GREEN LOAN FRAMEWORK (GLF) EXTRACT

MBH Bank Plc.

Within the framework of the Green Loan Framework, the development of loan products is underway. The details of the specific loan products to be developed will be set out in the applicable business rules, general terms and conditions and the relevant list of conditions and announcements of MBH Bank Plc., upon their introduction.

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BACKGROUND

1. INTERNATIONAL ASPECTS

1.1. Green Loan Principles (GLP)

The Green Loan Principles (GLP)1 were developed by an experienced international banking working group with the aim of promoting the development and integrity of green loan products. The GLP builds on and references the Green Bond Principles (GBP) managed by the International Capital Market Association (ICMA)2 to promote consistency across financial markets.

GLP is a voluntary set of recommended guidelines that market participants apply on a transaction-by-transaction basis, depending on the characteristics of the transaction, in order to comply with it. In this way, the regulation seeks to promote the integrity of the development of the green credit market by clarifying the cases in which a credit can be considered „green".

The aim is to establish a high-level framework of market standards and guidelines that will ensure a consistent methodology across the green credit market, while allowing for the flexibility of the credit product and maintaining its consistency as the green credit market evolves.

GLP has defined a clear framework that clarifies and makes transparent to market participants the characteristics of this green credit. The framework is based on the following four main components:

Use of Proceeds:
It is expected that bank finance will be used for green loan purposes that provide clear environmental benefits. These are assessed and, where possible, quantified, measured and reported by the borrower.
Process of Project Evaluation and Selection:
It states that the borrower must clearly communicate its environmental sustainability objectives to the lender. The lender will specify specific criteria, such as the process, data and documentary requirements, by which the borrower will demonstrate how its transactions fit into the categories that can be lent through the framework, as well as provide other criteria-related information.
Management of Proceeds:
It states that the funds provided by the loan must be managed separately, in a visible and verifiable manner at all times, and must be used for defined and agreed loan purposes. To this end, the borrower must set up an appropriate internal monitoring system.
Reporting:
The borrower must have up-to-date information on the use of the resource, and thus on compliance with the green credit objectives, and make this easily accessible and transparent for the bank. It is the borrower's responsibility to support the bank's regular monitoring and limit review processes with this information.

Figure 1: The GLP framework's main elements

[1] Loan Market Association, Asia Pacific Loan Market Association, Green-Loan-Principles-Feb-2023, Available at: https://www.lsta.org/content/green-loan-principles/

[2] LMA_Green_Loan_Principles_Booklet-220318.pdf

1.2. Sustainable Development Goals (SDGs)

The 2030 Agenda is an intergovernmental cooperation based on the principles and ideals of sustainable development adopted by the United Nations in 2015, which summarises the international sustainable development and development goals of the Member States. In total, 193 countries have set 17 Sustainable Development Goals (SDGs).[3]

On 6 July 2017, the Sustainable Development Goals were „operationalised" by a UN resolution adopted by the General Assembly. The resolution set specific sub-targets for each goal, as well as indicators to measure progress towards each goal.[4]

The objectives are:

Figure 2: UN Sustainable Development Goals (SDGs)[5]

The following SDGs are relevant for the Green Loan Framework:

- Good health and well-being (Ensuring healthy lives and creating well-being for all people of all ages)
- Clean water and sanitation (Ensuring sustainable water management, access to water and sanitation for all)
- Affordable and clean energy (Providing affordable, reliable, sustainable and modern energy for all)
- Innovation and infrastructure (Building adaptable infrastructure, creating inclusive and sustainable industrialisation and supporting innovation)
- Sustainable cities and communities (Creating sustainable, inclusive, safe and resilient cities and other human settlements)
- Climate Action (Fast Actions to tackle climate change and its impacts)
- Life on land - Sustainable land use (Sustainable use of the Earth's ecosystems, combating desertification and reversing land degradation and halting biodiversity loss)

[3] United Nations (2015): Historic New Sustainable Development Agenda Unanimously Adopted by 193 UN Members.
[4] United Nations (2017): Resolution adopted by the General Assembly on 6 July 2017.
[5] AJBH: UN Sustainable Development Goals. Available at: UN Sustainable Development Goals (SDGs) - AJBH-EN - AJBH

1.3. EU Taxonomy
On 12 July 2020, the EU Taxonomy Regulation came into force under the EU Sustainable Finance Action Plan.[6]

One of the objectives of the EU Taxonomy is to provide a regulatory framework for sustainable investment, helping market actors, in particular financial institutions, to identify positive activities from an environmental and sustainability perspective.

The EU Taxonomy defines green activities that make a significant contribution to the six environmental objectives highlighted in the Regulation, facilitating the transition to sustainable economic activity. These six common objectives:

- mitigating climate change,
- adapting to climate change,
- sustainable use and protection of aquatic and marine resources,
- the transition to a circular economy,
- preventing and reducing pollution,
- protecting and restoring biodiversity and ecosystems.

A significant contribution to an environmental objective can be made in three ways:[7]

- **Activity resulting from Own Performance:**
  Activities that are inherently low-emission (e.g. electricity generation from solar panels)
- **Supporting Transition (Transitional):**
  Technologies that are typically not yet low carbon (e.g. renovation and retrofitting of buildings)
- **By its enabling property:**
  It supports the implementation of the above two categories (e.g. production, installation of renewable or energy efficient equipment).

