



GREEN COVERED BOND FRAMEWORK

September 2021

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I. Economic, social and environmental responsibility

I.1 Introduction of Takarék Mortgage Bank Co.Plc.

Takarék Mortgage Bank Co. Plc. (hereinafter: TMB or Bank) as FHB Land Credit and Mortgage Bank started its operation in 1998. As the first specialized mortgage credit institution created the basis of the mortgage lending business operation in the Hungarian banking market and made mortgage-based financing available in the country.

TMB is exercising its business activity as a member of Takarék Group, its majority owner is MTB Ltd. TMB, as an integrated credit institutions, is also the member of Magyar Bankholding Group established in 2020, which is the second largest domestic banking group in Hungary including MKB Bank Group and Budapest Bank Group. TMB's financial services are supervised by the Magyar Nemzeti Bank on a consolidated basis with Magyar Bankholding members, while TMB's shares and issued mortgage covered bonds denominated in local currency are listed on the Budapest Stock Exchange.

TMB business activity covered both direct mortgage lending for retail and commercial clients, while mortgage refinancing of domestic commercial banks started in 2001. From 2018, however, the Bank operates as a 'purely refinancing mortgage bank', as its main lending activities are refinancing mortgage loans for members of the Bankholding and third-party partner banks outside the group. TMB is recognized as a regular mortgage bond issue on the domestic capital market, while it also has a track record of being active on the EMTN market. Currently TMB is primarily focusing on HUF denominated mortgage bond issuance, but its issue Program also available for unsecured bond issuance.

TMB's cover pool includes own originated loans and refinanced mortgage loans, in a special form of purchasing independent liens from partner banks. Purchase of independent liens is hereinafter referred as 'refinancing' or 'mortgage refinancing. In the case of purchased independent mortgage liens, the underlying mortgage loans are serviced by the partner banks and remain on their balance sheet.

I.2 TMB's green strategy

TMB, as a member of Magyar Bankholding Group is committed to monitor its environmental, social risks and adopt these principals and functions into its long-term governance and business strategy. TMB is also committed to prepare its sustainability strategy by end-2021 and as a part of this publish a Non-Financial Disclosure on the year 2021 in 2022. An action plan and road map will be also prepared as per the recommendation of BSE (Budapest Stock Exchange) with a target level of the future Non-Financial Disclosures' format and standards, as well as the potentially achievable ESG qualification during the years of 2023-2025. The Management bodies of TMB and MTB Ltd (Takarék Group's business governor entity) with their resolution drawn in May 2021 entitled TMB to incorporate the ESG approach into its business plans, operation and corporate governance policy.

However, TMB's status is a specialized credit institution—not a commercial bank— regulated by the Act. no. XXX of 1997 on Mortgage Banks and Mortgage Bonds, hereinafter referred as 'Mortgage Bank Act') and therefore it has a special business strategy that requires TMB to establish its own, specialized green strategy in the longer run. As a main pillar, TMB intends to map green building assets in Hungary to make them available for verified green mortgage loans refinancing. In order to support this development, TMB has detected the necessary for refinancing green loan portfolios IT requirements and started the development of its systems. TMB joined The Energy Efficient Mortgage Initiative



(EEMI) in October 2020¹ reflecting its commitment to implement sustainability factors into its business strategy through energy efficient mortgage lending and establishing a green covered bond framework. In parallel, TMB is monitoring the development of both domestic and international standards, market practices and the legal environment for mortgage lending and covered bond issuance to serve its sustainability strategy and investor' transparency.

As a frequent mortgage covered bond issuer and mortgage refinancing entity, TMB established its Green Covered Bond Committee to increase the role of green factors in its business and risk management governance, whereas TMB's sustainability strategy intends to primarily focus on: (i) green financing with providing green mortgage refinancing for partner banks, (ii) raising funds from green mortgage covered bond issuance and (iii) complying with domestic financial authority and stock exchange (BSE) guidelines and standards.

As for the high-level environmental objectives of the GBP are concerned, TMB considers the below to elements as primarily represented in its green strategy:

- climate change mitigation.
- climate change adaptation

TMB considers the establishment of the current Green Covered Bond Framework as a key pillar of its long-term green strategy providing opportunity to raise long-term green covered bond funding in a market-conform, highly prudent and transparent way for its green mortgage lending activity.

