

Green Loan Framework



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Version: 2.0

Date: May 2023

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1. Introduction

Climate change and the unsustainable management of the environment are among the most serious challenges of our time: we can witness its globally growing negative impact in more and more areas of everyday life in our society and economy. The changing pattern of weather events – increasing frequency and severity of extreme events – require a change in behaviour to drive mitigation and adaptation. Human activity is contributing to these changes in a significant way, of which the most important is greenhouse gas emission: increasing amount of greenhouse gases in the air, especially CO₂, plays a key role in rising average temperatures.

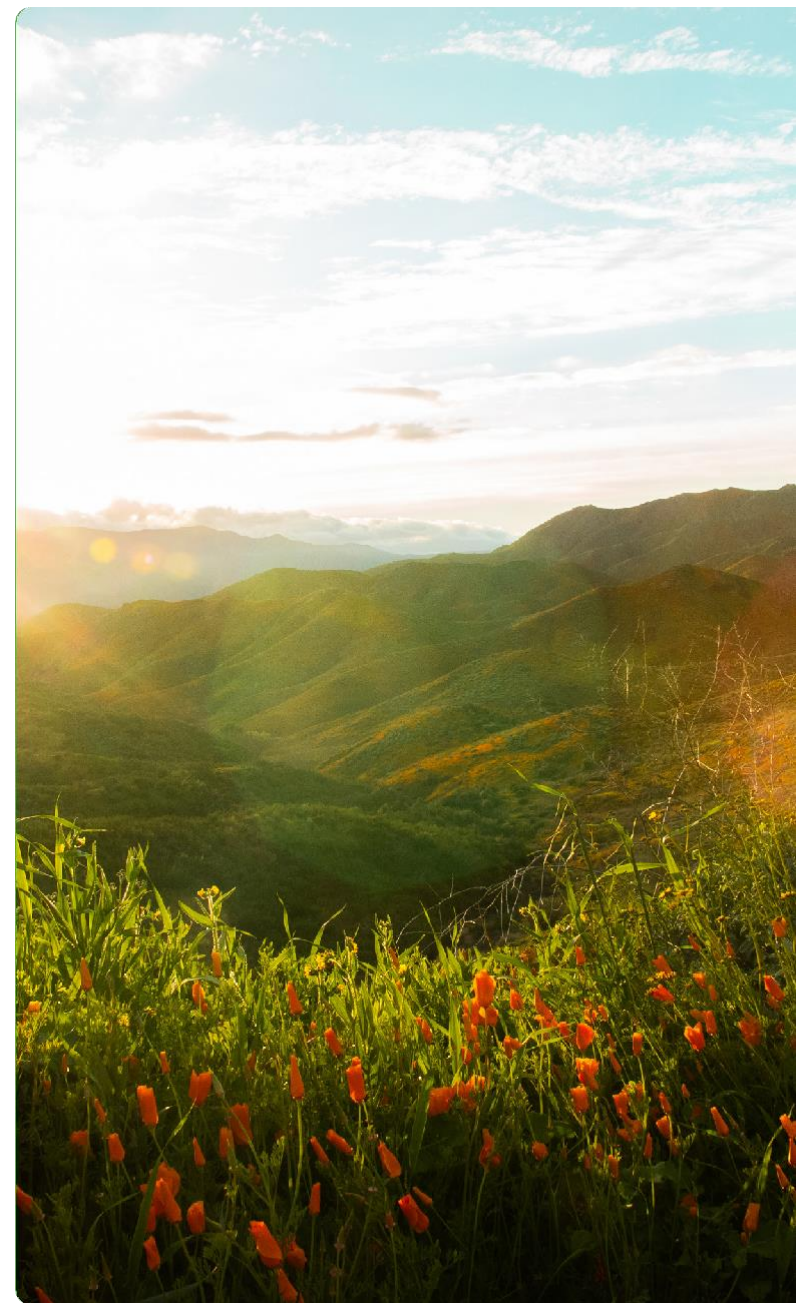
The necessary mitigation trajectory requires the transition of almost all economic activities. Climate scientists claim that the rising of global average temperature can be slowed down if mankind can manage to change the current trends that are identifiably responsible for the problem, the extent of climate change and its negative impact on everyday life can be mitigated. These steps – among many others – include afforestation, replacing fossil energy sources (coal, oil, natural gas) with renewable energy and increasing energy efficiency in general.

Financial institutions will play a key role in financing the transition to a low carbon, more sustainable economy. The Magyar Nemzeti Bank¹ (MNB) launched its Green Program early in 2019 to mitigate the risks associated with climate change and other environmental problems, and also to expand the share of green finance. With regard to this green programme, MNB later announced its green preferential capital requirement programme targeting corporate and local governments exposures. Through this programme, OTP Group is encouraged to increase the share of green assets in its book. This green preferential capital requirement programme was amended several times, extending both the eligible exposures and scope covering the eligible exposures at OTP Bank Plc's subsidiaries as well.

OTP Bank Plc. (OTP/Bank) and its subsidiary banks (together: OTP Group/Group) believe preferential capital requirements program for green corporate and municipal financing can be interpreted as a strategic breakthrough for the green economy, helping to strengthen competitiveness by increasing the demand for green investments. Also, the retail segment has a crucial role in green lending, because in energy efficiency investments in households are in high demand. In addition, green financial products have a direct impact on reducing credit and market risk from socio-economic changes caused by climate change and other environmental anomalies.

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Magyar Nemzeti Bank is the central bank of Hungary.



1.1. Company overview

OTP Group is a leading independent universal banking Group in Central and Eastern Europe, and the Bank expects to extend its footprint to 12 countries through the ongoing acquisition process of Ipoteka Bank in Uzbekistan. The Group is present in 11 countries in the CEE region, providing banking services to more than 16 million customers, being among the 30 biggest banks in Europe both in market capitalization and in profitability.

In Hungary, OTP is by far the largest commercial bank when measured in terms of assets, with consolidated total Group-wide assets of HUF 13,710,470 million as of 31 December 2021. Its shareholders' equity on a consolidated basis was HUF 1,814,964 million as of the same date.

OTP is a universal bank providing a full range of banking services and, through its subsidiaries and affiliates, a comprehensive range of other financial services, including fund management, leasing, and factoring.





The ESG strategy of OTP Group was approved by the Management Committee on the 30th of August 2021, as well as by the Board of Directors on the 17th of November 2021. The strategy is built around the business approach of sustainable financing. According to the document, OTP Group is aiming to be a regional leader in financing a just and gradual transition to a low-carbon economy and in building a sustainable future by offering balanced financing solutions. The Green Loan Framework supports the above strategic goals.

While all subsidiary banks implement Group-wide ESG objectives, there are specific commitments and plans at local level. The subsidiary banks' own sustainability strategies were developed gradually, according to local needs and specificities. The Board of Directors approved the implementation and continuation of OTP Group's ESG strategy on the 18th of October 2022.

1.2. The ESG strategy of the Group

OTP Group defines long-term sustainability, transparency, and ethical operations in terms of stable financial management, responsible and transparent governance, and functioning as a responsible employer and as an accountable actor in the society. The objective of the Bank is to provide financial services that are responsible, fair and reflect customer needs, as well as to work with our stakeholders based on openness and trust, all the while reducing our negative environmental impacts. It is important for the Bank to integrate sustainability into its operations, to create new business opportunities, to manage Environment, Social and Governance (ESG) related risks and to encourage increased sustainability of all economic activities in general.

