



## SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Green Financing Framework

MBH Bank

27 September 2023

### VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none"><li>Green Financing Instruments</li></ul>
Relevant standards	<ul style="list-style-type: none"><li>Green Bond Principles, as administered by the International Capital Market Association (ICMA) (as of June 2021 with June 2022 Appendix 1)</li><li>Green Loan Principles, as administered by the Loan Market Association (LMA) (as of February 2023)</li></ul>
Scope of verification	<ul style="list-style-type: none"><li>MBH BANK Green Financing Framework (as of September 27, 2023)</li><li>MBH BANK Selection Criteria (as of September 27, 2023)</li></ul>
Lifecycle	<ul style="list-style-type: none"><li>Pre-issuance verification</li></ul>
Validity	<ul style="list-style-type: none"><li>Valid as long as the cited Framework remains unchanged</li></ul>

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## SCOPE OF WORK

MBH Bank (“the Issuer”, “the Bank”, or “MBH”) commissioned ISS Corporate Solutions (ICS) to assist with its Green Financing Instruments by assessing three core elements to determine the sustainability quality of the instruments:



1. MBH Bank’s Green Financing Framework (as of September 27, 2023) – benchmarked against the ICMA Green Bond Principles (GBP) and LMA Green Loan Principles (GLP).
2. The Selection Criteria – whether the project categories contribute positively to the United Nations Sustainable Development Goals (UN SDGs) and how they perform against proprietary issuance-specific key performance indicators (KPIs) (See Annex 1).
3. Linking the transactions to MBH Bank’s overall Environmental, Social, and Governance (ESG) profile – drawing on the issuance-specific Use of Proceeds (UoP) categories.

## MBH BANK BUSINESS OVERVIEW

MBH Bank Plc provides banking and investment services to residential and corporate-institutional customers, and agricultural and food industries in Hungary. As of 31<sup>st</sup> March 2023, the bank had a gross credit portfolio worth HUF 4,955 billion and a deposit portfolio worth HUF 6,421 billion.

The issuer is classified under *Commercial Banks and Capital Markets* industry, as per ISS ESG’s sector classification.

## ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION <sup>1</sup>
<b>Part 1: Alignment with GBP</b>	The Issuer has defined a formal concept for its Green Finance Instruments <sup>2</sup> regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the Green Bond Principles and Green Loan Principles	<b>Aligned</b>
<b>Part 2: Sustainability quality of the Selection Criteria</b>	<p>The Green Financing Instruments will (re)finance eligible project categories which include:</p> <p>Renewable Energy, Green Buildings, Clean Transportation and Environmentally Sustainable Management of Living Natural Resources and Land Use</p> <p>Product and/or service-related use of proceeds categories<sup>3</sup> individually contribute to one or more of the following SDGs:</p>  <p>Other use of proceed categories improve the operational impacts of MBH Bank’s borrowers and mitigate potential negative externalities of their sectors on one or more of the following SDGs:</p>  <p>The environmental and social risks associated with those use of proceeds categories are managed.</p>	<b>Positive</b>

<sup>1</sup> ISS ESG’s evaluation is based on MBH Bank’s Green Financing Framework (September 2023 version), on the analysed Selection Criteria as received on the 27.09.2023, and on publicly available information.

<sup>2</sup> MBH intends to issue green finance instruments including covered bonds, senior bonds (preferred and non-preferred), subordinated bonds, medium-term notes, commercial papers, loans and revolving credit facilities.

<sup>3</sup> Renewable Energy, Green Buildings, and Clean Transportation.

<p><b>Part 3:</b></p> <p><b>Linking the transaction(s) to MBH Bank's ESG profile</b></p>	<p>The key sustainability objectives and the rationale for issuing Green Financing Instruments are clearly described by the Issuer. Most of the project categories considered are in line with the sustainability objectives of the Issuer.</p>	<p><b>Consistent with Issuer's sustainability strategy</b></p>
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## SPO ASSESSMENT

### PART I: ALIGNMENT WITH GREEN BOND PRINCIPLES AND GREEN LOAN PRINCIPLES

This section evaluates the alignment of the MBH Bank’s Green Financing Framework (as of September 27, 2023) with the Green Bond Principles and Green Loan Principles.