1.3 Background of the Green Covered Bond Framework

In line with Takarék Group's sustainability objectives TMB has established its current Green Covered Bond Framework that enables TMB **to issue green mortgage covered bonds**. TMB intends to raise funds from green mortgage bond issuance and to use these proceeds to finance (i) outstanding own-originated loans and (ii) mortgage refinancing loans in the form of purchasing independent liens from partner banks, where both own originated mortgage loans and mortgage liens are secured by energy efficient residential or commercial properties. TMB's cover pool includes own originated mortgage loans and refinanced mortgage loans. Due to the nature of the coverage system (in accordance with the Mortgage Bank Act) 'green objective' or 'green lending' is considered to be achieved already at the time of green covered bond issuance up to the volume of loans secured by green properties included in the cover pool as collateral of issued green covered bonds (i.e. when green cover asset portfolio is built up before issuance). This is because at the time of issuance, TMB has already pre-financed its green loan portfolio from other non-green funds.

TMB's intention to issue green covered bonds and engage in green refinancing underline Bankholding—including Takarék Group's— commitment to become a major participant on the domestic financial landscape in sustainable mortgage financing.

¹ <https://eemap.energyefficientmortgages.eu/https-eemap-energyefficientmortgages-eu-wp-content-uploads-final-press-release-eem-takarek-003-pdf/>



II. TMB's Green Covered Bond Framework

TMB's green mortgage bond framework is based on the Green Bond Principle issued by the International Capital Market Association (ICMA). The ICMA Green Bond Principles 2021² (hereinafter referred as 'GBP'), are set of voluntary guidelines that recommend transparency and disclosure. In compliance with GBP, TMB intends to issue green covered bonds time-to-time to raise funding for financing and refinancing mortgages for energy efficient residential and commercial properties with lower energy needs and consumption.

In alignment with the ICMA Green Bond Principles 2021 TMB's Green Covered Bond Framework follows the below four pillars.

- (1) Use of proceeds
- (2) Process of project evaluation and selection
- (3) Management of proceeds
- (4) Reporting

TMB's Framework also follows the recommendations of GBP regarding transparency and External Review.

For each Green covered Bond issued, TMB asserts that it will adopt and apply in its financing process the above mentioned four pillars as set out in this Framework.

This Framework has been established by the dedicated **Green Covered Bond Committee** (GCBC) of TMB. The Management Board of TMB approved the current Framework by its resolution no. 4/3/2021. (09.21). The Committee consists of the CEO, deputy CEO responsible for the Risk Management – Chairman of GCBC, Heads of Capital Market, Refinancing, ALM, Collateral Registry, Collateral Management. GCBC reports directly to the Management of Board.

Pursuant to the internal regulations, the GCBC (1) decides on the 'green' quality if new collateral is involved, and (2) regularly reviews the adequacy of the green collateral behind the issued green mortgage bonds.

This Framework defines the eligibility criteria for mortgages ('Eligible Green Mortgage Loan') to cover Green Mortgage Bond issues. All green mortgage bonds issued under this Framework refer to this Framework in their documentation including the Prospectus for the issuance of Green Covered Bonds in effect. However, the individual terms and conditions of each green mortgage bond are set forth in the underlying documentation.

As both the GBP and green financing market are expected to develop further, this Framework may be further updated or expanded and will be applied to each outstanding Green Covered Bond series issued by TMB exclusively after the update of the Green Covered Bond Framework became effective.

Any future changes of this Framework will either maintain or improve the current level of transparency, investor information level, reporting disclosures and the green nature.

² <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf>



II.1 Use of proceeds

Takarék Mortgage Bank intends to allocate the net proceeds of the green covered bond issues in line with its general business strategy under this framework to finance or refinance **Eligible Green Mortgage Loan Portfolio** of new and existing mortgage loans secured by green residential or green commercial properties—excluding home equity loans—compliant to the eligibility categories detailed below. Loans granted by the partner banks under Magyar Nemzeti Bank’s (MNB) Green Home Programme³ valid at all times—as a part of MNB’s Green Monetary Policy Toolkit— and refinanced by TMB are also considered as Eligible Green Mortgage Loans until the energy efficiency requirements of MNB’s Green Home Programme comply with the eligibility criteria of the current Green Covered Bond Framework. Eligible Green Mortgage Loans are to be financed or refinanced in whole or in part by the allocation of the Green Covered Bond proceeds.

Any financing not classified within this Green Covered Bond Framework will not be financed or refinanced with the issue proceeds from a green covered bond.

TMB commits that proceeds from issued Green Covered Bonds will be used only for financing Eligible Green Loans that comply with the below eligibility criteria. Proceeds from Green Covered Bond issuance serves the aim of (i) maintain adequate level of green collateral at least equal with the principal and interest amount of outstanding green covered bonds and (ii) accumulate green collateral for future green covered bond issuance.