The Group focuses on sustainability from three related perspectives. As a responsible service provider, the Bank and its subsidiaries contribute to the increased sustainability of the financial sector that is key to a well-functioning society by creating sustainable business

opportunities. In addition to economic considerations, ethical, social and environmental risks are incorporated into business decision-making, business development and all other related operations. As a responsible employer, OTP Group adopts active ESG management practices in its governance model and is committed to strengthen its activity in employee well-being and development, inclusion, diversity and employee engagement. As a responsible social actor, OTP Group is setting ambitious goals in terms of its own operations, including the reduction of its own GHG emissions. OTP Group takes active steps to retain and improve its position as responsible actor through product responsibility and donations, creating shared value that is both measurable and makes recognizable contribution to society and Sustainable Development Goals (SDGs)².

OTP Group has officially become a signatory of The Principles for Responsible Banking of the UN³. This is an internationally recognized framework for sustainable banking developed through a partnership between banks worldwide and the United Nations Environment Programme Finance Initiative (UNEP FI).



² <https://sdgs.un.org/goals>

³ <https://www.unepfi.org/banking/bankingprinciples/>

As responsible employer, OTP Group provides ESG training for its employees, takes care of well-being at work, supports the reduction of CO2 emissions at individual level and promotes diversity and inclusion.

As responsible social actor, OTP Group has set a net carbon neutrality target in its own activities, publishes transparent sustainability reports and engages in charity and donation activities.

Bulgaria (DSK)

DSK aims to operate sustainably along 3 dimensions: as a responsible provider, social actor and responsible employer. DSK incorporates ESG aspects into its risk assessment process and financing green solutions, having net carbon neutrality target in its own activity, provides ESG trainings for its employees and promotes well-being in work, diversity and inclusion.

Croatia (OBH)

The Board and Management of OBH is committed to promoting the application of environmental, social and governance sustainability considerations in business. In Croatia, local legislation supports and promotes the reduction of greenhouse gas emissions, thereby meeting the objectives of the Republic of Croatia. At the national level, there is a strong focus on increasing energy efficiency and developing renewable energy technologies, to which OBH is a major contributor. In addition, the bank's own ESG strategy aims to improve its own sustainability, including through proper waste management, the purchase of hybrid and electric vehicles and the use of energy from sustainable sources.

Slovenia (SKB)

SKB also takes a threefold approach to sustainability. As a responsible provider, it actively manages ESG risk and promotes transparent and anti-corruption business practices. As a responsible employer, it focuses on the working environment and the individual development of employees, creating a diverse workplace. As a responsible social actor, it also seeks to reduce its own emissions by using energy from sustainable sources, publishing transparent sustainability reports and working with local communities.

Slovenia (NKBM)

The main goal of NKBM's ESG Strategy is the increasing alignment of the Bank's portfolio with the Paris Agreement, and the financing of sustainable growth / transition to a low-carbon or carbon-neutral economy. All ESG initiatives implemented by the Bank are subordinated to that goal. The execution priorities of NKBM's ESG Strategy are to i) enable net-zero transition of own and financed activities; ii) develop its environment through outspreading social initiatives and engaging with all stakeholders; and iii) ensure transparent governance and secure functional ESG data. The bank's ESG transformation is well underway and ESG factors are gradually included not just in the overall business strategy but also in all of the bank's operations and processes.

Montenegro (CKB)

CKB has set up its own ESG project team, made up of managers from different backgrounds. In Montenegro there is considerable local potential for further development, with a large increase expected in the future. In terms of corporate sustainability, CKB has reduced its own emissions through a number of energy efficiency improvements and has set itself a target of net carbon neutrality.

Serbia (OBSr)

OBSr's strategy is to be the market leader in green financing with a steadily transition towards carbon neutrality. As a responsible provider, it actively manages ESG risks along with supporting its clients in all segments – corporate, small business, retail, as well as in leasing, both through financing their own green transitions and educating them about importance of reducing own carbon footprints. OBSr acts as a responsible employer, and as a responsible social actor in accordance with OTP Group values. OBSr is already recognized as a CSR leader, contributing to the local community through implementation of different projects, especially oriented towards green agenda, but also through donations and building partnerships in the area of sports, culture and arts.

Albania (OBA)

OBA's mission is to be a leader in sustainable finance in the region and to effectively facilitate the transition to a low-carbon economy. OBA has put ESG at the heart of its Green Financing Objective and has implemented several ESG criteria in its day-to-day business activities. Regarding the implementation of the sustainability objectives, OBA meets regulatory requirements on time, ensures the Risks and the Corporate Division are qualified to implement the sustainable financing in line with the OTP Group guidelines, enables development of responsible and sustainable products and significantly improves the sustainability reporting, IT systems and disclosures.

Romania (OBR)

OBR is committed to actively sustain the transition to a low carbon economy and contribute to UN Sustainable Development Goals while, promoting responsible behaviour on three strategic pillars: as a responsible provider, social actor and responsible employer. As a responsible provider, one of OBR main focus is to incorporate ESG aspects into its risk assessment process and to finance green products at corporate, retail and leasing levels. OBR acts as a responsible employer, and social actor in accordance with the values of OTP Group.





1.3. Affiliation to the MNB sustainable finance initiatives

At the end of 2020, MNB introduced a preferential capital requirement programme (Programme) for green corporate and municipal financing starting with the ICAAP (Internal Capital Adequacy Assessment Process) reviews of 2021. The Programme allows the remission of part, or all of the Pillar II capital requirements for environmentally sustainable corporate and municipal exposures that meet the criteria set out in the detailed terms and conditions.

In August 2021 the sector scope and operational framework of the preferential capital requirement programme was expanded. The MNB framework consists of two main categories of transactions: category "A" includes industries and their eligible activities available without green lending framework and framework based exposures based on internationally recognized green finance principles such as the Green Loan Principles or Green Bond Principles (referred hereafter as category "B"). The green preferential capital requirement programme was amended several times, extending both the eligible exposures and scope covering the eligible exposures at OTP Bank Plc's subsidiaries as well.

The eligibility conditions of specific assets are summarised in "B" package of the Programme. Exposures that are financed under green financing frameworks can also benefit from the preferential capital requirement programme, regardless of the industry classification. The green financial or lending frameworks may be established by a borrower company/ municipality or by a bank. Such frameworks have to comply with the requirement of International Capital Market Association's (ICMA) Green Loan Principles (GLP), need to be reviewed by an eligible external party, and need to be approved by MNB to be eligible for the programme. Furthermore, eligibility categories or screening criteria should be based either by the European Union Taxonomy (EU Taxonomy) or Climate Bonds Initiative Taxonomy (CBI Taxonomy). These Taxonomies define eligible activities, the related use of proceeds and the green conditions of loans through science-based technical screening criteria. The national banks of the countries of the OTP subsidiary banks have not set up any local green lending program that would be contradictory to the MNB green capital requirement benefit scheme.

1.4. Main goals of the Green Loan Framework

The main goal of the Framework is to establish the guiding principles of green lending within OTP Group, which allows systematic and transparent view on green loan origination. The primary guiding principle of this document is the GLP which is recognised as international best practice in green lending.