GREEN BOND PRINCIPLES AND GREEN LOAN PRINCIPLES	ALIGNMENT	OPINION
<p><b>1. Use of Proceeds</b></p>	<p>✓</p>	<p>The Use of Proceeds description provided by MBH Bank’s Green Financing Framework is <b>aligned</b> with the GBP and GLP.</p> <p>The Issuer’s green categories align with the project categories as proposed by the GBP and GLP. Criteria are defined in a clear and transparent manner. Disclosure of distribution of proceeds by project category is provided and environmental benefits are described and quantified.</p> <p>The Issuer defines exclusion criteria for harmful projects categories in line with best market practice.</p>
<p><b>2. Process for Project Evaluation and Selection</b></p>	<p>✓</p>	<p>The Process for Project Evaluation and Selection description provided by MBH Bank’s Green Financing Framework is <b>aligned</b> with the GBP and GLP.</p> <p>The project selection process is defined and structured in a congruous manner. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with the sustainability strategy of the Issuer.</p> <p>The Bank’s Operational Committee (“OC”) will be responsible for the evaluation and selection of projects in line with the eligibility criteria under the Framework. The OC is comprised of members of the ESG, Risk and Treasury departments.</p> <p>The Bank has also established a Sustainability and Green Financing Committee (“SGFC”), which will be responsible for the annual compliance of the eligible green projects with the Framework’s criteria. Furthermore, MBH ensures that environmental and social risk management processes</p>

		<p>are applicable to all allocation decisions made under the Framework.</p> <p>The Issuer provides information on the alignment of projects with official or market-based taxonomies, such as the EU Taxonomy and the CBI Taxonomy, which is in line with best market practice.</p> <p>Moreover, the Issuer involves various stakeholders in this process, in line with best market practice.</p>
<b>3. Management of Proceeds</b>	✓	<p>The Management of Proceeds provided by MBH Bank's Green Financing Framework is <b>aligned</b> with the GBP and GLP.</p> <p>The net proceeds collected will be equal to the amount allocated to eligible projects, with no exceptions. The net proceeds are credited to a Green Finance Register and attested in a formal internal process. The net proceeds are managed on an aggregated basis for multiple Green Financing Instruments (portfolio approach). Moreover, the Issuer discloses the temporary investment instruments for unallocated proceeds.</p> <p>MBH's Asset and Liability Management department will be responsible for the management and allocation of proceeds and tracked via a Green Finance Register. MBH intends to reach full allocation of proceeds within 36 months of issuance. Pending allocation, net proceeds will be temporarily held in accordance with the Bank's Treasury Management policies, such as cash, cash equivalents or other short-term liquid marketable instruments.</p>
<b>4. Reporting</b>	✓	<p>The allocation and impact reporting provided by MBH Bank's Green Financing Framework is <b>aligned</b> with the GBP and GLP.</p> <p>The Issuer commits to disclose the allocation of proceeds transparently and to report in an appropriate frequency. The reporting will be publicly available on the Issuer's website. MBH explains that the level of expected reporting will be at project category level and the type of information that will be reported. Moreover, the Issuer commits to report annually, until the financing instrument matures.</p>

		<p>Additionally, this includes a confirmation from the Issuer to report on the use of proceeds until loan maturity for the revolving credit facilities issued under the Framework.</p> <p>The Issuer is transparent on the level and frequency of impact reporting, on the information reported in the impact report and the duration of the impact reporting, in line with best market practice.</p>
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## PART II: SUSTAINABILITY QUALITY OF THE SELECTION CRITERIA

### A. CONTRIBUTION OF THE GREEN FINANCING INSTRUMENTS TO THE UN SDGs<sup>4</sup>

Banks can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible actors, working to minimize negative externalities in their operations along the entire value chain.



#### 1. Products and services

The assessment of UoP categories for (re)financing products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an Issuer's products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the ICMA Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of UoP categories for (re)financing specific products and services is displayed on a 3-point scale (see Annex 1 for methodology):







Each of the Green Financing Instruments's Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p><b>Renewable Energy</b></p> <ul style="list-style-type: none"> <li>▪ Electricity generation using solar photovoltaic technology.</li> <li>▪ Concentrated solar power.</li> <li>▪ Installation and operation of electric heat pumps:                             <ul style="list-style-type: none"> <li>▪ Cogeneration of heat/cool and power from solar energy.</li> <li>▪ Production of heat/cool from solar thermal heating.</li> </ul> </li> </ul>	<b>Contribution</b>	
<p><b>Renewable Energy<sup>5</sup></b></p> <p>Production of heat/cool using waste heat.<sup>6</sup></p>	<b>Contribution</b>	

<sup>4</sup> The impact of the UoP categories on UN Social Development Goals is assessed with proprietary methodology and may therefore differ from the Issuer's description in the framework.

<sup>5</sup> The category is in line with the EU Taxonomy definition and technical screening criteria 4.25 for the Production of Heat/Cool using Waste Heat.

<sup>6</sup> The Framework notes that the pumps and the equipment financed will follow the requirements included in Regulation (EU) 2017/1369 and Directive 2009/125/EC.