Each activity must meet basic labour law, health and safety and social requirements, which are defined in the Minimum Social Safeguards (MSS) criteria. For the EU to treat a given activity as environmentally sustainable, it must must meet at least one of the six environmental objectives, the most important of which is that it does not cause significant harm in the other categories (Do No Significant Harm, DNSH criterion). In addition to these, Technical Screening Criteria (TSC), thresholds have been established for the activities covered by the EU Taxonomy, and are being developed.
for decay. Compliance with the TSC is an essential prerequisite for alignment with the EU Taxonomy and its underlying frameworks.[8]

An activity fits the EU Taxonomy if it meets the TSC, DNSH and MSS criteria. The criteria may change as the EU Taxonomy evolves.

[6] EU 2021/2139: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R2139
[7] European Comission (2020): Taxonomy: Final report of the Technical Expert Group on Sustainable Finance.
[8] European Comission (2020): Taxonomy Report: Technical Annex.

1.4. Climate Bonds Taxonomy (CBI)

The Climate Bonds Taxonomy (CBI)[9] is a guide to climate change adaptation instruments and projects published by the Climate Bonds Initiative in 2013. It provides guidance to issuers, investors, governments and municipalities to understand the key investments needed to achieve a low carbon economy. The guide is continuously updated with the latest climate science, technologies and sector-specific criteria.

The taxonomy is intended to encourage common green definitions in global markets and to serve as an important resource to support the growth of a coherent thematic bond market for low-carbon economy. The CBI identifies the instruments, activities and projects that are consistent with the goals of the Paris Agreement and necessary to achieve a low-carbon economy. The taxonomy sets out expectations in the following areas: electricity generation, transport and storage, sustainable transport, water management, land use and marine resource management, sustainable real estate, waste and pollution control, and other industry-specific activities (e.g. cement or iron production).

The loan targets and criteria set out in the Green Loan Framework are based on the EU Taxonomy and the CBI Taxonomy and are in line with the Paris Agreement.

1.5. Other general international sustainability aspects

The Paris Agreement on Climate Change 2015:[10]

The Paris Agreement, adopted in 2015 by 194 leaders, set commitments for both developed and developing countries to control their greenhouse gas emissions, with the aim of keeping the global average surface temperature increase below 2°C compared to pre-industrial levels, and aiming to limit warming to 1.5°C.

Article 29 of the agreement sets out a number of objectives, including to promote sustainable development, to promote the reduction of greenhouse gas emissions, to encourage and promote the participation of public and private entities mandated by the states parties to the agreement to reduce greenhouse gas emissions, and to increase the participation of the public and private sectors in the implementation of nationally determined environmental contributions. The primary goal of participating countries is to achieve an overall reduction in global emissions.

EU Fit for 55 package:[11]

As an intermediate step towards climate neutrality, the EU has stepped up its climate ambition for 2030 and pledged to reduce its emissions by at least 55% by 2030. The Fit for 55 package is the legal expression of these green targets.

The Fit for 55% package calls for the revision or even amendment of a number of directives, such as the revision of the regulation on the inclusion of greenhouse gas emissions and removals from land use, land use change and forestry, or the regulation setting carbon dioxide emission standards for cars and vans.

It also includes a review of the Renewable Energy Directive and the Energy Tax Directive, as well as a recast of the Energy Efficiency Directive.

Regulation of the European Parliament and of the Council 2020/852 establishing a framework for the promotion of sustainable investment and amending Regulation 2019/2088:[12]

[9] Climate Bonds Initiative (2021): Climate Bonds Taxonomy
[10] Official Journal of the European Union (2016): Paris Agreement - Translation.
[11] European Council (2022): Fit for 55 [Fit for 55 - The EU's plan for a green transition - Consilium]
[12] Official Journal of the European Union (2020): Regulation (EU) No 2020/852 of the European Parliament and of the Council of 18 June 2020 on establishing a framework to facilitate sustainable investment, and amending Regulation 2019/2088.

The Regulation of the European Parliament and of the Council stresses the importance of green frameworks and their development in the context of the coordination and integration of financial systems, as financing is one of the key issues of the sustainability transition.

The guidelines contained in the regulation set out the objectives and desired impacts of the green framework and outline its role for our environment and society. The Regulation also defines a number of significant concepts and areas of scope, and makes further definitions available through other sources to further facilitate application.

2. DOMESTIC ASPECTS

2.1. MNB Green Recommendation

The commitment of financial institutions to sustainability is not only necessary, but is also in the public interest, as climate change and environmental damage affect the profitability of companies and financial risks can affect banks' balance sheets. EU regulatory instruments to address this are being developed and will gradually become mandatory to help with the recovery. For the next period, the MNB has developed a Green Recommendation[13] that will enable the domestic banking sector to anticipate change and prepare for the green challenges of the future. The Recommendation is addressed to credit institutions subject to Act CCXXXVII of 2013 on Credit Institutions and Financial Undertakings.

