

# Second-Party Opinion

## MBH Mortgage Bank

### Green Covered Bond Framework



#### Evaluation Summary

Sustainalytics is of the opinion that the MBH Mortgage Bank Green Covered Bond Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021. This assessment is based on the following:



**USE OF PROCEEDS** The eligible category for the use of proceeds, Green Buildings, is aligned with those recognized by the Green Bond Principles. Sustainalytics considers that investments in the eligible category will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDGs 7, 9 and 11.



**PROJECT EVALUATION AND SELECTION** MBH Mortgage Bank's Green Covered Bond Committee will oversee the internal process for evaluating and selecting projects, including reviewing, assessing and selecting all projects in accordance with the Framework's eligibility criteria. MBH Mortgage Bank has internal procedures in place to identify and manage environmental and social risks associated with the assets financed, which apply to all allocation decisions made under the Framework. Sustainalytics considers MBH Mortgage Bank's risk management systems to be adequate and the project evaluation and selection process to be in line with market practice.



**MANAGEMENT OF PROCEEDS** The Green Covered Bond Committee will also oversee the management of proceeds and will track allocation to eligible assets using existing internal tracking systems through a portfolio approach. MBH Mortgage Bank intends to allocate proceeds within 24 months of issuance. Pending full allocation, unallocated proceeds will be temporarily held in MBH Mortgage Bank's liquid asset portfolio. This is in line with market practice.



**REPORTING** MBH Mortgage Bank intends to report on allocation of proceeds on its website on a quarterly basis until full allocation. The report will include the size of the identified eligible green loans portfolio, the total amount allocated to eligible green loans, the balance of unallocated proceeds, and the share of financing versus refinancing. In addition, MBH Mortgage Bank is committed to reporting on relevant impact metrics. Sustainalytics views MBH MB's allocation and impact reporting commitments as aligned with market practice.

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<b>Evaluation Date</b>	February 09, 2024
<b>Issuer Location</b>	Budapest, Hungary

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## Introduction

MBH Mortgage Bank Co. Plc.<sup>1</sup> (“MBH MB” or the “Bank”) is a mortgage refinancing bank, headquartered in Budapest, Hungary. Founded in 1998, the Bank’s primary activities are issuing mortgage bonds and refinancing mortgage loans for members of MBH Group<sup>2</sup> (the “Group”), the Bank’s parent company (MBH Bank Plc), and third-party partner banks outside the Group.

The MBH Mortgage Bank Green Covered Bond Framework dated February 2024 (the “Framework”) updates a previous framework of MBH MB’s dated September 2021.<sup>3</sup> The Bank t intends to use the Framework to issue covered green bonds<sup>4</sup> and use the proceeds to finance or refinance, in whole or in part, existing and future mortgage loans that are expected to reduce the carbon footprint and improve the energy performance of the residential and commercial building stock in Hungary. The Framework defines eligibility criteria in one area:

### 1. Green Buildings

MBH MB engaged Sustainalytics to review the Framework and provide a Second-Party Opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2021 (GBP).<sup>5</sup> The Framework has been published in a separate document.<sup>6</sup>

### Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>7</sup> opinion on the alignment of the reviewed Framework with current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2021, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.15, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of MBH MB’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. MBH MB’s representatives have confirmed (1) they understand it is the sole responsibility of MBH MB to ensure that the information provided is complete, accurate and up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and MBH MB.

Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics’ Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The

<sup>1</sup> MBH MB operated as Takaréktör Mortgage Bank Co. Plc. between 2018 and May 2023.

<sup>2</sup> MBH MB, “The history and development of MBH Mortgage Bank Co. Plc.”, at: <https://www.mbhmortgagebank.hu/about-us>

<sup>3</sup> Takaréktör Mortgage Bank, “Takarék Mortgage Bank Green Covered Bond Framework”, (2021), at: <https://www.en.takarekjob.hu/sw/static/file/84146.pdf>

<sup>4</sup> MBH MB has confirmed to Sustainalytics that the type of secured bond, i.e. secured green standard bond, will be specified as per the voluntary process guidelines published in the June 2022 Appendix 1 of the GBP 2021, and that there will be no double counting of the green projects and any other outstanding green financing.

