

Green Strategy 2021

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



Introduction

Climate change is one of the most serious challenges of our times: the climate is changing rapidly and drastically on a global scale. This development affects all segments of the weather, and it is obvious that if we fail to curb or contain it in time, the impacts of the process will become more perceivable and increasingly harsh. Human activities contribute to the change in many different ways, one of the most important of which is the emission of greenhouse gases: the growing concentration of greenhouse gases in the atmosphere – especially carbon dioxide emission – plays a dominant role in the deterioration of the environment and in the increase in average temperature.

According to experts studying the phenomenon, it is possible to slow down the process. If we succeed in changing the identified bad practices responsible for the problem, the magnitude of climate change and its impact on our day-to-day life may be mitigated significantly. In addition to afforestation, the replacement of fossil energy sources (coal, oil and natural gas) by renewable energy sources or the support for public transport, increasing energy efficiency can be one of those steps.

The role of an energy-efficient building stock in combating climate change

In the preamble of its 2010 Directive on the energy performance of buildings¹, the European Union pointed out that one of the reasons for crafting the legislation was the fact the buildings account for 40% of total energy consumption in the Union. In its building renovation strategy² published in 2020, the European Commission cited similar data: overall, buildings are responsible for about 40% of the EU's total energy consumption, and for 36% of its greenhouse gas emissions from energy. This is not surprising: the building stock is old (85% of the EU's building stock was built before 2001) and outdated; the buildings fail to meet modern energy efficiency requirements. At present, outdated buildings comprise two thirds of the building stock, while only 1% of the buildings undergo energy renovation, which is far from being sufficient to achieve the stock renewal required for meeting the climate targets. As stated in the document: "it is therefore urgent for the EU to focus on how to make our buildings more energy-efficient, less carbon-intensive over their full life-cycle and more sustainable". Upgrading the building stock may contribute significantly to the success of the initiatives against climate change.

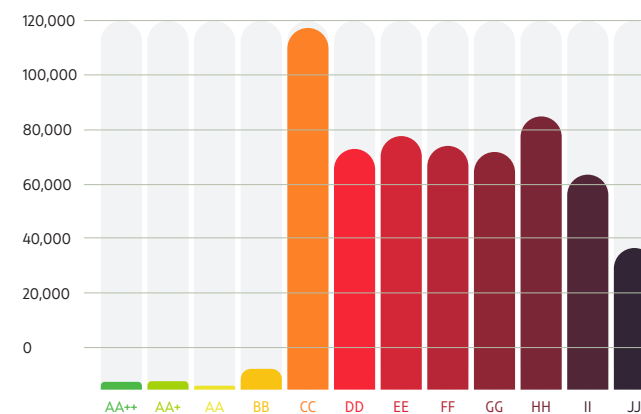
Energy characteristics of the Hungarian building stock

For geographical and historic reasons, the energy-efficiency indicators of Hungarian residential buildings are also unfavourable.³ Hungary's stock of residential buildings are aged and outdated from an energy perspective. Since almost 80% of residential buildings were built before 1990, an enormous part of the stock needs to be renovated. Due to the poor energy efficiency of old buildings, the energy consumption of buildings built before 1959 is more than triple, and their heating energy requirement is more than quadruple the consumption of new buildings. Buildings built in 1976–1989 have better indicators, but their

energy consumption is still more than double, and their heating energy requirement is more than two and a half times the value of new homes.⁴

All this is confirmed by the statistics compiled with respect to the energy performance certificates of residential buildings. 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. Since 1 January 2016, a stricter energy rating scale has been in force, which classifies buildings into 12 categories. Only 2.1% of the certificates issued between 2016 and 2019 comprised items (classified into the top four categories) that complied with the nearly zero-energy requirement; 19.5% received a 'CC' rating ('upgraded'), while the remaining 78.4% had worse ratings

Distribution of the ratings of energy performance certificates issued in Hungary in 2016–2019⁵



1 Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy performance of buildings (<http://data.europa.eu/eli/dir/2010/31/oj>)
 2 A Renovation Wave for Europe - greening our buildings, creating jobs, improving lives (<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52020DC0662>)
 3 EU Buildings Factsheets (https://ec.europa.eu/energy/eu-buildings-factsheets_en)
 4 Hungarian Central Statistical Office (https://www.ksh.hu/docs/hun/xftp/stattukor/lakaspiacar/20203/index.html#apiac_rakerhasznltlaksokenegiahatkonysgakedveztenkpetmutai)
 5 Lechner Knowledge Centre (<https://entan.e-epites.hu/>)

The role of credit institutions in combating climate change

Credit institutions may play a key role in the transition to a low-carbon, climate-resilient economy. As the leader in the Hungarian mortgage credit market, OTP Mortgage Bank Ltd. (hereinafter: OTP Mortgage Bank/OTP Mortgage Bank or Company) recognised the threats posed by climate change and the overloading of the natural environment to the planet's ecosystem, as well as the health and well-being of society. It has also recognised the potential in being among the first to bring about change and contribute actively to the energy renewal of the Hungarian residential property stock.

