

Environmental and Social Risk Management Framework OTP Group

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ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT FRAMEWORK

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I. GENERAL PROVISIONS

I.1. AIM OF THE DOCUMENT

(1) The aim of this document is to outline a coherent group-level framework, including the principles, the scope and provisions under Environmental and Social Management System (ESMS) for the entire OTP Banking Group (hereinafter: OTP Group or Group). ESMS is a policy framework that covers environmental and social risk management practices to ensure compliance with requirements of International Financial Institutions (IFIs). OTP Group has a sound and robust risk management system to identify and manage credit risks including the environmental and social risk drivers too, thus ESMS supplements the existing risk management policies and procedures of OTP to the extent described in this framework. The ESMS establishes sound objectives, well-defined procedures and responsibilities that ensure that the Group can identify, control, and reduce potential negative environmental and social impacts, while positive impacts are promoted. This document details the Environmental and Social Risk Management Framework (hereinafter referred to as ESRMF) of OTP Group, on which basis OTP Bank and Relevant Subsidiaries implement their Environmental and Social Risk Management Procedures (hereinafter referred to as ESRMP) for the transactions and business segments set out in this document. Overall, it supports maintaining compliance with local environmental and social laws and regulations as well as internationally recognised E&S standards and requirements set by IFIs.

(2) The Annexes attached hereto form part of the ESRMF.

I.2. DEFINITIONS

(3) Relevant Subsidiary: OTP Group Member entity qualifying as a subsidiary or group member in the eligible countries. Relevant Subsidiaries cover those Group Member entities that implement ESRMP by adaption of ESRMF.

(4) Sustainable Finance Framework (hereinafter SFF): OTP Group has established OTP Group SFF in May 2022, with the aim of issuing 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 mitigate social problems. OTP Group is committed to promoting sustainable business activities in the industry sectors and regions where the Group is operating. The framework defines Green Eligible and Social Eligible Categories and sets requirements for loans, credits and investments in order for them to be considered within those categories. Where feasible, OTP Group reports on the environmental and social impact of the eligible loans financed by Sustainable Finance Instruments.

(5) Sustainable Finance Instruments: OTP Group has established SFF under which it or any of its subsidiaries can issue green and social finance instruments, which may include covered bonds, senior bonds (preferred and non-preferred), subordinated bonds, medium-term notes and commercial papers to finance and/or refinance green and/or social loans with a positive environmental and/or social benefit.

(6) Eligible Green Sub-borrower: means, with respect to an Eligible Green Sub-loan, an Eligible Sub-borrower compliant with any of the Green Eligible Category requirements pursuant to the SFF.

(7) Eligible Green Sub-loan: any Eligible Sub-loan (project financings) to an Eligible Green Sub-borrower to finance a project compliant with Green Eligible Category requirements pursuant to the SFF. The green eligible categories of OTP's SFF are the followings:

- (i) Renewable Energy
- (ii) Clean Transportation
- (iii) Green Buildings

(8) Eligible Green Sub-loan Portfolio: composition of Eligible Green Sub-loans provided to Eligible Green Sub-borrowers.

(9) Eligible Social Sub-borrower: means, with respect to an Eligible Social Sub-loan, an Eligible Sub-borrower compliant with Social Eligible Category requirements pursuant to the SFF.

(10) Eligible Social Sub-loans where the borrower meets at least two of the following three criteria:

- a/ has annual sales of less than USD 15M equivalent;
- b/ has total assets of less than USD 15M equivalent;
- c/ employs fewer than 250 employees;

(11) Eligible Social Sub-loan Portfolio: composition of Eligible Social Sub-loans provided to Eligible Social Sub-borrowers.

(12) OTP ESG Exclusion List: means activities and behaviors whose controversial nature and impact make them incompatible with OTP Group's values for safeguarding human rights and promoting sustainable development and therefore they are not supported by OTP Group for financing.

(13) SFF Exclusion List: means the list of activities defined by the NACE nomenclature of the EU, which shall be excluded from the OTP Group's sustainable financing.

(14) Extended Exclusion List: means a combination of OTP ESG Exclusion List and SFF Exclusion List.

