Sustainable investments

- environmental, social, and governance criteria in finance -

The sustainable development

Sustainable development is a process or organizational principle that "meets the needs of the present generation without compromising the ability of future generations to meet their own needs" (1987 Brundtland Report of the United Nations of Organizations).

Sustainable development has three aspects/dimensions: corporate governance, society, and environment ("**sustainability factors**").

Sustainability in investments

When somebody invests, they place their money at the disposal of companies and/or countries in the form of bonds- or equity investments, thereby "supporting" their operations. Investment decisions may significantly impact sustainability factors or contribute or are directly linked to these negative, adverse impacts.

The negative impact on sustainability factors is a "sustainability risk," meaning an environmental, social, or governance event or circumstance that, in case it occurs, could cause an actual or potential substantial negative impact not only on the sustainability factors but on the value of the investment.

However, the capital can be allocated from unsustainable investments to sustainable investments by making conscious investment decisions: you may choose to have K&H Bank Zrt. („Bank") take your sustainability preferences into account when providing investment advice.

While the traditional approach to investing is largely based on examining the aspects of profit and risk, the sustainable approach also includes screening financial instruments from a sustainability perspective. In the latter case, we only invest in financial instruments that have successfully passed the sustainability screening and also have financially sound prospects (adequate profit and risk aspect).

Sustainability-related disclosures

Informed decision-making requires transparent and reliable information available for investors on market participants' activities and financial products' sustainability.

Financial market participants and certain corporates are required to publish so-called sustainability reports at the entity- and product-level. Experts use these sustainability reports to prepare a so-called ESG qualification, examining more than 150 factors. ESG stands for environmental, social, and governance, the three key factors when measuring the sustainability and ethical impact of an investment in a business or company.

These reports include information on the expected impact of the company's activities, both in terms of how sustainability factors may affect the expected performance of the financial product and how targeted investments may affect the environment and society. Disclosures and sustainability reports help investors to understand how institutions and financial products are related to sustainability. Sustainability aspects may be included in the investment decisions by taking into account the ESG indicators.

The assessment of sustainability preferences

The European Parliament, the Council, and the European Commission have adopted a comprehensive legislative package to channel financial resources towards sustainable activities across the EU.

The legislative package requires the Bank to assess its clients' sustainable preferences. The purpose of the assessment is to decide whether a financial product is suitable for you, taking into account your sustainability preferences and thus acting in your best interest.

For the above reason, you need to answer questions determining the extent to which you intend your investment to include the following financial instruments:

i. financial instrument that includes investments that are considered environmentally sustainable;
ii. financial instrument that includes investments that are considered sustainable;
iii. financial instrument that considers principal adverse impacts on sustainability factors, where qualitative or quantitative elements demonstrating that consideration is determined by you.

Your answers are your sustainability preferences that the Bank always takes into account when providing investment advice and recommending investments.

The principal adverse impacts you can choose from

Economic activities may have both positive and negative impacts on sustainability. Principal adverse impacts (PAI) indicate the adverse impact of investment decisions on sustainability factors such as environment, social justice, respect for human rights, or the fight against corruption.		
The subject of the principal adverse impact	**The aspects considered when assessing principal adverse impacts**	**Indicator/Explanation**
Reducing greenhouse gas (GHG) emissions of companies	Greenhouse gas emissions [PAI1]	The GHG emission intensity of investee companies when producing products or providing services This includes various greenhouse gases such as carbon dioxide and methane and means direct emissions of these gases from the company's activities, and indirect emissions from the production of the electricity purchased by the

		company or the activities of its suppliers and customers.
	Carbon footprint [PAI2]	The amount of carbon dioxide emitted by investee companies during the production of goods or provision of services.
	GHG intensity of investee companies [PAI3]	The level of greenhouse gas emissions of investee companies relative to their size.
	Exposure to companies active in the fossil fuel (e.g. natural gas) sector [PAI4]	Share of companies in the investment active in coal and hydrocarbon extraction, distribution, and generation of electricity.
	Share of non-renewable energy consumption and production [PAI5]	Share of non-renewable energy (oil, natural gas) consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources.
	Energy consumption intensity per high impact climate sector [PAI6]	Share of energy consumption of companies active in sectors with a high impact on climate relative to their size. This includes, for example, agriculture and forestry, fishing, mining, industrial production, energy production, water management, construction, motor trade, transport, and real estate.
Protection of biodiversity	Activities negatively affect biodiversity-sensitive areas [PAI7].	Share of investments in investee companies with sites/operations located in or near biodiversity-sensitive areas. This includes, for example, UNESCO World Heritage Sites, and Natura 2000 nature conservation areas selected by the European Union, which designate endangered species and habitats based on scientific principles.
Water	Emissions to water [PAI8].	Tonnes of emissions to water generated by investee companies. This includes, for example, direct emission of lead, cadmium, and mercury into water sources.
Reducing hazardous waste production	Hazardous waste ratio [PAI9]	Tonnes of hazardous waste generated by investee companies. The waste is hazardous if it is radioactive, flammable, toxic, corrosive, irritating, etc.

Increasing social and employee justice in the corporate sector	Violation of international standards [PAI10].	Share of investments in investee companies that have been involved in violations of human rights, labour, environmental or anti-corruption law. These are principles and guidelines that all responsible companies should comply with, set out by the UN and the OECD.
	Efforts to ensure effective compliance with international standards [PAI11]	Whether the investee companies have appropriate policies to monitor compliance with international standards (UN, OECD) in any circumstances.
	Adjusted gender pay gap [PAI12]	The wage gap between men and women in investee companies, meaning the ratio between the average gross hourly wage of female and male employees.
	Board gender diversity [PAI13].	The average ratio of female to male board members in investee companies.
	Exposure to controversial weapons [PAI14].	Share of investments in investee companies involved in the manufacture or selling of controversial weapons. Controstrovarsial weapons include, for example, anti-personnel mines, cluster bombs, chemical weapons, and biological weapons.
Reducing GHG emissions of countries	GHG emissions’ intensity of investee countries [PAI15].	The intensity of GHG emissions of the investee countries relative to their size, i.e. weighted average emissions relative to their GDP.
Social justice in the investee countries	Social violations in the investee countries [PAI16].	Several investee countries are subject to social violations, as referred to in international treaties and conventions, United Nations principles, and, where applicable, national law.
Reducing fossil fuels (e.g. natural gas)	Exposure to fossil fuels through real estate assets [PAI17].	Share of investments in real estate assets involved in the extraction, storage, transport (e.g. via pipeline), or manufacture of fossil fuels.
Increasing energy efficiency in the real estate sector	Exposure to energy-inefficient real estate assets [PAI18].	Share of investments in energy-inefficient real estate assets.