



Kopaszi Gát Kft

Green Finance Second Opinion

November 3, 2021

Kopaszi Gát Kft (“Kopaszi Gát”) is a Hungarian real-estate company owned by private individuals, which has been established with the purpose of owning the BudaPart project. The BudaPart project is a large real-estate development project in Budapest, covering an area of about 54 hectares and with plans to develop 15 residential buildings, 13 office buildings and a hotel over a ten-year investment period. Seven buildings in the project have already been completed (five residential and two office).

Kopaszi Gát has confirmed that its green financing framework is limited to the BudaPart project, and it covers the project categories of green buildings, clean transportation, and biodiversity. The issuer has informed us that green buildings will receive the largest share of proceeds (estimated at around 90%). Office buildings will account for around 45% of proceeds used on green buildings and must achieve LEED Gold and Hungarian EPC level BB. Residential buildings will account for around 55% of proceeds used on green buildings and must achieve Hungarian EPC level BB only. Investors should note that from late June 2022, under Hungarian law all new buildings must achieve EPC level BB. As such, from that date, the residential buildings built according to regulation will satisfy the eligibility criteria. This is a weakness of the green finance framework, notwithstanding that Kopaszi Gát has calculated that the residential buildings will have an energy usage of 83 kWh/m² per year – at the lower end of the requirements for EPC level BB (80 - 100 kWh/ m² per year). According to Kopaszi Gát, neither type of building will have direct fossil fuel heating, however they will be connected to Budapest’s district heating, around 97% of which, we understand, currently comes from fossil fuels.

Kopaszi Gát could benefit from setting environmental targets and measuring its emissions. Kopaszi Gát does not currently have an environmental strategy – while we welcome its commitment to setting up an environmental strategy by the end of November 2021, we understand it will not include environmental targets or the measuring of emissions. Despite the absence of formal policies, many environmental considerations are reflected in its decision making for the BudaPart project. Of particular note are its active involvement in the development of public transport serving the BudaPart project (e.g. the construction of bus lanes and bus stops) and, though it does not screen for climate risks systematically, its consideration of flood risk (e.g. the construction of dams and a flood basin).

Based on the overall assessment of the project types in Kopaszi Gát’s green finance framework, governance and transparency considerations, the greenfinanceframework receives an overall **CICERO Light Green** shading and a governance score of **Fair**. Kopaszi Gát could improve its green finance framework by increasing its ambitions in respect of residential buildings, and adopting formalised environmental and emissions targets and approaches.

SHADES OF GREEN

Based on our review, we rate the Kopaszi Gát’s green finance framework

CICERO Light Green.

Included in the overall shading is an assessment of the governance structure of the green finance framework. CICERO Shades of Green finds the governance procedures in Kopaszi Gát’s framework to be **Fair**.



GREEN BOND AND LOANS PRINCIPLES

Based on this review, this Framework is found to be aligned with the principles.





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1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated November 2021. This second opinion remains relevant to all green bonds and/or loans issued under this framework for the duration of three years from publication of this second opinion, as long as the framework remains unchanged. Any amendments or updates to the framework require a revised second opinion. CICERO Green encourages the client to make this second opinion publicly available. If any part of the second opinion is quoted, the full report must be made available.

The second opinion is based on a review of the framework and documentation of the client's policies and processes, as well as information gathered during meetings, teleconferences and email correspondence.

Expressing concerns with 'Shades of Green'

CICERO Green second opinions are graded dark green, medium green or light green, reflecting a broad, qualitative review of the climate and environmental risks and ambitions. The shading methodology aims to provide transparency to investors that seek to understand and act upon potential exposure to climate risks and impacts. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The shades are intended to communicate the following:

CICERO Shades of Green



Dark green is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Ideally, exposure to transitional and physical climate risk is considered or mitigated.



Medium green is allocated to projects and solutions that represent steps towards the long-term vision, but are not quite there yet. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Physical and transition climate risks might be considered.



Light green is allocated to projects and solutions that are climate friendly but do not represent or contribute to the long-term vision. These represent necessary and potentially significant short-term GHG emission reductions, but need to be managed to avoid extension of equipment lifetime that can lock-in fossil fuel elements. Projects may be exposed to the physical and transitional climate risk without appropriate strategies in place to protect them.