I.3. SCOPE OF THE DOCUMENT

(15) The personal scope of this document applies to the Relevant Subsidiaries including participating staff and operational employees of OTP Bank Plc (hereinafter referred to as the Head Office).

(16) The material scope of this document applies to the financed banking assets categorized into Eligible Green/Social Sub-loan Portfolio from the Relevant Subsidiaries.

I.4. ENVIRONMENTAL AND SOCIAL MANAGEMENT PRINCIPLES

(17) The Eligible Green/Social Sub-loan Portfolio includes banking assets which are to be managed according to the ESRMP, thus considering the E&S standards and recommendations of International Finance Corporation (hereinafter referred to as IFC) and potential future IFIs.

(18) OTP Group ensures that all projects in the Eligible Green/Social Sub-loan Portfolio are reviewed and evaluated against the following E&S requirements:

- a/ The extended Exclusion List for all projects.
- b/ The applicable national laws on environment, health, safety and social issues and any standards established therein.
- c/ In the Eligible Green/Social Sub-loan Portfolio there are no banking assets with high environmental and social risk¹.

(19) OTP Group in the Relevant Subsidiaries continuously endeavors to ensure effective Environmental & Social management practices in those activities, products and services, that are classified into the Eligible Green/Social Sub-loan Portfolio with a special focus on the following:

- a/ Ensuring that all activities undertaken by the borrowers are consistent with requirements of Environmental & Social Management Principles (hereinafter referred to as E&S requirements) outlined in this document.
- b/ All loans/projects are reviewed against the E&S requirements stipulated for their asset class.
- c/ Making best efforts to ensure that all financed projects are operated in compliance with the E&S requirements on an ongoing basis, during the tenor of the loan.
- d/ Ensuring transparency in the lending activities.
- e/ Ensuring that the borrowers understand the environmental and social policy commitments made by the OTP Group.

(20) ESRMF and implemented ESRMP is to be communicated to all participating staff and operational employees of the Head Office, and the Relevant Subsidiaries.

¹ High/medium/low risk categories are according to the ESRMP definition

II. DETAILED PROVISIONS

II.1. ORGANISATION AND RESPONSIBILITIES OF ESRMP IN OTP GROUP

II.1.1. ORGANISATION OF THE ESRMP IN OTP GROUP

(21) OTP Group operates the ESRMP under common principles with Head Office oversight and with participation of Environmental & Social Manager and the Environmental & Social Coordinators in the Relevant Subsidiaries.

II.1.1.1. ENVIRONMENTAL & SOCIAL MANAGER OF OTP GROUP

(22) Environmental & Social Manager of OTP Group is nominated at Head Office of OTP Group.

II.1.1.2. ENVIRONMENTAL & SOCIAL COORDINATORS

(23) In each Relevant Subsidiary Environmental & Social Coordinators are nominated.

II.1.2. RESPONSIBILITIES OF ENVIRONMENTAL & SOCIAL MANAGER AND ENVIRONMENTAL & SOCIAL COORDINATORS

II.1.2.1. RESPONSIBILITIES OF ENVIRONMENTAL & SOCIAL MANAGER

(24) The Environmental & Social Manager of OTP Group is responsible for the oversight of the ESRMP system implementation in the Relevant Subsidiaries.

(25) The Environmental & Social Manager oversees social and environmental issues, ensures resources are made available for operating the system, confirms the E&S eligibility flag, ensured by the Environmental & Social Coordinators from the date of implementation of ESRMP.

II.1.2.2. RESPONSIBILITIES OF ENVIRONMENTAL & SOCIAL COORDINATORS

(26) The Environmental & Social Coordinators in the Relevant Subsidiaries are responsible for operating the system locally. They report on their related activities to the Environmental & Social Manager in the Head Office.

(27) The Environmental & Social Coordinators ensure that E&S procedures are implemented for each concerned project, and that outcome of the due diligence are recorded, and necessary management tasks are completed.

(28) The Environmental & Social Coordinators ensure that all investment decisions are supported by appropriate due diligence documentation (including, but not limited to, an E&S section in each final Investment Memorandum).