<sup>5</sup> The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

<sup>6</sup> The MBH Mortgage Bank Green Covered Bond Framework is available on MBH Mortgage Bank’s website <https://www.mbhmortgagebank.hu/green-covered-bond>

<sup>7</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that MBH MB has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the MBH Mortgage Bank Green Covered Bond Framework

Sustainalytics is of the opinion that the MBH Mortgage Bank Green Covered Bond Framework is credible and impactful, and aligns with the four core components of the GBP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
  - The eligible category, Green Buildings, is aligned with those recognized by the GBP.
  - In the Green Buildings category, MBH MB intends to finance and refinance new, existing or refurbished residential and commercial buildings in Hungary according to the following criteria.
    - New or existing buildings:
      - Residential buildings with primary energy demand (PED) at least 10% lower than the nearly zero-energy building (NZEB)<sup>8</sup> standard in Hungary applicable to buildings built after 1 November 2023<sup>9</sup> and those built after 30 June 2022.<sup>10</sup>
      - Residential buildings constructed before 30 June 2022 that: i) have a maximum PED of 100 kWh/m<sup>2</sup>/year and comply with the Hungarian NZEB requirements;<sup>11</sup> or ii) have an EPC A or above;<sup>12</sup> or iii) are in the top 15% of the local building stock in terms of emissions intensity.<sup>13</sup>
      - Commercial buildings constructed before 30 June 2022 that: i) have a maximum PED of 100 kWh/m<sup>2</sup>/year and comply with the Hungarian NZEB requirements; ii) have an EPC A or above;<sup>14</sup> or iii) are in the top 15% of the local building stock in terms of emissions intensity.<sup>15</sup>
    - Refurbishment or renovation of existing buildings:
      - i) Residential buildings constructed after 1 November 2023, in line with Hungary's rules implementing the Energy Performance of Buildings Directive; and ii) any other residential or commercial buildings, such that the renovations meet the cost-optimal minimum energy performance requirements for major renovations, as defined by the Energy Performance Buildings Directive (EPBD). Sustainalytics notes that the performance standards reflected in the EU Taxonomy,<sup>16</sup> which requires meeting the relevant cost-optimal minimum energy performance requirements in accordance with the EPBD, could vary by region (EU member states).

<sup>8</sup> European Commission, "Nearly Zero Energy Buildings", (2020), at: [https://ec.europa.eu/energy/topics/energy-efficiency/energy-efficient-buildings/nearly-zero-energy-buildings\\_en](https://ec.europa.eu/energy/topics/energy-efficiency/energy-efficient-buildings/nearly-zero-energy-buildings_en)

<sup>9</sup> PED up to 68 kWh/m<sup>2</sup> and CO<sub>2</sub> emissions up to 18 kgCO<sub>2</sub>/m<sup>2</sup> per annum.

<sup>10</sup> PED up to 90 kWh/m<sup>2</sup> per annum.

<sup>11</sup> Energy Performance of Buildings, "Implementation of the EPBD in Hungary- Status in 2020", (2022), at: <https://epbd-ca.eu/wp-content/uploads/2022/10/Implementation-of-the-EPBD-in-Hungary-2020.pdf>

<sup>12</sup> Expenditures are intended to finance residential buildings with the EPC label AA or better (rating since 2016) or with a rating of A or better (rating since November 1, 2023, and before 2016).

<sup>13</sup> Residential buildings complying with the PED requirements from the building energy code 7/2006, including amendments of 08/2012 and were constructed in 2013 or later.

<sup>14</sup> Expenditures are intended to finance residential buildings with the EPC label AA or better (rating since 2016) or with a rating of A or better (rating since November 1, 2023, and before 2016).

<sup>15</sup> Commercial buildings complying with the PED requirements from the building energy code 7/2006, including amendments of 08/2012 and were constructed in 2013 or later.

<sup>16</sup> European Commission, "Taxonomy Report: Technical Annex to the Final report of the Technical Expert Group on Sustainable Finance", (2020), at: [https://ec.europa.eu/info/sites/default/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes\\_en.pdf](https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en.pdf)

Sustainalytics, therefore encourages MBH MB to report on the actual primary energy demand performance level (or energy savings) achieved compared to the reference buildings as defined based on the existing building stock in the region.