TMB confirms that it engages in green refinancing partnership with refinancing partner banks that have acknowledged committed themselves to establish their mortgage lending activity in compliancy with the current Framework by signing refinancing contracts with TMB. Therefore, refinancing partner banks must take legal commitment to use the funding from Green Cover Bond issuance proceeds for financing Eligible Green Mortgage Loans and to maintain an adequate level of green refinancing in compliance to below eligibility criteria.



³ <https://www.mnb.hu/en/pressroom/press-releases/press-releases-2021/the-magyar-nemzeti-bank-announces-the-green-monetary-policy-toolkit-strategy>



The use of proceeds categories are the following⁴:

Green residential and commercial buildings must meet the following minimum eligibility criteria:

A) Green residential buildings			Mapping to UN SDGs
New or existing residential buildings	built after 30th of June, 2022	built before 30th June, 2022	 <p>7.2 By 2030, increase substantially the share of renewable energy in the global energy mix</p> <p>7.3 By 2030, double the global rate of improvement in energy efficiency</p>
	<ul style="list-style-type: none"> Complying with 10% reduction of Primary Energy Demand (PED) to the requirements of Nearly-Zero-Energy-Building (NZEB) Standard in Hungary 	<ul style="list-style-type: none"> Complying with the requirements in Primary Energy Demand (PED) of Nearly-Zero-Energy-Building (NZEB) Standard in Hungary with $PED \leq 100 \text{ Kwh/m}^2\text{a}$ Energy Performance Certificate with a rating of AA or better (rating since 2016) or with a rating of A or better (rating before 2016) Complying with the requirements in Primary Energy Demand (PED) from building energy code 7/2006 incl. amendments of 8/2012 with year of construction of 2013 or newer as belonging to top 15% low carbon residential buildings in Hungary. 	
Refurbished existing residential buildings	<ul style="list-style-type: none"> Refurbished existing residential buildings or renovations designed to fulfil the cost-optimal minimum energy performance requirements of national requirements for 'major renovation' in Hungary as defined in the Energy Performance Buildings Directive. Refurbished existing residential buildings with primary energy savings of at least 30% against the building performance before the renovation. <p><i>Threshold is subject to change based on EU Taxonomy delegated act (June 2021)</i></p>		

⁴ Takaréék Mortgage Bank has relied on the support of an external green real estate consultant **Drees & Sommer SE** (Drees & Sommer) to define the associated eligibility criteria.



B) Green commercial buildings		
New or existing commercial buildings	built after June 30 th , 2022	built before June 30 th , 2022
	<ul style="list-style-type: none"> Complying with 10% reduction of Primary Energy Demand (PED) to the requirements of Nearly-Zero-Energy-Building (NZEB) Standard in Hungary 	Complying with 10% reduction of Primary Energy Demand (PED) to the requirements of Nearly-Zero-Energy-Building (NZEB) Standard in Hungary
Refurbished existing commercial buildings	<ul style="list-style-type: none"> Refurbished existing buildings or renovations designed to fulfil the cost-optimal minimum energy performance requirements of national requirements for 'major renovation' in Hungary as defined in the Energy Performance Buildings Directive. Refurbished existing commercial buildings with primary energy savings of at least 30% against the building performance before the renovation. <p><i>Threshold is subject to change based on EU Taxonomy delegated act (June 2021)</i></p>	
Green building certifications	International green building certification systems with a high ranking in energy and sustainability e.g. BREEAM very good or better, LEED Gold or better with energy savings at least 30% or more against ASHRAE 90.1	



11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management

In accordance with Hungarian regulation⁵, requirements of Nearly-Zero-Energy-Building (NZEB) Standard have to be met for properties brought into use after June 30, 2022. Based on the above eligibility criteria are defined in consideration of the referred regulation.

Energy Performance Certificates (EPC) for Hungarian residential buildings are currently not fully obtainable. When (or if) the database becomes fully available and the data is deemed by TMB to be reliable, the Green Covered Bond Committee will consider including residential buildings with EPC labels A, B and part of C.

For the avoidance of doubt, any future changes to the Eligibility Criteria will not apply to Green Covered Bonds issued before the date of the change.