The Framework is divided as follows:

1. The chapters of this group level Framework reflect the components of Green Loan Principles and take into account the provisions of the MNB green preferential capital requirement programme. The main text of the Framework is supplemented by further Appendices incorporating relevant and detailed specificities.
2. Under this Framework eligible green activities and related use of proceeds are determined by EU and CBI Taxonomy. In line with [Chapter 3.1](#), the use of proceeds must have a clear climate and/or environmental benefit which is clearly linked to one of the economic activities listed in the assessment procedure and belong to the sectors covered by this Framework. The eligible green activities in each country and country-specific supporting documents are supplemented with country-specific Green Alignment Assessment tool ('GAAT'). This allows countries to tailor their green lending activities to local circumstances, all the while adhering to common approaches and principles.

The Framework is an evolving document and will be extended to cover an increasing number of sectors and economic activities in line with business opportunities.

4 <https://www.mnb.hu/letoltes/preferential-capital-requirements-for-green-corporate-and-municipal-financing-summary.pdf>

5 https://www.lma.eu.com/application/files/9115/4452/5458/741_LM_Green_Loan_Principles_Booklet_V8.pdf

1.5. Scope of the Framework

Legal entity and geographical scope

The Framework has been developed to facilitate the identification, selection, monitoring, and reporting of green lending activities, and to engage with customers' activity in relation to sustainability. The covered Hungarian entities and subsidiaries are listed in [Appendix 6.1. and 6.2.](#)

The Green Loan Framework covers the following subsidiary banks (countries) of the OTP Group: Albania, Bulgaria, Croatia, Montenegro, Romania, Serbia and Slovenia. The Framework text is generally applicable to all relevant actors involved in the implementation. Localisation is ensured by the country specific version of the Green Alignment Assessment Tool (GAAT), in line with local regulations and requirements.

Financial product scope

The Framework includes the following financial instruments:

- Investment loan,
- Project finance,
- Refinancing loan,⁶
- Financial leasing,
- Syndicated loan,
- Working capital loan,
- Revolving credit,
- Factoring,
- Forfeiting,
- Guarantee.

Client scope

The client scope of the Framework covers all non-retail clients such as corporate customers from large multinational to micro-sized enterprises, together with municipalities and condominiums.

Sector scope

The Framework focuses on the sectors which are material both in OTP Groups' portfolio and from climate change mitigation and adaptation perspective. For further specification, the sectors and activities on the local level were chosen based on their national relevance and local occurrence, and they are listed in the Annex



1. Table: **EU and CBI Taxonomy sectors covered by the Framework**

EU Taxonomy	CBI Taxonomy
Energy	Energy
Manufacturing	Industry
Transport	Transport
Construction and Real Estate	Buildings
Forestry	Land use & Marine resources
Waste management	Waste and pollution control



⁶ Eligible projects would qualify for refinancing as long as they are in use, follow the relevant eligibility criteria at the time of the refinancing, and are still assessed as making a meaningful impact. In addition to providing clarity on the assets to be refinanced, the borrower should make clear for the lenders when the original financing is due to mature. As the proceeds of any green loan should not be used contemporaneously against the same asset more than once, in the overlapping period, based on the borrower's declaration it should be ensured that the proceeds raised from the new financing will not be used for any purposes that would lead to double counting.

2. Guiding Frameworks

2.1. The Green Loan Principles

The Green Loan Principles (and its corresponding Guidance) issued on 23 February 2023 are a set of voluntary guidelines that provide a framework to guide the most important components that need to be included in the process of loan origination.

The Green Loan Principles have four core components:

1. Use of proceeds,
2. Project evaluation and selection,
3. Management of proceeds, and
4. Reporting.

The green taxonomies used for “project evaluation and selection” are developed either by financial market organizations and stakeholders (e.g. CBI) or official institutions with legal authority (e.g. EU) in order to set definitions and criteria determining the conditions to be comply with in order to consider a use of proceed environmentally sustainable. The EU and CBI Taxonomy can provide further guidance for green loan borrowers as to what may be considered as green transaction by OTP Group.

These first two components are following the rules and specification of EU and CBI Taxonomy. In order to provide consistency, a harmonized list of eligible activities and related green use of proceeds are defined. The evaluation process follows steps that fulfil both the regulatory requirements and the borrower’s capability and willingness in green finance.



2.2. EU Taxonomy

The EU Taxonomy is a classification system for environmentally sustainable economic activities. The EU Taxonomy Regulation was published in the Official Journal⁷ of the European Union on 22nd of June 2020 and entered into force on 12th of July 2020. The EU Taxonomy sets out the goals, principles and the main elements of required conditions that an economic activity has to meet in order to qualify as environmentally sustainable. The form of substantial contribution can be categorised as: own performance (already low carbon or transitioning) or enabling.

The Taxonomy Regulation establishes six environmental objectives:

- Climate change mitigation,
- Climate change adaptation,
- The sustainable use and protection of water and marine resources,
- The transition to a circular economy,
- Pollution prevention and control,
- The protection and restoration of biodiversity and ecosystems.

The regulation sets out four conditions that an economic activity has to meet to be recognised as Taxonomy aligned:

- making a substantial contribution to at least one environmental objective;
- doing no significant harm (DNSH) to all other environmental objectives;
- complying with minimum social safeguards;
- complying with the relevant technical screening criteria of substantial contribution and DNSH.

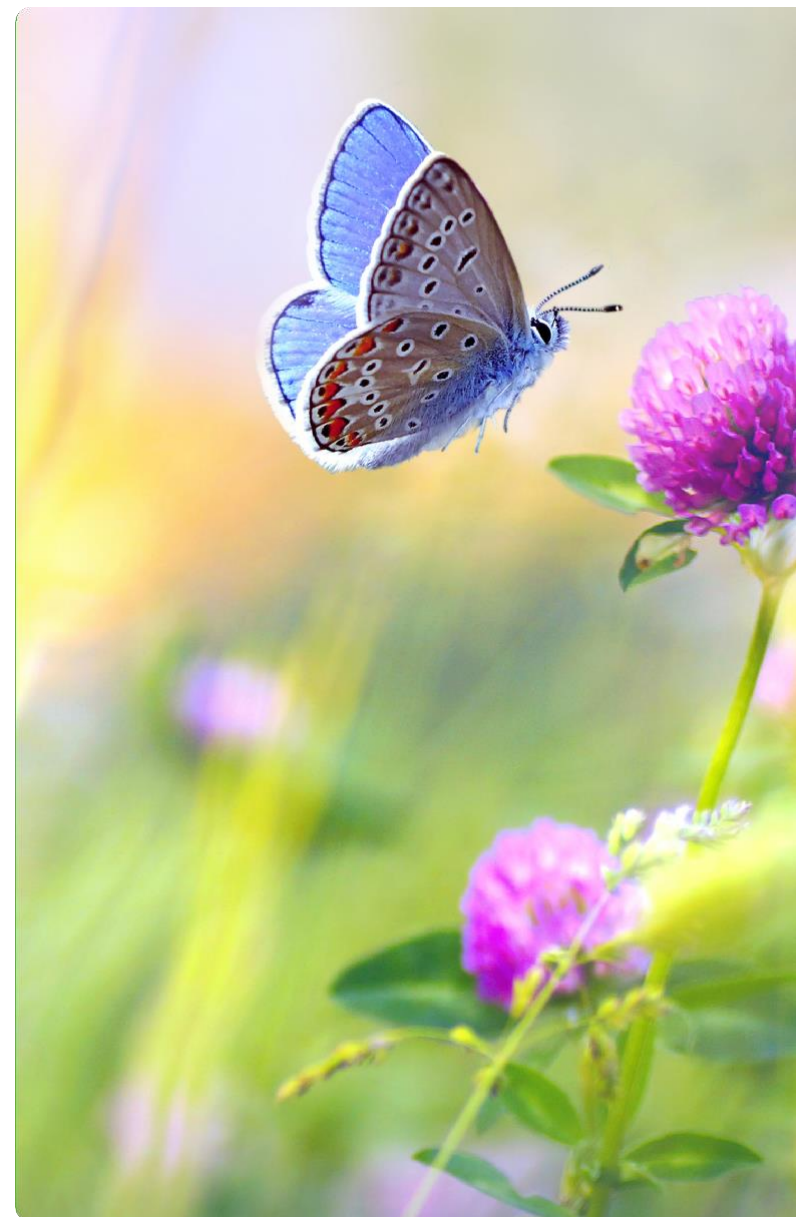
The technical screening criteria are published in delegated acts. For each economic activity considered, the technical screening criteria