<p><b>Green Buildings</b></p> <ul style="list-style-type: none"> <li>Construction of residential and non-residential buildings where the Primary Energy Demand (PED) is at least 10% lower than the threshold set for the nearly zero-energy building (NZEB) requirements.</li> <li>Acquisition and ownership of buildings built before December 31st, 2020, with an Energy Performance Certificate (EPC) class A, or with operational Primary energy Demand (PED) belonging to the top 15% of the national or regional building stock. For acquisition and ownership of buildings built after December 31st, 2020, PED of at least 10% lower than the threshold set for the nearly zero-energy building (NZEB) requirements.</li> </ul>	<p><b>Contribution</b></p>	
<p><b>Green Buildings</b></p> <p>Buildings with a certification level of:</p> <ul style="list-style-type: none"> <li>LEED (Gold or above), or</li> <li>BREEAM (Very Good or above), or</li> <li>BREEAM in-use (Very Good or above)</li> </ul>	<p><b>Contribution</b></p>	
<p><b>Clean Transportation</b></p> <p>Infrastructure that is constructed and operated and is dedicated to personal mobility or cycle logistics: bike lanes and pedestrian zones, electrical charging and hydrogen refueling installations for personal mobility devices.</p>	<p><b>Contribution</b></p>	
<p><b>Clean Transportation</b></p> <p>Infrastructure that is constructed and operated and is dedicated to personal mobility or cycle logistics: pavements</p>	<p><b>No Net Impact</b></p>	
<p><b>Clean Transportation<sup>7</sup></b></p> <ul style="list-style-type: none"> <li>Construction, modernisation, operation and maintenance of railways and subways as well as bridges and tunnels, stations, terminals, rail service facilities that comply with the relevant technical screening criteria (e.g., electrified trackside infrastructure, infrastructure dedicated to transshipping freight, infrastructure and installations dedicated to the transfer of</li> </ul>	<p><b>Contribution</b></p>	

<sup>7</sup> The infrastructure will not be dedicated to the transport or storage of fossil fuels.

passengers from rail to rail or from other modes to rail etc.).<sup>8</sup>

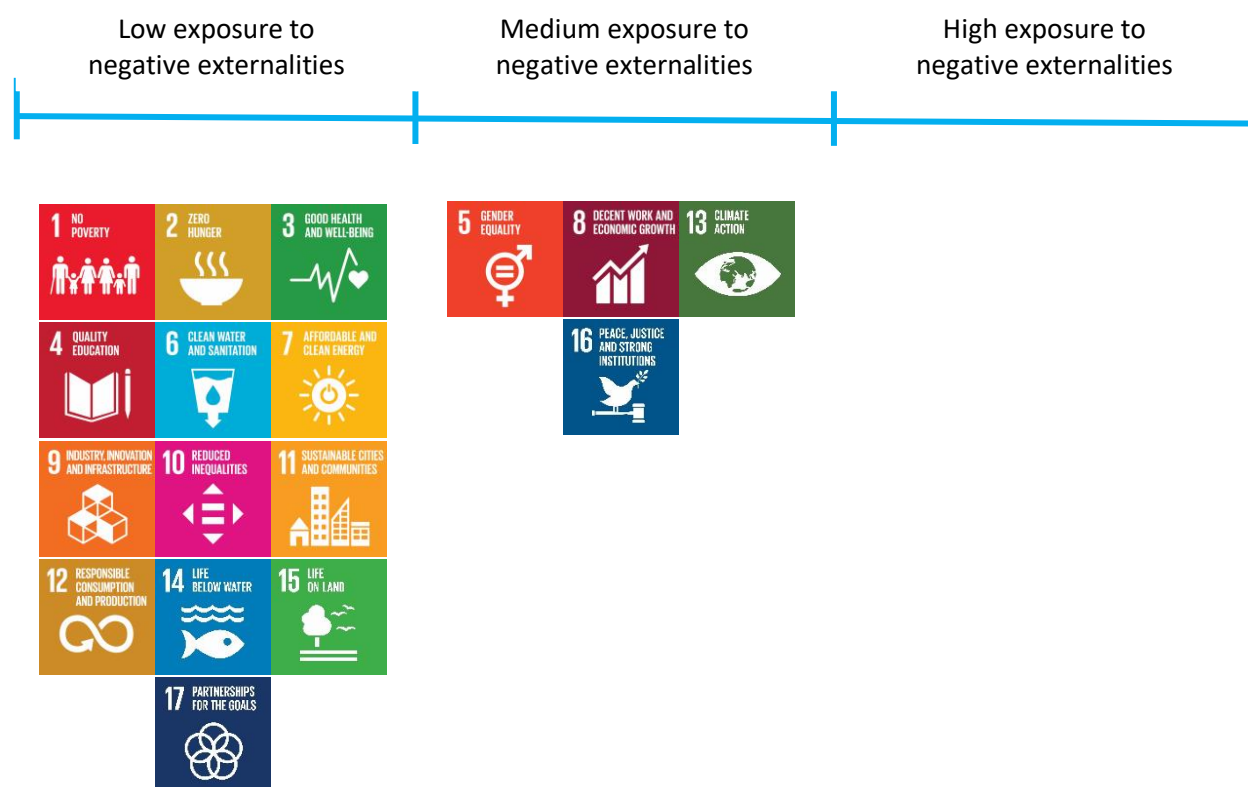
- Construction, modernisation, operation and maintenance of Infrastructure that is required for zero tailpipe CO<sub>2</sub> operation of zero-emissions road transport, as well as infrastructure dedicated to transshipment, and infrastructure required for operating urban transport, that comply with the relevant technical screening criteria (e.g. infrastructure dedicated to the operation of vehicles with zero tailpipe CO<sub>2</sub> emissions, to transshipping freight, to urban and suburban public passenger transport etc.).

