

# **Statement on the principal adverse impact of investment advice on sustainability factors**

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**OTP Bank Plc.**

Registered office: H-1051 Budapest, Nádor utca 16

Registered with the Court of Registration of the Budapest-Capital Regional Court under no. 01-10-041585

LEI: 529900W3MOO00A18X956.

Central mailing address: H-1876 Budapest

Website: <http://www.otpbank.hu>

With respect to financial products (investment funds, hereinafter: products) in relation to which OTP Bank Plc. (hereinafter: Bank) offers investment advice, when providing investment advice the Bank considers the principal adverse impacts (hereinafter: PAI<sup>1</sup>) on sustainability factors as follows.

## **1. Use of information disclosed by financial market participants**

The Bank presents below the way in which it uses during its investment advice activity the information on the principal adverse impacts on sustainability factors (hereinafter: PAI information) as provided to it by financial market participants (investment fund managers) or disclosed in accordance with the SFDR<sup>2</sup> and its Implementing Regulation<sup>3</sup>.

During the selection of the products involved in its investment advice, the Bank divides the use of PAI information into two parts, depending on whether the customer has sustainability preferences or not.

### **I. Use of information disclosed by financial market participants if the customer has sustainability preferences**

If the customer has sustainability preferences, PAI information will be considered based on disclosures on the particular products as per the SFDR and based on the Bank's exclusion list:

1. If the manufacturer of the product has information disclosed as per the SFDR on whether the product concerned considers PAI and thus the manufacturer of the product states that the product considers PAI during its investments, the investment fund concerned may be selected during the investment advice activity. **Accordingly, the principal criteria for the selectability of investment funds for investment advice is a statement issued by the manufacturer of the product in accordance with the SFDR on whether the product considers PAI or not.**
2. If the manufacturer of the product declares that the product does not consider PAI or there is no available information published by the issuer on the product,
  - a) the product will be excluded from the list of products that may be recommended during the investment advice activity, or
  - b) based on the Bank's internal methodology – which relies on ESG data available at the international ESG data provider –, the Bank examines whether the product effectively considers PAI.

The Bank's own methodology with regard to the case presented in Section I/2/b<sup>4</sup>:

If the product can be included in investment advice as per Section 2/b, in order to determine the range of products to be included in investment advice, the Bank will apply a restriction that is based on the so-called exclusion list. This means that any investment fund will be excluded from the range of products that can be recommended during the investment advice if any of the following conditions applies:

- the market value of companies with severely controversial conduct in topics involving one or more environments, customers, human rights, employee rights or corporate policies exceeds 5% in the portfolio of the investment fund (**Controversial conduct**)
- the exposure of the investment fund to income from fossil energy sources exceeds 10% (**Fossil energy income**)

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<sup>1</sup> PAI: Principal Adverse Impacts on sustainability

<sup>2</sup> SFDR: REGULATION (EU) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 on sustainability-related disclosures in the financial services sector

<sup>3</sup> SFDR Implementing Regulation: COMMISSION DELEGATED REGULATION (EU) 2022/1288 of 6 April 2022

<sup>4</sup> All exclusion limits are determined based on data provided by the international ESG data provider used by the Bank

- the market value of companies with coal mining activity or coal-related energy production exceeds 1% in the portfolio of the investment fund (their income from coal or coal-related sources exceeds 10%) **(Coal)**
- the market value of companies involved in the production or sale of controversial weapons (such as cluster bombs or anti-personnel mines) exceeds 1% in the portfolio of the investment fund **(Controversial weapons)**
- the market value of companies which, according to the information available, violated the UN Global Compact<sup>5</sup> exceeds 5% in the fund's portfolio **(Violation of the UN Global Compact)**
- the market value of companies whose activity is related to gambling or to a process related to gambling exceeds 5% in the portfolio of the investment fund (their gambling-related income exceeds 5%) **(Gambling)**
- the market value of companies whose activity is the manufacture of tobacco products or a process related thereto exceeds 5% in the portfolio of the investment fund (their income related to tobacco products exceeds 5%) **(Tobacco)**
- the market value of companies whose activity is the manufacture of alcoholic beverages or a process related thereto exceeds 5% in the portfolio of the fund (their income related to the manufacture of alcoholic beverages exceeds 5%) **(Alcoholic beverages)**
- according to the international data provider used by the Bank, the ESG rating of the investment fund is B or lower **(ESG rating)**.

## **II. Use of information disclosed by financial market participants if the customer does not have sustainability preferences**

**If the customer does not have sustainability preferences**, based on its selection methodology the Bank will consider the following, particularly relevant exclusions:

- In the case of the investment funds selected during the investment advice activity, based on the exclusion policy disclosed as per the SFDR on controversial weapons or based on the Bank's internal methodology, the market value of companies whose activity largely involves participation in the production or sale of controversial weapons is below 5% in the portfolio of the investment fund.
- In the case of the investment funds selected during the investment advice activity, based on the exclusion policy disclosed as per the SFDR on coal mining or based on the Bank's internal methodology, the market value of companies whose activity largely involves coal mining or a coal-related energy production process is below 5% in the portfolio of the investment fund.

