development by striving to make its lending, to the greatest possible extent, conditional upon property-related purposes progressing towards sustainability. OTP Mortgage Bank considers these types of loans green loans.

The Company formulated the definition applied to identifying property-related purposes progressing towards sustainability based on the recommendations of international organisations; thus, primarily, the Green Bond Principles and the Green Bonds Standard¹³ issued by the Climate Bonds Initiative. These principles determine the green certification of the financed properties essentially on the basis of their energy efficiency. Thus, of the eligible Green Projects categories specified in the Green Bond Principles, the definition applied by the Company to define green loans is consistent with the objectives of energy efficiency and green buildings. By way of these project categories, the Company is able to support the identified high-level environmental objectives, such as climate change mitigation, pollution prevention and control and natural resource conservation.

OTP Mortgage Bank wishes to use the proceeds from the issue of green bonds or an amount equal to these proceeds in the context of its mortgage lending activity, to finance loans that qualify as green loans. The Company intends to obtain green certification for its activities in alignment with the Green Bond Principles based on the following conditions.



Products

mortgage loans: mortgage loans comprising the Company's own portfolio and refinancing mortgage loans granted to its commercial bank partners

Clientele

retail portfolio: the Company's retail mortgage loan portfolio is composed solely of instruments provided to retail clients, and similarly, the purpose of the refinancing mortgage loans provided to commercial bank clients is to finance retail mortgage loan portfolios

Loan purpose

residential mortgages for the purpose of the construction or purchase of used or newly refurbished residential homes, and general purpose mortgages for renovating and upgrading existing properties

Review

if the Company modifies its Green Mortgage Bond Framework as a result of a review necessitated by a change in the requirements applicable to green bonds or in the legislative environment, this will not affect the Company's commitment regarding already issued Green Mortgage Bonds: whether the existing conditions are tightened or eased, the change will only apply to securities issued after the publication of the new version of the Green Mortgage Bond Framework.

Geographical focus

loans secured by mortgage claims on real estate collateral located in the territory of Hungary

Time limitation

properties whose energy performance certificate was issued after 31 December 2015

Energy characteristics

loans where the property(ies) serving as collateral for the loan meet at least one of the criteria of the following two categories are deemed green loans by OTP Mortgage Bank:

- (1) energy-efficient properties: buildings falling within the best 15% of Hungary's total stock of buildings based on their energy efficiency rating.
- (2) buildings with significantly improving energy performance: buildings undergoing refurbishment or upgrading from the loan provided by the Company in order to improve their energy performance.



Energy-efficient properties

Loans included in the portfolio of OTP Mortgage Bank will be deemed green loans if the property(ies) serving as collateral for the mortgage loan receive the 'energy-efficient property' ranking. OTP Mortgage Bank will deem any buildings energy-efficient if they fall within the best 15% of Hungary's total stock of buildings based on their energy efficiency rating. In this respect, an important point of reference for the Company is the threshold published by the National Bank of Hungary marking the best 15% of the Hungarian building stock.

When green mortgage bonds are issued, a building's ranking as being in the best 15% is determined upon offering the first series part of the mortgage bond series; the criteria for individual series do not change during the term of the mortgage bonds.

Buildings with significantly improving energy performance

Loans included in the portfolio of OTP Mortgage Bank will be deemed green loans if the collateral items behind them obtain the 'building with significantly improving energy performance' ranking as a result of the upgrade. Buildings will be deemed to have significantly improving energy performance if they are refurbished or upgraded from the loan provided by the Company in order to improve their energy performance.

If the Company modifies its Green Mortgage Bond Framework as a result of a review necessitated by a change in the requirements applicable to green bonds or in the legislative environment, this will not affect the Company's commitment regarding already issued green bonds. Any tightening or easing of the conditions defined for energy-efficient properties or for buildings with significantly improving energy performance will only apply to securities issued after the publication of the new version of the Green Mortgage Bond Framework.



Sustainable Development Goals supported by the financing of green loans

The UN's Declaration on Sustainable Development¹⁴ is at the heart of the organisation's sustainable development programme until 2030 as a framework composed of universal goals, tasks and indicators. The Sustainable Development Goals can serve as an important basis for identifying corporate social responsibility focus areas and targets.

Activities supported by the issue of green bonds and the provision of green loans by OTP Mortgage Bank facilitate the achievement of the UN's Sustainable Development Goals as follows.

