



COMMON POSITION

RECOMMENDATIONS AND GUIDELINES FOR GREEN MORTGAGE BOND IMPACT REPORTS





Common Position – Recommendations and Guidelines for Green Mortgage Bond Impact Reports

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1. PREAMBLE

Mortgage bonds are covered debt securities issued by mortgage credit institutions and are an important component of the money and capital market ecosystem. The legal framework for the issuance of mortgage bonds is regulated by Act XXX of 1997 on Mortgage Loan Companies and on Mortgage Bonds. Because of their characteristics, mortgage bonds are safe, high-quality securities that provide issuers with a suitable source of funding for long-term mortgage loans. Due to the significance of the asset class regarding financial stability, the Magyar Nemzeti Bank (hereinafter: “**MNB**”) and the mortgage banks operating in Hungary (hereinafter: “**Mortgage Banks**”) have a common goal and interest in promoting the continuous development of the mortgage bond market.

A special sub-type of mortgage bonds are green mortgage bonds, the proceeds of which are used by Mortgage Banks to finance or refinance mortgage loans for the construction, purchase of environmentally sustainable, highly energy-efficient real estate properties or energy-efficient renovation of real estate properties. Hence, such securities indirectly support the improvement of the energy efficiency of the domestic real estate stock, thus contributing to the achievement of the targets set out in Hungary's National Energy and Climate Plan¹ and international climate targets².

Through the MNB's Green Mortgage Bond Purchase Programme and certain macroprudential measures, as well as the first green mortgage bond issues by the Mortgage Banks, the domestic green mortgage bond market was established in the summer of 2021, and since then all domestic mortgage banks have entered this market, and it has been growing and developing steadily since its establishment.

While domestic green mortgage bond market practices are in line with international best practices, at the current stage of market development the MNB and the Mortgage Banks, being at the forefront internationally, have recognised the need to improve reporting on the environmental impact of green mortgage bonds, in order to promote transparency and comparability.

Given the commitment of the MNB and the Mortgage Banks to adopt best practices, this Common Position (hereinafter: “**Position**”) aims to identify and define them in the context of impact reports, in order to standardise formal and methodological approaches and harmonise the calculation methodologies required for the demonstration of environmental impacts.

¹ Hungary's National Energy and Climate Plan: https://commission.europa.eu/document/download/_en_filename

² <https://unfccc.int/most-requested/key-aspects-of-the-paris-agreement>

2. COMPLIANCE WITH THE POSITION

The aim of this chapter is to introduce the principles and concepts of the Position.

2.1. Reporting principles

The Position takes two approaches to the adoption of specific market practices:

- **Recommendations:** The use of the term “**recommended/ we recommend**” refers to market practices that are considered fundamental, generally accepted or best practice, and for which compliance is recommended.
- **Guidelines:** The use of the term “**we encourage/we consider it good practice**” refers to practices not yet commonly used in domestic impact reporting, where compliance improves the quality of the impact report, and is therefore encouraged by the signatories of the Position.

2.2. Declaration of compliance with the Position

We recommend Issuers to disclose in their report on the environmental impacts of Green Mortgage Bond issuance (hereinafter: “**Report**”) that they are seeking to implement the practices set out in the Position and to also disclose if they are fully complying with the Recommendations set out in the Position.

It is considered good practice that if the Issuer fails to comply with all the Recommendations set out in the Position, they should indicate in their Report the limiting and impeding factors in this regard.

2.3. Definitions

- **Attribution Factor (Loan-to-value ratio):** It is the ratio of the Green Mortgage Loan portfolio at the time of reporting to the value of the real estate financed or, in the absence of a loan target property, to the value of the real estate pledged as collateral, with a theoretical maximum of 100%.
- **Emission Factor:** A representative indicator, expressed in KgCO₂/KWh, which provides an indication of the level of greenhouse gas (hereinafter: “**GHG**”) emissions per unit of energy consumption of the housing stock. The MNB publishes the applicable Emission Factor on its website annually, by 31 December of the year in question at the latest. If no updated Emission Factor is published in a given year, the last published data shall be used.
- **EU Taxonomy:** Classification of sustainable economic activities (Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020, amending Regulation (EU) 2019/2088).
- **Report:** A document published by the Issuer that describes the environmental impacts of issuing a Green Mortgage Bond.
- **Renovation with significant energy efficiency improvements:** Renovation of buildings that will result in at least 30 percent energy efficiency improvement.
- **Issuer:** The mortgage bank issuing the Green Mortgage Bond.

