Policy on the integration of sustainability risks into investment advisory process

General provisions

In line with Article 3 of the **Regulation (EU) 2019/2088 of 27 November 2019 on sustainability-related disclosures in the financial services (the "Disclosure Regulation"/ SFDR**), the purpose of which is to describe the way the relevant sustainability risks (ESG risks) are integrated into the process of providing the investment advice service, OTP banka d.d. (hereinafter: the Bank) has defined and adopted the Policy on the integration of sustainability risks into investment advisory process (hereinafter: the Policy).

SFDR defines the "sustainability risk" as an environmental, social or governance (ESG) event or condition that, if it occurs, could cause a negative material impact on the value of investments.

Pursuant to its business principles, as well as the principles of the OTP Group, the Bank aims at increasing sustainability and social accountability at all relevant levels in order to contribute to the positive and necessary changes that can affect the financial system.

The Policy deals with the manner in which the Bank integrates the sustainability risks whilst providing investment advisory services. To that end, and regardless of investors' preferences, the Bank shall provide information about the relevant sustainability risks to the client before dispensing investment advice, so the client is able to make a sound and informed investment decision.

In order to avoid any ambiguities about the application of the Policy on the integration of sustainability risks along with other investment services, we take this opportunity to emphasise that the Policy does not include the investment service of receiving and transfer of orders (e.g. execution of orders without any advice).

Definition of sustainable investment

Sustainable investment means the investment into an economic activity that contributes to the achievement of the environmental and social goals, and good management practices, in a measurable and efficient way.

The environmental goals relate to mitigating of the climate changes and on the efficient use of natural resources such as renewable energy sources, raw materials, water and land, whilst cutting down on waste and greenhouse gas emission, and fostering biodiversity and circular economy.

As the third element of sustainable development, good management practices relate to the organisation running and monitoring processes, and the people who constitute the organisation.

Sustainability risk integration concept

Within the context of the EU policy, the **sustainability risk /ESG risk** implies the environmental, social or governance (ESG) events or conditions that could cause a negative material impact on the value of investments and/or assets, financial or revenue position, and reputation of the concerned legal entity.

Sustainability rating / ESG rating: implies the assessment or rating based on the following sustainability risks, which constitute main risk components:

- **Environmental and Climate-related Risks**, including energy efficiency, cutting down on greenhouse gases and waste processing);
- **Social Risks** – especially related to observing of human rights and workers' rights, management of human resources (health and safety, diversity) and
- **Governance Risks** – especially related to independence of the management board /management body, remuneration paid to managers and observing of the rights of minority shareholders).

In addition to the above-mentioned risks, the Bank shall include the following risks into the process:

- **Transition risks**, which are the risks related to the process of adjustment towards a low-carbon economy model resilient to climate changes;
- **Physical risks** arising from physical impact of climate change (weather-related events such as storms, droughts, wildfires and so on) and long-term climate changes such as temperature changes as a result of the damage caused by extreme weather and climate related events.

Assessment of the main adverse effects

Within the current setup of the investment advisory process, and considering the range of products the Bank offers to its clients, for the purpose of measuring and assessing the sustainability risks the Bank will use the information furnished by the product manufacturers, that is, the companies with which the Bank has entered into effective business cooperation agreements (hereinafter referred to as the Partners), until further notice.

If the Partners integrate the sustainability risks into their products, and if they disclose such information (in the qualitatively or quantitatively concise form) within the information set supplied before signing of the agreement, the Bank shall take them into consideration when choosing the products in the investment advisory process, observing all regulatory provisions on the distribution of financial products. When selecting a financial instrument in the investment advisory process, the

Bank shall always give preference to the products that suit the profile of the client, and have lower adverse impact on the sustainability factors.

The Bank expect its Partners to regularly update the rating of the products they offer based on the data provided by the external data providers or based on the publicly available data.

Sustainability risk reports and disclosures

The Bank shall publish and update regularly on its internet site the information about the major adverse effects on the sustainability factors, together with the details of the selection procedure for the financial products included into the investment advisory service, including the explanation of the way it uses the information published by other financial markets participants, so that the potential manufacturers of the products the Bank takes into consideration in the process of decision-making on the integration into the investment advice could comply with their regulatory obligations in line with SFDR. When the Partners start assessing the major adverse effects and publish the relevant data, the Bank shall use them and integrate them into its own disclosure further to this provision.

In order to fully adhere to the regulatory requirements, before signing of the agreement with the client, the Bank shall include details of the manner in which the sustainability risks are integrated into its investment decisions, as results of the assessment of probable effects of the sustainability risks to the yields of financial products put at disposal, into the information related to the investment advisory services and products incorporated.

In addition, in order to clarify the extent to which the sustainability risks could impact the performance of the financial product, in qualitative or quantitative terms, the Bank shall use the data disclosed by the manufactures of the products involved into the investment advice.

Final provisions

This Policy shall enter into force and take effect on the day it is adopted.