<sup>8</sup> In line with the EU Taxonomy Activity, "6.14 Infrastructure for rail transport".



**2. Improvements of operational performance (processes)**

The below assessment aims at qualifying the direction of change (or “operational impact improvement”) resulting from the operational performance projects (re)financed by the UoP categories, as well as related UN SDGs impacted. The assessment displays how the UoP categories are mitigating the exposure to the negative externalities relevant to the business model and the sector of the Issuer’s clients.

According to ISS ESG SDG Impact Rating methodology, potential impacts on the SDGs related to negative operational externalities<sup>9</sup> in the Commercial Banks and Capital Markets sector (to which MBH Bank belongs) are the following:



The table below aims at displaying the direction of change resulting from the operational performance improvement projects. The outcome displayed does not correspond to an absolute or net assessment of the operational performance.

USE OF PROCEEDS (PROCESSES)	OPERATIONAL IMPACT IMPROVEMENT <sup>10</sup>	SUSTAINABLE DEVELOPMENT GOALS
<p><b>Green Buildings</b></p> <ul style="list-style-type: none"> <li>Installation, maintenance, and repair of renewable energy technologies, on-site (e.g., solar PV systems and the ancillary technical equipment etc.).</li> </ul>		

<sup>9</sup> Please, note that the impact of the Issuer’s products and services resulting from operations and processes is displayed in section 3 of the SPO.

<sup>10</sup> Limited information is available on the scale of the improvement as no threshold is provided. Only the direction of change is displayed.

- Renovation measures consisting of installation, maintenance or repair of energy efficiency equipment, provided that the individual measures comply with minimum requirements set for individual components and systems in the applicable national measures implementing Directive 2010/31/EU and, where applicable, are rated in the highest two populated classes of energy efficiency in accordance with Regulation (EU) 2017/1369 and delegated acts adopted under that Regulation.
- Refurbishment of buildings leading to the fulfilment the reduction of Primary Energy Demand by at least 30% in comparison with the performance of the building before the renovation.

### **Environmentally Sustainable Management of Living Natural Resources and Land Use**

Investments in precision agriculture e.g., investment in technologically advanced and innovative technologies which enable farmers to optimize their fertilizer, pesticide,<sup>11</sup> and other input use, contributing to a more effective and responsible use of natural resources



### **Environmentally Sustainable Management of Living Natural Resources and Land Use**

Investments in precision agriculture e.g., investment in technologically advanced and innovative technologies, which enable farmers to optimize their water,<sup>12</sup> and other input use, contributing to a more effective and responsible use of natural resources.



<sup>11</sup> MBH Bank has communicated to ICS that pesticide management expenditures include measures that are in line with the EU's Sustainable Use of Pesticides Directive, which includes pest management strategies such as Integrated Pest Management (IPM).

<sup>12</sup> MBH Bank has communicated to ICS that water use optimization measures include GPS data-based sprinkler irrigation or drip irrigation systems.

## B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE FINANCIAL INSTITUTION AND THE SELECTION CRITERIA

The table below evaluates the Selection Criteria against issuance-specific KPIs. All the projects are and will be located in Hungary.

### ASSESSMENT AGAINST KPIs

#### ESG guidelines into financing process

MBH applies a two-fold ESG risk assessment process in the Credit Risk Management Processes Regulation that includes a customer and a transaction ESG risk assessment to the projects financed under the Green Loan Framework, which includes large enterprises and municipalities with exceptions described below.

