



KPMG Second Party Opinion

OTP Mortgage Bank Ltd.
Green Mortgage Bond Report 2024

KPMG Advisory Ltd.

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1. Summary

OTP Mortgage Bank Ltd. ("OTP Mortgage Bank", the "Company") has requested KPMG Advisory Ltd. ("KPMG") to inspect its Green Bond Report 2024 (the "Report") and to assess its consistency with the Company's Green Mortgage Bond Framework (the "Framework").

In preparing the Second Party Opinion ("SPO"), KPMG assessed whether the Company prepared its Report in accordance with the criteria set out in its Framework, in particular regarding Project Allocation and Impact Metrics. In addition, KPMG assessed whether the Report is in line with the guidelines set out in the following publications of the International Capital Market Association ("ICMA"):



ICMA Green Bond Principles June 2021 Edition¹ 4. Principle of the report ('ICMA GBP 4. Principle – June 2021'),



ICMA Harmonised Framework for Impact Reporting² June 2022 edition ('ICMA Handbook - June 2022').

Based on our assessment we consider the Company's 2024 Green Bond Report aligns with the Company's Green Mortgage Bond Framework as well as with the principles and recommendations of the reporting framework applied (ICMA GBP 4. Principle – June 2021 and the ICMA Handbook – June 2022).

¹ [ICMA Green Bond Principles June 2021 Edition](#)

² [ICMA Harmonised Framework for Impact Reporting June 2022 Edition](#)

2. The scope of the SPO analysis and the applied methodology

OTP Mortgage Bank has prepared the 2024 Green Bond Report, presenting its green mortgage portfolio and the green mortgage bonds issued for financing and refinancing of this portfolio.

According to the ICMA Guidelines for Green, Social and Sustainability Bonds External Reviews³, the Second Party Opinion includes the assessment of whether the issuer's green bond issuance is consistent with the relevant ICMA GBP Principles. In this respect, 'consistency' should cover all the essential elements of the relevant principles.

During the assessment process, KPMG evaluated whether the Company prepared its Report in accordance with the criteria set out in its Framework, particularly focusing on Project Allocation and Impact Metrics. Furthermore, the assessment covers the Report's consistency with the ICMA Handbook – June 2022 and ICMA GBP 4. Principle – June 2021 publications, as well as determining whether the core indicators are included in the Report.

In the process, KPMG proceeded in accordance with the ICMA External Review Guidelines published by ICMA in assessing the documentation, information and explanations provided by the Company. The implemented procedures included data requests to the Company, interviews with the Company, and inspecting the documentation provided.

During the assessment:

- KPMG conducted interviews with executives and experts involved in the preparation of the Report in order to understand the underlying processes and controls. These processes included the determination of the purpose of the Company's use of the funds generated by the issuance of green mortgage bonds, the valuation and selection of green loans, the management of the funds derived from the issuance of green mortgage bonds, and the application of the fulfilment of reporting and data provisioning; furthermore
- inspected the background documentation and calculations provided by the Company that are involved in the processes of the use of funds from the issuance of green mortgage bonds and the evaluation and selection of green loans.

³ [ICMA Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds External Reviews June 2022 Edition](#)

3. Limitations of Liability

This assessment contains a high-level assessment of the documentation and processes provided by the Company. The scope of the SPO analysis is the assessment of the applied methodology's consistency with the Framework and Guidelines introduced in the previous chapter. The SPO process did not follow audit or assurance procedures or standards.

The assessment did not cover:

- auditing the Company's financial statements;
- checking the adequacy of the basic data and documentation provided by the Company.

The validity of the SPO does not extend to the compliance with any future or updated standards (as defined in 1-2. chapter of the SPO) in relation to the ICMA Guidelines and the Framework of the Company.

4. A brief overview of OTP Mortgage Bank, its sustainability strategy and objectives⁴

OTP Bank established OTP Mortgage Bank in 2001 with the aim of enabling the OTP Group to effectively penetrate booming mortgage lending market in Hungary and to become an active participant in the related mortgage bond market. The Company's main activity is the provision of mortgage loans for the funding of the development and purchase of residential real estates, as well as general-purpose mortgage loans. OTP Mortgage Bank is the largest player in the Hungarian mortgage lending market, playing a leading role both in terms of the stock of issued mortgage bonds and the portfolio of mortgage loans. In the first half of 2024, nearly a third of retail mortgage loans lent in Hungary was provided by OTP Mortgage Bank. OTP Mortgage Bank is 100% owned by OTP Bank Plc.