(29) The responsibilities of the Environmental & Social Coordinators include (not exhaustive):

- a/ Supervising the due diligence, the evaluation of environmental compliance of a potential borrower company with E&S requirements.
- b/ Supervising projects in the portfolio against on-going compliance with E&S requirements.
- c/ Based on the available information ensure setting the E&S eligibility flag
- d/ Setting up and supervising the execution of the Corrective Actions of the relevant projects.
- e/ Preparing an annual environmental and social performance report, based on the annual performance report prepared by the Client companies and sending it to the Environmental & Social Manager.

II.1.3. BUSINESS UNITS (IN HEAD OFFICE AND THE RELEVANT SUBSIDIARIES)

(30) Business units in the Relevant Subsidiaries ensure that appropriate environmental and social representations, warranties, covenants, and provisions are in place related to creditor's control rights and data transfer (monitoring) in coordination with the legal departments as necessary.

II.2. ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT PROCEDURES OF OTP GROUP

II.2.1. GREEN FINANCING (PROJECT FINANCING)

II.2.1.1. EXCLUSION LIST CHECK (INCL. “COAL RELATED ACTIVITIES”)

(31) The compliance check with the extended exclusion list is to be executed, which includes the check of “coal related activities”. The compliance check can be managed as per either of the following two ways:

- a/ the Client makes a written statement about not engaging in any activity that (i) is defined as coal related activity or (ii) is on the extended exclusion list, or
- b/ the experts of the Bank (e.g., Relationship Manager from the Business Side, Risk Analyst, etc.) assess and if possible, justify, that based on their professional opinion, the Client (i) does not perform any coal related activity and (ii) is not engaged in extended exclusion list activity in its operation.

(32) If the Client is involved in Coal Related Activities or in any of the excluded activities, then it cannot be part of the Eligible Green Sub-loan Portfolio.

II.2.1.2. PRELIMINARY ENVIRONMENTAL AND SOCIAL RISK CATEGORIZATION

(33) In the initial phase of the Client relationship, the pre-approval phase of the OTP Group’s Credit provision process, when only limited information is available for the Bank about the project, and no Environmental and Social Due Diligences (see II.2.1.3 section) are available about the Client and the Project, Preliminary Environmental and Social Risk Categorization is to be made.

(34) The Preliminary Environmental and Social Risk Categorization is to be carried out by the assessment of the Environmental & Social Manager of OTP Group and the Environmental & Social Coordinator of the Relevant Subsidiary.

(35) The principles of the assessment are the following:

Category A (High Risk) projects

The project is likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented. The potential impact is considered “sensitive” if it can be irreversible (e.g., lead to loss of a major natural habitat), affect vulnerable groups or ethnic minorities, involve involuntary displacement and resettlement (community or inward migration), affect significant cultural/religious heritage sites, impacts protected natural habitats or areas with high biological diversity or poses serious socioeconomic concerns. Forestry operations, mining, big infrastructure projects, construction of dams or reservoirs, hydro & thermal power developments, oil & gas developments including pipeline construction, metal smelting and refining, large irrigation projects, production, and

commercial use of pesticides and herbicides or large volume of hazardous chemicals, waste disposal operations.

Category B (Medium Risk) projects

The project may result in specific negative environmental and social impacts, but these impacts are site-specific and not irreversible.

Category C (Low Risk) projects

The project is having minimal or no adverse environmental or social risks and/or impacts.

(36) If the agreed assessment of the Environmental & Social Manager of OTP Group and the Environmental & Social Coordinator of the Relevant Subsidiary categorizes the Project as Category A (High Risk) project, then the project cannot be part of the Eligible Green Sub-loan Portfolio.

II.2.1.3. E&S ENVIRONMENTAL AND SOCIAL PERFORMANCE STANDARDS DUE DILIGENCE (ESDD)

(37) If the Client is compliant with the extended exclusion list check (incl. “Coal Related Activities”), and not assessed as Category A (High Risk) project, then the IFC Environmental and Social Performance Standard compliance, including the national E&S legislation compliance, is to be checked via a Due Diligence process, performed in the Relevant Subsidiaries.