specify the requirements that ensure the activity makes a substantial contribution to the environmental objective in question and does no significant harm to the other environmental objectives. A first delegated act on sustainable activities for climate change mitigation and climate change adaptation objectives was approved in principle on 21st of April 2021, and formally adopted on 4th of June 2021 for scrutiny by the co-legislators. The current version of the Green Loan Framework is limited to certain aspects:

1. Covered macro sectors;
2. Eligible economic activities and the related use of proceeds; and
3. The environmental objectives considered for substantial contribution (limited to climate change mitigation and adaptation).

2.3. CBI Taxonomy

The Climate Bonds Initiative (CBI) Taxonomy⁸ is a guide that delineates criteria for projects and assets to be consistent with the 1,5 Celsius global warming limit set by Paris Agreement. It has been developed based on the latest climate science including research from the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA) and has benefited from the input of hundreds of technical experts from around the world. It can be used by any entity looking to identify which assets and activities, and associated financial instruments, to identify assets and projects that are aligned with a net zero by 2050 trajectory. The required conditions for a given economic activity are established in specific sector criteria. The requirements of the criteria are being developed through rigorous processes: besides the ones that are approved, criteria for certain sectors are under development. Regarding the possible development status of the CBI sector criteria, it is classified as certification criteria approved, or under development. For clarity, OTP includes in the current framework only those asset types that are approved.



7 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0852>

8 <https://www.climatebonds.net/standard/taxonomy>

3. The detailed description of the Green Loan Principles' components

3.1. Use of proceeds

In line with Green Loan Principles definition of green loans OTP defines such assets as follows:

Green loans are any type of loan instrument (included in the framework scope) made available exclusively to finance, re-finance or guarantee, in whole or in part, new and/or existing transactions with a specific use of proceeds. Specific use of proceeds which have to be fully an earmarked activity which demonstrates alignment with EU or CBI Taxonomy, and these loans must comply with the four components of GLP throughout the entire contract period.

OTP Group incorporates EU and CBI Taxonomy sectors material in its portfolio. This can facilitate the clear identification of green performance/benefits of the use of proceeds through well-defined qualitative and/or quantitative requirements, and in the meantime ensure avoidance of the possibility of "greenwashing".

Potential future changes to the Framework's selection criteria will not affect the treatment of eligible green loans retroactively, in other words eligible green loans that went successfully through the eligibility and

alignment steps will not be affected by ex-ante Framework changes and will remain to have the green flag. Ex-post removal is discussed in detail in section 3.3.

OTP Group continuously seeks to preserve the integrity of its policies and procedures, as any accusation of greenwashing in connection with green loans possibly undermines the trust towards its products and may have a negative impact on investor confidence.

Compliance with the EU/CBI Taxonomy criteria is consistent across all the entities in the Group, regardless of whether the institution is in a state that is a member of the European Union or not, ensuring that the criteria for economic activities are consistent across the Group. Besides the criteria the internal alignment assessment tool appropriately includes the country specific application of criteria's and supporting documentation required to ensure the compliance with the given EU/CBI Taxonomy. The criteria are always applied in accordance with the local or national legal context. OTP Group only accepts documentation that clearly underpins the compliance with the given EU/CBI Taxonomy criteria.

According to the practice of loan origination, two types of green lending procedures are differentiated. The standard product line includes all the obligatory taxonomy compliance requirements, while the non-standard process requires loan origination specific procedures.

In the case of standard green products, the alignment requirements are fully taken into account during product development. The green conditions of the product are determined according to the compliance with the relevant criteria as set out in the assessment requirements, therefore when the product is launched on the market only the necessary documents are collected in order to check the compliance of required conditions (e.g. thresholds).

3.2. Process for evaluation and selection: the steps of green assessment

Under this Framework eligible green activities and related use of proceeds are determined by EU and CBI Taxonomy. The focus of green loans is on the eligible projects (green use of proceeds) regardless of the borrower general economic activity. In line with **Chapter 3.1**, the use of proceeds must have a clear climate and/or environmental benefit which is clearly linked to one of the economic activities listed in the assessment procedure and belong to the sectors covered by this Framework. In case during the loan origination process only green use of proceed is identified, its green share is set to 100%.

In the special cases of syndicated loans, revolving credits, and working capital loans the client has to make a commitment on the intended green purpose of the loan and its related green share. In each case the proceeds should be utilised for eligible green projects throughout the lifetime of the revolving credit facility, and only the green use of proceed(s) will be financed as a green loan. The alignment assessment of these loans will follow the same process as the non-standard lending procedure, accounting to the fact that supporting information will be needed by the clients regarding the green use of proceeds.

The necessary procedures of green lending are implemented both by extending existing loan origination policies and procedures with the relevant elements, and by introducing a green lending manual which covers items specific to green loan origination. OTP Group implement green flagging in the loan origination process to track green transactions. The green evaluation is completed through the green assessment process, which incorporates the requirements in line with the taxonomies (EU or CBI), including supporting documentation. The loan agreement preparation process supports the inclusion of all required conditions in the contract (including cases of loss of green conditions covenants and reporting obligations by the borrower).

In accordance with the new requirements (February 2023 revisions) of the Green Loan Principles, OTP Group applies proportional measures in its ESG credit risk management framework in order to assess the borrower effort in terms of identifying and management of perceived, actual or potential environmental and social risks associated and material with the relevant project(s).

The assessment process is capable to evaluate both EU and CBI Taxonomy requirements. As mentioned above, alignment of the use of proceeds is determined by the outcome of the green alignment assessment process and in case of EU Taxonomy screening the clients from the aspect of minimum safeguards. The green alignment flag can only be granted upon confirmation that the underlying green use of proceeds is in full compliance with the green assessment process.

