Recommendation No 2/2026 (III.6.) of the Magyar Nemzeti Bank

on the management of environmental, social and governance risks and the enforcement of environmental sustainability considerations in the activities of credit institutions

I. Purpose and scope of the Recommendation

The purpose of the Recommendation is to set out the expectations of the Magyar Nemzeti Bank (hereinafter: the "MNB") regarding the identification, measurement, management and monitoring of environmental, social and governance risks (hereinafter collectively: the "ESG risks"), as well as the enforcement of environmental sustainability considerations in the business activities of credit institutions, thereby enhancing the predictability of legal application and promoting the consistent application of the relevant legislation.

The addressees of the Recommendation are credit institutions established in Hungary falling within the scope of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter: the "Credit Institutions Act"), branches in Hungary of credit institutions established in another Member State of the European Union or in a third country outside the European Economic Area, as well as investment firms as defined in Section 8/A (1) of Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities (hereinafter collectively: "institution").

The institution shall apply the provisions of this Recommendation in accordance with the level of application defined in Section 115 of the Credit Institutions Act.

This Recommendation is not the only measure among the domestic supervisory and regulatory initiatives addressing ESG risks and sustainable finance issues. MNB Recommendation No 7/2025 (VI. 23.) on the use of a minimum set of questions to assess environmental, social and corporate governance information in the underwriting, measurement, management and control of credit risk[1] [hereinafter: "MNB Recommendation No 7/2025 (VI. 23.)"] also facilitates the management of specific aspects of sustainability matters and ESG risks and their integration into the processes of financial institutions. It is, however, important to emphasise that the content of this Recommendation is broader than that of MNB Recommendation No 10/2022 (VIII. 2.) on environmental risks related to the climate change and the enforcement of environmental sustainability considerations in the activities of credit institutions[2] [hereinafter: "MNB Recommendation No 10/2022 (VIII. 2.)"], as in addition to environmental aspects it also encompasses social and governance considerations in relation to risk management.

The rationale for the revision of MNB Recommendation No 10/2022 (VIII. 2.) is the harmonisation necessitated by regulatory developments that have taken place since its entry into force. During the period from 2018 to 2024, the European Union developed the key pillars of sustainable finance:

- Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (hereinafter: the "Taxonomy Regulation"),[3]

[1] https://www.mnb.hu/letoltes/7-2025-esg-kerdoiv-ajanlas.pdf
[2] https://www.mnb.hu/letoltes/10-2022-zold-ajanlas.pdf
[3] https://eur-lex.europa.eu/legal-content/HU/TXT/?uri=celex:32020R0852

- Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector[4] (hereinafter: the "SFDR"),
- Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU as regards corporate sustainability reporting (hereinafter: the "CSRD"), and
- the ESG-related amendments to prudential regulation across all sectors, including the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 (hereinafter: the "CRR"), and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions (hereinafter: the "CRD"), which have also been supplemented with provisions on ESG risks.

As part of its mandate, the European Banking Authority (hereinafter: the "EBA") assessed the possibilities of integrating sustainability considerations into the prudential framework under Pillar 1,[5] Pillar 2[6] and Pillar 3,[7] to which processes the MNB has also actively contributed.

As part of these processes, the amendments carried out in the course of the revision of MNB Recommendation No 10/2022 (VIII. 2.) supporting credit institutions' activities also implement the EBA's Guidelines on the management of environmental, social and governance (ESG) risks of 8 January 2025 (EBA/GL/2025/01).[8] Furthermore, the Recommendation implements the sustainability-related provisions of the EBA Guidelines on loan origination and monitoring (EBA/GL/2020/06; hereinafter: the "Loan Origination Guidelines").[9] In developing this Recommendation, the MNB has taken into account the EBA Guidelines on internal governance (EBA/GL/2021/05),[10] which are under revision at the time of drafting this Recommendation, inter alia in light of amendments to the CRD.

At the same time, during the course of the review, where the framework allowed, the MNB also retained the expectations supporting the sector's preparedness that had been transposed from the European Central Bank's (hereinafter: the "ECB") guidance on the management of ESG risks[11] and published in parallel with the initial publication of MNB Recommendation No 10/2022 (VIII. 2.), insofar as those expectations remained relevant alongside the significantly expanded ESG risk management framework.