The purpose of the Recommendation is to set out the MNB's expectations on the identification, measurement, management, control and disclosure of climate change and environmental risks and the integration of sustainability considerations into the business activities of credit institutions.

According to the Green Recommendation[14], credit institutions should be able to identify environmental risks and management and organisational responsibilities, manage these environmental risks and reduce the financing of environmentally unsustainable activities. The recommendation states that credit institutions should strive to design loan products that promote environmental sustainability and to be transparent about the environmental impact of the customers they lend to.

Market players need to consider and integrate climate and environmental risks and opportunities in their strategies, business plans and models in detail in the coming years. Coordinating this process places a great responsibility on corporate governance and encourages the organisation to evolve. In addition to their own operations, banks' traditional and sustainable loan policies are also a priority, with climate change risk assessment and appropriate IT support for the resulting data playing a key role.

Credit institutions should gradually achieve compliance with the specific central bank requirements, in which the MNB's knowledge base[15] can serve as a guide. To support these objectives, the Green Loan Framework has been developed to make the bank's green loan activities more transparent and clear to both the public and its customers, ensuring that greenwashing[16] is excluded. The Green Loan Framework has been developed taking into account the regulatory recommendation.

[13] MNB (2022): Recommendation of the Magyar Nemzeti Bank No. 10/2022 (IV.15.) on climate-related and environmental risks and the integration of environmental sustainability considerations into the activities of credit institutions. https://www.mnb.hu/letoltes/zold-ajanlas-en.pdf
[14] MNB (2022): Recommendation No 10/2022 (VIII.2.) of the Magyar Nemzeti Bank. https://www.mnb.hu/letoltes/green-recommendation-vol2-no-10-2022-viii2.pdf
[15] MNB (2022): MNB Green Recommendation Knowledge Base. For more information: https://mnb.hu/letoltes/zold-ajanlas-tudastar.pdf
[16] Greenwashing: a company pretends to be environmentally friendly or to have a product, service or process that is not or not so environmentally friendly.

2.2. MNB Green Preferential Capital Requirement Programme

In order to combat climate change and promote the development of sustainable economies, MNB considers it desirable that the share of environmentally sustainable (green) industries and customers in banks' balance sheets should increase relative to "brown" industries and customers, i.e. those that are more exposed to tightening environmental regulation (and therefore riskier in the longer term).

To this end, starting with the 2021 ICAAP reviews, MNB also intends to improve the risk profile of the banking sector and reduce the banking system's exposure to transition risks through a positive incentive by waiving a portion of the capital requirement for environmentally sustainable corporate and municipal exposures that meet the defined criteria in a given year.[17]

The capital requirement discount is set at 5% of the total gross exposure of the relevant portfolio at the reference date of the ICAAP review, or 7% in the case of full compliance with EU Taxonomy, with the proviso that the Pillar 2 capital requirement - NHP with Hajrá discount already reduced to a level not lower than HUF 0 at the state level. However, in the ICAAP reviews starting in 2021, the total discount may no longer exceed 0.5% of the credit institution's total risk exposure amount (TREA).

The discount will be granted by MNB for 5 years, and will be applied for the first time during the 2021 ICAAP review to the corresponding stock at the reference date of the ICAAP review, and will be "updated" each year during the subsequent 4 years of ICAAP reviews, calculated on the green loan stock of the year. There are basically three general conditions to qualify for the discount. Firstly, the use of a green flag in the credit analysis requested as part of the ICAAP review indicating the application of the 5 or 7% discount, secondly, the provision of a quarterly voluntary data service to the MNB ZVT[18], listing the HITREG identifier of the transactions concerned, and thirdly, the inclusion of the Green Ratio in both the ICAAP analysis and the voluntary data service.

A bank loan framework that transparently demonstrates the eligibility of the transactions it lends for sustainability purposes, and thus also for the purposes of the MNB's preferencial capital requirement programme, can effectively support the systematic use of capital requirement relief and the verification and reporting of the conditions for it. With these objectives in mind, MBH Bank decided to develop the Green Loan Framework.

2.3. Other general domestic sustainability aspects

Act XLIV of 2020 on Climate Protection and the National Clean Development Strategy

In the National Clean Development Strategy (hereinafter referred to as NCDS)[19], the Hungarian Parliament stated that climate change and the increase in the frequency of extreme weather events are clearly felt all over the world and that the natural, economic and social impacts caused by them are affecting more and more people, and also expressed their commitment to the protection of natural heritage. In line with this, they call on the Government to implement short, medium and long-term climate protection and adaptation measures.

The NCDS sets specific targets for Hungary's greenhouse gas emissions and energy use, and states that Hungary will achieve full climate neutrality by 2050.

[17] MNB (2022): Information note on the complement to the green capital relief for companies and municipalities. (Tájékoztató a zöld vállalati és önkormányzati tőkekövetelmény-kedvezmény kiegészítéséről)
[18] ZVT: Data required for participation in the Green Business and Local Government Capital Allowance Scheme. For more information: https://www.mnb.hu/greenfinance/penzugyi-szervezeteknek
[19] Ministry of Innovation and Technology (2021) National Clean Development Strategy 2020-2050.