The green assessment process consists of two steps:

1. Eligibility step

The eligibility check is completed (mandatory) for all non-retail loans. EU and CBI Taxonomy eligibility check of the loans requires the assessment of the use of proceeds (if possible). Only eligible use of proceeds can receive eligible green flag, which is a prerequisite to proceed with the alignment step. This step is only applicable to non-standard loans.

2. Alignment step

The green assessment procedure shall be applied during the loan origination and the monitoring procedures, in order to incorporate all necessary alignment aspects of EU and CBI Taxonomy. OTP Group established an order among EU and CBI Taxonomy. Where both Taxonomies are relevant, the assessment process begins with the collection of information with relevant thresholds. This allows to select the appropriate taxonomy to continue.

The alignment assessment process is as follows:

- The CBI Taxonomy's alignment step covers the assessment of the screening indicators listed in CBI Taxonomy published in the latest relevant sector criteria document available at the date of publishing this Framework. If the transaction meets the requirements of the screening criteria described in the assessment procedure, then the transaction can be green flagged as a CBI aligned green loan.

- The compliance assessment methodology covers the sectors listed in [1. Table: EU and CBI Taxonomy sectors covered by the Framework](#)¹. The green assessment procedure is supported by an alignment assessment tool which consists of a number of tables. The tables of the tool are related to given activities. The activities within the given sector are listed in [Appendix 6.3](#). The EU Taxonomy covers: (1) technical screening criteria for 'substantial contribution'; (2) technical screening criteria for 'do no significant harm'. The technical screening criteria for 'substantial contribution' to an environmental objective ensures that the economic activity either has a substantial positive environmental impact or substantially reduces negative impacts on the environment. The technical screening criteria for 'do no significant harm' ensures that the economic activity does not impede on the other environmental objectives from being reached, i.e. it has no significant negative impact on them.

Within the EU Taxonomy the requirements of the minimum safeguards have to be assessed as well. OTP Group applies various processes to ensure the compliance with the requirements of this criteria.

Assessment of minimum social safeguards (MSS)

In case of EU Taxonomy assessment, economic activities should only qualify as environmentally sustainable if they are aligned with the OECD Guidelines for Multinational Enterprises, and UN Guiding Principles on Business and Human Rights - including the declaration on Fundamental Principles and Rights at Work of the International Labour Organisation (ILO)-, and also the eight fundamental conventions of the ILO and

the International Bill of Human Rights. The alignment assessment of minimum safeguards consists of three steps:

OTP Group takes a precautionary approach when assessing the labour related challenges of its clients and expects them to uphold internationally recognized labour standards. In relation to EU Taxonomy, the clients' compliance with minimum safeguards are assessed based on materiality considerations.

- Firstly, the Bank carries out the "know your customer" process for all its clients. This procedure assesses that customers comply with respective legal requirements. Employers are obliged to fully comply with human and labour rights within the Framework of national legislation, regulations, and any other obligations. The relevant available database is also checked during the screening process.

- The second step is necessary only if the transaction (both standard and non-standard lending) goes through the EU Taxonomy alignment assessment and it complies with all of the criteria related to substantial contribution and DNSH. As a final step of the EU Taxonomy assessment, depending on the client segment a due diligence is completed or alternatively a legally binding declaration of compliance is required.

- Thirdly, throughout the whole period of the loan contract, OTP Group monitors the clients complying with the minimum safeguard requirements by taking measures to identify, prevent, mitigate and account for any actual, or potential adverse human rights impacts that are directly linked to their operations, products, and services.

Based on the outcome of the assessment process for all of the above areas, if all requirements are met, the transaction can be given a green flag.

3.3. Management of proceeds

Within the management of proceeds, OTP Group's own monitoring process has been extended with the specific green elements. The tracking of green lending is completed through appropriate accounting and monitoring measures. OTP Group takes all the necessary actions to ensure that transactions which are flagged green meet the alignment requirements during the length of the contract in force.

If the green loan takes the form of one or more tranches of a loan facility, each green tranche(s) will be clearly recorded, with proceeds of the green tranche(s) credited to a separate account. For the avoidance of doubt, a facility cannot be labelled as green if it includes a green and non-green tranche(s); the green label applies only to the tranche(s) aligned to the four core components of the GLP.

In the specific case of syndicated loans, revolving loans and working capital loans, the borrower must provide a commitment on the purpose of the loan and the associated green ratio, and provide documentation supporting the anticipated and the utilized green share of the total exposure. OTP Group monitors and tracks the sustainability information provided by the borrowers during the life of the loan, mindful of the need to preserve the integrity of the green loan product.

Within the monitoring process the front office collects the necessary information related to the green content of the transaction. The borrower should provide information on the environmental performance of the transaction and keep it up-to-date (please see the 3.4. Section) Also, within the annual review, the borrower is obliged to provide a legally binding commitment that the originally planned metrics, and the conditions recorded in covenants related to environmental performance are kept unchanged, as well as the minimum safeguards (if relevant). If the transaction is EU Taxonomy aligned, then OTP assesses annually whether the client complies with the requirements of minimum safeguards, based on the commitments made by the client and also by checking the publicly available databases.

In addition to the regular annual review, the clients and their green

transaction may be subjects to detailed inspection, triggered by risk analysis or signals of early warning system. Regarding syndicated loans, revolving credits, and working capital loans, the clients regularly have to provide supporting documents on the appropriate utilization of green loan. The form of supporting documents can be reports, declarations, or invoices.

The green share of the transaction will be monitored as well (if it is less than 100%), so the yearly traceability of the green performance is ensured. Besides the assessment of the green utilization, as a result of the evaluation of the supporting documents the use of proceeds can be checked retrospectively.

Within the monitoring activities related to the green flagged transactions, in those cases where there is an identified deviation from the original green aspect of the loan, then the deviation will be evaluated by each entity of OTP Group, and if necessary the Bank will repeat the alignment assessment. If the transaction is initially EU Taxonomy aligned, then the monitoring action will always analyse whether any new fact in relation to MS has occurred since the previous annual review. If any new information is identified regarding MS, the reassessment also covers the minimum safeguard compliance.

Based on the result of the repeated assessment, the transaction will either remain as being green flagged or else, the flag will be revoked, and the originally accepted criteria will no longer be applicable. The repeated assessment covers EU and CBI Taxonomy alignment.

The possible reasons for withdrawing the green flag based on the result of a reassessment are:

- No longer aligned with EU Taxonomy.
- No longer aligned with CBI Taxonomy.
- The detailed inspection is rejected by the client.

3.4. Reporting

In connection with this Framework three types of reporting activity and three primary actors can be distinguished:

1. The borrowers' reports

The borrower's reporting duty is to fully assist the Group's activity related to the management of the green use of proceeds. Borrowers should make and keep readily available up-to-date information on the use of proceeds. This information should be updated at least annually until the loan is fully drawn, (or until the loan maturity in the case of a revolving credit facility), and on a timely basis in the event of material developments. The client has to provide additional data in connection with a green loan. The client's responsibility is to provide the Group with all the necessary documents and data to ensure that the loan meets the criteria of a green loan at any given time. The client's annual reporting duties are related to the Group's monitoring procedure. In connection with the green revision, the borrower must provide a list of green projects, the amounts allocated, and the realised impact. Also, within the annual review or recognition of material developments, the borrower is obliged to provide a legally binding commitment that the originally planned metrics, and the covenants related to environmental performance are kept unchanged or have been performed proportionally. Concerning EU Taxonomy aligned green loans the client should provide a relevant report or alternatively a legally binding declaration regarding the compliance with the minimum safeguard requirements.