- The Framework also defines as eligible building renovations to achieve a minimum of 30% primary energy savings compared to the performance of the building prior to the renovation. The Bank has confirmed to Sustainalytics that only the renovations will be financed and not the asset value of the building.
  - Commercial buildings that have achieved or are expected to achieve one of the following minimum certification levels: i) LEED Gold with minimum energy savings of 30% against ASHRAE 90.1;<sup>17</sup> and ii) BREEAM Very Good.<sup>18</sup>
    - Sustainalytics considers LEED Gold to be credible and aligned with market practice.
    - Further, Sustainalytics considers BREEAM Excellent to be aligned with market practice and encourages MBH MB to select BREEAM-certified buildings that score high enough in the energy category (which Sustainalytics regards as the most important one) to fulfil the requirements for BREEAM Excellent in that category.
  - Sustainalytics notes that the Framework excludes the financing of buildings that are used for the storage, extraction or manufacturing of fossil fuels.
  - Sustainalytics considers investments under this category to be aligned with market practice.
- Project Evaluation and Selection:
  - MBH MB’s Green Covered Bond Committee (“GCBC”) will oversee the internal process for evaluating and selecting projects, including reviewing, assessing and selecting all projects in accordance with the eligibility criteria. The GCBC reports directly to the management of the board, and is comprised of the CEO, members from relevant departments of the Bank, including Risk Management, Capital Markets Department, Refinancing Department, Asset and Liability Management department, and Collateral Registry.
  - MBH MB has internal procedures in place to identify and manage environmental and social risks associated with assets financed under the Framework. MBH MB’s project evaluation and selection process has been established to ensure compliance with eligibility criteria by conducting checks on each asset and mitigate environmental and social impacts. Sustainalytics considers MBH MB’s environmental and social risk management process to be adequate and aligned with market expectation. For additional details, see Section 2.
  - Based on the delegation of responsibility and risk management processes, Sustainalytics considers this evaluation and selection approach to be in line with market practice.
- Management of Proceeds:
  - The GCBC will oversee the management of proceeds and will track allocation to eligible assets using existing internal tracking systems<sup>19</sup> following a portfolio approach.
  - MBH MB intends to allocate the proceeds within 24 months of issuance. Pending full allocation, unallocated proceeds will be temporarily held in MBH MB’s liquid asset portfolio.
  - Based on the disclosure of an allocation timeframe and temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
  - MBH MB intends to report on the allocation of proceeds and associated impact metrics on its website<sup>20</sup> on a quarterly basis until full allocation.
  - Allocation reporting will include the size of the identified eligible green mortgage loan portfolio, the total amount allocated to eligible green loans, the balance of unallocated proceeds, and the share of financing versus refinancing.
  - Impact reporting will include metrics such as a brief description of eligible green mortgage loans, annual site energy savings (MW/year), and the annual CO<sub>2</sub> emissions avoidance per annum, the breakdown of the eligible green mortgage loan portfolio and a brief description of the eligible green mortgage loans, wherever feasible.
  - Based on the commitment to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

<sup>17</sup> LEED: <https://www.usgbc.org/leed>

<sup>18</sup> BREEAM: <https://bregroup.com/products/breeam/>

<sup>19</sup> MBH MB uses its existing IT architecture for tracking the allocation of proceeds from Green Covered Bonds, where the available IT sub-systems fulfil the accounting of the loan book, property registration and treasury transactions covering green covered bond issuances.

<sup>20</sup> MBH MB will report on allocation and impact of proceeds on their website: <https://www.en.takarekjbz.hu/maganszemelyek>

### Alignment with Green Bond Principles 2021

Sustainalytics has determined that the MBH Mortgage Bank Green Covered Bond Framework aligns with the four core components of the GBP.

## Section 2: Sustainability Strategy of MBH MB

### Contribution to MBH MB 's sustainability strategy

Sustainalytics is of the opinion that MBH MB demonstrates a strong commitment to sustainability by integrating ESG considerations into its strategy, risk management practices, policies, systems and processes.<sup>21</sup> In 2022, MBH MB established its ESG Strategy, which is underpinned by three pillars, including: i) participating in MBH Group's sustainability efforts; and ii) developing a product portfolio that promotes sustainability.<sup>22</sup> The ESG strategy outlines the Bank's policies and guidelines on mortgage lending and due diligence processes, to avoid potential social and environmental risks stemming from the financed projects.<sup>23</sup> Under the ESG Strategy, the Bank identified as key goals: i) to promote products and services with environmental benefits; ii) to ensure responsible growth; and iii) to contribute to a low-emission society.<sup>24</sup>

Among its sustainability objectives, the Bank aims to reduce its operational and financed emissions.<sup>25</sup> MBH MB has a commitment to increase its annual average savings in CO<sub>2</sub> emissions per square meter of real estate collateral backing refinanced loans by 20% by 2027 and reduce scope 1 and scope 2 emissions by 20% by 2027, both from a 2021 baseline.<sup>26</sup> MBH MB joined the Energy Efficient Mortgage Initiative in 2020, committing to implement sustainability factors into its business strategy through energy efficient mortgage lending.<sup>27</sup> In 2022, MBH MB adopted the Energy Efficient Mortgage Label to incentivize mortgage borrowers to improve the energy efficiency of their properties.<sup>28,29</sup> Additionally, the Bank aims to enhance its green lending portfolio through sustainable securities. Since 2019, the Bank's mortgage-based refinancing and mortgage bond issuance activities have been structured to support sustainable lending practices. Consequently, the Bank aims to increase funding towards green mortgages by 15% (from 2019) by 2025 to enhance its green mortgage portfolio.<sup>30</sup> In 2021, MBH MB raised HUF 5 billion (EUR 13 million) through Hungary's first green mortgage bond to finance the development of green residential and commercial buildings.<sup>31</sup>

MBH MB has been reporting on its environmental sustainability since 2021<sup>32</sup> following the GRI's standards.<sup>33</sup>

Sustainalytics is of the opinion that the MBH Mortgage Bank Green Covered Bond Framework is aligned with the Bank's overall sustainability strategy and initiatives and will further the Bank's actions on its key environmental priorities.

### Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the net proceeds from the bonds issued under the Framework will be directed towards eligible projects that are expected to have positive environmental impact. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. While MBH MB plays a limited role in the development of the projects that it finances, by offering lending and financial services, it is exposed to environmental and social risks associated with the projects that it may finance or refinance. Some key environmental and social risks associated with the eligible projects may include land use and biodiversity issues associated with large-scale infrastructure development and waste generated throughout the construction process, occupational health and safety, business ethics and data privacy.

Sustainalytics is of the opinion that MBH MB is able to manage or mitigate potential risks through implementation of the following Bank or Group policies:<sup>34</sup>

<sup>21</sup> MBH Mortgage Bank, "Sustainability Report", (2022), at: [https://www.mbhmortgagebank.hu/sw/static/file/MBH\\_MB\\_ESGreport\\_2022\\_ENG\\_pub.pdf](https://www.mbhmortgagebank.hu/sw/static/file/MBH_MB_ESGreport_2022_ENG_pub.pdf)

<sup>22</sup> TakaréK Mortgage Bank, "ESG Strategy", (2022), at: <https://www.mbhmortgagebank.hu/sw/static/file/en.takarekjob.hu-files-23-89159.pdf>

<sup>23</sup> MBH Mortgage Bank, "Sustainability Report", (2022), at: [https://www.mbhmortgagebank.hu/sw/static/file/MBH\\_MB\\_ESGreport\\_2022\\_ENG\\_pub.pdf](https://www.mbhmortgagebank.hu/sw/static/file/MBH_MB_ESGreport_2022_ENG_pub.pdf)

<sup>24</sup> Ibid.

<sup>25</sup> Ibid.

<sup>26</sup> TakaréK Mortgage Bank, "ESG Strategy", (2022), at: <https://www.mbhmortgagebank.hu/sw/static/file/en.takarekjob.hu-files-23-89159.pdf>

<sup>27</sup> Ibid.

<sup>28</sup> Ibid.

<sup>29</sup> Energy Efficient Mortgage Label, "Takarék Mortgage Bank becomes the second Hungarian Pilot bank to join the Energy Efficient Mortgages Initiative", at: <https://www.energy-efficient-mortgage-label.org/open-file/19/Takarek-Mortgage-Bank-becomes-first-Hungarian-bank-to-join-EEM-Label>

<sup>30</sup> MBH Mortgage Bank, "Sustainability Report", (2022), at: [https://www.mbhmortgagebank.hu/sw/static/file/MBH\\_MB\\_ESGreport\\_2022\\_ENG\\_pub.pdf](https://www.mbhmortgagebank.hu/sw/static/file/MBH_MB_ESGreport_2022_ENG_pub.pdf)

<sup>31</sup> MBH Mortgage Bank, "Investor Presentation", (2021), at: <https://www.mbhmortgagebank.hu/sw/static/file/en.takarekjob.hu-files-23-86897.pdf>

<sup>32</sup> MBH MB, "Sustainability Report", (2021), at: <https://www.mbhmortgagebank.hu/sw/static/file/en.takarekjob.hu-files-23-89158.pdf>

<sup>33</sup> Global Reporting Initiative, "Standards", at: <https://www.globalreporting.org/standards/>

<sup>34</sup> MBH MB has communicated to Sustainalytics that on topics not covered under MBH MB's policies, the Bank abides by the policies of MHB Bank Plc., its parent bank.