The law also outlines the Hungarian Government's responsibility in relation to the targets and calls on the Government to take concrete steps to achieve the sustainability goals, such as increasing the share of renewable energy sources or developing renewable energy and energy efficiency development programmes of domestic actors.

National Energy and Climate Plan

The key objectives of the new Energy Strategy and the National Energy and Climate Plan (NECP)[20] are to strengthen energy sovereignty and security and to decarbonise energy production, which can only be achieved through a combination of nuclear and renewable energy.

The Hungarian Government's goal is to have the largest share of Hungarian electricity generation come from two sources: nuclear and renewable energy, mainly solar. According to the plan, these are not substitutes or substitutes for each other, but mutually supportive solutions, and both can be considered as clean energy sources.

The NECP includes, among other things, public goals and targets for energy production and use, energy security, and greenhouse gas emissions and removals, and also includes detailed descriptions of the various policies and public measures needed to achieve these goals, as well as projections and an impact assessment of the policies used in the strategy.
In the development of the Green Loan Framework, MBH Bank paid particular attention to the directions and objectives set out in the Hungarian Government's strategic documents on sustainability, such as the National Clean Development Strategy and the National Energy and Climate Plan, in particular in defining the objectives of the transactions eligible for loan under the Framework.

3. MBH BANK PLC. RELEVANCE

Magyar Bankholding Zrt. is a domestically owned financial holding company, which aimed to realise the merger of the members of the banking group it owns, i.e. Budapest Bank Zrt., MKB Bank Nyrt. and Takarék Group. The company started its effective operations on 15 December 2020, after the major shareholders of the three banks transferred their bank shares to the joint holding company with the approval of the Hungarian National Bank (MNB), thus creating Hungary's second largest banking group.

Magyar Bankholding Zrt. in 2021, the Board of Directors and the Supervisory Board approved the Company's strategy for the next five years (2021-2025), which allowed the merger of the three credit institutions to be completed in 2023. As the first step of the merger, Budapest Bank Zrt. and Magyar Takarék Bankholding Zrt.[21], which owns the Takarék Group, were merged into MKB Bank Nyrt. on 31 March 2022. The resulting merged bank temporarily operated under the name MKB Bank Plc. On 30 April 2023, the merger of MKB Bank Nyrt. and Takarékbank Zrt. was completed, so that from 1 May 2023, the new credit institution will continue its activities under the new, unified brand name MBH Bank Nyrt. (the merged banks will be referred to as "MBH Bank"). The new bank aims to be Hungary's most modern and innovative bank, introducing flexible, internationally leading digital solutions. The bank's new, modern range of products and services is designed to serve the full market spectrum and all customer segments, including retail, micro, small, medium and large enterprises, agribusiness and private banking.

[20] Ministry of Innovation and Technology (2020): National Energy and Climate Plan.
[21] Takarék Jelzálogbank already had an independent ESG strategy before the merger.

3.1. MBH Bank's ESG Strategy

The owners and management of MBH are committed to making the financial market as sustainable as possible, and the Bank has already incorporated sustainability aspects into its strategy and risk-taking framework.

The strategy basically sets out MBH's sustainability vision, guidelines, materiality factors and future objectives and tasks to be achieved. MKB Bank published its Sustainability Report to the public in December 2022, which was prepared in accordance with GRI standards. In addition, MBH Bank has developed its Green Loan Framework (GLF) for financing sustainable transactions in line with international guidelines.

3.1.1. The insights underpinning the strategy: sustainable financial trends

The Sustainable Development Goals (SDGs), adopted by the 193 countries of the United Nations, already mentioned in Chapter 1.2, set a new universal benchmark for development by ensuring that we address global problems by taking account of social differences. The targets and indicators behind the SDGs provide a benchmark against which to measure the success of progress.

Sustainability is playing an increasingly important role in international and domestic financial markets, with a growing number of quantitative ratings being produced, typically on the ESG characteristics of large listed companies, and the definition of financial products that support sustainability (e.g. CBI Taxonomy). In parallel, the EU has formulated a comprehensive support and legislative framework for defining sustainable activities, based on the EU Taxonomy[22]. In Hungary, the MNB is an active player in the transition of the domestic financial system, and indirectly the whole economy, to a climate-friendly path, aiming to prepare domestic financial actors for the increasingly stringent EU legislative requirements. In line with this, the MNB has already issued its Green Recommendation for domestic credit institutions in April 2021, which aims to improve the awareness and preparedness of the banking sector.[23]

3.1.2. The aim of MBH Bank's ESG strategy

Recognising the importance of climate risks, MBH Bank is committed to supporting sustainable finance by providing an infrastructure, a range of products and services, a risk framework and a customer management platform for both retail and corporate clients to help them achieve their own sustainability goals. MBH Bank's ESG Strategy aims to set out a framework for achieving these objectives, with detailed guidelines, an action plan, indicators and clear roles. The development of the Strategy was preceded by an assessment of the current readiness and ambition of the member banks. At the end of 2021, MBH Bank had already prepared its Sustainability Framework, which aimed at defining the ESG Strategy work, setting high-level targets and establishing ESG competencies, and identifying the main categories of tasks - the ESG Strategy can be seen as a further development of this.

