



# Second-Party Opinion

## Takarék Mortgage Bank Green Covered Bond Framework

### Evaluation Summary

Sustainalytics is of the opinion that the Takarék Mortgage Bank Green Covered Bond Framework is credible and impactful and aligns to 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 SDG 7, 9 and 11.



**PROJECT EVALUATION / SELECTION** Takarék Mortgage Bank’s (“TMB”) 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. TMB has internal procedures in place to identify and manage social and environmental risks associated with assets financed via the Framework, which are applicable to all allocation decisions made under the Framework. Sustainalytics considers the project selection process in line with market practice.



**MANAGEMENT OF PROCEEDS** The GCBC will also oversee the management of proceeds, which will track allocation to eligible assets using existing internal tracking systems following a portfolio approach. Unallocated proceeds will be temporarily held in TMB’s liquid asset portfolio. This is in line with market practice.



**REPORTING** TMB intends to report on the allocation of proceeds on its website on an annual 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, TMB is also committed to reporting on relevant impact metrics. Sustainalytics views TMB’s allocation and impact reporting as aligned with market practice.

**Evaluation Date** September 22, 2021

**Issuer Location** Budapest, Hungary

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## Introduction

Founded in 1998, Takarék Mortgage Bank Co. Plc. (“TMB”, or the “Bank”) is a mortgage refinancing bank, headquartered in Budapest. The Bank’s main lending activities are refinancing mortgage loans for members of Takarék Group (the “Group”), TMB’s parent company, and third-party partner banks outside the Group.

TMB has developed the Takarék Mortgage Bank Green Covered Bond Framework (the “Framework”) under which it intends to issue covered green bonds and use the proceeds to finance or refinance, in whole or in part, existing or future mortgage loans that reduce the carbon footprint and improve the energy performance of residential and commercial building stock in Hungary. The Framework defines eligibility criteria in one area:

### 1. Green Buildings

TMB engaged Sustainalytics to review the Takarék Mortgage Bank Green Covered Bond Framework, dated September 2021, and to provide a Second-Party Opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2021 (GBP).<sup>1</sup> The Framework has been published in a separate document.<sup>2</sup>

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

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>3</sup> opinion on the alignment of the reviewed Framework with the 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 1.10, 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 TMB’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. TMB representatives have confirmed (1) they understand it is the sole responsibility of TMB to ensure that the information provided is complete, accurate or 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 TMB.

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

<sup>1</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>2</sup> The Takarék Mortgage Bank Green Covered Bond Framework is available on Takarék Mortgage Bank Co. Plc. ’s website at: <https://www.en.Takarékjzb.hu/>

<sup>3</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.

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 TMB has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

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

Sustainalytics is of the opinion that the Takarék Mortgage Bank Green Covered Bond Framework is credible and impactful and aligns to 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. Sustainalytics notes that the proceeds of Green Covered Bonds issued under the Framework activities are expected to reduce the carbon footprint and improve the energy performance of residential and commercial building stock in Hungary.
  - Within the Green Buildings category, TMB intends to finance and refinance new, existing or refurbished commercial and residential buildings in Hungary according to the following criteria:
    - New or existing residential and commercial buildings built after 30<sup>th</sup> of June 2022,<sup>4</sup> which have a Primary Energy Demand (PED) at least 10% lower than the Nearly Zero Energy Building (NZEB)<sup>5</sup> Standard in Hungary. Sustainalytics highlights that this criterion is aligned with that of the EU Taxonomy<sup>6</sup> and considers it to be in line with market expectations.
    - Residential buildings constructed before 30<sup>th</sup> of June 2022, which: (i) have a maximum PED of 100 kWh/m<sup>2</sup>/year and comply with the Hungarian NZEB Standard requirements, or (ii) have an EPC label A or above,<sup>7</sup> or (iii) belong to the top 15% based on emission intensity performance.<sup>8</sup>
    - Commercial buildings constructed before 30<sup>th</sup> of June 2022, which have a PED at least 10% lower than the Hungarian NZEB Standard.
    - Commercial buildings which have achieved or are expected to achieve one of the following minimum certification levels: (i) LEED Gold with energy savings of at least 30% or more against ASHRAE 90.1 2010, and (ii) BREEAM Very Good. Sustainalytics considers BREEAM Excellent to be aligned with market practice and encourages TMB to select BREEAM-certified buildings that achieve a minimum score of 70% in the Energy category (which Sustainalytics regards as the most important one) to fulfill the requirements for BREEAM Excellent in that category. For Sustainalytics assessment of these schemes, please refer to Appendix 1.
    - Refurbishment or renovation of existing commercial and residential buildings which are designed to fulfil the cost-optimal minimum energy performance requirements for major renovations, as defined by the Energy Performance Buildings Directive (EPBD) -