- Regarding land use, biodiversity and waste generated during construction, the Bank complies with the Environmental Impact Assessment Directive 2014/52/EU, to ensure that land-intensive projects are adequately assessed and have mitigative measures to prevent, reduce and offset significant adverse effects on the environment, particularly on soil, species and habitats.<sup>35</sup> As a member of MBH Group, MBH MB continuously incorporates Recommendation No 5/2021. (IV. 15) and No 10/2022 (VIII.2) of the Hungarian National Bank into its methodology for identification and measurement of environmental risks.<sup>36,37</sup> Regarding occupational health and safety, MBH MB developed a health and safety policy, including principles and guidelines on providing a healthy working environment, addressing work-related hazards and risks, and protecting physical and mental health. Moreover, MBH MB addresses OHS risks based on mandatory compliance with Hungary's Labour Code<sup>38</sup> and Occupational Safety and Health Act.<sup>39,40</sup> MBH MB also complies with the EU Directive on Worker Health and Safety that requires employers to take necessary measures for workers' protection, safety and health and the prevention of occupational risks.<sup>41</sup>
- Regarding business ethics, the Bank has in place a Code of Conduct which guides the activities of the Bank, and governs procedures for the identification and prevention of risks and violations.<sup>42</sup> The code addresses business ethics, regulatory compliance and overall social responsibility, and applies to all customers, partners and employees, requiring suppliers to adhere to MBH MB's social and environmental commitments in their entire supply chains.<sup>43</sup> To address money laundering and terrorism financing risks, the Group has an anti-corruption policy that establishes zero-tolerance in relation to bribery and corruption.<sup>44</sup> The Bank conducts its operations in compliance with EU and UN Security Council regulations covering areas such as anti-money laundering and anti-terrorism financing.<sup>45</sup> The Bank also follows the Financial Action Task Force (FATF) recommendations for preventing economic crime.<sup>46</sup> The Bank's whistleblowing policy provides a channel for employees and third parties to report on unlawful activity, misconduct and violation of the Bank's Code of Conduct.<sup>47</sup>
- To address data privacy risks, MBH MB follows group-wide policies and procedures, including having a complaint management process to address customer complaints.<sup>48,49</sup> The Bank's procedures to ensure the secure operation of its information systems and protection of data follow the General Data Protection Regulation<sup>50</sup> and Hungary's Government Decree 42/2015. (III.12.) on the protection of the information systems of financial institutions.<sup>51</sup> The Bank has a grievance redressal mechanism where the Data Protection Officer investigates complaints and makes proposals for their resolution, in compliance with the rules of Hungary's National Authority for Data Protection and Freedom of Information (NAIH).<sup>52</sup>
- MBH MB carries out its operations in Hungary, which is recognized as Designated Country under the Equator Principles, indicating the presence of robust environmental and social governance, legislation systems and institutional capacity to mitigate the environmental and social risks associated with projects financed under the Framework.<sup>53</sup>

Based on these policies, standards and assessments, Sustainalytics is of the opinion that MBH MB has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

<sup>35</sup> European Parliament, "Directive 2014/52/EU on the assessment of the effects of certain public and private projects on the environment", (2014), at: <https://eurlex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0052>

<sup>36</sup> MBH Mortgage Bank, "Sustainability Report", (2022), at: [https://www.mbhmortgagebank.hu/sw/static/file/MBH\\_MB\\_ESGreport\\_2022\\_ENG\\_pub.pdf](https://www.mbhmortgagebank.hu/sw/static/file/MBH_MB_ESGreport_2022_ENG_pub.pdf)

<sup>37</sup> Recommendation No. 5/2021 (IV.15.) and 10/2022 (VIII.2.) of the Hungarian National Bank on climate-related and environmental risks and the Integration of environmental sustainability considerations in the activities of credit institutions.

<sup>38</sup> International Labour Organization, "Act I of 2012 on the Labour Code", at: <https://www.ilo.org/dyn/travail/docs/2557/Labour%20Code.pdf>

<sup>39</sup> International Labour Organization, "Act XCIII of 1993 concerning Occupational Safety and Health", (1993), at:

[https://natlex.ilo.org/dyn/natlex2/r/natlex/fe/details?p3\\_isn=47147](https://natlex.ilo.org/dyn/natlex2/r/natlex/fe/details?p3_isn=47147)

<sup>40</sup> MBH Mortgage Bank, "Sustainability Report", (2022), at: [https://www.mbhmortgagebank.hu/sw/static/file/MBH\\_MB\\_ESGreport\\_2022\\_ENG\\_pub.pdf](https://www.mbhmortgagebank.hu/sw/static/file/MBH_MB_ESGreport_2022_ENG_pub.pdf)

<sup>41</sup> European Agency for Safety and Health at Work, "Directive 89/391/EEC-OSH Framework Directive", at:

<https://osha.europa.eu/en/legislation/directives/the-osh-framework-directive/1>

<sup>42</sup> MBH Bank, "Code of Conduct", (2023), at: <https://www.mbhbank.hu/sw/static/file/MBHCodeofConduct.pdf>

<sup>43</sup> Ibid.

<sup>44</sup> Ibid.

<sup>45</sup> Ibid.