The strategy's timetable sets out objectives for the short, medium and long term (beyond ten years), while the concrete actions are mainly short-term (one to two years), due to the rapidly changing legislative and market environment. MBH Bank plans to review its ESG Strategy and align it with its business strategy on an annual basis, due to the changes within the company caused by the merger.

[22] EU 2021/2139: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R2139
[23] MNB (2021): Recommendation of the Magyar Nemzeti Bank No. 5/2021 (IV.15.) on climate-relatedand environmental risks and the integration of environmental sustainability aspects into the activities of credit institutions. https://www.mnb.hu/letoltes/zold-ajanlas-en.pdf

MBH Bank periodically reviews the ESG Strategy and its feedback system in order to monitor the achievement of the targets set, to confirm the value of the targets and to set new directions, with new actions and KPIs, taking into account the continuous changes in the world. Stakeholders (e.g. owners, senior management and other banking professionals) are kept informed of this process.

3.1.3. The pillars of MBH Bank's ESG Strategy

Five pillars support the implementation of the ESG strategic objectives at MBH Bank. These have been identified on the basis of the directions set by taking into account international trends and the results achieved by the member banks and MBH Bank to date and as planned. These pillars set out the tools to support the implementation of the strategy, the timing of the tasks and the proposed performance indicators associated with the pillars.

The five pillars are:

1. Sustainability as a business opportunity and sustainability education,
2. Taking ESG risks into account in risk management decisions,
3. Becoming a carbon neutral bank,
4. Corporate governance, transformation and transparency,
5. Employee well-being and change in approach.

In order to successfully implement the goals and objectives set out in the ESG Strategy, MBH Bank has established an ESG department and appointed a senior manager to coordinate the work of the department.

The Green Loan Framework can only finance transactions that make a major contribution to sustainability goals, such as financing renewable energy production, sustainable transport infrastructure and facilities, sustainable real estate construction, renovation and sale and purchase, and sustainable agricultural investments.

In line with the GLP principles, the Green Loan Framework is defined as: any financing instrument that is used exclusively to finance or refinance all or part of a green project, new or existing, along specific green credit objectives based on the EU Taxonomy or the CBI Taxonomy and the four GLP Principles.

The Green Loan Framework may apply to the following types of financing instruments:

- investment loan;
- project loan;
- refinancing loan;
- syndicated loan;
- working capital loan;
- support for a pre-financing loan;
- corporate bond;
- factoring;
- financial leasing;
- Guarantee.

The clientele eligible for funding under the Green Loan Framework is made up of actors in the following segments:[24]

- corporate clients;[25]
- municipal customers.

The GLF not only supports green projects and investments from a loan perspective, but also aims to measure and monitor their environmental impact, thereby improving the financial-ESG awareness of its banking clients.

[24] The residential green mortgage product is financed under the Takarék Jelzálogbank (TJZB) own framework.
[25] In the case of the sustainable agriculture credit objective, natural and legal persons, sole proprietors, individual entrepreneurs and individual companies engaged in subsistence farming activities under Act CXXIII of 2020 may also be included.

3.1.4. Validity and review of the framework

The framework has been reviewed by Ernst & Young Könyvvizsgáló Kft. as external auditor. The limited assurance report is publicly available on the Bank's website.

The framework will be reviewed in the light of significant changes in international and national regulations, in particular GLP, EU Taxonomy, CBI Taxonomy and MNB guidelines, but at least every two years. The framework will also be amended if, in the light of the market situation and the financing requirements of the green loan framework, MBH Bank considers it appropriate to include new loan targets.

If the framework is modified, the external validation report issued for this version will be superseded or renewed in accordance with international standards.

The Green Loan Framework applies to MBH Bank Plc.

3.1.5. International and domestic compliance of the framework

The Green Loan Framework has been developed in line with international and national sustainability and financial regulations and guidelines. Subsequent revisions and amendments will be made along these lines, following their possible expansion and changes.

In terms of international compliance, the Green Loan Principles, the UN Sustainable Development Goals, the first mitigation pillar of the EU Taxonomy and the CBI Taxonomy are relevant, and in the domestic context, the MNB's sustainability recommendations and programmes such as the Green Recommendation and the Green Preferential Capital Requirements are relevant.

Other compliance obligations may arise later as international or domestic regulations change, and may be decided during the review of the CSR.

GREEN LOAN FRAMEWORK

1. GENERAL LENDING ENVIRONMENT

Within the framework of the Green Loan Framework, the development of loan products is underway., and Tthe details of the specific loan products to be developed will be set out in the current applicable business regulationsrules, general terms and conditions and the relevant list of conditions and notices announcements of MBH Bank Plc., upon their introduction.

The purpose of the Green Loan Framework is to develop MBH Bank's own green loan framework in line with domestic and international best practices to support global climate goals.

All elements of the framework have been developed in accordance with the Green Loan Principles, which ensure that bank funds are used for green loan purposes (Use of Proceeds), clarify the Process for Project Evaluation and Selection, provide transparency in the recording of green loans (Management of Proceeds) and define reporting requirements to avoid greenwashing.