Examples



Wind energy projects with a strong governance structure that integrates environmental concerns



Bridging technologies such as plug-in hybrid buses



Efficiency investments for fossil fuel technologies where clean alternatives are not available

Sound governance and transparency processes facilitate delivery of the client's climate and environmental ambitions laid out in the framework. Hence, key governance aspects that can influence the implementation of the green finance is carefully considered and reflected in the overall shading. CICERO Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the green finance framework; 2) the selection process used to identify and approve eligible projects under the framework, 3) the management of proceeds and 4) the reporting on the projects to investors. Based on these factors, we assign an overall governance grade: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.



2 Brief description of Kopaszi Gát's green finance framework and related policies

Kopaszi Gát Kft (“Kopaszi Gát”) is a Hungarian real-estate company owned by private individuals, which has been established with purpose of owning the BudaPart project. The BudaPart project is a large real-estate development project in Budapest, Hungary, covering an area of about 54 hectares and with plans to develop 15 residential buildings, 13 office buildings and a hotel over a ten-year investment period. The BudaPart project is being developed over six phases: we understand that Phases 1 and 2 are completed, and Phase 3 has recently begun. Seven buildings in the project have already been completed (five residential and two offices).

Kopaszi Gát has contracted Property Market Kft, a subsidiary of Market Group, as developer of the BudaPart project. According to the green finance framework, Market Group is a leader in the Hungarian construction industry, with a focus on high-rise construction projects, and is Hungary's third largest real estate developer measured by square meters under construction.

Environmental Strategies and Policies

As Kopaszi Gát has been established for the purpose of owning the BudaPart project, many aspects of its environmental approaches are reflected in its decision making for the BudaPart project specifically, rather than formulated as broader policies. Nonetheless, according to its green finance framework, Kopaszi Gát will set up a ‘green strategy’ by the end of November 2021, which will be publicly available. The objectives of the strategy will be: 1) applying an environmentally aware business model, 2) being environmentally and socially responsible, 3) strategic cooperation partnerships based on SDGs or other sustainability aspects, and 4) consumer centrality and awareness of well-being. Kopaszi Gát informs us that the strategy will not contain any specific targets, for example in respect of company level emissions or Scope 3 emissions reductions. Nor does Kopaszi Gát measure its GHG emissions or those of the BudaPart project - while it informed us it plans to do so in the future, we are not aware of any timeframe for this.

Kopaszi Gát has incorporated environmental measures and considerations into the BudaPart project. It informed us that such measures have been incorporated from the outset of the BudaPart project, given they were included in the project plan in 2016.

In respect of material use, according to the green finance framework, Kopaszi Gát's contractor is encouraged to use materials with high recycled content (especially in the case of large construction items such as reinforced steel, curtain walls and insulation) and to prepare as much of the construction waste for reuse or recycling as possible. As an example, Kopaszi Gát noted that the most recently completed office building at BudaPart used reinforcing steel which was 97.9% recycled and aluminum structures that were 73% recycled. Other initiatives include establishing a concrete plant and soil depot within the BudaPart project area, thereby reducing the transportation distances of these materials. The issuer calculates that this will avoid at least 6 tons of CO₂ per annum from lower transportation emissions from Phase 2 onwards, increasing to around 20 tons CO₂ avoided per annum by the end of Phase 5.¹

¹ We note that the production of concrete generates large volumes of emissions irrespective of transportation distances, on account of an energy intensive production process including chemical processes which release CO₂. The overall environmental efficiency of Kopaszi Gát's concrete plant is not known.



In respect of public transportation, the green finance framework notes Kopaszi Gát's active involvement in the development of public transport connections to the BudaPart project, with the aim of making the BudaPart project easily accessible without the use of private vehicles. For example, Kopaszi Gát was responsible for commissioning the designs of and obtaining permits for the '2nd Interconnecting Tramline' which will serve the BudaPart project. It has transferred the right to use the plans to the Municipality of Budapest and the tramline is expected to be completed by 2024. Until the tramline is completed, Kopaszi Gát has financed the construction and/or rebuilding of six bus stops to allow for a new public bus service serving the BudaPart project. Similarly, Kopaszi Gát was involved in the development of an existing bus service's schedule and route to ensure efficient connections to the BudaPart project. According to the green finance framework, across the lifetime of the BudaPart project, the issuer will install around 1400 bicycle and electric scooter racks and around 400 EV charging stations.

In respect of energy efficiency, Kopaszi Gát targets at least LEED Gold certification for all office buildings.