<sup>4</sup> Hungary is expected to introduce the mandatory implementation NZEB regulation from 30<sup>th</sup> June 2022. For more information please see: [https://www.bpie.eu/wp-content/uploads/2021/06/Nearly-zero\\_EU-Member-State-Review-062021\\_Final.pdf](https://www.bpie.eu/wp-content/uploads/2021/06/Nearly-zero_EU-Member-State-Review-062021_Final.pdf)

<sup>5</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>6</sup> EU document, "Annex to the Commission Delegated Regulation (EU)", at: [https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2021-2800-annex-1\\_en.pdf](https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2021-2800-annex-1_en.pdf)

<sup>7</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 before 2016).

<sup>8</sup> Residential buildings complying with the PED requirements from the building energy code 7/2006 including amendments of 8/2012 and were constructed in 2013 or later.

Sustainalytics notes that the performance standard reflected in the EU Taxonomy,<sup>9</sup> which require meeting the relevant cost-optimal minimum energy performance requirements in accordance with the EPBD, could vary by region (EU Member States). Sustainalytics, therefore encourages TMB to report on the actual primary energy demand performance level (or energy savings) achieved compared to the reference buildings as defined based on existing building stock within the region. The Framework also defines building renovations which achieve a minimum 30% primary energy savings compared to the performance of the building prior to the renovation as eligible. Sustainalytics views positively the Framework's inclusion of a defined energy efficiency threshold on a benchmarking basis for the renovation of existing buildings.

- **Project Evaluation and Selection:**
  - TMB'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 eligibility criteria. The GCBC reports directly to the Management of Board, and is comprised of the CEO, members from the relevant department of the Bank, such as Risk Management, the head of Capital Market Department, Refinancing Department, ALM, and Collateral Registry.
  - TMB has internal procedures in place to identify and manage social and environmental risks associated with assets financed via the Framework. TMB's project evaluation and selection process have been established to mitigate environmental and social impacts. Sustainalytics considers this 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 also oversee the management of proceeds, which will track allocation to eligible assets using existing internal tracking systems<sup>10</sup> following a portfolio approach. TMB intends to allocate proceeds from the issuance of Green Covered Bond to an Eligible Green Mortgage Loan Portfolio.
  - If an asset ceases to fulfill the eligibility criteria outlined in the Framework, the Bank will strive to replace such assets with other Eligible Green Mortgage Loan as soon as practically feasible. TMB has confirmed that all collateral (or in excess) is made up of green eligible assets and does not include non-green assets. Sustainalytics considers this process as aligned with market practice.
  - Unallocated proceeds will be temporarily held in TMB's liquid asset portfolio. TMB intends to allocate net proceeds from Green Covered Bonds to eligible projects within two years of issuance.
  - Based on the processes for allocation timeframe and temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- **Reporting:**
  - TMB intends to report on the allocation of proceeds and associated impact metrics on its website on an annual 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, as well as the share of financing versus refinancing.
  - Impact reporting will include impact metrics such as the annual site energy savings and the annual CO<sub>2</sub> emissions avoidance, the breakdown of Eligible Green Mortgage Loan portfolio, as well as a brief description of the Eligible Green Mortgage Loans.
  - Based on the commitment to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

### Alignment with Green Bond Principles 2021

Sustainalytics has determined that the Takarék Mortgage Bank Green Covered Bond Framework aligns to the four core components of the GBP. For detailed information please refer to Appendix 2: Green Bond/Green Bond Programme External Review Form.