Figure 3: Integrating ESG considerations into the risk taking process

1.1. Use of proceeds

Eligible loan purposes

In addition to regulatory compliance, an important consideration in identifying loan objectives within the Green Loan Framework is that they fit with the funding focus areas and future potential market demand identified in MBH Bank's business strategy. On this basis, renewable energy, sustainable agriculture, sustainable real estate and sustainable transport have been identified as eligible loan targets within the framework. The range of credit objectives that can be financed under the Green Loan Framework will be reviewed periodically along the lines already described.

Figure 4: Credit objetives set by the GLF

Exclusions

The Green Loan Framework will exclude customers or transactions supporting non-preferred activities as defined in the general bank ESG policy.

In addition, the activities that can be included in the Framework are aligned with international standards, specifically EU Taxonomy and CBI Taxonomy, and therefore activities not preferred by EU and CBI Taxonomy are excluded:

- **Energy production activities using solid fossil fuels;**
- **Ships, trains and vehicles for the transport of fossil fuels - excluding natural gas;**
- **Dedicated infrastructure for the transport or storage of fossil fuels - excluding natural gas.**

In addition, transactions will be excluded where there is evidence of non-delivery of data, provision of inaccurate data, significant environmental impacts or inappropriate use of resources.

The criteria associated with each credit target are described in the chapter "Detailed description of the Green Loan Framework credit targets".

1.2. Process for Evaluation and Selection

As a general principle, only transactions that are sustainable and supportive of sustainability and that meet the highest international standards, and therefore have a low ESG risk, are allowed in the GLF. Compliance of transactions with the EU and CBI Taxonomy is a key criterion in the Green Loan Scheme. This means that a green loan target of a client with a high or medium ESG rating, assessed according to the normal banking ESG rules, and meeting international standards, can be financed by the GLF. For transactions financed in the GLF, the Bank's normal ESG rules do not apply.

The development of the Green Loan Framework has identified those aspects of the credit underwriting process that will be added to the overall bank loan process to ensure full compliance with GLP principles. The tasks to be performed at each step of the process are described in, they are presented in the chapter "Detailed description of the Green Loan Framework's loan objectives".

Method and process of determining the MNB Green Ratio

The Green Ratio expresses how much of the specific loan or bond exposure (green exposure) related to the customer's loan application is eligible for the MNB's capital relief.

It is the customer's responsibility to use the disbursed loans for the approved credit purposes defined in the relevant credit agreement. The client's records and documentation must at all times clearly record the assets created from approved green loans. If necessary, the bank may call in an external expert to monitor the use of the funds. In all cases, the calculation and verification of the Green Ratio shall be based on the relevant and up-to-date information and guidelines of the MNB.[26]

The credit institution must also report the Green Ratio in the ICAAP analytics and in its quarterly voluntary data reporting to the MNB. From the bank's internal record-keeping systems, the proportion of the total amount of credit extended that is attributable to the Green Credit target can be clearly identified at any point in time.

1.3. Management of Proceeds

The borrower must establish internal management processes to ensure that it maintains a transparent and segregated record of the amounts spent on approved green loan purposes in its records, with a dedicated account held by the bank as a preferred option. The borrower must provide documentary evidence (e.g. invoices) of the use of bank financing for green credit purposes. In addition to these, the borrower has to comply with his contractual obligation:

[26] The MNB information note valid at the time of entry into force of the framework: https://mnb.hu/letoltes/zold-vallalati-es-onkormanyzati-tokekovetelmeny-kedvezmeny.pdf

In particular, it must provide data at regular intervals (at least once a year) and a declaration on the sustainability criteria and environmental impact indicators related to the loan objective. In addition, the debtor is obliged to inform the creditor immediately, in accordance with its commitment in the credit agreement, if an event has occurred or if it is in possession of information that could jeopardise the fulfilment of the conditions for green rating.

In order to ensure data security, data availability for continuous monitoring and reporting, data related to financed transactions are stored in the Bank's internal systems, which contain basic information related to the client and the transaction. On the bank's side, it is the responsibility of the agent to collect from the debtor the documents necessary to monitor the management of the funds. On the basis of these documents, the bank monitors the transactions carried out on an ongoing basis and verifies at least annually, and more frequently if necessary, that the conditions for financing are being met. Certain data obligations, such as the Green Ratio for the loan and the environmental impact indicators (EIA) for the loan target, are mandatory for all monitoring. In the event of changes to certain criteria for consideration (e.g. TSC, DNSH, MSS criteria), the provision of this data is also mandatory, but a declaration by the client is sufficient if the data remain unchanged. In the event of exceptional information coming to the bank's attention, either from the client or from other public sources, the bank may order the provision of data during the year in order to carry out its monitoring tasks.

1.4. Reporting

There are three reporting obligations in relation to the Green Loan Framework: firstly, the reporting obligation of the debtor to MBH Bank, secondly, the reporting obligation of MBH Bank to the public and thirdly, the reporting obligation of MBH Bank to the MNB.

1.4.1. Customer reporting

It is the responsibility of the borrower financed through the Green Loan Framework to have readily available, up-to-date information on the use of green resources and to provide this information and supporting documentation to the bank at least annually until the end of the loan term. If necessary, the bank may also require ad hoc data provision and the debtor must provide the bank with exceptional data in the event of significant changes during the year. Failure to provide regular, ad hoc or exceptional information may lead to exclusion from the Green Loan Framework. If necessary, an external, independent expert may be called in to review the data.