The Bank considers several elements in the customer ESG risk assessment, including the customer's core operation, Opten ESG Index or the EBRD heatmap, taxonomy eligibility and alignment, environmental sustainability objectives, ESG certification or qualification, and any renewable energy use. Whereas in a transaction's ESG risk assessment, the transaction's purpose, activity and ESG benefits are considered. According to the methodology defined by the Bank, the borrowers-investees and the lending-investing products will be categorized as low, medium, or high ESG risk projects. Moreover, the customer-transaction ESG assessment is rated 'not preferred' if the customer's core operation or the transaction falls into a dispreferred category, such as tobacco growing, manufacturing of tobacco products, manufacturing of distilled alcoholic beverages, manufacturing of arms and/or ammunition, manufacturing of military combat vehicles, gambling, betting or any related activity.

The Bank confirms that only low-risk projects are financed under the Green Financing Framework of MBH. If a project no longer fulfils the requirement of the Framework, it will be excluded from financing.

For large enterprises, only a customer ESG risk assessment is applied if:

- the customer's outstanding amount of investment loans from MBH Bank does not exceed HUF 500 million and/or its MBH Bank exposure stemming from bond financing does not exceed HUF 500 million, as well as in the case of an individual guarantee/letter of credit transaction not exceeding HUF 2.5 billion.
- the Bank is providing a general kind of credit financing to the customer's operation (OVD, factoring, working capital loan, treasury limit) or if a guarantee of a large amount is to be (has been) issued in relation to the customer's core business.
- green-certified bonds, because the transaction's sustainability risk is low, as evidenced by the bond's qualification.
- the project companies belonging to special categories where the company's transaction-level ESG assessment is not practically applicable from the aspect of ESG since there is no operating history which could be assessed.
- transactions financed through the Green Lending Framework (GLF).

Moreover, the Bank confirms that a customer assessment has to be carried out if it has not taken place during the past one-year period on the basis of the Bank's normal ESG regulation.

For municipal government customers, only a customer ESG risk assessment is applied if:

- the municipal government customer's outstanding amount of investment loans from MBH Bank does not exceed HUF 100 million and/or its MBH Bank exposure stemming from bond financing does not exceed HUF 100 million, as well as in the case of an individual guarantee/letter of credit transaction not exceeding HUF 100 million.
- the Bank is providing a general kind of credit financing its operation (OVD, factoring, working capital loan, treasury limit) or a guarantee of a large amount is to be (has been) issued in relation to its core business. In this case, the Bank will derive the ESG rating from the municipal government customer's automatic EBRD rating. Accordingly, every municipal government customer falling in the above group will be given a low ESG risk rating.

### **ESG Guidelines into financing process for most sensitive sectors<sup>13</sup> financed under the Framework**

#### **ESG Guidelines into financing process for Agriculture**

The Bank applies the general ESG risk assessment regulation as well as CBI criteria to agricultural projects. The Bank confirms that agricultural projects included in the Green Financing Framework will be financed through the Green Loan Framework of MBH, where CBI taxonomy alignment is required.

#### **Labour, Health and Safety**

The Bank confirms that all borrowers are and will be located in Hungary, which is a designated countries in the application of the Equator Principles and adhere to the ILO core conventions.



Moreover, MBH consider the borrowers' labour, health and safety standards through the ESG risk assessment process, which refers to the OPTEN aggregated ESG index, or EBRD Heatmap, or by ESG data request form taking into account how health, safety and labour standards are being respected.

#### **Biodiversity**

The Bank confirms that all the projects are and will be located in Hungary, which is a designated country in the application of the Equator Principles. Moreover, all eligible projects under the Green Loan Framework, where the proceeds from the Green Financing Framework will be allocated exclusively to, are in alignment with the relevant EU Taxonomy and CBI Taxonomy criteria which feature the respect of biodiversity in the defined criteria and relevant EU directives.

<sup>13</sup> The categorization of a sector as 'most sensitive' follows an evaluation of the number of controversies prevalent in the context of the financing operations of a financial institution.

Moreover, MBH takes into account performance related to community dialogue in the ESG risk assessment process.

### Community Dialogue

- ✓ The Bank's proxy voting, and engagement policy provides stakeholders, including local communities, with an engagement opportunity to provide information on topics related to business strategy, financial and non-financial performance, risk, capital structure, social and environmental impact, and corporate governance to ensure stakeholder expectations are being met.

MBH has policies in place to ensure that any person involved with the Bank's activity can register concerns through Whistleblowing and Notifications.