<sup>9</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)

<sup>10</sup> TMB 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.

## Section 2: Sustainability Strategy of TMB

### Contribution of framework to TMB's sustainability initiatives

Takarék Group's overarching sustainability goal is to contribute towards achieving climate neutrality and reducing human impact on nature.<sup>11</sup> Accordingly, in 2020, TMB joined the Energy Efficient Mortgages Initiative Pilot Scheme. The Scheme aims to incentivize mortgage borrowers to improve the energy efficiency of their properties or to acquire highly energy efficient properties through favorable financial conditions.<sup>12</sup> Additionally, TMB intends to map green assets in Hungary to make them available for verified green mortgage loan refinancing.<sup>13</sup> This effort will be supported by upgraded IT infrastructure.<sup>13</sup>

As of 2021, TMB's green building portfolio, which represents 42% of the entire Bank's portfolio, has achieved annual energy savings of 102,519 MWh and annual carbon emissions savings of 18,761 tCO<sub>2</sub>.<sup>14</sup>

Sustainalytics is of the opinion that TMB's sustainability efforts and initiatives are aligned with the Framework and will further the Bank's action in key environmental matters. The Bank confirmed that as part of its sustainability strategy, TMB will prepare an action plan and a roadmap including defined targets.<sup>15</sup> Sustainalytics encourages the Issuer to develop a public strategy with quantitative and time-bound GHG emission reduction targets.

### Well-positioned to address common environmental and social risks associated with the projects

While 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, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Key environmental and social risks associated with the eligible projects, could include money laundering, occupational health and safety, land use change, biodiversity loss and waste generated throughout the construction process. Although TMB is not directly involved in the development of the individual projects and assets financed, Sustainalytics is of the opinion that TMB able to manage or mitigate potential risks through implementation of the following:

- TMB's Anti-Money Laundering Department carries out screening and analytical activities by screening and examining customers and transactions on a risk basis. The department's analyses identify and mitigate current and future customer, transaction and geographical risks, and thereby supports risk management and business processes as well.<sup>16</sup>
- In 2021, Magyar Bankholding Group, which is Takarék Group's holding company, established an ESG Working Group, to which TMB delegates one representative. The working group aims to implement the following at the holding company level: (i) a sustainability and environmental strategy, (ii) an amendment of the risk strategy with climate and environmental factors, (iii) a standalone ESG risk regulation, (iv) joining to UN Environment Programme Finance Initiative.
- Expenditures funded by green bond proceeds will take place in Hungary, an EU member state, therefore TMB is required to comply with EU regulation.
- In Hungary, the Act of 1993 concerning Occupational Safety and Health aims to ensure healthy and safe working conditions.<sup>17</sup> The EU Directive on Safety and Health at Work also provides a framework to ensure worker health and safety protection in the EU member states<sup>18</sup>, which Hungary has implemented into its national legislation.<sup>19</sup>
- In 1995 Hungary put a law in place on general rules for the protection of the environment which also aims at preventing wildlife from being harmed.<sup>20</sup> In addition, the EU's Biodiversity Strategy for 2030

<sup>11</sup>The Issuer has confirmed to Sustainalytics that the Group's Sustainability Strategy will be made publicly available by the end of 2021.

<sup>12</sup>EeMAP, "Takarék Mortgage Bank becomes the second Hungarian Pilot bank to join the Energy Efficient Mortgages Initiative", at:

<https://eemap.energyefficientmortgages.eu/https-eemap-energyefficientmortgages-eu-wp-content-uploads-final-press-release-eem-Takarék-003-pdf/>

<sup>13</sup>Takarék Mortgage Bank, "Investor Presentation", at: <https://www.en.Takarékjzb.hu/files/23/81992.pdf>

<sup>14</sup>Internal Takarék Mortgage Bank documentation shared with Sustainalytics.