The most important sustainability goals and priorities defined by OTP Mortgage Bank⁵

OTP Mortgage Bank's Green Strategy is aligned with the OTP Group's corresponding initiatives, the cornerstones of which are laid down in OTP Bank's Environmental Policy. It is the task of OTP Bank's Green Program Directorate to contribute 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.

Although OTP Mortgage Bank is a small-sized organization in terms of its number of employees, within these limits, it strives to organize its internal operations in the most sustainable way possible, so that they are aligned with the OTP Group's initiatives in this regard. Beyond its immediate scope of activity, OTP Mortgage Bank also ensures that its sustainability aspects and criteria are incorporated in its corporate social responsibility. In this context, it participates in policy consultations to fight against climate change and promote efficient energy consumption.

In its CSR strategy, the OTP Group has declared its commitment to the protection of the environment and integrates environmental aspects into its business activity in order to minimize the negative environmental impacts arising from its continued operations. 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, measurable results of digitalization.

⁴ Based on the *Introduction* chapter of the *Green Mortgage Bond Framework 2021* document of OTP Mortgage Bank Ltd.

⁵ Based on the chapter of the *Corporate social responsibility and ESG Policy* of the *Green Mortgage Bond Framework 2021* document of OTP Mortgage Bank Ltd.

5. Assessment

5.1. Description of the Company's Project Allocation Processes

5.1.1. Use of Proceeds

According to KPMG's understanding⁶, the business operation of OTP Mortgage Bank consists exclusively of the provision of mortgage-covered retail loans to customers, the refinancing of the retail mortgage portfolios of commercial banks, and the related ancillary activities. In accordance with its business profile, the Company has defined the use of green proceeds in the field of energy-efficient real estate lending out of the sustainable economic activities.

The Company classifies a loan as green (energy-efficient) loan, when the property(ies) serving as collateral for the loan meet at least one of the criteria of the following two categories:

1. high energy-efficient real estates: buildings falling within the best 15% of Hungary's total stock of buildings based on their energy efficiency rating; or
2. real estates with significantly improved energy efficiency: properties undergoing refurbishment or modernization using the loan provided by the Company in order to improve their energy performance.

The Company used the 2024 funds exclusively for high energy-efficient real estates, i.e. significantly improved but non-high-energy efficiency loans were not included in the Company's defined green property portfolio.

5.1.2. Process for Project Evaluation and Selection

According to KPMG's understanding⁷, OTP Mortgage Bank determines the properties in the top 15% of its own and refinanced portfolios based on the energy certificates and the energy data of the publicly available database of Lechner Knowledge Center Nonprofit Ltd. The Company considers properties for which the energy rating is not known only as part of the non-green, i.e. brown loan portfolio.

In determining the properties belonging to the top 15% of the Hungarian residential property stock, the Company considered the results of studies published by the staff of the National Bank of Hungary based on the data from Lechner Knowledge Center Nonprofit Ltd.

In the case of green mortgage bonds issued in 2021 (with a nominal value of HUF 95 billion), the property's scaled value of consolidated energy characteristics must not exceed the threshold of 118 kWh/m²/year, while in the case of green mortgage bonds issued in 2023 (with a nominal value of HUF 25 billion), the above threshold value has been derived and determined at 113 kWh/m²/year in the Company's Report and background calculations.

⁶ Based on the *Use of Proceeds* chapter of the *Green Mortgage Bond Framework 2021* document of OTP Mortgage Bank Ltd.

⁷ Based on interviews with the responsible experts of OTP Mortgage Bank Ltd.