If the manufacturer of the product has information published in accordance with the SFDR Implementing Regulation or has otherwise provided information to the effect that the financial product concerned considers the PAI as per the above, this information will be considered for the purposes of selecting products for investment advice. If no information has been published in accordance with the SFDR Implementing Regulation on the investment fund concerned and no information is available on the precise composition of the existing portfolio, the Bank will, on the one hand, request a statement from the fund managers of the investment funds involved in the investment advice activity to the effect that the sector exclusions mentioned above will be kept below the limit; moreover, the Bank will regularly request a statement from the fund manager concerned whether the sector exposures defined above are below the limits specified in Section II.

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<sup>5</sup> The UN Global Compact is a voluntary international initiative created by the United Nations, which currently includes ten principles in the areas of human rights, employee rights, environmental protection and anti-corruption to which participating companies adhere on a voluntary basis.

**2. Statement on the prioritisation and selection of financial products**

In respect of Article 11 (3) (b) and (c) of the SFDR Implementing Regulation, the Bank declares that it does not rank and select the products advised on based on the indicators on the adverse impacts on sustainability factors<sup>6</sup>. Any criterion or threshold that is based on the indicators on sustainability impacts used for the purposes of selecting or advising on products is not applied in its entirety. The Bank’s own methodology is founded on exclusions. Some elements of these exclusion criteria partly correspond to the indicators on sustainability impacts as per the SFDR Implementing Regulation, with the proviso that the exclusion criteria concerned are not fully identical with these indicators. The table below indicates the relationship between the indicators on sustainability impacts as per the SFDR Implementing Regulation and the exclusion list applied by the Bank:

Principal Adverse Impact indicators	Greenhouse gas emissions						Biodiversit	Wate	Waste	Social and employee rights				
	GHG emissions (Scope 1,2,3, Total)	Carbon footprint	GHG intensity	Share of fossil fuels	Share of non-renewable energy consumption and production	Energy consumption intensity	Biodiversity	Emissions to water	Creation of hazardous waste	Violation of the UN Global Compact and OECD Guidelines	Monitoring compliance with UN and OECD principles	Unadjusted gender pay gap	Board gender diversity	Controversial weapons
	PAI1	PAI2	PAI3	PAI4	PAI5	PAI6	PAI7	PAI8	PAI9	PAI10	PAI11	PAI12	PAI13	PAI14
OTP Exclusion Strategy	ESG rating	Helps	Helps		Helps		Helps	Helps	Helps				Helps	
	Controversial conduct						Complies	Complies	Complies					
	UN Global Compact									Complies				
	Alcoholic beverages													
	Tobacco													
	Gambling													
	Coal				Complies									
	Fossil energy				Complies									
Controversial weapons													Complies	

- As shown in the table, the ‘ESG rating indicator’ – which considers numerous ESG criteria – takes into account several values that are indirectly related to a number of PAI indicators as per the SFDR Implementing Regulation. These indicators are PAI 2,3,5,7,8,9 and 13 under the SFDR Implementing Regulation<sup>7</sup>. The value of the ‘ESG rating indicator’ should decrease in line with the worsening of an SFDR RTS-based PAI indicator. At the same time, the ‘ESG rating indicator’ is an aggregated, sector-relative risk indicator and as such, it does not correspond directly to the indicators for the exclusion of the worst segment. Nevertheless, it does help the exclusion of risks in the case of the indicators listed.
- In the case of the ‘Controversial conduct’ indicator, companies where PAI 7, 8 and 9 of the SFDR Implementing Regulation are in severe conflict are excluded; consequently, exclusion above 5% corresponds to addressing the related adverse impact.
- By definition, the ‘Exclusion limit related to the violation of the UN Global Compact’ corresponds to the treatment of the PAI 10 indicator of the SFDR Implementing Regulation.
- By definition, the ‘Exclusion limit related to controversial weapons’ corresponds to the treatment of the PAI 14 indicator of the SFDR RTS.
- As the calculation of exclusions related to coal and fossil energy is almost identical with the methodology of PAI 4 of the SFDR Implementing Regulation, by definition, the two exclusion limits correspond to the treatment of the PAI 4 indicator of the SFDR Implementing Regulation.

The Bank expects a growing number of financial market participants to comply with their disclosure obligations under the SFDR Implementing Regulation, also in consideration of the increase in their corporate disclosure obligations pursuant to legislation on ESG information. Accordingly, the methodology presented in this Statement will be reviewed on a regular basis and amended also in consideration of the ESG data available.

<sup>6</sup> A brief description of the indicators on sustainability impacts: PAI indicators, the indicators listed in Table 1 of Annex I to the SFDR Implementing Regulation.  
<sup>7</sup> The number of the PAI indicator is displayed in the 2nd column of Table 1 in Annex I to the SFDR RTS.