### Data protection and information security

The Bank has an Information Security Policy in place to ensure the data collection processes on the borrower is secured. Under the Policy, the Bank lays down the guidelines of an information security framework to ensure the implementation of the IT protection lines established by the member institutions of the Bank. For example, under the information security framework, the Bank operates a dedicated information security organizational unit that ensures appropriate implementation of the IT security tasks. Moreover, the following process are developed and recorded, such as IT risk analysis methodology and assessment at group level, designation of data and system managers, classification of data assets into security classes, control systems to prevent data leakage, physical security for machine rooms and engine rooms, education and awareness training, etc.

- ✓ In the event of phishing, the Bank's Fraud Management department seeks out and verifies whether the customer is aware of any transactions possibly affected by phishing, and to take the necessary security and legal measures. The Information Security Strategy is reviewed annually.

Moreover, the Bank has a specific system of requirements defined for third party management, including outsourced and outsourced suppliers, cloud service providers, third party developing, or operating critical systems. Additionally, under the Bank requires third-party organizations to have similar data protection measures in place as the Bank, and the contract includes a detailed description of the data protection provisions that will be applied.

In addition, MBH complies with Hungary's 42/2015 (III.12.) regulation, which dictates requirements for entities, such as financial institutions, to assess and manage IT security risks during planning, development and procurement activities.

### Responsible treatment of customers with debt repayment problems

- ✓ MBH follows a three-level policy system to prevent client debt repayment problems, which are the Bank's Claims Management Policy, Receivables Management Regulations



and Corporate Claims Management Regulations. The Bank regularly monitors the changes of their customer's transactions or collaterals, and reveals the warning signs that may indicate potential losses. Based on the assessment, the Bank will take appropriate measures to avoid losses. In the event of an increase in credit risk, the customer or customer group will be managed by the Receivables Management area.

The Bank implements basic consumer protection principle of claims management as defined in its Receivables Management Regulations. Under the principle, the Bank continuously informs its customer about the amount and composition of its debt, the process of claims management, the measures that can be applied as well as the steps necessary to perform or restore the contract and the possible consequences of non-performance.

The Bank offers several payment facilitation tools during the restructuring phase, such as term extension, capital moratorium or grace period, capitalization, optional instalments, and payment deferral. The Bank commits to use the available tools of which the consequences are less detrimental to the customer if the customer cooperates with the claims manager. Furthermore, the Bank's restructuring policy also provides solutions for credit transactions with late mortgage payments through providing debt relief, payment deferrals and payment relief plans. In instances, where the customer is unable to settle the outstanding claims with the Bank, the claims management team will terminate the mortgage contract and initiate the foreclosure procedure.

#### **Exclusion criteria**

Under the Green Financing Framework, financing related to the following activities are excluded from the financing by MBH Bank's Green Financing Instruments:

- Fossil fuel energy
- Investments related to pure Internal Combustion Engines (ICE)
- Nuclear energy
- Gambling
- Tobacco
- Alcohol
- Weapons

These exclusions are in alignment with the firm-wide exclusion list referred to as 'dispreferred categories'. If the customer's core operation or the transaction falls into a dispreferred category, which are tobacco growing, manufacturing of tobacco products, manufacturing of distilled alcoholic beverages, manufacturing of arms and/or ammunition, manufacturing of military combat vehicles, gambling, betting or any related activity, it will be rated 'not preferred' and excluded from financing under the Bank's ESG risk management and ESG strategy.

## PART III: LINKING THE TRANSACTION(S) TO MBH BANK'S ESG PROFILE

### A. CONSISTENCY OF GREEN FINANCING WITH MBH BANK'S SUSTAINABILITY STRATEGY

#### *Key sustainability objectives and priorities defined by the Issuer*

MBH Bank developed its Environmental, Social, and Governance (ESG) strategy aiming to have a sustainable economy in Hungary. The Bank's strategy is supported by two main roles, one stemming from their position as a financial institution and the other as a corporate group. The Bank follows the Global Reporting Initiative (GRI) reporting standard for its Sustainability Report<sup>14</sup>.

There are five strategic pillars and their corresponding action plans identified to achieve the Bank's strategic objectives as follows:

- Sustainability as a business opportunity and sustainability education: MBH Bank sees this as its main task to adapt sustainability products and services.
- Taking ESG risks into account in risk management decisions: MBH Bank implemented sustainability aspects into its existing risk management framework, as a result, the Bank has a sustainability risk assessment method corresponding to all lending processes and customer segments.
- De-carbonization commitments: MBH Bank aims to achieve the targets laid down in the Paris Agreement by reducing its carbon dioxide emissions (both the Bank's own and the financed emissions). To achieve this goal, the Bank has already calculated its Scope 1 and 2 emissions<sup>15</sup> and Scope 3 financed emissions and has started to formulate its Net Zero Strategy, and will be finalized at the end of 2023. Additionally, to reduce carbon dioxide emissions, the Bank aims to improve its share of green energy and switch to energy-efficient operations.
- Responsible corporate governance, transformation, and transparency: MBH Bank aims to integrate sustainability considerations into its governance processes and its requirements towards its partners.
- Employee welfare and change in approach: MBH Bank is committed to the welfare and education of its employees. It attaches importance to the physical and mental health of its employees and to raising their ESG awareness and knowledge within the Bank.