II.2 Process of project evaluation and selection

Residential and commercial mortgage loans financed or refinanced from Green Covered Bond proceeds are selected and evaluated by GCBC based on the Eligible Green Mortgage Loan criteria in compliance with the established Green Covered Bond Framework. TMB intends to exercise the project evaluation and selection process in compliance with international and domestic legal requirements, as well with effective market practices. TMB considers mortgage loans financed or refinanced granted in

⁵ Decree 7/2006. (V. 24.) TNM, 6/B. § on the determination of the energy performance of building, amended by Decree 13/2021. (III. 10.) ITM



2016 or later in its evaluation and selection process under the current Framework. TMB's project evaluation and selection process have been established with the awareness of avoiding the financing of projects related to terrorism and money laundering and mitigating environmental and social impacts. The allocation of green covered bond proceeds to Eligible Green Mortgage Loans follow proper environmental and social risk management in order to prevent such proceeds allocated to the referred Eligible Green Mortgage leading to negative environmental and social impacts. TMB has not detected direct environmental and social risk factors to its green mortgage financing/refinancing and green covered bond issuance.

The management, supervision, update of the Green Covered Bond Framework is fulfilled by the Green Covered Bond Committee (GCBC). GCBC will meet on a regular basis and will conduct an additional review on the selected mortgages. For the selection and evaluation of Eligible Green Loans TMB uses information obtained from *Lechner Tudásközpont*⁶ (institution for IT solutions in reference to property registry, building and construction data established by the prime ministry), *Central Statistical Office*⁷ data, partner bank data, and TMB's own property evaluation data.

TMB grants refinancing mortgage loans to its partner banks, which lending activity is in compliance with the Mortgage Bank Act, as well as the relevant internal regulations on mortgage refinancing and risk policy. TMB ensures that all selected Eligible Green Mortgage Loans comply with the Hungarian Mortgage Bank Act no. XXX of 1997. Partner banks engaged in green mortgage refinancing partnership with TMB on contractual basis and thereby have proved their commitment to the current Green Covered Bond Framework in reference to their own origination policies to TMB.

In case of refinancing, TMB receives the relevant data from partner banks necessary for the selection, which quality and appropriateness are examined individually by the Refinancing Department based on documentation. The selection of Eligible Green Mortgage Loans is the responsibility of TMB. Eligible Green Mortgage Loans' compliance to the legal requirements of collateral assets is monitored by an independent property controller through random sampling. Non-identified or non-eligible green loans cannot be classified as green cover assets and cannot be applied as collaterals for green covered bond issuance.

Mortgage loan secured by more than one property can be selected as Eligible Green Mortgage Loan if at least one of the referred properties qualifies to the green eligibility criteria set in the current Framework. Such mortgage loan can be considered as Eligible Green Mortgage Loan with a principal amount up to the 70% of the collateral value of the residential, and up to 60% of other properties that meet the minimum green eligibility criteria defined in the current framework.

Green Covered Bond Committee's approval is a pre-condition for assets to be classified as Eligible Green Mortgage Loan and thus provided as green collateral assets for any green covered bond issuance. Selected, but not approved loans are labelled as 'non-identified' in any reports.

GCBC meets on a regular monthly basis and reviews the eligibility of the selected mortgage loans to the Eligibility Green Mortgage Loan criteria. GCBC initiates and supervises the introduction and implementation of the Green Covered Bond Framework, selects the Green Covered Bond Framework verification, second party opinion experts depending on the form of external review required. It supervises the compliance of the Green Covered Bond framework, initiating the revision, amendment and renewal of the framework, if necessary. GCBC is responsible for the dissemination and

⁶ <http://uj.lechnerkozpont.hu/>

⁷ <https://www.ksh.hu/?lang=en>



enforcement of green finance practices in the operation of TMB, taking measures to reduce negative environmental impacts.

II.3 Management of proceeds

Proceeds from Green Covered Bonds are managed by TMB in a portfolio approach. TMB uses its existing IT architecture for tracking the allocation of proceeds from Green Covered Bonds. The available IT sub-systems fulfil the accounting of the loan book, property registration and treasury transactions covering green covered bond issuances.

TMB intends to allocate proceeds from the Green Covered Bond tap issuance to the Eligible Green Mortgage Loan Portfolio at the time of issuance or within 24 months to Eligible Green Mortgage Loans in compliance with the eligibility criteria of 'Use of Proceeds' and the 'Process of project evaluation and selection'.

TMB intends to accumulate adequate volume of Eligible Green Mortgage Loans in the Eligible Green Mortgage Loan Portfolio to ensure that the volume of the Eligible Green Mortgage Loans always reaches or exceeds the total nominal principal and interest rate amounts of all outstanding Green Covered Bonds. As a result, the volume of Eligible Green Mortgage loans will reach the volume of outstanding Green Covered Bonds within 24 months from the last Green Covered bond tap issue. TMB manages overcollateralization in accordance with the effective legal environment and does not apply mandatory 'green' overcollateralization.