This Recommendation sets out the expectations of the MNB regarding sound corporate governance systems which institutions are required to maintain in accordance with Sections 107 and 108/A(1) of the Credit Institutions Act, and which cover the following:

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4 https://eur-lex.europa.eu/legal-content/HU/TXT/?uri=celex%3A32019R2088
5 Article 501c of the CRD
6 Article 98 of the CRD
7 Article 449a of the CRD
8 https://www.eba.europa.eu/activities/single-rulebook/regulatory-activities/sustainable-finance/guidelines-management-esg-risks
9 https://www.eba.europa.eu/sites/default/files/document_library/Publications/Guidelines/2020/Guidelines%20on%20loan%20origination%20and%20monitoring/Translations/886684/Final%20Report%20on%20GL%20on%20loan%20origination%20and%20monitoring_COR_HU.pdf
10 GL on internal governance under CRD_HU.docx (europa.eu)
11 Guide on climate-related and environmental risks – Supervisory expectations relating to risk management and disclosure, consultation paper, European Central Bank, 2020. https://www.bankingsupervision.europa.eu/legalframework/publiccons/pdf/climate-related_risks/ssm.202005_draft_guide_on_climate-related_and_environmental_risks.en.pdf

- minimum requirements and reference methodologies for the identification, measurement, management and monitoring of ESG risks;
- qualitative and quantitative criteria for assessing the impacts of ESG risks on the institution's risk profile and solvency over the short, medium and long term;
- the content of the plans to be prepared by the management body in accordance with Section 109(2a) of the Credit Institutions Act, which plans shall include a concrete timeline as well as quantifiable interim targets and milestones for the purpose of supervising and managing financial risks arising from ESG factors, including risks stemming from the transition process and from transition trends related to relevant EU and national regulatory objectives concerning ESG factors – in particular the objective of achieving climate neutrality by 2050 as set out in Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 (hereinafter: the "European Climate Law") – as well as, where relevant for internationally active institutions, those arising from legal and regulatory objectives in third countries.

This Recommendation also provides a detailed description of the institution's processes for managing ESG risks as part of the institution's broader risk management framework. The provisions of this Recommendation shall be applied in relation to the robust strategies, policies, processes and systems for the short-, medium- and long-term identification, measurement, management and monitoring of ESG risks, which institutions are required to have as part of their sound governance systems, including the risk management framework prescribed under Section 107(1) of the Credit Institutions Act.

The regulatory framework relevant to the subject matter of this Recommendation is set out in particular, but not exclusively, in sector-specific legislation.

While this Recommendation does not comprehensively cross-reference all relevant statutory provisions when setting out principles and expectations, the addressees of the Recommendation remain obliged to comply with the relevant legal requirements.

This Recommendation does not supersede the relevant supervisory regulatory instruments but complements them and is intended to provide a more detailed articulation of the MNB's interpretation regarding the prudent management of ESG risks and the enforcement of environmental sustainability considerations in the activities of institutions, with respect to the general requirements set out in the applicable legislation.

This Recommendation does not provide guidance on data processing or data protection matters, does not contain any expectations regarding the processing of personal data, and the requirements set out herein shall not be interpreted in any way as authorisation for the processing of personal data. Data processing in the context of the supervisory requirements set out in the Recommendation may only be carried out in compliance with the data protection legislation in force at the time.

II. Interpretative provisions

1. For the purposes of this recommendation,
   a) sector-specific legislation:
      aa) the CRD and the regulations adopted thereunder,

ab) the CRR and the regulations adopted thereunder,

ac) Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC and repealing Council Directives 78/660/EEC and 83/349/EEC (hereinafter: the "Accounting Directive"),

ad) Regulation (EU) 2018/842 of the European Parliament and of the Council of 30 May 2018 on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 contributing to climate action to meet commitments under the Paris Agreement, and amending Regulation (EU) No 525/2013,

ae) the Taxonomy Regulation[12] and the regulations adopted thereunder,

af) the SFDR and the regulations adopted thereunder,

ag) the CSRD and the regulations adopted thereunder,

ah) Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859 (hereinafter: the "CSDDD"),

ai) Commission Implementing Regulation (EU) 2024/3172 of 29 November 2024 laying down implementing technical standards for the application of Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the disclosure of information referred to in Titles II and III of Part Eight thereof by institutions and repealing Commission Implementing Regulation (EU) 2021/637;[13]

aj) Act CXX of 2001 on the Capital Market (hereinafter: the "Capital Market Act"),

ak) Credit Institutions Act,

al) MNB Decree No 40/2016 (X. 11.) on prudential requirements for the rating of customers and counterparties, and for collateral valuation;