<sup>15</sup>Takarék Mortgage Bank, "Green Covered Bond Framework", at: <https://www.en.Takarékjzb.hu/>

<sup>16</sup>Takarék Mortgage Bank, "A Responsible Corporate Governance Report of Takarék Mortgage Bank CO. PLC", at:

<https://en.Takarékjzb.hu/files/23/75089.pdf>

<sup>17</sup>International Labour Organization, "Act No. 93 of 1993 concerning Occupational Safety and Health", (1993), at:

<http://www.ilo.org/dyn/natlex/docs/WEBTEXT/38155/64930/E93HUN01.htm>

<sup>18</sup>Official Journal of the European Communities, "Council Directive of 12 June 1989 on the introduction of measures to encourage improvements in the safety and health of workers at work", (1989), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31989L0391&from=EN>

<sup>19</sup>European Commission, "Evaluation of the practical implementation of the EU occupational safety and health (OSH) directives in EU Member States", (2015), at: <https://ec.europa.eu/social/BlobServlet?docId=16895&langId=en>

<sup>20</sup>Wolters Kluwer collection of legal acts "1995. LIII. Law on the general rules for the protection of the environment", (1995), at:

<https://net.jogtar.hu/jogszabaly?docid=99500053.TV>

covers buildings and aims to stop the loss of green urban ecosystems and promote healthy ones through nature-based solutions systematically integrated into the design of buildings and their surroundings.<sup>21</sup> Additionally, the EU Directive 2014/52/EU,<sup>22</sup> requires an Environmental Impact Assessment (“EIA”) for projects associated with significant effects on the environment prior to development consent being given, ensuring the mitigation of environmental risks relevant with land use changes and infrastructure development. The Directive also instructs that measures must be taken to “avoid, prevent, reduce and, if possible, offset significant adverse effects on the environment, in particular on species and habitats”. Concerning land use, the Directive notes that the “EIA shall identify, describe and assess land use related impacts”.

- Hungary is classified as a “Designated Country” under the Equator Principles, indicating the presence of a robust environment and social governance systems, legislation, and institutional capacity for protecting the environment and communities.<sup>23</sup>

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

### Section 3: Impact of Use of Proceeds

The use of proceeds category is aligned with those recognized by the GBP. Sustainalytics explains why this project category generates positive environmental impact as follows:

#### Impact of greening Hungary’s building stock

The building sector, combining construction and operational emissions, accounted for 38% of total global energy-related CO<sub>2</sub> emissions in 2019.<sup>24</sup> This sector is crucial to meet the climate targets set out in the Paris Agreement. Hungary was the first EU member state to ratify the Paris Agreement in 2016 and subsequently committed to reduce GHG emissions by 40% in 2030 compared to 1990 levels.<sup>25</sup> The largest sector in final energy consumption in Hungary is buildings, comprising over 40% of primary energy consumption.<sup>26</sup> As a large share of the building stock in Hungary was built prior to 1980 with low energy standards, estimates state that 70-90% of the building stock need renovation.<sup>26</sup> Hungary’s energy efficiency target is to ensure that the country’s final energy consumption does not exceed 2005 levels by 2030.<sup>27</sup>

One of the key priorities identified within the EU’s Energy Performance of Buildings Directive is to reduce the energy consumption of buildings, primarily through energy efficiency improvements.<sup>28</sup> The targets for Hungary include annual energy savings of 0.8% and a reduction in GHG emissions by 70% between 2021 and 2030, relative to 2005.<sup>27</sup> The country has been addressing their targets through the Hungary’s National Buildings Energy Performance Strategy, which includes the objective to reduce GHG emissions.

Sustainalytics is of the opinion that the assets that the bank will finance or refinance with green bond proceeds are impactful and may contribute to reducing buildings’ energy consumption and increasing energy efficiency, as well as assisting Hungary in meeting its energy savings and national GHG emissions targets.

#### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bonds issued under the Takarék Mortgage Bank Green Covered Bond Framework advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
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<sup>21</sup> European Commission, “EU’s Biodiversity Strategy for 2030”, at: [https://ec.europa.eu/environment/nature/biodiversity/strategy/index\\_en.htm](https://ec.europa.eu/environment/nature/biodiversity/strategy/index_en.htm)

<sup>22</sup> EU, “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>23</sup> The Equator Principles, “Designated Countries”, at: <https://equator-principles.com/designated-countries/>

<sup>24</sup> UNEP, “Building sector emissions hit record high, but low-carbon pandemic recovery can help transform sector – UN report”, at: <https://www.unep.org/news-and-stories/press-release/building-sector-emissions-hit-record-high-low-carbon-pandemic>

<sup>25</sup> Államadósság Kezelő Központ, “Hungary Green Bond Framework”, at: <https://www.akk.hu/download?path=64709b3f-e69d-4969-b271-9d1db8f469bd.pdf>

<sup>26</sup> EBRD, “Energy efficiency in Hungary begins at home”, at: <https://www.ebrd.com/news/2020/energy-efficiency-in-hungary-begins-at-home.html>

<sup>27</sup> Ministry of Innovation and Technology, “National Energy and Climate Plan”, at: [https://ec.europa.eu/energy/sites/ener/files/documents/hu\\_final\\_necp\\_main\\_en.pdf](https://ec.europa.eu/energy/sites/ener/files/documents/hu_final_necp_main_en.pdf)

<sup>28</sup> Official Journal of the European Union, “Directive (EU) 2018/844 of the European Parliament and of the Council of 30 May 2018 amending Directive 2010/31/EU on the energy performance of buildings and Directive 2012/27/EU on energy efficiency”, at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018L0844&from=EN>

<p>Green Buildings</p>	<p>7. Affordable and clean energy</p> <p>9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation</p> <p>11. Sustainable Cities and Communities</p>	<p>7.3 By 2030, double the global rate of improvement in energy efficiency</p> <p>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</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

TMB has developed the Takarék 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 projects funded by the green covered bond proceeds are expected to provide positive environmental impact through reducing the carbon footprint, as well as improving the energy performance of residential and commercial building stock in Hungary.

The Takarék Mortgage Bank Green Covered Bond Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Takarék Mortgage Bank Green Covered Bond Framework is aligned with the overall sustainability strategy of the company and that the green use of proceed category will contribute to the advancement of the UN Sustainable Development Goals 7, 9 and 11. Additionally, Sustainalytics is of the opinion that TMB has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

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

## Appendices

### Appendix 1: Certification Schemes for Green Buildings

	<b>BREEAM<sup>29</sup></b>	<b>LEED<sup>30</sup></b>
<b>Background</b>	BREEAM (Building Research Establishment Environmental Assessment Method) was first published by the Building Research Establishment (BRE) in 1990. Based in the UK. Used for new, refurbished and extension of existing buildings.	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC).
<b>Certification levels</b>	<ul style="list-style-type: none"> <li>• Pass</li> <li>• Good</li> <li>• Very Good</li> <li>• Excellent</li> <li>• Outstanding</li> </ul>	<ul style="list-style-type: none"> <li>• Certified</li> <li>• Silver</li> <li>• Gold</li> <li>• Platinum</li> </ul>
<b>Areas of Assessment</b>	<ul style="list-style-type: none"> <li>• Energy</li> <li>• Land Use and Ecology</li> <li>• Pollution</li> <li>• Transport</li> <li>• Materials</li> <li>• Water</li> <li>• Waste</li> <li>• Health and Wellbeing</li> <li>• Innovation</li> </ul>	<ul style="list-style-type: none"> <li>• Energy and atmosphere</li> <li>• Sustainable Sites</li> <li>• Location and Transportation</li> <li>• Materials and resources</li> <li>• Water efficiency</li> <li>• Indoor environmental quality</li> <li>• Innovation in Design</li> <li>• Regional Priority</li> </ul>
<b>Requirements</b>	<p>Prerequisites depending on the levels of certification and credits with associated points</p> <p>This number of points is then weighted by item<sup>18</sup> and gives a BREEAM level of certification, which is based on the overall score obtained (expressed as a percentage). Majority of BREEAM issues are flexible, meaning that the client can choose which to comply with to build their BREEAM performance score.</p> <p>BREEAM has two stages/ audit reports: a 'BREEAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.</p>	<p>Prerequisites independent of level of certification, and credits with associated points.</p> <p>These points are then added together to obtain the LEED level of certification</p> <p>There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).</p>
<b>Performance display</b>		

<sup>29</sup> BREEAM, Building Research Establishment LTD, at: <https://breeam.com/>

<sup>30</sup> USGBC, LEED, at: [www.usgbc.org/LEED](http://www.usgbc.org/LEED)

## Appendix 2: Green Bond / Green Bond Programme - External Review Form

### Section 1. Basic Information

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

### Section 2. Review overview

#### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

#### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):                       |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

#### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

### Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

#### 1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

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 SDG 7, 9 and 11.