Kopaszi Gát notes in the green finance framework that, under Hungarian regulations, it is a requirement that all new buildings must be able to withstand weather events such as flooding and earthquakes. It informed us that, given the location of the BudaPart project on the Danube, several measures have been taken to protect the project against flooding. For example, Kopaszi Gát has constructed new dams, which have been built at the level of the highest historical flood-level and which can also be temporarily extended. These dams are constructed with a 50-year timeframe in mind. Kopaszi Gát has also redeveloped the sewage and drainage system at the BudaPart project and constructed a flood basin to store water during heavy rainfall.

Kopaszi Gát does not currently report on environmental issues and future reporting will be limited to its reporting commitments under its green finance framework.

Use of proceeds

Kopaszi Gát's has confirmed that its green finance framework is limited to the development on the BudaPart project. The green finance framework contains a list of project categories towards which proceeds from green financings may be allocated. These are: green buildings, biodiversity (specifically the establishment of green areas), and clean transportation (both the development of e-mobility, and the improvement of public transport and auxiliary infrastructure). According to the issuer, the category which will receive the most proceeds is green buildings (estimated at around 90%).

According to the issuer, in respect of its initial bond issuance, around 50% of proceeds will be used for re-financing, including for completed green buildings, including acquisition of the land on which the green buildings are or will be situated, and projects related to the development of green spaces.

Kopaszi Gát informs us that the proceeds under the green finance framework will not be used to finance standalone projects connected to highly polluting activities, nuclear energy generation, weapons or defence purposes, gambling or tobacco uses, and potentially environmentally negative resources extraction.

Selection

The selection process is a key governance factor to consider in CICERO Green's assessment. CICERO Green typically looks at how climate and environmental considerations are considered when evaluating whether projects can qualify for green finance funding. The broader the project categories, the more importance CICERO Green places on the governance process.



Kopaszi Gát will establish a Green Committee which will be solely responsible for the project evaluation and selection process, including evaluating the compliance of proposed projects with the eligibility criteria in the green finance framework. According to the issuer, it is not yet determined how often the Green Committee will meet, but that it will meet at least twice a year. Members of the Green Committee will be elected by Kopaszi Gát's Executive Directors and consist of a Chairman and members delegated from the finance (including the CFO, who will in any event be a member of the Green Committee) and engineering/design departments.

We understand that no member of the Green Committee will have specific environmental competence. Voting will be by simple majority. In the event of a tie, an external environmental expert will be asked to advise the Green Committee and the Chairman will then have the deciding vote. Subject to confidentiality considerations, the Green Committee's decisions and methodology will be made public, though its processes and decisions will not be externally reviewed or verified.

Management of proceeds

CICERO Green finds the management of proceeds of Kopaszi Gát to be in accordance with the Green Bond Principles and Green Loan Principles.

Kopaszi Gát's finance team will be responsible for management of proceeds, supervised by its CEO, and aims to allocate net proceeds within 48 months of issuance. Proceeds will be allocated to a portfolio of disbursements. We understand from the issuer that proceeds will be tracked at a portfolio level by Kopaszi Gát. Pending allocation, Kopaszi Gát will invest the balance of the net proceeds, at its own discretion, in cash or in other liquid marketable instruments. The exclusions for the use of proceeds apply equally to unallocated proceeds.

Reporting

Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green finance programs. Procedures for reporting and disclosure of green finance investments are also vital to build confidence that green finance is contributing towards a sustainable and climate-friendly future, both among investors and in society.

Kopaszi Gát will produce an annual Green Finance Report that will be available on its website, until the proceeds of any green financing are allocated and as necessary in the event of material changes to eligible green projects. The Green Committee is responsible for the Green Finance Report. The issuer will report on a portfolio basis and, on a best effort basis, its reporting will align with the portfolio approach described in ICMA's Harmonised Framework for Impact Reporting Handbook, June 2021.² The Green Finance Report will be externally reviewed and verified.

In respect of allocation, Kopaszi Gát will, on a portfolio basis, report 1) the total aggregated proportion of net proceeds used per green project category, 2) a list of eligible projects related to the proceeds (the number of projects accompanied with the net allocated amounts), and 3) the balance of unallocated proceeds. Moreover, Kopaszi Gát will link each project to individual bond issuances or loans and will report on the share of each eligible project that has come from proceeds under the green finance framework.