In the interests of full transparency, the Bank expects the borrower to back up its claims with qualitative and, where possible, quantitative performance indicators when demonstrating the expected environmental impact. It should also make available to the creditor the methodological principles and assumptions used for the assessment. The debtor may use an external expert to fulfil this obligation. In order to assist the debtor in the selection of the KPIs, the bank will propose a list of indicators that may be used for each credit purpose[27]. In addition to the proposed indicators, the debtor may also provide other indicators. The risk manager is responsible for verifying the justification on the basis of the expert report and may, if necessary, involve an external expert.
The data is managed and structured by the bank, so that it can be retrieved instantly at any time and used for internal and external reporting. The debtor's obligation to provide information is also laid down in the relevant loan agreements.

1.4.2. MBH Bank reports to the public

With regard to banking confidentiality, MBH Bank may only produce credit contract or client level reports for internal use or for the MNB. Accordingly, MBH Bank only publishes aggregated information on its green loan portfolio for investors and interested parties on the bank's website. Exceptions are made for information to which the debtor has given its prior written consent.

[27] The proposed indicators will be selected based on international practices, taking into account the ICMA Harmonized Framework for Impact Reporting manual where relevant.
https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Harmonised-Framework-for-Impact-Reporting-Green-Bonds_June-2022v2-020822.pdf
(icmagroup.org)

On this basis, MBH Bank prepares an annual public report on its green portfolio financed through the Green Loan Framework in a transparent manner, taking into account all legal requirements, which is fully in line with the requirements of GLP Chapter 4 (Reporting) or CBI Standards Chapter 3.4 (Reporting) and Article 8 of the EU Taxonomy Regulation.[28] The annual report will include the amount of funds allocated and the expected environmental impact of the green projects financed through the Green Loan Framework.

1.4.3. MBH Bank reports to the MNB

In accordance with the MNB's current reporting requirements, MBH Bank always prepares its reports on time and in the content and structure required by the MNB, in particular with regard to the requirements of the Green Preferencial Capital Requirement Programme.[29]

2. Detailed description of the Green Loan Framework's loan objectives

2.1. First loan objective: Renewable energy

Renewable energy sources are a group of energy carriers that are able to renew themselves on a human scale through the natural cycle, i.e. that do not run out, as opposed to non-renewable fossil energy sources. In addition to solar energy and its direct thermal and photovoltaic uses, geothermal energy, ambient energy, tidal, wave and other ocean energy, hydroelectric energy, biomass, landfill and sewage treatment plant gases and biogas energy also make up a broad group of renewable energy sources. A major advantage of renewable energy sources is that most of them can be used without emissions, thus avoiding the significant carbon dioxide emissions released by burning fossil fuels.

Heat and power generation is responsible for more than a quarter of the EU's greenhouse gas emissions[30]. Ambitious emission reductions in the sector are vital for decarbonisation. New, mainly renewable technologies can provide energy with low or zero emissions. It is in society's common interest to meet the ever-increasing demand for energy in a sustainable way, with renewable energy sources as the main contributors.

The Green Loan Framework has been developed in line with international and domestic regulations and MBH Bank's current and potential business interests. The primary technology requirements are based on the EU Taxonomy. According to these, the following sustainable activities have been defined for the renewable energy loan objective:

First loan objective: Renewable energy under the EU Taxonomy[31, 32, 33]
1. Harnessing solar energy
Relevant activities
Electricity generation using photovoltaic solar technology
Electricity generation with concentrated solar power technology
Production of thermal energy/cooling energy from solar thermal heating
Combined heat/cooling and electricity production from solar energy

[28] MNB (2021): Green corporate and municipal capital requirement discount Questions and answers (21 December 2021)
[29] MNB (2022): Information on the supplementation of the green preferential capital requirement programme for companies and municipalities.
[30] Eurostat (2021): Climate change - driving forces. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Climate_change_driving_forces#Total_emissions.2C_main_breakdowns_by_source_and_general_drivers
[31] TSC Regulation EU 2021/2139: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R2139
[32] EU Taxonomy Regulation with MSS requirements: (EU) 2020/852 Elérhetőség: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852
[33] Each activity code is indicative, i.e. activities under these codes may or may not fit into the Green Credit Framework.

2. Use of heat pumps
Relevant activities
Installation and operation of electric heat pumps

3. Waste heat recovery
Relevant activities
Heat generation using waste heat

The activities defined support several Sustainable Development Goals (SDGs):
- Affordable and clean energy
- Sustainable cities and communities

2.2. Second loan objective: Sustainable transport

Sustainable transport aims to promote clean and sustainable mobility, thus achieving the decarbonisation of the public transport sector.