**Use of proceeds categories as per GBP:**

- |   |  |
|---|--|
| <input type="checkbox"/> Renewable energy   | <input type="checkbox"/> Energy efficiency   |
| <input type="checkbox"/> Pollution prevention and control   | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation  | <input type="checkbox"/> Clean transportation  |
| <input type="checkbox"/> Sustainable water and wastewater management  | <input type="checkbox"/> Climate change adaptation   |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                            | <input checked="" type="checkbox"/> Green buildings  |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP | <input type="checkbox"/> Other <i>(please specify)</i> :   |

If applicable please specify the environmental taxonomy, if other than GBP:

**2. PROCESS FOR PROJECT EVALUATION AND SELECTION**

Overall comment on section (if applicable):

Takarék Mortgage Bank's (TMB) 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. TMB has internal procedures in place to identify and manage social and environmental risks associated with assets financed in line with Hungarian and EU regulation, which are applicable to all allocation decisions made under the Framework. Sustainalytics considers the project selection process in line with market practice.

**Evaluation and selection**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives            | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available                  | <input type="checkbox"/> Other <i>(please specify)</i> :  |

### Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification
  In-house assessment
- Other (please specify):

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

The GCBC will also oversee the management of proceeds, which will track allocation to eligible assets using existing IT architecture for tracking system following a portfolio approach. Unallocated proceeds will be temporarily held in TMB's liquid asset portfolio. This is in line with market practice.

#### Tracking of proceeds:

- Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):

#### Additional disclosure:

- Allocations to future investments only
  Allocations to both existing and future investments
- Allocation to individual disbursements
  Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds
  Other (please specify):

### 4. REPORTING

Overall comment on section (if applicable):

TMB intends to report on the allocation of proceeds on its website on an annual 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, TMB is also committed to reporting on relevant impact metrics. Sustainalytics views TMB's allocation and impact reporting as aligned with market practice.

#### Use of proceeds reporting:

- Project-by-project
  On a project portfolio basis
- Linkage to individual bond(s)
  Other (please specify):

**Information reported:**

- Allocated amounts  Green Bond financed share of total investment
- Other (*please specify*): The size of the identified Eligible Green Mortgage Loan Portfolio, the balance of unallocated proceeds, the share of financing versus refinancing

**Frequency:**

- Annual  Semi-annual
- Other (*please specify*):

**Impact reporting:**

- Project-by-project  On a project portfolio basis
- Linkage to individual bond(s)  Other (*please specify*):

**Information reported (expected or ex-post):**

- GHG Emissions / Savings  Energy Savings
- Decrease in water use  Other ESG indicators (*please specify*): The breakdown of Eligible Green Mortgage Loan portfolio, by the type of loans and properties and regions

**Frequency**

- Annual  Semi-annual
- Other (*please specify*):

**Means of Disclosure**

- Information published in financial report  Information published in sustainability report
- Information published in ad hoc documents  Other (*please specify*): on the website
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS** (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE****Type(s) of Review provided:**

- |  |  |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit                        | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):            |  |

**Review provider(s):****Date of publication:****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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## 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. The firm 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. The world’s foremost issuers, from multinational corporations to financial institutions to governments, also rely on Sustainalytics for credible second-party opinions on green, social and sustainable bond frameworks. In 2020, Climate Bonds Initiative named Sustainalytics the “Largest Approved Verifier for Certified Climate Bonds” for the third consecutive year. The firm was also recognized by Environmental Finance as the “Largest External Reviewer” in 2020 for the second consecutive year. For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com).



**Named**

2015: Best SRI or Green Bond Research or Rating Firm  
2017, 2018, 2019: Most Impressive Second Opinion Provider