IFC Performance Standards	
PS 1	Assessment and Management of Environmental and Social Risks and Impacts
PS 2	Review of Labour and Working Conditions
PS 3	Resource Efficiency and Pollution Prevention
PS 4	Community Health, Safety and Security
PS 5	Land Acquisition and Involuntary Resettlement
PS 6	Biodiversity Conservation and Sustainable Natural Resource Management
PS 7	Indigenous Peoples
PS 8	Cultural Heritage

(38) OTP Group applies IFC Performance Standards in the Relevant Subsidiaries' credit processes for the Eligible Green Sub-loan Portfolio in either of the two following ways:

- A. During the standard loan origination process of Project Financing, OTP Group (Head Office and Relevant Subsidiaries) to involve independent Legal Counsel due diligence, and Technical (Independent Engineer) due diligence. OTP Group in the Relevant Subsidiaries are to extend the 'Scope of Work' of the already existing due diligences to include the

relevant E&S performance standard questions as well as the compliance check to ensure no Category A activities are included.

Legal due diligence by external Legal Counsel

In case of standard Project Financings, OTP Group engages external Legal Counsel, who performs the legal due diligence prior to the credit approval, and the conclusion of the credit agreement. The Legal Counsel compiles a summary of the legal risks identified over the course of the legal due diligence.

In the relevant eligible countries, the bank has examined the extent to which national legislation overlaps with IFC Performance Standards.

The Legal Counsel checks all the official permits required for the realisation of the project (e.g., environmental use, construction, monument conservation permit, permits from the foreign exchange authority and other authorities). In this way, some of the ESDD questions can be simplified to the check of the permits and licences required by the relevant authorities.

Technical due diligence by Independent Engineer

In standard Project Financings, OTP Group also involves an Independent Engineer, who is participating in the financing, whose costs are borne by the borrower. The Independent Engineer assesses, in the period prior to the financial close, the construction costs and construction risks. Later, he is responsible for the review and monitoring of the implementation of the development over the investment period.

Those Performance Standard checks, that are not covered by the legal due diligence are to be included into the 'scope of work' of the Independent Engineer's Due Diligence.

- B.** If the loan origination process is not supported with external Legal Counsel and Independent Engineer due diligences, then the E&S Coordinator of the Relevant Subsidiary needs to carry out the "Category A" activity check and the Relationship Manager of Relevant Subsidiary needs to request the Client to fill an ESDD questionnaire.

(39) Based on the given due diligences, either A. external due diligence, or B. Subsidiary Bank / Relationship Manager provided due diligence, professional assessment is to be made by the Environmental & Social Coordinators / Environmental & Social Manager. The further management of the project depends on the results of the due diligence process.

II.2.1.4. ENVIRONMENTAL & SOCIAL RISK ASSESSMENT (BASED ON ESDD)

(40) (40) The environmental and social risk assessment is to be based on the project’s ESDD. The E&S risk assessment is to be provided during the negotiation/structuring phase of the project before the Risk Management decision (underwriting). The received ESDD together with the E&S risk assessment needs to be part of the credit file.

- a/ In case of green projects, where legal and technical expert is engaged, once the Legal and Technical due diligences – conducted by third parties – are available, results are to be sent to the Environmental & Social Coordinators.
- b/ In case of green projects, where external legal and technical advisors are not present, the ESDD must be made in the initial phase of the loan origination process, managed by the Relationship Managers. The ESDD completed by Client needs to be sent to the Environmental & Social Coordinators.

(41) Following the receipt of the completed ESDD, the Environmental & Social Coordinators to convoke the Environmental & Social Risk Working Group.

Composition of the Environmental & Social Risk Working Group	
	E&S Manager of OTP Group
	E&S Coordinator of OTP Subsidiary
	Representative of Credit Approval / Underwriting of Relevant Subsidiary
	Relationship Manager of Relevant Subsidiary

(42) For each due diligence question, the following risk assessment levels are to be applied, by the professional judgement of the Environmental & Social Risk Working Group, according to the following principles:

Risk assessment		
0)	Low risk environmental & social topics/questions	If the Environmental & Social Risk Working Group concludes that a relevant topic (question) of the Due Diligence does not bear risk at all, then it is to be qualified as Low Risk.
1)	Acceptable risk environmental & social topics/questions	If the Environmental & Social Risk Working Group concludes that a relevant topic (question) of the Due Diligence bears some risk, but not significant to make serious environmental or social impact, then it is to be qualified as Acceptable Risk
2)	Manageable risk environmental & social topics/questions	If the Environmental & Social Risk Working Group concludes that a relevant topic (question) of the Due Diligence may result in specific negative environmental and social impacts, but these impacts are site-specific and not irreversible, then it is to be classified into Manageable Risk. In these topics/questions the Environmental & Social Risk

Risk assessment		
		Management Working Group is to discuss, define and initiate Corrective Actions.
3)	Excessive risk environmental & social topics/questions	If the Environmental & Social Risk Management Working Group concludes that a relevant topic (question) is significantly hurting any of the Performance Standards, and the mitigation is unlikely, then it is to be classified into High risk.

II.2.1.5. CORRECTIVE ACTION PLAN PROCESS

(43) The Corrective Action plan process is managed by the Environmental & Social Coordinators in the Relevant Subsidiaries, together with the Environmental & Social Manager of OTP Group, with the involvement of the Relationship Managers (Corporate Lending or Project Financing), the Risk Management, and the Legal Department, if needed. The loan agreements must contain the necessary clauses ensuring the possibility of requiring corrective actions by the Bank.

II.2.1.5.1. Initiations of Corrective Action plan process

(44) Corrective Action plan process initiation can be processed in the three following ways:

Corrective Action plan initiation by E&S due diligence assessment

(45) The borrower must be able to demonstrate required compliance with the IFC Performance Standards. If the ESDD process does not demonstrate full compliance with the IFC Performance Standards, then a Corrective Action plan process shall be initiated.

Risk assessment level	Action to be taken
If any question in relation to any of the Performance Standards is assessed to bear 3) Excessive risk assessment level, then it is to be re-categorized as Category A project (High Risk).	Category A Projects cannot be part of the Eligible Green Sub-loan Portfolio.
If any question in relation to any of the Performance Standards is assessed to bear 2) Manageable risk assessment level, then it is to be re- categorized Category B Project (Medium Risk).	In these cases, Corrective Action process to be initiated by the Environmental and Social Risk Working Group (Further details in II.2.1.5 section)
If all questions in relation to the Performance Standards are assessed to 0) Low risk , or 1) Acceptable risk assessment level, then it is to be re- categorized as Category C Project (Low risk).	No action is required.

Corrective Action plan initiation by external E&S communication mechanism and reporting system

(46) OTP Head Office and Relevant Subsidiaries are to operate an External E&S communication mechanism and reporting system (further details in II.3 section), via a person, community, or other external stakeholders, such as a civil society organization, can submit their questions or concerns to OTP Head Office or Subsidiary Bank. These queries are to be managed/supervised by the Environmental & Social Coordinator/Manager of the Head Office and Subsidiaries. If the professional conclusion of the Environmental & Social

Coordinator/Manager is that the project failed to meet the IFC Performance Standards, then they initiate a Corrective Action Plan process.

Corrective Action plan initiation according to the monitoring (yearly limit review)

(47) If the Bank finds negative changes in any of the Performance Standards, that stipulates the risk assessment into the “manageable” E&S risk assessment level, then Corrective Action Plan process needs to be initiated by the Relationship Manager by informing the Environmental & Social Coordinator who is responsible for setting up the Corrective Action Plan.

II.2.1.5.2. Corrective Action plan agreement with the Client

(48) The Corrective Action Plan needs to be agreed with the Client, and to specify:

- a/ all the necessary actions to bring a project into compliance,
- b/ a target completion date for each specified action, which are agreed with the Client,
- c/ monitoring procedures.

(49) The action plan needs to be part of the relevant loan file and needs to be presented to the final decision maker (underwriter), together with the contractual and monitoring conditions resulting from the action plan.

(50) In case the client is not willing to cooperate, or the parties fail to reach a common position, the consequences will be determined on a case-by-case basis with the involvement of legal and other relevant departments.

II.2.1.6. MONITORING OF ENVIRONMENTAL AND SOCIAL PERFORMANCE OF THE CLIENTS

(51) E&S performance is required to be evaluated on an annual basis, as a part of annual limit review. The benchmark for performance needs to be ongoing compliance with the E&S requirements and - in case of Corrective Action plan in place, - with the respective Corrective Actions.