2. OTP Group will disseminate public reports.

- OTP Group publishes aggregated data of individual transactions annually and it will be disclosed complying with the EU and national legislation in force.
- Reporting obligations according to Article 8 of the EU Taxonomy have been published from 2022 onwards.

3. Reports/ data provision from OTP to MNB.

OTP will supply MNB with the necessary data taking into account the MNB's Green Preferential Capital Requirement Programme regulation and specification in force.

4. Exclusions

In general, the transactions which do not have dedicated use of proceeds or inappropriate use of proceeds (e.g. they belong to sectors that are not covered by the green alignment assessment process) are out of the scope of this Framework.

The exclusions approach of the Framework consists of two levels. The first level is determined by EU and CBI Taxonomy. Regarding the basic provisions of EU and CBI Taxonomy, the following activities are excluded:



- Power generation activities that use solid fossil fuels.
- Manufacturing water transport vessels and vehicles used for transporting fossil fuels.
- Vessels, trains, and vehicles that are dedicated to the transport of fossil fuels.
- Infrastructure dedicated to the transport or storage of fossil fuels.
- Timber harvesting.
- Any agriculture activities that are on peatland.
- Uranium mining.

The second level contains general criteria for not supported activities and clients determined by OTP's ESG strategy. The following list defines which clients – with potentially high ESG / reputational risk – are to be avoided. The below list is based on existing internal guidelines and directives:

- Transactions and Clients that violate the laws of the country of financing or the international law, such as:
 - Illegal weapons trade;
 - Prohibited gambling;
 - Illegal drugs and pharmaceuticals trade.
- Transactions and Clients that violate the laws of the country of financing or the international law in connection with the following activities:
 - Production and trade of products containing PCBs (PCBs - polychlorinated biphenyls are highly toxic compounds whose production is prohibited by the Stockholm Convention on Persistent Organic Pollutants (promulgated by Act V of 2008).
 - Production and trade of medicinal products, insecticides, herbicides and hazardous ingredients subject to international prohibition or phasing-out as defined in Regulation (EC) No 1107/2009 of the European Parliament and of the Council of 21 October 2009.
 - Production and trade of chemical ingredients that deplete the ozone layer and are subject to international phase-out under Regulation (EC)

No 1005/2009 of the European Parliament and of the Council of 16 September 2009 on substances that deplete the ozone layer.

- Trade in wild animals and their products covered by the CITES Convention (Convention on International Trade in Endangered Species of Wild Fauna and Flora, adopted in Washington on 3 March 1973 and promulgated by Act XXXII of 2003).

- Transboundary movement and trade of waste prohibited by international legislation, including Regulation (EC) No 1013/2006 of the European Parliament and of the Council of 14 June 2006 on shipments of waste.

• International trade in the absence of valid export/import/transit licenses or other official approvals issued by the countries concerned (export, import and transit).

• Activities prohibited by international conventions and local legislation on the conservation of biodiversity and cultural heritage, including, but not limited to, those provided for in Act LXXXI of 1995 on the Proclamation of the Convention on Biological Diversity.

• Trawling at sea with nets over 2.5 km in length, including but not limited to those covered by Regulation (EU) 2019/1241 of the European Parliament and of the Council.

• The carriage of oil and other hazardous chemicals by (tanker) ships which do not comply with the requirements of the International Maritime Organization (IMO), including but not limited to the International Convention for the Safety of Life at Sea, promulgated by Act XI of 2001, and the Protocol of 1978 thereto, done at London on 1 November 1974 ("SOLAS 1974/1978"), the Convention on the International Regulations for Preventing Collisions at Sea, 1972 ("COLREG 1972"), promulgated by Act XXXIV of 2002, and the International Convention for the Prevention of Pollution from Ships, 1973, and the Protocol of 1978 relating thereto ("MARPOL 1973/1978"), promulgated by Act X of 2001.

- Exploration, extraction, production and processing of shale gas in Europe, as covered by Directive 2011/92/EU of the European Parliament and of the Council.
- Open pit coal mining using "Mountain top removal" technology.
- Activities related to fur production and animal husbandry primarily for this purpose, Production, use and trade of asbestos fibres and products and mixtures containing asbestos fibres as added ingredients under Regulation (EC) No 1907/2006 of the European Parliament and of the Council (REACH) as amended by Regulation (EU) 2016/1005 (concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH)).
- Export of mercury and mercury compounds, as well as the production, export and import of products containing added mercury, including but not limited to the provisions of Act CLII of 2016 on the promulgation of the Minamata Convention on Mercury and Regulation (EU) 2017/852 of the European Parliament and of the Council.
- Of the activities contrary to the provisions of Chapter XXIII of Act C of 2012 on the Criminal Code, environmental damage, damage to nature, violation of the waste management order, or the abuse of ozone-depleting substances, which have been convicted by a court or supervisory authority for such activities or conduct.

Overall, any transactions that breach the principles and provision of this Framework, including the criteria of minimum social safeguards, are excluded from green lending.