In respect of impacts, Kopaszi Gát will, on a best effort basis and where and when feasible, report on the environmental impacts of the projects to which proceeds have been allocated. The green finance framework

² <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2021-100621.pdf>



contains the following metrics which may be used, where applicable, and the issuer has confirmed it will disclose the assumptions and methodologies used when calculating such impacts:

Eligible Project Category	Eligible Projects	Eligibility Project Criteria (examples)
Clean transportation	Development of e-mobility	<ul style="list-style-type: none"> • Number of electric charging stations for EVs installed • Number of bicycle and electric scooter racks installed
Clean transportation	Improvement of public transport and auxiliary infrastructure	<ul style="list-style-type: none"> • Improved luminance for surfaces by performance materials in m² • New bicycle lanes in meters • Ambient noise reduction from the transport infrastructure in db(A) • Annual GHG reduced or avoided in tCO₂
Biodiversity	Investments for new projects	<ul style="list-style-type: none"> • Increase of natural landscape area in urban areas in m² and/or in % for increase
Green Buildings	Investments for new projects	<ul style="list-style-type: none"> • Preparation, design, and construction of buildings which meet recognized standards: <ul style="list-style-type: none"> - LEED (Gold or above) - EPC level achieved and energy usage in kWh/m² per year • For residential properties: <ul style="list-style-type: none"> - EPC level achieved and energy usage in kWh/m² per year

Table 1. Example impact metrics



3 Assessment of Kopaszi Gát’s green finance framework and policies

The framework and procedures for Kopaszi Gát’s green bond and loan investments are assessed and their strengths and weaknesses are discussed in this section. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects; weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where Kopaszi Gát should be aware of potential macro-level impacts of investment projects.

Overall shading

Based on the project category shadings detailed below, and consideration of environmental ambitions and governance structure reflected in Kopaszi Gát’s green finance framework, we rate the framework **CICERO Light Green**.

Eligible projects under the Kopaszi Gát’s green finance framework

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green bonds and loans aim to provide investors with certainty that their investments deliver environmental returns as well as financial returns. The Green Bonds Principles (GBP) state that the “overall environmental profile” of a project should be assessed and that the selection process should be “well defined”.

Category	Eligible project types	Green Shading and some concerns
Clean Transportation	Development of e-mobility:	Dark Green
	<ul style="list-style-type: none"> • Design and construction of electric vehicle charging stations related to real estate developments • Support electric car sharing availability for real estate projects • Design and construct bicycle and electric scooter racks 	<ul style="list-style-type: none"> ✓ Transportation systems are important for the overall sustainability of real-estate projects and the provision of e-mobility infrastructure can reduce the use of private vehicle use. ✓ Kopaszi Gát has informed us that by supporting e-car sharing availability, it means entering into agreements with e-car sharing providers to provide parking spaces for its vehicles and hosting its chargers. The issuer has confirmed this would not include hybrid vehicles.



- ✓ Electric cars represent a considerable improvement from an emissions perspective, but are not without challenges. For instance, one should consider the indirect GHG emissions stemming from production and other life-cycle impacts, including fossil fuel generated electricity for charging.

Clean Transportation

Improvement for new projects:

Medium to Dark Green



- Construction to core infrastructure ✓ by new bicycle lanes and promotion of public transport
- Construction to auxiliary infrastructure to reduce ambient noise and improve surface luminance
- Avoid or reduction of transport use

We understand from Kopaszi Gát that the eligible projects for (re)financing in respect of the ‘promotion of public transport’ and ‘avoid and reduction of transport use’ are: the commissioning of the designs of and obtaining permits for a tramline that will serve the BudaPart project; financing the construction and/or rebuilding of bus stops to allow for a new public bus service serving the BudaPart project; involvement in the development of an existing bus service’s schedule and route to ensure efficient connections to the BudaPart project; and the construction of a river stop for the Budapest’s public ferry service.

- ✓ The increased use of public transport – and a corresponding fall in private vehicle use – are welcome and important factors in the sustainability of real estate projects. While investments in, and increased use of, public transport contribute greatly to the sustainability of real-estate projects, they still have their own emissions and risks which should be considered, for example construction emissions and embedded emissions in materials.
- ✓ According to Kopaszi Gát, it is investing in road surfacing with a solar reference level below that of asphalt typically used in construction projects.