(52) During the 'annual limit review' process the Bank receives all the necessary information about the development of the Clients risk profile, and financial standing. The information package must be extended to be compliant with E&S requirements. The requested information package from the Client needs to be amended with a simplified ESDD questionnaire, where the Client must provide a statement about changes in the relevant Performance Standard criteria.

(53) If the Bank finds negative changes in any of the Performance Standards, that stipulates the risk assessment into the "manageable" E&S risk assessment level, or if the Client is not aligned with the Corrective Action Plan, then new Corrective Action Plan must be agreed as described in II.2.1.5 section.

(54) Legal representation of the clients' contracts:

"In case, based on the information provided in the Annual Monitoring Report or other information available to the Bank, the Bank notifies the Borrower that the Borrower's activities are not in compliance with the Performance Standards, the Borrower shall as soon as practicable, but in any event within three (3) months as of receipt of such notice propose a plan for corrective actions with the purpose of bringing its operations in full compliance with the Performance Standards.

The proposed plan shall be consulted with the Bank and subject to such plan being agreed by the Bank (such plan – "Corrective Plan") it shall become binding on the Borrower and the Borrower shall be required to comply with its respective terms."

II.2.1.7. LOAN AGREEMENTS WITH APPROPRIATE ENVIRONMENTAL REPRESENTATIONS, WARRANTIES, AND COVENANTS

(55) Corporate Lending Departments, Special Financing Departments in the Relevant Subsidiaries are to ensure that appropriate environmental representations, warranties, and covenants, and provisions related to creditor's control rights and data transfer, also information undertakings are incorporated in each loan documentation in coordination with the Legal Departments as necessary.

II.2.2. SOCIAL SME FINANCING

II.2.2.1. EXCLUSION LIST CHECK

(56) OTP Group has implemented the OTP ESG Exclusion List², which is generally applicable to all of OTP Group provided loans/credits and Client relationships. New clients cannot be financed, that are not in compliance with the OTP ESG Exclusion list.

(57) Relevant Subsidiaries identify the basic activity of SME clients by their NACE code and those clients who passes the screening are considered Eligible Sub-borrowers. The SFF filtered NACE codes³ are listed in the SFF Exclusion list of OTP Group.

(58) The current versions of exclusion lists are defined by OTP Group.

² The OTP ESG Exclusion List in force is specified in the Group-level GCRP regulation of OTP Group.

³ The current list of excluded activities defined by the NACE codes is described in the SFF Exclusion list within the SFF of OTP Group.

II.3. EXTERNAL E&S COMMUNICATION MECHANISM AND REPORTING SYSTEM

(59) OTP Head Office and Relevant Subsidiaries provide means for the public to submit queries or concerns related to the Group's Environmental & Social Policy and/or projects financed by OTP Head Office or Relevant Subsidiary. These inquiries are responded in a timely manner.

(60) In Environmental and Social issues, a person, community, or other external stakeholder, such as a civil society organization, can submit their questions or concerns to OTP Head Office or Relevant Subsidiary either by:

- a/ sending an e-mail to the dedicated e-mail address of Head Office or Relevant Subsidiary, or
- b/ sending a postal mail to Head Office or Relevant Subsidiary, or
- c/ sending message by completing an online form on OTP Group's website (www.otpgroup.info).

(61) The process of receiving, reviewing, and responding to communications from external stakeholders in relation to E&S issues is managed by the Environmental and Social Coordinators/Manager of OTP Head Office or Relevant Subsidiary.

(62) Based on the complaints, OTP Head Office or Relevant Subsidiary's organizational unit dealing with inquiries examines the complaints received in accordance with the defined procedure and handles them in accordance with the laws and internal regulations. Environmental and Social Coordinators/Manager investigate the complaints, inquiries within a deadline, if necessary, with the involvement of the relevant organizational units, and answers them to the persons, customers. If it becomes necessary as a result of the investigation, then appropriate measures are to be taken in connection with the case related to the inquiry.

(63) The external E&S reports shall cover the collection of following information:

- a/ number of complaints/inquiries to date,
- b/ number of complaints/inquiries received during the reporting period,
- c/ key issues raised in complaints/inquires.