Otherwise in other cases TMB will hold and/or invest unallocated Green Covered Bond net proceeds – at its own discretion – in its liquid asset portfolio in the balance of net proceeds not yet allocated to the Eligible Green Loan Portfolio.

Once any assigned assets – covering the outstanding volume of green covered bonds – are no longer qualified according to the eligibility criteria set in this Framework, TMB will replace such assets in the cover pool by other Eligible Green Mortgage Loan as soon as reasonably practicable. In line with the above TMB allocates liquidity deriving from normal (contractual based) or pre-payment of Eligible Green Loans (considered as 'unallocated Green Covered Bond proceeds') to new Eligible Green Loans in order to fulfil the allocation principles of the current Framework.

TMB requires partner banks engaged in green refinancing to acknowledge and commit themselves by signing an addendum to the refinancing contract with TMB to provide information on quarterly basis about the management of funding from proceeds of Green Covered Bond issuance in compliance to the Framework.

TMB cannot use proceeds from Green Covered Bond issuance for loans failing to meet eligible criteria under current Framework or linked to projects incompatible with its sustainability strategy, especially those adding to greenhouse effect.

The monitoring and the allocation is the responsibility of the GCBC.

II.4 Reporting

The Green Bond Principles require green bond issuers to keep investors and other stakeholders updated on the allocation of proceeds. In addition to information related to the projects to which green bond proceeds have been allocated, the Green Bond Principles recommend communicating on the expected impact of the Eligible Green Mortgage Loan portfolio.

The required information will be presented on an aggregated portfolio basis.



The issuer informs Green Mortgage Bond investors annually about the use of proceeds and their environmental impact. The information is published by the issuer and on its website⁸.

Issuers will refer to and adopt, where possible, the guidance and impact reporting templates provided in the Harmonized Framework for Impact Reporting published by ICMA⁹.

The Green Bond Principles Voluntary Process Guidelines for Issuing Green Bonds of June 2021 (The 2021 Edition of the GBP) contains Key recommendations as well. In line with the recommendations TMB confirms the alignment of its Green Bond with the four core components of the GBP (i.e. Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds and Reporting) in its Green Bond Framework. TMB's Green Bond Framework will be available on its website in a readily accessible format to investors.

II.4.1 Allocation reporting

TMB will provide allocation report quarterly on an aggregated basis including information indicators such as:

- The size of the identified Eligible Green Mortgage Loan Portfolio;
- The total amount of proceeds allocated to Eligible Green Mortgage Loans;
- The balance (if any) of unallocated proceeds;
- The amount or the percentage of new financing and refinancing; and

II.4.2 Impact reporting

TMB will inform investors annually about the environmental impact of the Eligible Green Mortgage Loan portfolio financed with Green Covered bonds. TMB has appointed a specialized green real estate consultant **Drees & Sommer**¹⁰ to develop a methodology for impact estimation and calculation. The impact report will provide details, on an aggregated basis, on indicators such as:

Where feasible and available the Impact report would contain the below information:

- A brief description of the Eligible Green Mortgage Loans;
- The breakdown of Eligible Green Mortgage Loan portfolio, by nature of what is being financed, by the type of loans and properties and regions;
- Metrics regarding Eligible Green Mortgage Loans' environmental impact including the annual site energy savings (Mw/year) and annual CO2 emissions avoidance (tCO2/year) of the Eligible Green Mortgage Loans

III. External reviews

III.1 Second party Opinion

The Issuer appointed **Sustainalytics**¹¹, as an independent external review provider to assess through a pre-issuance external review the alignment of their Green Bond and the Framework with the four core components of the GBP 2021.

⁸ <https://www.en.takarekizb.hu/maganszemelyek>

⁹ <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2021-100621.pdf>

¹⁰ <https://www.dreso.com>

¹¹ <https://www.sustainalytics.com>



The external review provider should disclose its credentials and relevant expertise and clearly communicate the scope of the review(s) conducted. TMB will make external reviews publicly available on their website www.takarekjzb.hu

III.2 Post Issuance External Verification Report

During the term of TMB Green Covered Bonds, TMB 's GCBC will have an annual review of the existence of the funded Eligible Green Mortgage Loans and the allocation of Green Covered Bonds proceeds to the portfolio of Eligible Assets in a report compiled by an independent third party. The purpose of the confirmation is to document a clear quantitative allocation of the issue proceeds generated from a TMB Green Covered Bond to the Eligible Green Mortgage Loan portfolio covered by the Framework.