The Bank's decision about becoming an official signatory of Science Based Targets is expected within the next 6 months. However, there is no information available on the Bank's quantified ESG targets and the action plan to reach the ESG targets/goals. The Bank confirms that it has not issued any green, social, or sustainability bonds/loans in the past.

MBH Bank has joined the Principles for Responsible Banking Initiative established by the United Nations and signed the Environment Programme Finance Initiative. In order to facilitate the transition and ensure regulatory compliance, the Bank seeks to address all types of sustainability risks and aims to fully implement all relevant sustainability aspects in its risk management models and methodologies. The Bank believes that assessing the materiality of climate and environmental risks and the timeliness of the associated impacts is a prerequisite for corporate governance and risk

<sup>14</sup> MBH Bank, Sustainability Report 2022, [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>15</sup> For the year 2022, Scope 1 and 2 emissions were 60.85 tCO<sub>2</sub>e, taken from page 30, Sustainability Report 2022.

management practices. For this purpose, a materiality assessment has been performed, including an assessment of the materiality of credit, market, operational, liquidity, reputational, and regulatory risks.

Furthermore, the ESG Department reports to the Deputy CEO and oversees the monitoring of the ESG Strategy and the coordination of its execution. Regular reports to the Management Board and Board of Directors allow them to keep tabs on the strategy's execution.

### *Rationale for issuance*

MBH Bank established the Green Financing Framework to demonstrate its commitment towards their sustainability strategy. The projects financed under this framework have environmental objectives i.e., Climate Change Mitigation, Climate Change Adaptation, Sustainable Use and Protection of Water and Marine Resources, and Protection and Restoration of Biodiversity and Ecosystems. Moreover, MBH Bank aims to diversify the investor base and engage in a sustainable dialogue with socially responsible investors.

**Opinion:** *The key sustainability objectives and the rationale for issuing Green Financing Instruments are clearly described by the Issuer. Most of the project categories financed are in line with the sustainability objectives of the Issuer.*

## B. MBH BANK'S BUSINESS EXPOSURE TO ESG RISKS

This section aims to provide an overall level of information on the ESG risks to which the Issuer is exposed through its business activities, providing additional context to the issuance assessed in the present report.

### *ESG risks associated with the Issuer's industry*

The Issuer is classified in the Commercial Banks and Capital Markets industry, as per ISS ESG's sector classification. Key challenges faced by companies in terms of sustainability management in this industry are displayed in the table below. Please note, that this is not a company specific assessment but areas that are of particular relevance for companies within that industry.

ESG KEY ISSUES IN THE INDUSTRY
Business ethics
Customer and product responsibility
Labour standards and working conditions
Sustainability impacts of lending and other financial services/products
Sustainable investment criteria

### *ESG strengths and points of attention related to the Issuer's disclosures*

Leveraging ISS ESG's Research, the following strengths and points of attention<sup>16</sup> have been identified:

STRENGTHS	POINTS OF ATTENTION
<p>The Bank has implemented some elements of a health and safety management system, such as a health and safety policy, structure and responsibilities, training and awareness-raising, data compilation system, emergency response, and audit. Additionally, the Bank offers telecommuting, flexible work schedules, and part-time employment opportunities to its employees.</p>	<p>The Bank's measures to prevent and alleviate mental health issues, and provision of dependent care and special leaves for its employees are not sufficiently disclosed. The Bank has disclosed the details of permanent and temporary employees; however, ratio of direct to externally employed workforce is not disclosed.</p> <p>Additionally, there is no evidence of the Bank's Health and Safety Management System being certified to an international standard. Further, Bank's position on non-regular employment and its policy on employment security is not available.</p>

<sup>16</sup> Please note that MBH Bank is not part of the ISS ESG Corporate Rating Universe. Thus, the information is based on a disclosure review conducted by the analyst in charge of the Commercial Banks and Capital Markets sector, based on publicly available information exclusively. No direct communication between the Issuer and the analyst has taken place during the process. The below is not based on an ISS ESG Corporate Rating but considers ISS ESG Research's methodology.