III. INTERNATIONAL FINANCIAL INSTITUTIONS (IFI) RELATED PROVISIONS

III.1. SOCIAL SME FINANCING

(64) For SME financings in Social Eligible Category, which are part of OTP Group's Eligible Social Sub-loan Portfolio, the below requirements need to be fulfilled by the Relevant Subsidiaries with reference to the Social Sub-loan sizes defined by bilateral Policy Agreements.

III.1.1. SOCIAL SME DUE DILIGENCE

(65) E&S risk pre-due diligence (ESDD): A declaration (as the 6 points listed below) should be signed by the Relationship Manager, preferably on the basis of the Client's duly signed announcements, completed by accessible information via any local/ national available database.

1. The Client is in compliance with national standards and legislation regarding: environment, public consultation, human rights and employment (including those regarding work security and safety, employment of minors, forced labor, non-discriminatory practices, etc.).
2. The Client's documents such as the legally required public administration governed permits, licence and other legal conditions (e.g. easements, land use rights, etc.) necessary for the activity it carries out, are available and have been entered in the necessary official registers, or the loan application relates to obtaining such permits and rights.
3. By signing the Loan Agreement, the Client will undertake to refrain, for the term of this contractual relationship, from activities which may threaten the environment, natural sources, human health, and safety, or which would represent non-compliance with statutory regulations from the domain of environment protection and similar domains. The Borrower also confirms that no procedure has been instigated against them for violation of environmental regulations. The Borrower undertakes to notify the Bank of any incident or accident which had or can be reasonably expected to have a materially adverse effect on the environment, natural sources, human health and safety.
4. The Client declares that injuries and fatalities have not occurred.
 If occurred how and when : _____
 Remark of the Relationship Manager : _____
5. The Client declares that labor-related fines have not occurred.
 If occurred how and when : _____
 Remark of the Relationship Manager : _____
6. The Client declares that environmental incidents and fines have not occurred.
 If occurred how and when : _____

Remark of the Relationship Manager : _____

(66) The due diligence questionnaire and the result of the ESDD should be implemented into the decision-making process and be part of the credit files.

(67) If the result of the ESDD is "non-compliant", then the client cannot be financed, since it does not fulfil the conditions of the legal representation, described below.

Legal representation in the Client Loan Agreement

(68) New Clause is to be included in General Credit Terms (under Client Obligations) as following or similar text with same legal terms and meaning:

"The customer guarantees and undertakes that when requesting loans/facilities/granting guarantees and throughout their duration:

- to use the amount made available by the Bank exclusively in compliance with the terms and conditions of the Financing Agreement;
- that the financed projects are designed and implemented in compliance with the legal regulations regarding environmental protection, health and national security; the Client undertakes to obtain, as the case may be, and present to the bank, all authorizations and notices corresponding to these aspects;
- to comply with national standards and legislation regarding: environment, public consultation, human rights and employment (including those regarding work security and safety, employment of minors, forced labor, non-discriminatory practices, etc.);
- to respect in all respects the applicable International Sanctions; not to make available, directly or indirectly, amounts from any credit/guarantee facility to or for the benefit of a person designated/inscribed in the Sanctions Lists according to the applicable EU and international treaties and regulations in force;
- not to be involved directly or indirectly in criminal activities, or that violate or deliberately evade human rights or legal regulations, likely to be against public morals or social ethics
- such as (but not limited to) the operations mentioned in OTP ESG Exclusion List (environmental, social and business governance factors) which contains the activities and behaviours whose nature and controversial impact make them incompatible with the values of the OTP Group in terms of protecting human rights and promoting sustainable development;
- To refrain, for the term of this contractual relationship, from activities which may threaten the environment, natural sources, human health and safety, or which would represent non-compliance with statutory regulations from the domain of environment protection and similar domains. The Borrower also confirms that no procedure has been instigated against them for violation of environmental regulations. The Borrower undertakes to notify the Bank of any incident or accident which had or can be reasonably expected to have a materially adverse effect on the environment, natural sources, human health and safety;

(69) Non-compliance with these clauses should be defined as events of default and grant termination rights to the lenders.