Green Bond Principles Project categories

Energy efficiency

New and refurbished buildings, energy storage, district heating, smart grids, appliances and products

Green buildings

Buildings that meet regional, national or internationally recognised standards or certifications for environmental performance

UN Sustainable Development Goals

Affordable and clean energy



- 7.2 Increase substantially the share of renewable energy in the global energy mix.
- 7.3 By 2030, double the global rate of improvement in energy efficiency.

Sustainable cities and communities



- 11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management.



Process for Project Evaluation and Selection

As a member of OTP Group, in its mortgage lending and mortgage bond issuance activities OTP Mortgage Bank strives to fully comply with Hungarian and international legislative requirements. In its operations, the Company pays special attention to supporting anti-money laundering and terrorism financing initiatives, recognising and raising awareness about the environmental risks posed by its activity, and promoting the enforcement of environmental considerations. The Company did not identify any social or environmental risks related to its green lending and mortgage bond issuance activity.

Energy performance certificate

In Hungary, it has been mandatory since 2012 to have an energy performance certificate drawn up before starting to use, selling or leasing properties; with the certificate providing detailed information on the energy consumption of the building. The energy performance certificate is essentially the result of a procedure conducted by the building authority; the legislative background for the document is established by Act LXXVIII of 1997 on the Formation and Protection of the Built Environment¹⁵ and Government Decree No. 176/2008 (VI. 30.) on the certification of the energy characteristics of buildings¹⁶.

Data sources

In the opinion of OTP Mortgage Bank, the regulatory framework for the preparation and criteria system of the energy performance certificate enables the Company to rely primarily on this document in determining the green rating of buildings. In determining the energy performance of buildings, the Company relies primarily on the building's letterised energy quality rating and the scaled value of consolidated energy characteristics. In determining the best 15% of Hungary's building stock, OTP Mortgage Bank primarily relies on publicly available energy data published by Lechner Knowledge Center¹⁷, a professional background institution to the Prime Minister's Office specialising in architecture, e-construction, land records and electronic spatial planning, data on the national building stock published by the Hungarian Central Statistical Office¹⁸, data contained in the energy performance certificate of properties eligible as collateral and other publicly available official sources.

In order to identify buildings with significantly improving energy performance, OTP Mortgage Bank also uses client statements issued during the loan application process with respect to the envisioned upgrades.

Energy characteristics

The energy rating applied since 1 January 2016 classifies buildings into 12 categories. Based on national statistics, only 2.1% of the certificates issued between 2016 and 2019 comprised items classified into the top four categories (AA++, AA+, AA and BB) as ones in compliance with the nearly zero-energy requirement; 19.5% received a (CC) rating ('upgraded'), while the remaining 78.4% had worse ratings.

Energy-efficient properties

The building's energy quality rating must be at least CC but the Company tries to finance buildings that are considered to include the most upgrades from an energy efficiency point of view. OTP Mortgage Bank considers all loans secured by mortgages on buildings rated AA++, AA+, AA and BB green loans.

Buildings rated CC will also be considered green if the ranking resulting from the consolidated energy characteristics listed in the energy performance certificate confirms that the property is in the best 15% of Hungary's total building stock. The precise methodology applied to determine the above are presented in the Company's annual report on green bonds.

15 Act LXXVIII of 1997 on the Formation and Protection of the Built Environment (<https://net.jogtar.hu/jogszabaly?docid=99700078.tv>)
16 Government Decree No. 176/2008 (VI. 30.) on the certification of the energy characteristics of buildings (https://net.jogtar.hu/jogs_zabaly?docid=a0800176.korj)
17 <http://uj.lechnerkozpont.hu>
18 <http://www.ksh.hu>

Statistical definition

OTP Mortgage Bank strives to ensure that the data required for the rating of properties based on individual characteristics are available to the greatest possible extent. Where the energy performance certificate is not available to OTP Mortgage Bank in the case of buildings rated CC and, thus, the Company has no information on the individual consolidated energy characteristics of the property concerned, the Company takes recourse to statistical methods to determine the best 15%. In the case of this portfolio, compliance with the stated purposes is not verified at a micro level for each individual loan; instead, it is verified on an aggregate basis in consideration of the known characteristics of the portfolio. If there are items among the green loans that were not selected based on individual characteristics, the precise methodology of the statistical methods applied will be presented in the Company's annual report on green mortgage bonds.