- **Environmental Impact:** An environmental impact is defined as any change in environmental elements (land, air, water, wildlife), whether harmful or beneficial, attributable to the use of Green Mortgage Bond proceeds.
- **Primary Energy Demand Benchmark:** The value of the average primary energy demand per square metre of the domestic housing stock, published annually by the MNB on its website by 31 December of the year in question at the latest. If no updated Primary Energy Demand Benchmark is published in a given year, the last published data shall be used.
- **Green Real Estate Property:** Real estate property that is eligible to serve as collateral for Green Mortgage Loans which can be included in the cover pool of a Green Mortgage Bond under the Issuer's Green Framework.
- **Green Mortgage Loan:** A mortgage loan that is eligible to be included in the cover pool of a Green Mortgage Bond under the Issuer's Green Framework.
- **Green Mortgage Bond:** The term is defined as such in the MNB Decree on the regulation of the maturity consistency between the mortgage-based assets and liabilities of credit institutions.
- **Green Portfolio:** The entire Green Mortgage Loan portfolio can be included as collateral for a Green Mortgage Bond.

3. TECHNICAL REQUIREMENTS

This chapter sets out Recommendations and Guidelines on the format of Reports. The primary purpose of formal standardisation is to facilitate easy access, analysis and use of the document.

3.1. Title

- It is considered **good practice** for the Issuer to publish the Report under the title „*Egy-séges Hatásjelentés*” and/or “*Standardized Impact Report*” and to include the reference date (calendar year).
- If the Report is published together with another document (e.g. in a single structure with the Allocation Report), **it is considered good practice** for the Issuer to indicate in the title that the document also contains the Report (e.g. Green Mortgage Bond Allocation and Standardized Impact Report 2025).

3.2. Accessibility

- For ease of access, **we recommend** that the Report be published on the Issuer's website. **It is considered good practice** to publish it on a dedicated sub-page in the same place as the previous Reports.
- In addition to publishing the Report in PDF format, **we recommended** that Issuers also publish the information presented or used (data, chart set) in a format that supports data analysis (csv, xlsx).

3.3. Formal requirements

- **We encourage** the Issuer to prepare the Report in both English and Hungarian.
- For the quantification of environmental impacts, **it is recommended** to use a decimal point or comma only after whole numbers.

When quantifying impacts and presenting data on financial instruments, **it is recommended** to use standard units of measurement as follows:

- Financial assets: HUF million, EUR million
- Avoided energy consumption: Gigawatt hours (GWh) /year
- Avoided energy use benchmark: kWh/m²/year
- GHG emissions avoided: kWh/m²/year
- Avoided GHG emissions benchmark: kgCO₂/m²/year
- Floor area of real estate properties: useful floor area (m², thousand m²), where data on useful floor area is not available, **it is considered good practice** for the Issuer to indicate which floor area definition is used (e.g. net floor area, heated floor area) and the reason for this and any limitations arising from it.

3.4. Presenting the green context

- **It is recommended** for the Issuer's Report to refer to their Green Framework and their overall strategy for environmental sustainability, and where these are available.
- **It is considered good practice** for the Issuer to indicate the proportion of the funded portfolio that is aligned with the EU Taxonomy. Where not all data is available to demon-

strate compliance with the EU Taxonomy, **we encourage** the Issuer to present the proportion which is compliant with the primary energy demand threshold set as *substantial contribution* by the EU Taxonomy.

4. IMPACT REPORTING PRINCIPLES

This chapter summarises the Recommendations and Guidelines on the content of the Reports. The chapter aims to improve the quality of published data by promoting detail, embeddedness and traceability.

4.1. Purpose of the Report

- **It is recommended** that the focus of the published Report should be on environmental impacts (e.g. renewable energy production, energy savings or avoided energy consumption, reduced or avoided GHG emissions, or resilience building activities, environmental protection operations).
- **We encourage** the Issuer to also publish social and/or economic impacts if they consider those relevant.

4.2. Clear and understandable wording

- **It is recommended** that the Issuer clearly define the nature of the reported environmental impact and the reference framework used.
- **It is considered good practice** if the Issuer illustrates the magnitude of positive environmental impacts through comparative examples.
- **It is recommended** that the Issuer indicate if any methodology used by the Issuer is based on estimates or contains any other uncertainty factors.