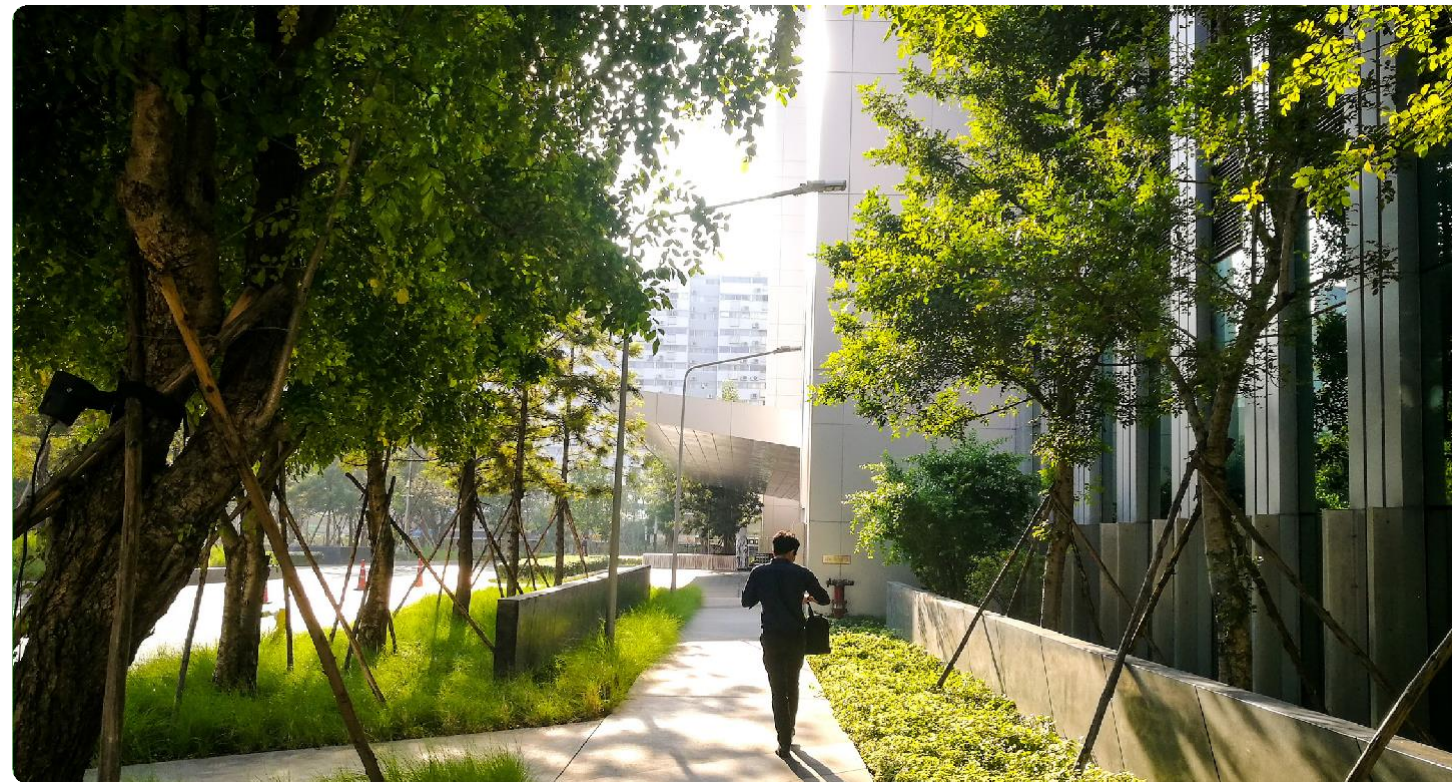
5. External review

The Framework has undergone an external review. The second party opinion (SPO) was carried out by KPMG Advisory Ltd.. The main goal of the SPO is to assess the alignment of the Framework with Green Loan Principles and whether the criteria have been determined according to the CBI and EU Taxonomies. The Framework and the SPO will be disclosed on the website of OTP.

The link:

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

At a minimum, this Framework will be reviewed every 24 months.



6. Appendix

6.1. List of Hungarian entities covered by the scope of the Framework.

1. OTP Bank Plc.
2. Merkantil Bank cPlc.

6.2. List of non-Hungarian entities covered by the scope of the Framework

	Country	Subsidiaries	
		Bank	Leasing entity
1.	Romania	OTP Bank România S.A.	OTP Leasing Romania IFN SA
2.	Bulgaria	DSK Bank EAD	OTP Leasing EOOD /ex-SG/, DSK Bank AD
3.	Slovenia	SKB banka d.d. Ljubljana	SKB Leasing and SKB Leasing Select
4.	Croatia	OTP banka d.d.	OTP Leasing d.d.
5.	Serbia	OTP banka Srbija	OTP Leasing Serbia d.o.o.
6.	Albania	Banka OTP Albania SHA	-
7.	Montenegro	Crnogorska Komercijalna Banka AD Podgorica	-
8.	Slovenia	Nova Kreditna Banka Maribor, d.d.	-

6.3. Detailed sector list

The worksheets of the assessment tool:

Sectors	Activity (Hungary)
01_Generic criteria	01A_Climate Change Adaptation
	01B_Sustainable use and protection of water and marine resources
	01C_Pollution prevention and control
	01D_Protection and restoration of biodiversity and ecosystems
02_Agriculture and Forestry	CB_02_01 Growing of non-perennial crops
	CB_02_02 Growing of perennial crops
	CB_02_03 Livestock production
	CB_02_03_AW Animal Welfare
	02_04_1 Silviculture and other forestry activities
	02_04_2 Logging
	02_04_3 Gathering of wild growing non-wood products
	CB_02_04_4 Forest supply chain
	CB_02_04_5 Forest road
	CB_02_05 Supporting activities outside of the Agricultural Production Units aimed at enabling GHG emission reductions or carbon sequestration in Agricultural Production Units
	CB_02_06 Establishment, expansion, or ongoing operation of the production unit as a whole, e.g., conversion of degraded land for agricultural production, or maintenance of climate-friendly farming practices

Sectors	Activity (Hungary)
02_Agriculture and Forestry	CB_02_07 Intervention aimed at enhancing adaptation and resilience
	CB_02_08 Supporting Activities which increase climate adaptation and resilience
	CB_02_09 Livestock production, Whole Production Unit
	CB_02_10 Agricultural waste collection
	CB_02_11 Agricultural waste transport
	CB_02_12 Composting of agricultural bio-waste
	CB_02_13 Anaerobic digestion of agricultural bio-waste
03_Energy	03_01 Electricity generation using solar photovoltaic technology
	03_02 Transmission and Distribution of Electricity
	03_03 Installation, maintenance and repair of renewable energy technologies
	EU_03_04 Installation, maintenance and repair of energy efficiency equipment
	CB_03_05 Energy generation using solar technology (solar hot water systems)
	03_06 Hydropower generating facilities - Electricity generation from hydropower
	03_07 Electricity generation from wind power
	03_08 Electricity generation from geothermal energy
	EU_03_09 Electricity generation from bioenergy
	EU_03_10 Cogeneration of heat,cool and power from geothermal energy

Sectors	Activity (Hungary)
03_Energy	03_11 Cogeneration of heat/cool and power from bioenergy
	EU_03_12 Production of heat/cool from geothermal
	03_13 Production of heat/cool from bioenergy
	03_14 Storage of electricity
04_Transportation	04_01 Infrastructure enabling low-carbon road transport and public transport
	04_02 Infrastructure for personal mobility, cycle logistics
	04_03 Infrastructure for rail transport
	04_04 Urban and suburban transport, road passenger transport
	04_05 Freight transport services by road
	04_06 Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)
	04_07 Motorbikes, passenger cars and (light) commercial vehicles
	CB_04_08 Passenger rail transport rolling stock
	CB_04_09 Miscellaneous vehicles for other sectors
	05_Construction and Real Estate
05_02 Renovation of existing buildings	
05_03 Acquisition and ownership of buildings	

Sectors	Activity (Hungary)
06_Manufacturing	EU_06_01 Manufacture of plastics in primary form
	06_02 Manufacture of low carbon technologies for transport
	EU_06_03 Manufacture of other low carbon technologies
	EU_06_04 Manufacture of energy efficiency equipment for buildings
	CB_06_05 Manufacturing facilities wholly dedicated to solar photovoltaic technology
	CB_06_06 Manufacturing facilities wholly dedicated to wind energy
	CB_06_07 Manufacturing facilities wholly dedicated to hydropower development
	CB_06_08 Manufacturing facilities wholly dedicated to bioenergy development
	CB_06_09 Manufacturing facilities wholly dedicated to geothermal energy developments such as geothermal turbines
	EU_06_10 Manufacture of batteries
07_Waste management	07_01 Collection and transport of non-hazardous waste in source segregated fractions
	07_02 Material recovery from non-hazardous waste