b) related supervisory regulatory instruments:

ba) MNB Recommendation No 12/2015 (VIII. 24.) on the measurement, management and control of liquidity risks[14] [hereinafter: "MNB Recommendation 12/2015 (VIII. 24.)"], in force at the time of issuance of this Recommendation,

bb) MNB Recommendation No 1/2022 (I. 17.) on the assessment of the eligibility of the members of management bodies and persons in key position[15] [hereinafter: "MNB Recommendation 1/2022 (I. 17.)"], in force at the time of issuance of this Recommendation,

bc) MNB Recommendation No 4/2022 (IV. 8.) on the application of the remuneration policy under the Act on Credit Institutions and Financial Enterprises[16] [hereinafter:

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[12] Although the EU Taxonomy does not apply directly to the core activities of credit institutions (see Article 1(2)(b) of the Taxonomy Regulation), i.e. their lending activities, it is indirectly relevant for credit institutions in several respects. This Regulation provides a starting point for the consistent identification and classification of economic activities that contribute to a low-carbon, resilient and resource-efficient economy. A key objective behind the development of the EU Taxonomy is to support the reorientation of capital flows towards sustainable investments. This objective is aligned with the European Commission's financial action plan and Article 2(1)(c) of the Paris Agreement under the UN Framework Convention on Climate Change, approved by the Union on 5 October 2016 (hereinafter: the "Paris Agreement"). This Regulation is intended to provide the basis for further legislative changes, including, for example, those concerning the Directive on the disclosure of non-financial information. In line with the EBA, the MNB recommends that credit institutions take into account, in the course of their business activities, the implications of the Taxonomy Regulation. Furthermore, the Taxonomy Regulation may support the development of products, the classification of exposures, engagement with customers and the formulation of strategic objectives.

[13] http://data.europa.eu/eli/reg_impl/2024/3172/oj

[14] https://www.mnb.hu/letoltes/likviditasi-ajanlas-megjelentetesre-datummal.pdf

[15] https://www.mnb.hu/letoltes/1-2022-alkalmassagi-ajanlas.pdf

[16] https://www.mnb.hu/letoltes/8-2021-javadalmazasi-politika.pdf

"MNB Recommendation No 4/2022 (IV. 8.)"], in force at the time of issuance of this Recommendation,

bd) MNB Recommendation No 7/2022 (IV. 22.) on the general requirements of disclosure practices under the Act on Credit Institutions and Financial Enterprises, and the CRR[17] [hereinafter: "MNB Recommendation No 7/2022 (IV. 22.)"], in force at the time of issuance of this Recommendation,

be) MNB Recommendation No 12/2022 (VIII.11.) on setting up and operating internal lines of defence and on the management and control functions of financial institutions[18] [hereinafter: "MNB Recommendation No 12/2022 (VIII. 11.)"], in force at the time of issuance of this Recommendation,

bf) MNB Recommendation No 7/2024 (VI. 21.) on taking on, measurement, management and control of credit risk[19] [hereinafter: "MNB Recommendation No 7/2024 (VI. 21.)"], in force at the time of issuance of this Recommendation,

bg) MNB Recommendation No 7/2025 (VI.23.) on the use of a minimum set of questions to assess environmental, social and corporate governance information in the underwriting, measurement, management and control of credit risk [hereinafter: "MNB Recommendation No 7/2025 (VI. 23.)"], in force at the time of issuance of this Recommendation,

bh) Methodological Handbook of the MNB on the Internal Capital Adequacy Assessment Process (ICAAP), the Internal Liquidity Adequacy Assessment Process (ILAAP) and their supervisory review, as well as on Business Model Analysis (BMA)[20] (hereinafter: the "MNB ICAAP–ILAAP–BMA Methodological Handbook");

c) environmentally sustainable economic activity: an economic activity that complies with the requirements set out in Article 3 of the Taxonomy Regulation. In this context, it is important to emphasise that this category includes not only economic activities that are already (near) carbon neutral, but also those that contribute to the transition towards a carbon-neutral economy while not yet operating in a carbon-neutral manner ("transitional activities"), as well as those that enable other economic activities to make the transition ("enabling activities").

d) universal credit institution: an institution performing financial services and ancillary financial services under the Credit Institutions Act, as well as investment services and ancillary services under Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities.

2. Unless otherwise specified, the terms used and defined in sector-specific legislation – primarily in the CRR and the CRD – shall have the same meaning in this Recommendation.