4.3. Methodological approach

- If the Issuer uses an estimate as any element of the methodology for determining environmental impact, **we recommend** that the Issuer highlight in the Report that the environmental impact is based on an estimate.
- If the Issuer uses an estimate for determining the environmental impact, **it is recommended** that a detailed methodological description is published to ensure that the estimate can be derived, with the methodological description clearly indicating whether the estimate is conservative or not.

4.4. Level of detail

- In order to promote transparency and comparability, **it is recommended** that the Issuer disclose in sufficient detail the methodologies used to demonstrate positive environmental impacts and the calculations made on the basis of these methodologies.
- If the Issuer identifies any limitations in respect of the methodologies or specific calculations, **it is recommended** that these are also identified in the Report.
- **It is recommended** that the data sources used in the calculations are indicated as references (or links if available on the internet) in the Report. If the reference points to a document or a set of data, **it is recommended** that the reference is accompanied by an indication of exactly which data point has been used.

- If the Issuer holds more than one allocation portfolio, **it is recommended** that the indicators (allocation, environmental impact) are disclosed in different rows for each portfolio. In the explanatory part of the Report, **it is recommended** to elaborate on the criteria for the breakdown of portfolios.

4.5. Period covered by the Report

- **It is recommended** that the Report should aim to report the actual (ex post) environmental impact.
- **It is recommended** that environmental impacts are published annually, on a calendar year basis.
- **It is recommended** that the Report be completed each year until the Green Mortgage Bond expires.
- If the Report includes a revision to prior years' data, **it is recommended** that the reason for the deviation and the quantified impact of the deviation are presented.
- If the Issuer chooses to present the environmental impact since issuance, **it is recommended** that they clearly distinguish those from the data reported for each calendar year.

4.6. Stocks of financial assets covered by the Report

- **It is recommended** that the environmental impact be presented in terms of the amount generated from the issuance of Green Mortgage Bonds currently in circulation. If the Issuer chooses to also present the environmental impact of the Green Portfolio, **it is recommended** that this is clearly separated from the impact shown in terms of the amount generated from the issuance of Green Mortgage Bonds.

4.7. Uniform indicators

- In order to facilitate the assessment of the environmental impact by investors, **it is recommended** to present the avoided energy consumption and CO₂ emissions per monetary unit for the amount generated from the issuance of Green Mortgage Bonds. In this respect, **it is recommended** to present the impact per HUF 1 billion or per EUR 1 million, with the exchange rate being based on the official exchange rate set by the MNB for the last day of the period covered by the Report. **It is recommended** that the exchange rate used is indicated in the Report.

4.8. Involvement of third parties/external actors

- **It is considered good practice** for the Issuer to use external consultants to prepare the Report, define the methodologies and perform the calculations. In this case, the Issuer is also **recommended** to strive for the level of detail, clarity and comprehensibility specified in Chapter 4.4.
- **We consider it good practice** for the Issuer to have the Report reviewed by an independent external agency to enhance credibility and reliability and to publish the document confirming the review in the same place as the Report.

5. METHODOLOGICAL SPECIFICATIONS FOR REAL ESTATE PROPERTIES

The Mortgage Banks use the proceeds from Green Mortgage Bonds to finance/refinance or redeem Green Mortgage Loans for the construction, purchase of real estate properties that are considered to be energy efficient or energy retrofit of real estate properties.³ For this environmental objective, the environmental impact can be demonstrated through the energy and GHG emissions data of the Green Real Estate Property Stock compared to the average energy and GHG emissions data of the Hungarian housing stock.

5.1. Methodology for quantifying the impact of mortgage loans to finance the construction/purchase of Green Real Estate Properties

5.1.1. Green Real Estate Properties

- **It is recommended** that the data on the avoided energy consumption and avoided CO₂e emissions of Green Real Estate Properties are determined by the Issuer on the basis of the available energy performance certificates. If the necessary data for a real estate property are not available and therefore an estimate is required, **it is recommended** that Chapter 4.3 applies to the estimation procedure used by the Issuer.
- **It is considered good practice** for the Issuer to use an external consultant to calculate the avoided energy consumption and avoided CO₂e emissions of Green Real Estate Properties.
- **We recommend** that the Issuer present separately, within the Green Real Estate Property Portfolio, the real estate properties
 - o with energy performance certificates issued under the regulations in force until 31 October 2023,
 - o with energy performance certificates issued under the regulations effective from 1 November 2023, and
 - o with energy ratings/main energy characteristics used based on estimates.