Buildings with significantly improving energy performance

The Company will consider buildings to have significantly improving energy performance if they are refurbished or upgraded from the loan provided by the Company in order to improve their energy performance.

OTP Mortgage Bank considers the following upgrades to be refurbishments or upgrades that significantly improve the energy performance of buildings:

- installation of solar panels or solar collectors;
- installation of geothermal, air-to-water, air-to-air heat pumps;
- installation of wind turbines;
- installation of thermal and electric energy storage units;

- thermal insulation of the building envelope;
- replacement of external doors and windows with energy efficient doors and windows;
- installation of shading technology;
- installation, replacement or renovation of heating, cooling or ventilation systems, including connection to the district heating system;
- installation of efficient lighting appliances and systems;
- installation of low-flow kitchen, and sanitary water fittings;
- installation of third-generation intelligent metering systems for electricity load monitoring;
- installation of zoned thermostat systems, smart thermostat systems and sensoring equipment (e.g. motion and day light control); and
- installation of Building Management Systems

In defining the scope of the above efficiency measures, OTP Mortgage Bank considered the considerations for upgrades included in the Taxonomy Regulation¹⁹ of the European Union, as well as the renovation measures listed in the National Bank of Hungary's scheme entitled 'Preferential Green Capital Requirement Treatment for housing loans'²⁰.

In order to identify buildings with significantly improving energy performance, OTP Mortgage Bank is also entitled to use client statements on envisaged upgrades issued during the loan application process.

Green loans

Loans within the Company's portfolio that are covered by collateral comprising energy-efficient properties or properties with significantly improving energy performance are considered green loans.

Loans linked to several properties

In the case of loans where mortgage is registered on more than one property instead of a single property and not all properties meet the criteria for green loans, OTP Mortgage Bank applies the following procedure. The loan concerned will be deemed a green loan if at least one of the properties linked to the loan meets the above green criteria. The loan concerned may be considered a green loan only up to the collateral value of the property(ies) that meet the above green criteria.

Green Mortgage Bond Committee

OTP Mortgage Bank is responsible for selecting and monitoring the loans that comply with the green criteria and for the regular review of the green portfolio.

The body responsible at OTP Mortgage Bank for the valuation and selection of green loans and for the periodical review of the Green Mortgage Bond Framework is the management meeting acting as the Green Mortgage Bond Committee. Preparations for the Committee's decisions are supported by the Chief Sustainability Officer, the domains in charge of collateral registration, securities issuance and property appraisal, as well as the legal and compliance domains. The Chairman of the management meeting is the Company's CEO.

With the coordination of the domain in charge of collateral registration, the Green Mortgage Bond Committee prepares a quarterly report for the Board of Directors, presenting the number of green mortgage bonds issued and the volume of eligible green loans. The Committee is also responsible for approving the annual green mortgage bond reports published for investors and compiled by the domain in charge of collateral registration.

¹⁹ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (<https://eur-lex.europa.eu/eli/reg/2020/852/oj>)
²⁰ Notice on the criteria for the Preferential Green Capital Requirement Treatment for housing loans (<https://www.mnb.hu/greenfinance>)



Management of Proceeds

OTP Mortgage Bank will consider any mortgage bonds green bonds if their proceeds are used to finance the green loans defined above. The Company ensures that the proceeds from green mortgage bonds are allocated to green projects in two different ways:

- by using the proceeds for the financing of existing, already disbursed green loans (which may be mortgage loans in the Company's own portfolio and refinanced mortgage loans in the portfolios of its commercial bank partners); or
- by combining the issuance with a Pledge declaring that after the issuance, the proceeds from the green mortgage bonds will be disbursed as green loans as soon as possible in accordance with the applicable international and Hungarian standards and regulations.

OTP Mortgage Bank manages the proceeds from green bonds at portfolio level. The proceeds from green bonds are allocated to the green loans in the portfolio as soon as possible, within 24 months of the issuance. Instruments marked as green instruments must meet the conditions listed under the 'Use of Proceeds' section in accordance with the selection process described under the 'Process for Project Evaluation and Selection' section. The Company does not use the proceeds from its issuance of green mortgage bonds for purposes that contribute to increasing greenhouse gas emissions, for financing activities that are in conflict with its Green Strategy, or for disbursing loans that do not meet the eligibility criteria set out in the Green Mortgage Bond Framework.