It notes that this significantly reduces the heat of the surface and therefore reduces energy usage for cooling in the summer.

Biodiversity



Investment for new projects:

- Natural landscape restoration through the establishment of green areas

Dark Green

- ✓ The BudaPart project includes plans for the development of 26 ha of public parks.
- ✓ Green spaces such as parks contribute to biodiversity and can also contribute to resilience against flood risk through the provision of natural drainage.

Green Buildings



Investments for new projects:

- Preparation, design, and construction of buildings which meet recognized standards:
 - LEED (Gold or above); and
 - Hungarian EPC level BB
- Preparation, design and construction of residential buildings:
 - Hungarian EPC level BB

Light Green

- ✓ The issuer informs us that around 55% of proceeds used for green buildings will be allocated to residential buildings, and around 45% to office buildings.
- ✓ According to Kopaszi Gát, the LEED criteria will be used for office buildings only. Nonetheless, Kopaszi Gát noted that, given the same contractor is constructing the commercial and residential buildings, many of the LEED criteria regarding construction were also being applied to the residential buildings, for example in respect of recycled materials.
- ✓ Voluntary environmental certifications such as LEED have many environmental benefits but do not guarantee a reduction in GHG emissions or ensure increased energy efficiency. Kopaszi Gát has provided examples of the performance of two commercial buildings against the LEED baseline: BudaPart Gate exceeds the baseline by 28% while



BudaPart City is expected to be 35% above the baseline.

- ✓ The criterion for new buildings to achieve a Hungarian EPC rating of at least BB displays a solid amount of ambition, with buildings labelled EPC BB deemed ‘nearly zero energy’ in Hungary and using 23% less energy than buildings rated EPC CC. Indeed, new buildings with at least EPC BB certification will be amongst the most energy efficient in Hungary: we understand that, in Hungary in 2020, 5.2% of all buildings are rated EPC BB or above, and 10.6% of office buildings are rated EPC BB or above (falling to 5.7% in Budapest).
 - ✓ While new buildings in Hungary must currently achieve EPC CC, investors should note that, from late June 2022, EPC BB will be the requirement for all new buildings in Hungary. As such, from late June 2022, residential buildings built according to regulation can satisfy the eligibility criteria without additional requirements.
 - ✓ Kopaszi Gát informed us that the residential buildings to be constructed under the green finance framework will have an energy usage of 83 kWh/m² per year. Kopaszi Gát has informed us that this calculation considers electricity use for heating-cooling, lighting and water boiling (as required by Hungarian EPC calculation requirements). No equivalent energy usage figure has been provided for the office buildings, however Kopaszi Gát provided us with two EPC certificates for completed office buildings at the BudaPart project which have energy usage of around 72 and 80 kWh/m² per year. In any event, to qualify for EPC BB,
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buildings cannot exceed 100 kWh/m² per year.

- ✓ As the minimum Hungarian classification aligned with ‘nearly zero energy’ requirements, EPC BB does not guarantee alignment with the EU Taxonomy – this requires, inter alia, primary energy demand at least 10% lower than the threshold set for nearly zero-energy building requirements as contained in national measures. Kopaszi Gát’s buildings that have an energy usage of 83 kWh/m² per year would satisfy this requirement.
 - ✓ Kopaszi Gát informed us that the hotel at the BudaPart project would also qualify for green proceeds, but it would only have to achieve EPC BB (i.e. no requirement to achieve LEED Gold). No energy use estimates have been provided for the hotel.
 - ✓ Kopaszi Gát informed us it is a requirement under Hungarian law that the buildings to be financed under the green financing framework must be connected to Budapest’s district heating, around 97% of which, we understand, comes from fossil fuels. According to the issuer, there is no direct fossil fuel heating and we note that, in any event, to achieve an EPC BB rating, renewable energy would need to account for at least 25% of a building’s energy consumption.
 - ✓ Kopaszi Gát informed us of measures it has taken in respect of material use (e.g. favoring materials with high recycled content) and climate resilience (e.g. the construction of dams and a flood basin), though the location of the BudaPart project means a climate risk remains.
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- ✓ Kopaszi Gát informs us the development of new buildings under the green finance framework involves the construction of parking lots including spaces for non-electric vehicles. It notes that under Hungarian law it is required to provide one parking space per dwelling.