III.1.2. DOCUMENT REGISTRATION AND IT SUPPORT OF ESRMP CREDIT RECORDS

(70) The ESDD for SMEs is attached into the Eligible Social Sub-loan credit documentations in the Relevant Subsidiaries.

(71) In order to contribute to the yearly reporting procedure and data collection, an 'E&S eligibility flag' should be implemented in the respective IT systems.

III.1.3. RISK CATEGORIZATION OF SME CLIENTS

(72) E&S Risk categorization of SME financing is based on OTP Group's ESG risk classification. Existing ESG client risk categories are linked with IFC risk categories.

Risk Categorization of SME Clients	
Category A (High Risk) Credits/Projects	Taking into account the characteristics of SME clients' activities and their financing, per definition none of the SME financings are considered Category A (High Risk) Clients or Projects.
Medium or Low Risk (Category B and Category C) SME credits/projects	Those business activities / projects are considered Category B (Medium risk) , that are "Medium", "Medium-High" and "High" risk activities according the ESG Risk Heat Map of OTP Group.
	Business activities / projects are considered Category C (Low risk) that are "Low" risk activities according the ESG Risk Heat Map of OTP Group.

III.1.4. MONITORING

(73) A yearly compliance check of the Clients is required whether they still have the official permits and other legal conditions.

- a/ In the case of SME financing, throughout the yearly limit review the followings need to be ensured:
 - aa/OTP ESG Exclusion list compliance is still in place,
 - ab/ESDD declaration has to be repeated (Social SME due diligence paragraph 65.), as at the loan origination,
- b/ If the ESDD (SME) has negative result, it should be treated according to the "Legal representation in the Client Loan Agreement" (see above). The sanction is that it creates an event of default.

(74) If the Bank does not carry out the annual review due to the size and complexity of the business relationship according to its internal procedures, the E&S monitoring (according to the ESMS) is done only when a new loan request is submitted by the client (proportionality).

IV. LEGAL DISCLAIMER OF ESRMP

(75) Environmental & Social Risk Management due diligence questionnaire towards the Clients of OTP Group has a multitude of questions that we have found covered by (community and national) law(s). Hence, we point to applicable laws that mandate companies in their jurisdiction to fulfil certain requirements with or without any due diligence processes.

(76) The fact that the due diligence process may concern countries that are member states of the European Union (Hungary, Bulgaria, Croatia, Romania) or EU candidate state (Serbia) is crucial because the operation of the EU is based upon its laws. That is to say the Community is based on the rule of law.

(77) In a rule of law system, compliance with national and international (including the community law) is expected of all individuals and organizations. This ensures that everyone is held accountable for their actions and that the laws are applied equally to all members of society (Ignorantia iuris non excusat). Compliance with national legislation is essential to maintaining the rule of law upholding the principles of justice and fairness.

(78) To ensure compliance with national legislation and community law, various legal mechanisms are in place in the EU. These include i) enforcement agencies or government agencies that are entitled and responsible for enforcing laws and regulations. For example, environmental agencies check and enforce environmental laws; ii) courts; iii) various penalties that can be imposed on individuals and/or organizations for non-compliance, such as fines, imprisonment, or revocation of licenses by authorities.

(79) In a rule of law system, private companies are generally not granted the rights of authorities to enforce laws or investigate compliance on their own. Instead, this responsibility falls to government agencies and law enforcement, respectively. However, some private companies, such as banks do have a specific legal obligation to ensure that they are complying with relevant laws and may have the right to check their clients are also in compliance with the law. For example, financial institutions shall verify that its clients are not engaged in money laundering or terrorist financing in order to comply with money laundering laws. It is important to note that this empowerment is limited; the extent to which a private company can check a client's compliance with the law may depend on specific laws and regulations involved and/or contractual agreements between the company and their clients. Ultimately, companies must operate within the boundaries of the law and ensure that any measures taken to check compliance do not infringe on the rights of others.

(80) We highlight that in the course of its operation and activities, OTP in all cases places particular emphasis on the compliance with the respective rules and regulations.

The current Environmental and Social Risk Management Procedures of OTP Group:

Signed: _____

Effective Date: _____