<sup>46</sup> Financial Action Task Force, "International standards on combating money laundering and the financing of terrorism and proliferation", (2023), at:

<https://www.fatf-gafi.org/content/dam/fatf-gafi/recommendations/FATF%20Recommendations%202012.pdf.coredownload.inline.pdf>

<sup>47</sup> MBH Mortgage Bank, "Sustainability Report", (2022), at: [https://www.mbhmortgagebank.hu/sw/static/file/MBH\\_MB\\_ESGreport\\_2022\\_ENG\\_pub.pdf](https://www.mbhmortgagebank.hu/sw/static/file/MBH_MB_ESGreport_2022_ENG_pub.pdf)

<sup>48</sup> Ibid.

<sup>49</sup> MBH Mortgage Bank, "General policy notice", at: <https://www.mbhjelzalogbank.hu/sw/static/file/JZBAltalanosadatkezesitajekoztato.pdf>

<sup>50</sup> European Parliament, Regulation (EU) 2016/679, at: <https://eur-lex.europa.eu/eli/reg/2016/679/oj>

<sup>51</sup> MBH Bank, "General Privacy Notice", at: [https://www.mbhbank.hu/sw/static/file/mkb.hu-sw-static-file-GENERAL\\_DATA\\_PROTECTION\\_NOTIFICATION.pdf](https://www.mbhbank.hu/sw/static/file/mkb.hu-sw-static-file-GENERAL_DATA_PROTECTION_NOTIFICATION.pdf)

<sup>52</sup> Ibid.

<sup>53</sup> The Equator Principles, "Designated Countries", at: <https://equator-principles.com/designated-countries/>

### Section 3: Impact of Use of Proceeds

The use of proceeds category is aligned with those recognized by the GBP. Sustainalytics has focused below on where the impact is specifically relevant in the local context.

#### Importance of financing green buildings in Hungary

In 2021, the buildings sector accounted for approximately 35% of energy-related GHG emissions in the EU.<sup>54</sup> In order to meet the 1.5°C scenario in the Paris Agreement, the buildings sector must reduce its direct CO<sub>2</sub> emissions by 50% and its indirect emissions by 60% by 2030.<sup>55</sup> Consequently, all newly constructed buildings and 20% of the existing global building stock must achieve carbon neutrality by 2030.<sup>56</sup> Furthermore, the energy consumption of buildings must reduce by 35% by 2030 from a 2020 baseline, to reach net zero emissions by 2050.<sup>57</sup>

Hungary accounts for 1.7% of the EU’s total GHG emissions, with buildings accounting for 15% of the country’s total emissions in 2023.<sup>58,59</sup> In 2020, Hungary passed a law mandating carbon-emissions reductions of at least 40 percent by 2030 compared with 1990 levels and becoming carbon neutral by 2050.<sup>60</sup> In addition, Hungary has established a target to improve energy efficiency, aiming to ensure that the country’s final energy consumption by 2030 does not exceed the levels of a 2005 baseline.<sup>61</sup> In 2021, the Hungarian Government approved the Long-Term Renovation Strategy and Recovery and Resilient Plan, which provides the basis for achieving a sustainable domestic building stock by 2050 by expanding renewable energy use and improving energy efficiency.<sup>62,63</sup> In 2023, the National Energy and Climate Plan set forth a target to achieve an annual rate of deep renovations of 3% of the floor area of the Hungarian government building stock.<sup>64</sup>

Based on the above, Sustainalytics is of the opinion that MBH MB’s investments in green buildings are expected to contribute to decarbonizing the building stock in Hungary and contribute to the country’s emissions reduction goals.

#### Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the MBH Mortgage Bank Green Covered Bond Framework are expected to advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Green Buildings	7. Affordable and clean energy	7.3 By 2030, double the global rate of improvement in energy efficiency
	9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities

<sup>54</sup> European Environment Agency, “Greenhouse gas emissions from energy use in buildings in Europe”, (2023), at:

<https://www.eea.europa.eu/en/analysis/indicators/greenhouse-gas-emissions-from-energy>

<sup>55</sup> United Nations Environment Programme, “Building sector emissions hit record high, but low-carbon pandemic recovery can help transform sector”, (2020) at: <https://www.unep.org/news-and-stories/press-release/building-sector-emissions-hit-record-high-low-carbon-pandemic>

<sup>56</sup> International Energy Agency, “Renovation of near 20% of existing building stock to zero-carbon-ready by 2030 is ambitious but necessary”, (2022), at: <https://www.iea.org/reports/renovation-of-near-20-of-existing-building-stock-to-zero-carbon-ready-by-2030-is-ambitious-but-necessary>

<sup>57</sup> International Energy Agency, “Buildings”, (2022), at: <https://www.iea.org/reports/buildings>