Table 2. Eligible project categories

Background

The real estate sector has a major impact on the environment, estimated by the International Energy Agency (IEA) to be responsible for 40% of total energy consumption and 36% of total carbon emissions.³ Investing in green and energy efficient buildings therefore plays a key role in the energy transition. Indeed, the IEA reports that the efficiency of building envelopes needs to improve by 30% by 2025 to keep pace with increased building size and energy demand.⁴ Moreover, the IEA's Sustainable Development Scenario suggests 50% of new constructed building area in 2030 to be near zero emissions, in addition to increased use of renewable energy sources up to 25% in 2030.⁵

The main sources of life cycle emissions from buildings are from energy use, material use and construction processes. The energy use and efficiency of buildings is dependent on multiple factors, including material selection and use, energy management systems, increasing affluence and expectations of larger living areas, population growth and unpredictable and extreme weather. Energy use does, however, become less important over time with the increasing adoption of off-grid solutions such as geothermal and solar. Given emissions from materials and construction, the choice of building materials is therefore becoming more and more important. For example, a large number of life cycle analyses show that wood-frame buildings result in lower primary energy use and GHG emissions compared to non-wood alternatives such as concrete and steel.

Kopaszi Gát's place of business is Hungary. The EU has committed itself to a clean energy transition, which will contribute to fulfilling the goals of the Paris Agreement on climate change. As a member of the EU, Hungary is subject to the EU's climate targets, policies and laws. Via the European Climate Law, the EU has enshrined into EU Law (inter alia), 1) the target of climate neutrality by 2050, and 2) a net greenhouse gas emission reduction target of 55% by 2030 compared to 1990 levels. In July 2021, the European Commission adopted a set of legislative proposals – 'Fit for 55' – that set out how it intends to achieve these climate targets. Hungary itself has enshrined in its national law a net greenhouse gas emission reduction target of 40% by 2030 compared to 1990 levels.

EU Taxonomy

In 2020, the EU adopted the EU Taxonomy Regulation (Taxonomy) which seeks to create a common framework to classify whether certain activities can be considered environmentally sustainable. In April 2021, the EU published its technical screening criteria (TSC). If an activity complies with these criteria, it is deemed to contribute to one or more of the Taxonomy's environmental objectives and to not cause significant harm to such objectives. In respect of real estate and construction, the TSC require, among others: primary energy demand at least 10%

³ <https://www.iea.org/topics/energy-efficiency>

⁴ <https://www.iea.org/reports/building-envelopes>

⁵ <http://www.iea.org/tcep>



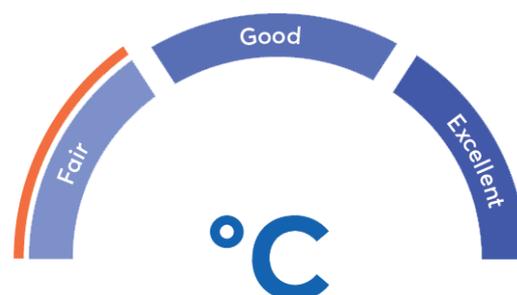
lower than the threshold set for nearly zero-energy building requirements as contained in national measures; the certification of energy performance using EPC certificates; and at least 70% (by weight) non-hazardous demolition and construction waste prepared for reuse, recycling and other material recovery. Cicero Shades of Green has not been retained to provide a screening against the Taxonomy.

Governance Assessment

Four aspects are studied when assessing the Kopaszi Gát's governance procedures: 1) the policies and goals of relevance to the green finance framework; 2) the selection process used to identify eligible projects under the framework; 3) the management of proceeds; and 4) the reporting on the projects to investors. Based on these aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

Kopaszi Gát does not currently have an environmental strategy in place, though it will set one up by the end of November 2021. Kopaszi Gát has provided some information on what this strategy will entail, however we note that it will not include specific environmental targets or the measuring of emissions. Nevertheless, Kopaszi Gát has demonstrated the incorporation of many environmental measures into the BudaPart project, which demonstrate a commitment to environmental impacts and consideration of climate issues. Of particular note are its measures in respect of flooding, for example the construction of dams and a flood basin, its commitment to using recycled or reused material, and the integration of various forms of public transportation to reduce private vehicle use.

Kopaszi Gát has a solid selection process, which is compliant with the Green Bond Principles and the Green Loan Principles. While its Green Committee has no environmental expertise, it has committed to involving an external environmental expert in the event a vote is tied.