One of the cornerstones of the EU's climate-neutralisation is a major transformation of the transport sector. Transport is currently largely responsible for greenhouse gas emissions. Reducing these emissions is necessary, while maintaining and ensuring affordable and accessible transport solutions for citizens. Reducing emissions is desirable for public transport, rail, air and waterborne transport. However, among the transport sectors, making road transport more sustainable is a prominent example of how to mitigate climate change. Road transport is responsible for more than two thirds of transport-related greenhouse gas emissions, with passenger cars and light commercial vehicles accounting for the largest share. The EU has a well-developed legislative framework to reduce emissions, including mandatory emission testing.

Sustainable transport is underpinned by the uptake of low or zero emission transport modes and adequate transport infrastructure. A number of technological research and development activities contribute to achieving this goal and should continue to be a priority. Achieving this goal is undoubtedly of great importance for all living beings to live on a liveable and clean planet.

The Green Loan Framework has been developed in line with international and domestic regulations and MBH Bank's current and potential business interests. The primary technology requirements are based on the EU Taxonomy. According to these, the following sustainable activities have been defined for the sustainable transport loan objective:

Second loan objective: Sustainable transport based on the EU Taxonomy[34, 35, 36]
1. Infrastructure
Relevant activities
Rail transport infrastructure
Low direct emissions road and collective transport infrastructure
Infrastructure for zero direct emissions transport
Infrastructure for personal mobility

[34] TSC Regulation: EU 2021/2139. https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R2139
[35] EU Taxonomy Regulation with MSS requirements: (EU) 2020/852: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852
[36] Each activity code is indicative, i.e. activities under these codes may or may not fit into the Green Credit Framework.

2.3. Third loan objective: Sustainable real estate[37]

Sustainable buildings enable the creation of a more efficient building stock, ensuring energy efficient operation throughout the life cycle of buildings.

Buildings are the largest energy-consuming sector in the EU, responsible for around 40% of energy consumption and 36% of carbon dioxide emissions, so they are an important step towards achieving climate neutrality50. Most of Europe's buildings are not yet considered energy efficient, and renovation rates need to be increased to minimise emissions and make zero emissions increasingly achievable. The design and construction of sustainable buildings is a key element in this context and an essential component of the decarbonisation of the built environment. According to the EU Taxonomy, achieving net zero emissions from new buildings is sufficient to meet the target, so that the entire building stock could be carbon neutral by 2050.

There are many challenges to creating sustainable real estate - such as the lack of comparable data or the different energy needs of different climates in European regions, which makes standardisation difficult - but the activities outlined below are a clear path towards a green, energy-efficient real estate stock. The Green Loan Framework has been developed along the lines of international and domestic regulations and MBH Bank's current and potential business interests. The primary technology requirements are based on the EU Taxonomy. Accordingly, the following sustainable activities have been defined for the sustainable real estate loan objective:

Third loan objective: Sustainable real estate under the EU Taxonomy[38, 39, 40]
Relevant activities
Construction of new buildings
Renovation of existing buildings

2.4. Fourth loan objective: Sustainable agriculture

The GLF criteria for sustainable agriculture refer to activities within crop production at farm level that enable climate adaptation and farm resilience.

Clients are expected to clearly define the land boundaries of the production unit according to the use of the income, based on a "farm to farm" policy. Usually this is the farm, including riparian buffer zones, set-aside land for nature conservation, or grassland.

The Green Loan Framework has been developed in line with international and domestic regulations and MBH Bank's current and potential business interests. The primary technological requirements for the agricultural sector are based on the CBI Taxonomy. Accordingly, the following sustainable activities have been defined as part of the sustainable agribusiness credit objective:

Fourth loan objective: Sustainable agriculture based on the CBI Taxonomy[41]
Relevant activities
Precision farming
Water management

[37] European Commission (2020): Taxonomy Report: based on Chapter 8 of the Technical Annex
[38] TSC Regulation: EU 2021/2139. https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R2139
[39] EU Taxonomy Regulation with MSS requirements: (EU) 2020/852: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852
[40] Each activity code is indicative, i.e. activities under these codes may or may not fit into the Green Credit Framework.
[41] CBI Taxonomy Agricultural Criteria System: https://www.climatebonds.net/files/files/standards/agriculture/Agriculture%20Criteria%2020210622v3.pdf

The Green Loan Framework was adopted by the MNB on 18 September 2023. Disclaimer:

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DEFINITIONS

CBI: Climate Bonds Taxonomy

DNSH: Do No Significant Harm

UN: United Nations

ESG: Environment, Social, Governance

FAO FRA: Food and Agriculture Organization Forest Resources Assessments

GBP: Green Bond Principles

GLP: Green Loan Principles HITREG: Credit Register

ICAAP: Internal Capital Adequacy Assessment Process

EIA: Environmental Impact Indicator

KPI: Key Performance Indicator

MNB: Magyar Nemzeti Bank/National Bank of Hungary

MSS: Minimum Social Safeguards

NACE: Nomenclature of Economic Activities

NECP: National Energy and Climate Plan

NHP Hajrá: Growth Loan Program Go for it!

NCDS: National Clean Development Strategy

SDG: Sustainable Development Goals

SPO: Second Party Opinion = Validation by an independent, accredited party

TEÁOR: Standard Industrial Classification of Activities

TREA: Total Risk Exposure Amount = Total Risk Exposure of a Credit Institution

TSC: Technical Screening Criteria

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