Principal amounts collected from the contractual or extraordinary (prepayments or early repayments) repayment of green loans will be allocated by OTP Mortgage Bank to new green projects if it is necessary to ensure consistency between the green mortgage bonds issued and the green loan portfolio carried on its balance sheet.

The Company does not use the proceeds from its issuance of green bonds to finance mortgage loans that do not qualify as green loans. The Company guarantees this by designating an organisational unit responsible for meeting the Company's commitments pertaining to green mortgage bonds, by continuously monitoring the volume of green mortgage bonds in circulation and the green loan portfolio, and by setting up an internal limit in relation to its commitment on volume.

The Company allocates the liquidity temporarily available from green mortgage bonds issued with a Pledge or from the repayments of principal to the financing of Hungarian government securities, Hungarian green government securities, green bonds or other instruments defined in the relevant international and Hungarian standards and regulations.

OTP Mortgage Bank strives to ensure that the size of the green portfolio exceeds the volume of the green mortgage bonds issued and currently in circulation at all times. As a result of the continuous review process, repaid loans or loans that are no longer eligible for green finance are immediately removed from the green portfolio.

The Green Mortgage Bond Framework will be reviewed upon any change in the requirements applicable to green mortgage bonds or in the legislative environment. If the Company modifies its Green Mortgage Bond Framework as a result of a review, this will not affect the Company's commitment regarding already issued green mortgage bonds. Any tightening or easing of the conditions will only apply to securities issued after the publication of the new version of the Green Mortgage Bond Framework.



Reporting

Under the Green Bond Principles, it is a requirement to inform investors and other stakeholders on the use of proceeds, and it is recommended to disclose the expected impacts of the projects implemented from the investments.

Within a year from the issuance of its first green mortgage bond, OTP Mortgage Bank will publish a report ('Allocation Report') on green mortgage bonds and green loans, and subsequently it repeats the disclosure of information at least once a year for as long as any of the green mortgage bonds issued by the Company is still in circulation. If it is necessitated by a change in the Green Bond Principles, the adjustment of investors' expectations about green securities or by any other external circumstance, beyond the usual annual disclosure, the Company will do its utmost to compile and publish its report as soon as possible. The Company strives to ensure that its report

is in line with the recommendations set out in the 'Harmonised Framework for Impact Reporting' handbook²¹ published by the International Capital Market Association.

The report will include at least the following:

- core information on the issued green mortgage bonds in circulation (in particular, the serial number and identification data of the bond series in circulation, the face value and maturity of the series in circulation);
- core data presenting the volume of green loans meeting the eligibility criteria of the Green Mortgage Bond Framework (in particular, number and principal of the transactions in the portfolio identified as green loans and the volume of the other instruments defined under the 'Management of Proceeds' section); and
- core indicators presenting the expected environmental impact of the green lending activity.

In accordance with the Green Bond Principles, OTP Mortgage Bank defined the following indicators for measuring environmental impacts:

- annually avoided/reduced energy consumption expressed in MWh or GWh;
- annual GHG emissions reduced/avoided expressed in tonnes of CO₂.

It is in consideration of the available data on the properties concerned that the Company decides whether it is able to rely on data to disclose the indicators suitable to measure environmental impacts and their results, or it needs to resort to statistics.

Where the above data are not available for green loans linked to green mortgage bonds or they cannot be defined on an individual basis, the Company's goal is define the data by way of (an) estimation procedure(s). In such a case, the green mortgage bond report briefly describes the methodology applied in preparing the estimate(s).

OTP Mortgage Bank will publish the green mortgage bonds report – along with all other documents related to green bonds, including the Green Mortgage Bond Framework – on its website²². The first annual report will be published after the issuance of the Company's first green mortgage bond, which will coincide with the publication of the Annual Report of OTP Mortgage Bank.

External review and attestation

In order to ensure compliance with the Green Mortgage Bond Principles, OTP Mortgage Bank appointed Deloitte Könyvvizsgáló és Tanácsadó Kft. to conduct an independent external review and provide a second party opinion regarding the Green Mortgage Bond Framework. In the event of any changes in the Framework, the Company will initiate another independent external review/second party opinion.

The report of Deloitte Auditing and Consulting Ltd. will be published on the website of OTP Mortgage Bank.

21 ICMA Handbook Harmonised Framework for Impact Reporting (https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2021-10062_1.pdf).

22 <https://www.otpjzb.hu>

Disclaimer

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