In respect of reporting, Kopaszi Gát does not currently report on sustainability and its reporting will be limited to its Green Finance Report. In respect of reporting under its green finance framework, it has many relevant and good impact indicators, though given the variety of transport initiatives under the green finance framework, we encourage Kopaszi Gát to try as far as possible to link avoided or reduced emissions from clean transportation investments to individual initiatives. Kopaszi Gát's commitment to disclosing the methodologies and assumptions involved in its reporting should help with this. Kopaszi Gát will also have its Green Finance Report externally verified. These are all welcome commitments to transparency, though we note that it will report on a portfolio basis on grounds of confidentiality.

The overall assessment of Kopaszi Gát's governance structure and processes gives it a rating of **Fair**.

Strengths

Kopaszi Gát has included energy efficiency criteria of solid ambition for all buildings to be financed under its green finance framework, with Hungarian EPC BB buildings using 23% less energy than those built to current regulation. In the case of office buildings, Kopaszi Gát is additionally utilizing the LEED certification scheme. While schemes such as LEED do not guarantee a reduction in GHG emissions or ensure increased energy efficiency, Kopaszi Gát has provided examples from two completed BudaPart project office buildings demonstrating the buildings comfortably exceed the necessary LEED baseline.



Kopaszi Gát's active role in financing and/or contributing to the development of diverse public transport connections to the BudaPart project plays an important role in increasing the project's sustainability. This includes involvement in tram and bus projects, and the development of a stop for Budapest's public ferry.

Given the location of the BudaPart project on the Danube, we are encouraged by Kopaszi Gát's consideration of flood risk, for example the construction of dams and flood basin, and improvement of the projects drainage and sewage systems. That around half of the BudaPart project is given to public parks is a strength, and also contributes to the project's resilience to flooding. Nonetheless, certain adaptation measures (especially dams) can lead to negative impacts downriver where protection is weaker.

Weaknesses

Under Kopaszi Gát's green finance framework, the eligibility criterion for the residential buildings (and, Kopaszi Gát informs us, the hotel) is achieving a Hungarian EPC level BB. From late June 2022, EPC BB will be the requirement for all new buildings in Hungary. As such, from this date, the residential buildings and hotel constructed under the green finance framework would not have to outperform regulation to qualify. We note that Kopaszi Gát has calculated that the residential buildings will have an energy usage of 83 kWh/m² per year – at the lower end of the requirements for EPC level BB (80 - 100 kWh/ m² per year) and that these residential buildings would satisfy the EU Taxonomy requirement of primary energy demand at least 10% lower than the threshold set for nearly zero-energy building requirements as contained in national measures. An equivalent energy usage figure for the hotel has not been provided.

Pitfalls

While we welcome Kopaszi Gát's commitment setting up an environmental strategy by the end of November 2021, we note that it will not include specific environmental targets or the measuring of emissions.

Kopaszi Gát has informed us that the buildings under its green finance framework will be connected to district heating, around 97% of which, we understand, comes from fossil fuels. Kopaszi Gát notes it is required by law to connect the BudaPart buildings to district heating, and that there are local and national measures seeking to reduce this fossil fuel content. Nonetheless, at present there is a large risk of locking in fossil fuel use.

While investments in, and increased use of, public transport contribute greatly to the sustainability of real-estate projects, they still have their own emissions which should be considered, for example the use of petrol or diesel buses, construction emissions and embedded emissions in materials. Certain project examples in the clean transportation category may involve significant construction work, and it is unclear to what extent Kopaszi Gát has considered or seeks to mitigate such impacts.



Appendix 1: Referenced Documents List

Document Number	Document Name	Description
1	Kopaszi Gát's Green Finance Framework (November 2021)	



Appendix 2: About CICERO Shades of Green

CICERO Green is a subsidiary of the climate research institute CICERO. CICERO is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international cooperation. CICERO has garnered attention for its work on the effects of manmade emissions on the climate and has played an active role in the UN's IPCC since 1995. CICERO staff provide quality control and methodological development for CICERO Green.

CICERO Green provides second opinions on institutions' frameworks and guidance for assessing and selecting eligible projects for green bond investments. CICERO Green is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO Green is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure. CICERO Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

We work with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions (ENSO). Led by CICERO Green, ENSO contributes expertise to the second opinions, and is comprised of a network of trusted, independent research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University and the International Institute for Sustainable Development (IISD).