5.1.2. Determination of Primary Energy Demand Benchmark

- **It is recommended** to use the Primary Energy Demand Benchmark data published by the MNB for the year as a benchmark.

5.1.3. Emission factor for determining GHG emissions

- If the specific CO₂ emission characteristic for the real estate property is not available, **it is recommended** to use the Emission Factor data provided by the MNB, available for the year in the Report to convert avoided energy consumption to GHG emissions.

5.1.4. Attribution Factor (LTV)

- When determining the environmental impact of Green Mortgage Loans, **it is recommended** to use the Attribution Factor.

³ The lending credit institution does not always have a funding credit target available for the real estate property, so from a technical point of view in the absence of an explicit loan target, mortgage banks will also consider that as a mortgage loan for residential purposes when the property is included as collateral for the mortgage loan.

5.1.5. Methodology for calculating environmental impacts

It is recommended to calculate the environmental impact according to the following formulae.

Energy consumption avoided by a Green Portfolio:

- (i) To express the energy consumption avoided through Green Portfolio financing in GWh, the difference between the average primary energy demand per square metre of the domestic housing stock and the average primary energy demand per square metre of Green Real Estate Properties shall be multiplied by the financed area of Green Real Estate Properties, determined by taking into account the Attribution Factor, and the result shall be divided by one million according to the following formula:

Avoided energy consumption (GWh) =

$$= \frac{[\text{Primary Energy Demand Benchmark (kWh/m}^2\text{/year)} - \text{Green real estate properties' average primary energy demand (kWh/m}^2\text{/year)}] \times [\text{Green real estate properties' financed area (m}^2\text{)}]}{1000000}$$

- (ii) To express the energy consumption avoided through Green Portfolio financing in GWh, the difference between the average primary energy demand per square metre of the domestic housing stock and the primary energy demand per square metre of the individual Green Real Estate Property shall be multiplied by the financed area of the Green Real Estate Property, determined by taking into account the Attribution Factor, and the result shall be divided by one million and then summed over the total Green Real Estate Property stock according to the following formula:

Avoided energy consumption (GWh) =

$$= \sum_{i=1}^n \frac{[\text{Primary Energy Demand Benchmark (kWh/m}^2\text{/year)} - \text{Green real estate property primary energy demand}_i \text{ (kWh/m}^2\text{/year)}] \times [\text{Green real estate property's financed area}_i \text{ (m}^2\text{)}]}{1000000}$$

Avoided GHG emissions:

- (i) It can be calculated as the value of the energy consumption avoided by the total Green Real Estate Properties multiplied by the Emission Factor times 1000 according to the following formula:

$$\text{Avoided GHG emissions (tCo}_2\text{eq)} = \text{Avoided energy consumption (GWh)} \times \text{Emission Factor} \left(\frac{\text{KgCo}_2}{\text{kWh}} \right) \times 1000$$

- (ii) It can be calculated based on the specific CO₂ emission characteristic for an individual real estate property according to the following formula:

Avoided GHG emissions (tCo₂eq) =

$$= \sum_{i=1}^n \frac{[\text{Primary Energy Demand Benchmark (kWh/m}^2\text{/year)} \times \text{Emission Factor} \left(\frac{\text{KgCo}_2}{\text{kWh}} \right) - \text{Green real estate property's GHG emissions}_i \text{ (KgCo}_2\text{/m}^2\text{/year)}] \times [\text{Green real estate property's financed area}_i \text{ (m}^2\text{)}]}{1000}$$

5.2. Renovation with significant energy efficiency improvements

- A separate chapter **is recommended** to show the extent of avoided energy consumption and avoided GHG emissions from renovations with significant energy efficiency improvements.
- If the Issuer's portfolio does not identify mortgage loans for renovation with significant energy efficiency improvements, **we recommend** that the Report include an explicit statement to this effect.

6. CLOSING PROVISIONS

The Position shall be signed by the MNB and the Magyar Bankszövetség (Hungarian Banking Association) acting on behalf of the Mortgage Banks. By signing the Position, the MNB and the Mortgage Banks agree to set out the practices they consider appropriate and that should be followed in relation to the impact report.

The Position is primarily intended for green mortgage bond market participants, but its content can serve as a guide for other issuers and the domestic green bond market as a whole.

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1054 BUDAPEST, SZABADSÁG TÉR 8–9.