6.4. Country-specific regulation of the Green Loan Framework

O2_Agriculture and Forestry	OBSr (Serbia)	OBA (Albania)	OBH (Croatia)	SKB and NKBM (Slovenia)	OBR (Romania)	DSK (Bulgaria)	CKB (Montenegro)
02_01 Growing of non-perennial crops	Relevant	Relevant	Relevant	Not relevant	Relevant	Relevant	Not relevant
02_02 Growing of perennial crops	Relevant	Relevant	Relevant	Not relevant	Relevant	Relevant	Not relevant
02_03 Livestock production	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant
CB_02_03_AW Animal Welfare	Not relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Not relevant
02_04_1 Silviculture and other forestry activities (Afforestation)	Not relevant	Not relevant	Relevant	Not relevant	Relevant	Relevant	Relevant
02_04_2 Logging	Not relevant	Not relevant	Relevant	Relevant	Relevant	Relevant	Relevant
02_04_3 Gathering of wild growing non-wood products	Not relevant	Relevant	Not relevant	Not relevant	Relevant	Not relevant	Relevant
CB_02_04_4 Forest supply chain	Relevant	Not relevant	Not relevant	Relevant	Relevant	Not relevant	Not relevant
CB_02_04_5 Forest road	Not relevant	Not relevant	Relevant	Not relevant	Relevant	Not relevant	Not relevant
CB_02_05 Supporting activities outside of the Agricultural Production Units aimed at enabling GHG emission reductions or carbon sequestration in Agricultural Production Units	Not relevant	Not relevant	Relevant	Relevant	Relevant	Relevant	Not relevant
CB_02_06 Establishment, expansion, or ongoing operation of the production unit as a whole, e.g., conversion of degraded land for agricultural production, or maintenance of climate-friendly farming practices	Not relevant	Not relevant	Relevant	Relevant	Relevant	Relevant	Not relevant
CB_02_07 Intervention aimed at enhancing adaptation and resilience	Not relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Not relevant
CB_02_08 Supporting Activities which increase climate adaptation and resilience	Not relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Not relevant
CB_02_09 Livestock production, Whole Production Unit	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant
CB_02_10 Agricultural waste collection	Relevant	Relevant	Relevant	Not relevant	Relevant	Relevant	Not relevant
CB_02_11 Agricultural waste transport	Relevant	Relevant	Relevant	Not relevant	Relevant	Relevant	Not relevant
CB_02_12 Composting of agricultural bio-waste	Relevant	Relevant	Relevant	Not relevant	Relevant	Relevant	Not relevant
CB_02_13 Anaerobic digestion of agricultural bio-waste	Not relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Not relevant

03_Energy	OBSr (Serbia)	OBA (Albania)	OBH (Croatia)	SKB and NKBM (Slovenia)	OBR (Romania)	DSK (Bulgaria)	CKB (Montenegro)
03_01 Electricity generation using solar photovoltaic technology	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant
03_02 Transmission and Distribution of Electricity	Relevant	Relevant	Not relevant	Relevant	Relevant	Relevant	Relevant
03_03 Installation, maintenance and repair of renewable energy technologies	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant
EU_03_04 Installation, maintenance and repair of energy efficiency equipment	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant
CB_03_05 Energy generation using solar technology (solar hot water systems)	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant
03_06 Hydropower generating facilities - Electricity generation from hydropower	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant
03_14 Storage of electricity	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant
03_07 Electricity generation from wind power	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant
03_08 Electricity generation from geothermal energy	Not relevant	Not relevant	Relevant	Not relevant	Relevant	Relevant	Not relevant
03_09 Electricity generation from bioenergy	Relevant	Not relevant	Relevant	Not relevant	Relevant	Relevant	Not relevant
03_10 Cogeneration of heat,cool and power from geothermal energy	Not relevant	Not relevant	Relevant	Not relevant	Relevant	Relevant	Not relevant
03_12 Production of heat/cool from geothermal	Not relevant	Not relevant	Relevant	Not relevant	Relevant	Relevant	Not relevant
03_11 Cogeneration of heat/cool and power from bioenergy	Relevant	Not relevant	Relevant	Not relevant	Relevant	Relevant	Not relevant
03_13 Production of heat/cool from bioenergy	Relevant	Not relevant	Relevant	Not relevant	Relevant	Relevant	Not relevant

04_Transportation	OBSr (Serbia)	OBA (Albania)	OBH (Croatia)	SKB and NKBM (Slovenia)	OBR (Romania)	DSK (Bulgaria)	CKB (Montenegro)
04_01 Infrastructure enabling low-carbon road transport and public transport	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant
04_02 Infrastructure for personal mobility, cycle logistics	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant
04_03 Infrastructure for rail transport	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant
04_04 Urban and suburban transport, road passenger transport	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant
04_05 Freight transport services by road	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant
04_06 Installation, maintenance and repair of charging stations for electric	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant
04_07 Motorbikes, passenger cars and (light) commercial vehicles	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant
CB_04_08 Passenger rail transport rolling stock	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant
CB_04_09 Miscellaneous vehicles for other sectors	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant

05_Construction and Real Estate	OBSr (Serbia)	OBA (Albania)	OBH (Croatia)	SKB and NKBM (Slovenia)	OBR (Romania)	DSK (Bulgaria)	CKB (Montenegro)
05_01 Construction of new buildings	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant
05_02 Renovation of existing buildings	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant
05_03 Acquisition and ownership of buildings	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant

06_Manufacturing	OBSr (Serbia)	OBA (Albania)	OBH (Croatia)	SKB and NKBM (Slovenia)	OBR (Romania)	DSK (Bulgaria)	CKB (Montenegro)
EU_06_01 Manufacture of plastics in primary form	Relevant	Relevant	Not relevant	Relevant	Relevant	Relevant	Not relevant
06_02 Manufacture of low carbon technologies for transport	Relevant	Relevant	Not relevant	Relevant	Relevant	Relevant	Not relevant
EU_06_03 Manufacture of other low carbon technologies	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Not relevant
EU_06_04 Manufacture of energy efficiency equipment for buildings	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Not relevant
CB_06_05 Manufacturing facilities wholly dedicated to solar photovoltaic	Relevant	Relevant	Relevant	Relevant	Relevant	Not relevant	Not relevant
CB_06_06 Manufacturing facilities wholly dedicated to wind energy	Relevant	Relevant	Not relevant	Relevant	Relevant	Not relevant	Not relevant
CB_06_07 Manufacturing facilities wholly dedicated to hydropower development	Relevant	Relevant	Not relevant	Relevant	Relevant	Not relevant	Not relevant
CB_06_08 Manufacturing facilities wholly dedicated to bioenergy development	Relevant	Not relevant	Relevant	Not relevant	Relevant	Not relevant	Not relevant
CB_06_09 Manufacturing facilities wholly dedicated to geothermal energy developments such as geothermal turbines	Relevant	Not relevant	Relevant	Not relevant	Relevant	Not relevant	Not relevant
06_10 Manufacture of batteries	Relevant	Relevant	Relevant	Relevant	Relevant	Relevant	Not relevant

07_Waste management	OBSr (Serbia)	OBA (Albania)	OBH (Croatia)	SKB and NKBM (Slovenia)	OBR (Romania)	DSK (Bulgaria)	CKB (Montenegro)
07_01 Collection and transport of non-hazardous waste in source segregated fractions	Relevant	Not relevant	Relevant	Relevant	Relevant	Relevant	Relevant
07_02 Material recovery from non-hazardous waste	Relevant	Not relevant	Relevant	Relevant	Relevant	Relevant	Not relevant



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