<sup>58</sup> Békés, M. et al., “Carbon-neutral Hungary”, McKinsey and Company, (2022), at:

<https://www.mckinsey.com/capabilities/sustainability/ourinsights/carbon-neutral-hungary>

<sup>59</sup> European Parliament, “Climate action in Hungary: Latest state of play” (2021), at:

[https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/698060/EPRS\\_BRI\(2021\)698060\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/698060/EPRS_BRI(2021)698060_EN.pdf)

<sup>60</sup> Békés, M. et al., “Carbon-neutral Hungary”, McKinsey and Company, (2022), at:

<https://www.mckinsey.com/capabilities/sustainability/ourinsights/carbon-neutral-hungary>

<sup>61</sup> European Commission, Hungary- draft updated NECP 2021-2030, “National Energy and Climate Plan” (2023), at:

[https://commission.europa.eu/system/files/2023-09/HUNGARY%20-%20DRAFT%20UPDATED%20NECP%202021-2030%20\\_EN.pdf](https://commission.europa.eu/system/files/2023-09/HUNGARY%20-%20DRAFT%20UPDATED%20NECP%202021-2030%20_EN.pdf)

<sup>62</sup> European Commission, “Long Term Renovation Strategy”, (2021), at: [https://energy.ec.europa.eu/system/files/2021-08/hu\\_2020\\_ltrs\\_en\\_0.pdf](https://energy.ec.europa.eu/system/files/2021-08/hu_2020_ltrs_en_0.pdf)

<sup>63</sup> European Commission, “Hungary’s recovery and resilience plan”, at: [https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility/country-pages/hungarys-recovery-and-resilience-plan\\_en](https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility/country-pages/hungarys-recovery-and-resilience-plan_en)

<sup>64</sup> International Energy Agency, “Hungary – Energy Policy Review”, (2022), at: <https://iea.blob.core.windows.net/assets/9f137e48-13e4-4aab-b13a-dcc90adf7e38/Hungary2022.pdf>

	<p>11. Sustainable Cities and Communities</p>	<p>11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management</p>
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**Conclusion**

MBH MB has developed the MBH Mortgage Bank Green Covered Bond Framework under which it may issue green covered bonds and use the proceeds to finance or refinance, in whole or in part, existing or future mortgage loans. Sustainalytics considers that the eligible projects are expected to provide positive environmental impacts.

The MBH Mortgage Bank Green Covered Bond Framework outlines processes for tracking, allocation and management of proceeds, and makes commitments for MBH MB to report on allocation and impact. Sustainalytics considers that the MBH Mortgage Bank Green Covered Bond Framework is aligned with MBH MB’s overall sustainability strategy and that the use of proceeds will contribute to the advancement of the UN Sustainable Development Goals 7, 9 and 11. Additionally, Sustainalytics considers that MBH MB has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Based on the above, Sustainalytics is confident that MBH MB is well positioned to issue green covered bonds and that the MBH Mortgage Bank Green Covered Bond Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles 2021.

## Appendix

### Appendix 1: Green Bond / Green Bond Programme - External Review Form

#### Section 1. Basic Information

Issuer name:	MBH Mortgage Bank Co. Plc.
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:	MBH Mortgage Bank Green Covered Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	February 09, 2024
Publication date of review publication:	September 22, 2021

#### Section 2. Review overview

##### SCOPE OF REVIEW

The review:

- assessed the 4 core components of the Principles (**complete review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*).
- assessed only some of them (**partial review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*); please indicate which ones:
  - Use of Proceeds
  - Process for Project Evaluation and Selection
  - Management of Proceeds
  - Reporting
- assessed the alignment with other regulations or standards (CBI, EU GBS, ASEAN Green Bond Standard, ISO 14030, etc.); please indicate which ones:

##### ROLE(S) OF INDEPENDENT REVIEW PROVIDER

- Second Party Opinion
- Certification
- Verification
- Scoring/Rating
- Other (please specify):

##### Does the review include a sustainability quality score?

- Of the issuer
- Of the project
- Of the Framework
- Other (please specify):
- No scoring

##### ASSESSMENT OF THE PROJECT(S)

Does the review include:

- The environmental and/or social features of the type of project(s) intended for the Use of Proceeds?
- The environmental and/or social benefits and impact targeted by the eligible Green and/or Social Project(s) financed by the Green, Social or Sustainability Bond?
- The potentially material environmental and/or social risks associated with the project(s) (where relevant)?

#### ISSUER'S OVERARCHING OBJECTIVES

##### Does the review include:

- An assessment of the issuer's overarching sustainability objectives and strategy, and the policies and/or processes towards their delivery?
- An identification and assessment of environmental, social and governance related risks of adverse impact through the Issuer's [actions] and explanations on how they are managed and mitigated by the issuer?
- A reference to the issuer's relevant regulations, standards, or frameworks for sustainability-related disclosure and reporting?