The Company divides the CC energy class real estate portfolio with unknown primary specific energy requirement – which includes properties below and above the thresholds – into two parts in the Report and in its supporting calculation: green and non-green sub-portfolios. In the course of the division, a green portfolio is considered to be a sub-portfolio that can be shown by statistical methods to have a property with an energy efficiency not worse than the specific energy requirement of 118 kWh/m²/year (mortgage bonds issued in 2021) and 113 kWh/m²/year (mortgage bonds issued in 2023) with a 99% probability. The portfolio is divided on the basis of a statistical ratio, the results of which the Company does a calculation of a further correction. As the result of the methodology, the Company considers 60% of CC category properties in its Report and supporting calculations to be in the top 15% of the domestic residential property stock for mortgage bond issued in 2021; while the adjusted statistical ratio applied for issuances in 2023 is 40%.

If a loan is linked to several properties or several loans are linked to one property, it is not possible to make a mutually clear matching, hence the Company applies the following methodology presented in its Report:

- where several loans are linked to one real estate collateral, the value of the properties is allocated to loans in the records, and
- the principal amount of the loans is assigned to the collateral in proportion to the value of those several properties related to a single loan.

5.1.3. Management of Proceeds

According to KPMG's understanding,⁸ OTP Mortgage Bank manages green bond funds on a portfolio basis. Under the Company's Green Bond Framework, it will use these funds to refinance green loans or combining the issuance with a pledge declaring that after the issuance, the proceeds will be disbursed as green loans. The Company will use the funds raised from the green bonds to finance or refinance green loans as soon as possible, but no later than within 24 months. The Company's green portfolio is approximately four times the value of the mortgage bonds in circulation, so no pledge-type funds have been used.

According to the Company's Framework, the funds raised from the green bond issuance but temporarily unused will be utilized to finance green bonds or other assets determined by the relevant international and domestic standards and legislation. Due to the high level of green debt coverage of green bonds, the Company had no un-allocated funds to green loans in 2024.

⁸ Based on the *Management of Proceeds* chapter of the *Green Mortgage Bond Framework 2021* document of OTP Mortgage Bank Ltd.

5.1.4. Assessment of the Project Allocation

Green Mortgage Bond Framework category	Criteria description ⁹	Considerations
Use of Proceeds	<p>The proceeds generated by the issuance of green mortgage bonds can be used for the following categories:</p> <ul style="list-style-type: none"> – Real estates with high energy efficiency – Real estates with significantly improved energy efficiency 	<p>The information presented in the Report, as well as the Company's processes determined for the use of proceeds from the issuance of green mortgage bonds, are in line with the expectations set out in the Company's Green Mortgage Bond Framework and with the project categories which support the environmental objectives defined in ICMA GBP 4. Principle - June 2021 publication.</p>
Process for Project Evaluation and Selection	<p>The evaluation and selection process of green loans is determined for the energy performance of the properties used as collateral for mortgage loans. The Company finances the best 15% of the properties in the portfolio in Hungary from the funds of green mortgage bonds.</p> <p>In case of green mortgage bonds issued in 2021 (with a nominal value of HUF 95 billion), the threshold value for total energy characteristic scaled value (specific energy demand) is 118 kWh/m²/year, and in case of green mortgage bonds issued in 2023 (with a nominal value of HUF 25 billion), the threshold value is set at 113 kWh/m²/year.</p>	<p>The information presented in the Report and the Company's processes for the evaluation and selection of green loans are in line with the expectations set out in the Company's Green Mortgage Bond Framework.</p>

⁹ Based on the relevant chapters of the *Green Mortgage Bond Framework* of OTP Mortgage Bank

Management of Proceeds

The Company's undertakings in managing the proceeds from the issuances of green bonds:

- The proceeds will be used to finance existing green loans (which may be mortgages in the Company's own portfolio and refinanced mortgages in the portfolios of its commercial banking partners), or
- In the case of a so-called pledge issuance, the Company shall use the proceeds from the issuance of green mortgage bonds to disburse green loans in accordance with the applicable international and domestic standards and legislation, if possible, as soon as possible,
- The Company manages the revenues of green mortgage bonds at portfolio level,
- The Company allocates funds from green mortgage bonds to green loans within the portfolio as soon as possible, preferably within 24 months of issuance,
- The temporarily available liquidity will be used to finance Hungarian government securities, green Hungarian government securities, green bonds or other instruments determined by the relevant international and domestic standards and legislation.

The information presented in the Report, as well as the Company's process for managing the proceeds from the issuance of green mortgage bonds, are in line with the expectations set out in the Company's Green Mortgage Bond Framework.