OTP Mortgage Bank is committed to contributing to the achievement of environmental and climate goals with the tools at its disposal. To that end, the Company has crafted its Green Strategy, which contains all principles and goals that enable the Company to contribute to protecting the environment actively and efficiently. It is the Company's intention to support, within the limits of its own capabilities, the international and domestic efforts aimed at sustainable development; in particular, but not limited to:

- the Paris Agreement aimed at facilitating efforts to limit the increase in the global average temperature and adapt to the climate change;
- the New Green Deal initiative⁶ of the European Union, which set out, among other things, the aim of climate neutrality across the EU by 2050;

- the New European Bauhaus initiative⁷ of the European Union, a key goal of which is to place our way of thinking about the renewal of the residential property stock on new foundations;
- the Energy efficient Mortgages Action Plan (EeMAP)⁸ initiative promoting energy-efficient mortgage lending;
- The National Energy Strategy⁹ and the National Energy and Climate Plan¹⁰ of the Government of Hungary;
- the Green Programme¹¹ of the National Bank of Hungary, which offers important incentives for the green operation of the financial intermediary system;
- the recommendations laid down in Recommendation No. 5/2021 (IV. 15.) of the National Bank of Hungary¹² in relation to tackling climate and environmental-related risks and the enforcement of environmental sustainability criteria; and
- the recommendations included in the ESG Reporting Guide¹³ of the Budapest Stock Exchange, promoting the proliferation and transparency of green investments.

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

6 The European Green Deal (<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2019%3A640%3AFI>)
7 New European Bauhaus (https://europa.eu/new-european-bauhaus/index_en)
8 Energy efficient Mortgages Action Plan (<https://eemap.energyefficientmortgages.eu>)
9 National Energy Strategy 2030 (<https://www.enhat.mekh.hu/strategiak>)
10 National Energy and Climate Plan (<https://www.enhat.mekh.hu/strategiak>)
11 MNB Green Programme (<https://www.mnb.hu/felugyelet/felugyeleti-keretrendszer/zold-program>)
12 Recommendation No. 5/2021 (IV. 15.) of the National Bank of Hungary (<https://www.mnb.hu/letoltes/5-2021-zold-ajanlas-2.pdf>)
13 ESG Reporting Guide for Issuers of the Budapest Stock Exchange (<https://www.bet.hu/Kibocsatok/Ajanlasok-kibocsatoknak/bet-esg-esg-guide>)



Introduction of the Company

OTP Group

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 provider groups of the region, with presence in numerous countries in addition to Hungary.

OTP Mortgage Bank

OTP Mortgage Bank is the largest participant of 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. 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 and to refinancing the mortgage loan portfolio of commercial banks; in consideration of statutory constraints and the business model of OTP Group, the Company pursues no other commercial banking activity.





Green Strategy

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.

The commitment to green goals is also reflected in the internal operation of the Company. Within 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) appointed 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.

It is particularly important for the Company to set real and feasible goals. OTP Mortgage Bank identified four areas through which it can contribute to sustainable development. These areas are the following:

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

Green lending – in focus: energy efficiency and the renewal of the building stock

Due to the constraints imposed by the Hungarian on Mortgage Loan Companies and on Mortgage Bonds¹⁴, the assets side business activity of OTP Mortgage Bank consists of the provision of loans secured by real estate collateral and other related ancillary activities. Accordingly, OTP Mortgage Bank has an opportunity to support the cause of sustainable development primarily by offering green loans in such a way that the provision of the loan is made conditional upon – to the greatest possible extent – property-related purposes progressing towards sustainability including, in particular, the

purchase of energy-efficient properties or performing energy upgrades on properties. We call these 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 Principles¹⁵ issued by the International Capital Market Association and the Green Bonds Standard¹⁶ issued by the Climate Bonds Initiative. These principles determine the classification of the financed properties essentially based on their energy efficiency. Based on the above, retail mortgage 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:

- **energy-efficient properties: buildings falling within the best 15% of the total stock of buildings of the given country based on their energy efficiency rating.**
- **buildings with significantly improving energy performance: buildings whose energy performance improves significantly – based on their unit energy consumption per square metre – after the completion of the refurbishment or upgrading works carried out by using the loan provided by the Company.**

The strategic goal of OTP Mortgage Bank is to continuously increase the percentage of the above green loans within its new disbursements. The Company continuously reviews the definition of green loans in accordance with Hungarian and international regulatory trends, and tightens the criteria as necessary.