#### CLIMATE TRANSITION STRATEGY

##### Does the review assess:

- The issuer's climate transition strategy & governance?
- The alignment of both the long-term and short/medium-term targets with the relevant regional, sector, or international climate scenario?
- The credibility of the issuer's climate transition strategy to reach its targets?
- The level/type of independent governance and oversight of the issuer's climate transition strategy (e.g. by independent members of the board, dedicated board sub-committees with relevant expertise, or via the submission of an issuer's climate transition strategy to shareholders' approval).
- If appropriate, the materiality of the planned transition trajectory in the context of the issuers overall business (including the relevant historical datapoints)?
- The alignment of the issuer's proposed strategy and targets with appropriate science-based targets and transition pathways that are deemed necessary to limit climate change to targeted levels?
- The comprehensiveness of the issuer's disclosure to help investors assess its performance holistically?

**Overall comment on this section:**

### Section 3. Detailed review

#### 1. USE OF PROCEEDS

##### Does the review assess:

- the environmental/social benefits of the project(s)?
- whether those benefits are quantifiable and meaningful?
- for social projects, whether the target population is properly identified?

##### Does the review assess if the issuer provides clear information on:

- the estimated proceeds allocation per project category (in case of multiple projects)?
- the estimated share of financing vs. re-financing (and the related lookback period)?

**Overall comment on this section:** The eligible category for the use of proceeds, Green Buildings, is aligned with those recognized by the Green Bond Principles. Sustainalytics considers that investments in the eligible category will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDGs 7, 9 and 11.

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

### Does the review assess:

- whether the eligibility of the project(s) is aligned with official or market-based taxonomies or recognised international standards? Please specify which ones. *Sustainalytics has a proprietary taxonomy which is influenced by the EU taxonomy, Climate Bonds Initiative taxonomy as well as international standards.*
- whether the eligible projects are aligned with the overall sustainability strategy of the issuer and/or if the eligible projects are aligned with material ESG-related objectives in the issuer's industry?
- the process and governance to set the eligibility criteria including, if applicable, exclusion criteria?
- the processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s)?
- any process in place to identify mitigants to known material risks of negative social and/or environmental impacts from the relevant project(s)?

**Overall comment on this section:** MBH Mortgage Bank's ("MBH MB") Green Covered Bond Committee ("GCBC") will oversee the internal process for evaluating and selecting projects, including reviewing, assessing, and selecting all projects in accordance with eligibility criteria. MBH MB has internal procedures in place to identify and manage environmental and social risks associated with assets financed, which are applicable to all allocation decisions made under the Framework. Sustainalytics considers MBH MB's risk management systems to be adequate and the project evaluation and selection process to be in line with market practice.

## 3. MANAGEMENT OF PROCEEDS

### Does the review assess:

- the issuer's policy for segregating or tracking the proceeds in an appropriate manner?
- the intended types of temporary investment instruments for unallocated proceeds?
- Whether an external auditor will verify the internal tracking of the proceeds and the allocation of the funds?

**Overall comment on this section:** The GCBC will also oversee the management of proceeds, and will track allocation to eligible assets using existing internal tracking systems through a portfolio approach. MBH MB intends to allocate the proceeds within 24 months of issuance. Pending full allocation, unallocated proceeds will be temporarily held in MBH MB's liquid asset portfolio. This is in line with market practice.

## 4. REPORTING

### Does the review assess:

- the expected type of allocation and impact reporting (bond-by-bond or on a portfolio basis)?
- the frequency and the means of disclosure?
- the disclosure of the methodology of the expected or achieved impact of the financed project(s)?

**Overall comment on this section:** MBH MB intends to report on the allocation of proceeds on its website on a quarterly basis until full allocation. The report will include the size of the identified eligible green loan portfolio, the total amount allocated to eligible green loans, the balance of unallocated proceeds, and the share of financing versus refinancing. In addition, MBH MB is also committed to reporting on relevant impact metrics. Sustainalytics views MBH MB's allocation and impact reporting commitments as aligned with market practice.

## Section 4. Additional Information

**Useful links** (e.g. to the external review provider's methodology or credentials, to the full review, to issuer's documentation, etc.)

**Analysis of the contribution of the project(s) to the UN Sustainable Development Goals:**

**Additional assessment in relation to the issuer/bond framework/eligible project(s):**

**ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP**

- i. **Second-Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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In case of discrepancies between the English language and translated versions, the English language version shall prevail.

## About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 1500 staff members, including more than 500 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com)

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