5.2 Impact metrics

5.2.1. Reporting

According to KPMG understanding¹⁰ the Company's estimation of energy use and greenhouse gas emissions related to residential mortgages has been carried out based on the Partnership for Carbon Accounting Financials ("PCAF") methodology for quantifying energy use and greenhouse gas emissions related to residential mortgage loans. The basic formula for determining the financed emissions is the attribution factor multiplied by building emissions. The attribution factor is the ratio of the outstanding amount owed by the customer at the end of the year to the property value determined at the time of loan contract conclusion.

The emissions from the use of buildings (greenhouse gases and the energy used) are determined based on the data on calculations for real estates in Hungary published by the PCAF. In the database available on the PCAF website, each energy rating class has specific emission data per calculated unit area for each type of building (family house, apartment), so the area multiplied by this is the value of the emissions. During the impact calculation of the financed energy consumption, the Company takes into account, if available, the specific energy consumption data derived from the energy quality of the property, while in the GHG impact calculation, the PCAF estimation related to the energy ratings and property type is always applied.

In cases where data is not available for a parameter, the data published by the PCAF, and the average values of the Company's portfolio are taken into account in the calculation.

In its annual report, the Company publishes the following key data on its green loan portfolio and mortgage bond issuances:

- The stock of green mortgage bonds in circulation issued by the Company
- Basic data of the green loans in the Company's portfolio
- The expected environmental impacts of the Company's green loans along the following key indicators:
 - Annual energy consumption avoided expressed in MWh or GWh
 - GHG emissions avoided per year expressed in tonnes of CO₂eq

¹⁰ Based on the *Environmental Impact* chapter of the *Green Mortgage Bond Report 2024* of OTP Mortgage Bank Ltd. and an interview with the responsible experts of OTP Mortgage Bank

5.2.2. Assessment of Impact Metrics

Green Mortgage Bond Framework category	Criterion description ¹¹	Impact metrics	Considerations
Reporting	<ul style="list-style-type: none"> – Key data of green mortgage bonds issued and in circulation (primarily the number of mortgage bond series in circulation, their identification data, the outstanding nominal value and maturity of the series) – Key data on the stock of loans eligible for the Green Mortgage Bond Framework (in particular, the number and principal of transactions in the portfolio identified as green loans, as well as the volume of other assets specified in the section Management of proceeds) – The most important indicators showing the expected environmental impact of green lending activities 	<ul style="list-style-type: none"> – Avoided/reduced energy consumption per year, expressed in MWh or GWh – Avoided/reduced greenhouse gas emissions per year expressed in tonnes of CO₂eq 	<p>The information presented in the Report, as well as the reporting and data processes followed by the Company, are in line with the requirements set out in the Company's Green Mortgage Bond Framework and with the guidance set out in the ICMA GBP 4. Principle – June 2021 publication. The indicators presented by the Company are in line with those presented in the ICMA Handbook – June 2022 publication for <i>energy efficiency</i> and <i>green buildings</i>.</p>

¹¹ Based on the relevant chapter of the *Green Mortgage Bond Framework* of OTP Mortgage Bank

6. Appendix - Inspected documentation

During the preparation of the Second Party Opinion, OTP Mortgage Bank was solely responsible for providing accurate information regarding the following documentation:

- OTP Mortgage Bank Green Mortgage Bond Framework 2021;
- Portfolio data 2024 (and related calculations);
- OTP Mortgage Bank Ltd. – Green Mortgage Bond Report 2024;
- The process of the Green Mortgage Bond Impact Report;
- OTP Mortgage Bank Portfolio estimation methodology, risk analysis.

* * *

The purpose of this document is to provide an external review of OTP Mortgage Bank Ltd.'s 2024 Green Mortgage Bond Report with regard to the relevant regulatory requirements and guidelines.

Our expert opinion is based on the facts provided to us and on the currently available regulatory requirements, guidelines and knowledge. Regulatory requirements and their interpretation are subject to constant change, in some cases retrospectively.

We will not revise our expert opinion in the event of the above changes from this date, except when specifically requested. KPMG accepts no responsibility for the consequences of future changes in the legislative or directive regulations or interpretations.

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