<p>The Bank has implemented elements of Information Security Management System (ISMS), including risk assessments, structure and responsibilities, targets and objectives, training and awareness-raising, and information security incident management.</p>	<p>The Bank requires third-party data processors to implement adequate measures to ensure information security; however, there is no information on due diligence in selection process and monitoring and review of third-party data providers. Further, there is no evidence of the information security management system being certified to an internationally recognized standard.</p> <p>Additionally, there is no indication of a policy on responsible marketing and responsible sales practices. Moreover, there is no indication if the clients with debt repayment problems are treated responsibly by the bank by providing facilities such as debt counselling and restructuring. Further, the Bank's stand on offshore banking and tax compliance, and equal access to financial services are missing.</p>
<p>The Bank provides green financial services to private, corporate, and public sector customers, including financing of renewable energy, energy efficient technologies, and electric cars.</p>	<p>The Bank's environmental and social guidelines for lending and investment banking is disclosed insufficiently. There is no information on environmental and social application procedures and guidelines covering specific requirements for forestry and paper, and agriculture, fisheries, and aquaculture, energy generation, resource extraction and related infrastructure sectors. Additionally, application procedures of environmental and social guidelines have not been indicated.</p> <p>Moreover, it remains unclear if the bank provides social financial services such as community lending with a focus on disadvantaged regions, financing of social housing programs for vulnerable or disadvantaged groups, etc. Further, there is no information on environmental aspects in the retail credit rating process.</p>
	<p>There is no information on the environmental and social guidelines for mainstream asset management services and own investment activities. The Bank's disclosure on socially responsible investment products and services, and the volume of strict and diligently selected socially responsible investments is missing. Additionally, no information is available on the application procedures of environmental and</p>

	social investment guidelines, and engagement and shareholder advocacy activities.
	The Bank addresses issues such as corruption and money laundering; however, information on other aspects of business ethics such as insider dealings, anti-trust violations, gifts, favours and entertainment, and validity of financial information are missing. Further, it provides compliance training, anonymous and confidential reporting channels, and has a non-retaliation policy against whistleblowers; however, details on aspects such as business ethics awareness, compliance risk assessments and audits, and third-party anti-corruption due diligence are not reported.

Please note that the consistency between the issuance subject to this report and the Issuer’s sustainability strategy is further detailed in Part III.A of the report.

*Sustainability impact of products and services portfolio*

Leveraging ISS ESG’s Sustainability Solutions Assessment methodology, the contribution of the Issuer’s current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs) has been assessed as per the table below. This analysis is limited to the evaluation of final product characteristics and does not include practices along the Issuer’s production process.

Using a proprietary methodology, ISS ESG assessed the contribution of MBH Bank’s current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along the company’s production process.

ISS ESG determined that, based on the information provided by the company, its overall business model has no net impact (contribution and/or obstruction) to the UN SDGs.

*Breaches of international norms and ESG controversies*

At Issuer level

At the date of publication and leveraging ISS ESG Research, no controversy in which the Issuer would be involved has been identified.

At industry level

Based on a review of controversies over a 2-year period, the top four issues that have been reported against companies within the Commercial Banks and Capital Markets industry are as follows: Failure to mitigate climate change impacts, Financial market irregularities, Anti-competitive behavior and Failure to prevent money laundering.

Please note, that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

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## ANNEX 1: Methodology

The ISS ESG SPO provides an assessment of labelled transactions against international standards using ISS ESG proprietary methodology. For more information, please visit:

<https://www.issgovernance.com/file/publications/SPO-Use-of-Proceeds-Bonds-and-Loans.pdf>

## ANNEX 2: Quality management processes

### SCOPE

MBH Bank commissioned ICS to compile a Green Bond and Green Loan SPO. The Second Party Opinion process includes verifying whether the Green Financing Framework aligns with the Green Bond Principles and Green Loan Principles, and to assess the sustainability credentials of its Green Financing Instruments, as well as the Issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion

- Green Bond Principles, as administered by the International Capital Market Association (ICMA) (as of June 2021 with June 2022 Annex 1)
- Green Loan Principles, as administered by the Loan Market Association (LMA) (as of February 2023)

### ISSUER'S RESPONSIBILITY

MBH Bank's responsibility was to provide information and documentation on:

- Framework
- Eligibility criteria
- Documentation of ESG risks management at framework level

### ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

This independent Second Party Opinion of the Green Instrument(s) to be issued by MBH Bank has been conducted based on a proprietary methodology and in line with the ICMA Green Bond Principles and LMA Green Loan Principles.

The engagement with MBH Bank took place from August to September 2023.

### ISS' BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

## About this SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the Issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

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