14 Act XXX of 1997 on Mortgage Banks and Mortgage Bonds (https://net.jogtar.hu/jogszabaly?docid=99_700030.tv)

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

16 CBI Climate Bonds Standard V3.0 (<https://www.climatebonds.net/standard>)

Issuance of green mortgage Bonds: serving the demand for sustainable investments

Ambitions to combat climate change and the increasing environmental overload are also gaining ground in the community of investors, and there is increased demand among investors for instruments that are intended to finance green goals. OTP Mortgage Bank can contribute to this by the revision of its strategy for raising funds and by the targeted expansion of its mortgage bond issuance programme. The objective is for the Company to issue green mortgage bonds continuously from 2021 and, as far as it is allowed by its loan portfolio, to increase the share of green bonds in its portfolio continuously.

OTP Mortgage Bank formulated the definition of green mortgage bonds, as well, in accordance with the principles and requirements included in the guidelines issued by international and domestic organisations. The principles contain four core components:

- **Use of Proceeds;**
- **Process for Project Evaluation and Selection;**
- **Management of Proceeds;**
- **Reporting.**

Prior to the issuance of a green bond, in the context of its green mortgage bond framework, OTP Mortgage Bank publishes its commitment to issue the bonds concerned or to issue bonds under a given programme in accordance with the above principles. In line with investor requirements, the Company strives to arrange for the external review and attestation of the above document by a third party.

OTP Mortgage Bank will consider any mortgage bonds green mortgage 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.**

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 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.

After the issuance of green mortgage bonds, during the term of the bonds OTP Mortgage Bank regularly publishes the most important information on the green mortgage bonds in circulation, on the use of proceeds and on its green mortgage loans. The Company strives to have the above reports attested by a third party.



Green banking: energy-efficient banking operation

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. The Group's environmental activity in relation to operation covers the following areas.

Use of power, CO₂ emission

The Group uses state-of-the-art technologies in new construction and renovation projects, installing modern engineering solutions and energy-efficient LED light sources. We are increasing our reliance on renewable energy taking into account the aspect of economy. From 2019, we have been examining the possibility of installing solar panels and heat pumps during the renovation of units within the branch network.

Despite our efforts to rationalise travel organisation and the fact that the use of videoconferencing is common practice, operating the banking network entails a significant amount of travel and transportation. In car purchases, we give preference to models with low fuel consumption: since 2019, hybrid cars are also included in each category in OTP Bank's Car Policy and, starting from the same year, the limit applied at Group level for maximum carbon dioxide emissions must also be considered.

Waste management

In its waste management, the Group follows the 'reduce / reuse / recycle / drop-off' priority order. An integral part of this effort is the reduction of paper use and printing while strengthening digitalisation and streamlining the Bank's processes. In addition to reducing our waste output, we are expanding selective waste collection opportunities. It is common practice within the Group to donate no longer used but still functional furniture and IT equipment to institutions in need or to charitable organisations.

Responsible procurement

Due to its size, OTP Group is a major buyer, and its decisions on purchases and suppliers affect the local economy, including its business culture and development. Our Group-level strategic objective is to standardise and centralise procurement for the benefit of compatibility and cost-effectiveness. Green procurement principles constitute a part of our Environmental Policy. When selecting our suppliers, we guarantee fair market behaviour and equal opportunity. The Group seeks to establish long-term relations and strategic partnerships in order to guarantee service quality. In our procurement operations, we consider the quality and life-cycle costs of products and services, with special focus on long-term usability and reparability.



Green corporate social responsibility: participation in efforts at the level of society

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; thus, for example, OTP Mortgage Bank was the first company in Hungary to join the Energy efficient Mortgages Action Plan (EeMAP) initiative.

The goal is to communicate to customers – through marketing tools as well – the Company's commitment to the environment and society: the marketing publications of OTP Group have been printed on recycled paper for years.

In its corporate social responsibility 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 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 Programme¹⁷ and in its annually published Sustainability Report¹⁸.



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

18 <https://www.otpfenntarthatosag.hu/hu/jelentesek>

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