III. General expectations

3. The institution shall comply with the supervisory expectations set out in this Recommendation, taking due account of the application of the principle of proportionality as set out in Section 108/A(2) of the Credit Institutions Act.
4. It is expected that institutions subject to consolidated supervision under sector-specific legislation

[17] https://www.mnb.hu/letoltes/9-2021-nyilvanossagra-hozatali-gyak.pdf
[18] https://www.mnb.hu/letoltes/12-2022-belso-vedelmi-vonalak-ajanlas.pdf
[19] https://www.mnb.hu/letoltes/7-2024-hitelkockazati-ajanlas.pdf
[20] https://www.mnb.hu/felugyelet/szabalyozas/felugyeleti-szabalyozo-eszkozok/modszertani-kezikonyvek/icaap-ilaap-bma-felugyeleti-felulvizsgalatok

shall also apply the expectations of this Recommendation at group level. In this regard, the MNB particularly expects that, within the general risk management requirements laid down by law, the institution shall also take into account group-level risk management requirements in relation to ESG risk management activities.

5. The MNB continues to consider it good practice for the institution to become an official signatory to the UN Principles for Responsible Banking, thereby explicitly committing itself to the application of the related framework.
6. The MNB further expects that, where the institution's foreign parent undertaking is already a signatory to the UN Principles for Responsible Banking and therefore the institution does not consider it necessary to sign them separately, the institution shall apply the principles, methodologies and objectives committed to by the parent undertaking in its own operations, in line with the timelines defined by the parent undertaking.
7. It is expected that the institution shall apply the requirements set out in the relevant supervisory regulatory instruments taking into account the expectations laid down in this Recommendation.
8. The MNB expects that, where an institution implements any element of ESG risk measurement, management and control using an external service provider, it shall take into account the expectations set out in detail in points 180–186 of MNB Recommendation No 12/2022 (VIII. 11.) and in MNB Recommendation No 7/2020 (VI. 3.).
9. Furthermore, the MNB expects the relevant universal credit institution to ensure internal coordination of compliance with legislation relevant from an ESG risk perspective as well.
10. The MNB draws attention to the fact that, in relation to certain legislation, the MNB's position and expectations concerning sustainability are set out in separate management circulars (e.g. the Management Circular on the expected measures regarding the disclosure of ESG risks).[21]

IV. Expectations regarding the enforcement of ESG risks and sustainability considerations in the business plan, business model and strategy

11. In relation to the business plan, business model and strategy, the MNB expects the institution to take into account its sustainability risks, as well as their impact on long-term profitability, capital position and risk profile. Risks arising from ESG factors may have a direct impact on the effectiveness of the institution's existing and future strategies, as well as on the resilience of its business model.
12. The MNB expects the institution's management body to ensure that ESG risk management is integrated into the institution's strategy, risk appetite, business plans, and internal risk management framework. In its strategy and business model, the institution shall pay particular attention to ESG risks arising over short-, medium- and at least 10-year long-term horizons.

IV.1. Plans for the supervision and management of ESG risks

13. Pursuant to Section 109(2a) of the Credit Institutions Act, the institution shall be required to establish and maintain its plan for the supervision and management of ESG risks.
14. The MNB expects that the plans developed for the supervision and management of ESG risks shall be based on the outcomes of the transition planning process described in Section IV.1.2. In this regard, it is expected that they are based on forward-looking analysis of the business environment

[21] https://www.mnb.hu/letoltes/vezetoi-korlevel-az-esg-kockazatok-nyilvanossagra-hozatala-kapcsan-elvart-intezkedesekrol.pdf

and on a comprehensive strategic planning process within the institution. Plans developed in accordance with these principles shall provide an overview of the strategic measures and risk management tools applied by the institution in order to demonstrate how their robustness against ESG risks is ensured, as well as their preparedness for the transition to a more environmentally resilient and sustainable economy.

15. It is expected that the institution shall ensure that its plans address the forward-looking management of ESG risks, while remaining consistent with other applicable requirements (such as requirements on due diligence, sustainability reporting, and strategic measures ensuring the alignment of business models with the transition to a sustainable economy).

    According to the MNB's expectations, the plans shall in particular include objectives, measures and target values relating to the institution's business model and strategy, which, where applicable, are aligned with the plans disclosed pursuant to Articles 19a or 29a of the Accounting Directive, as well as with ESG-related objectives or commitments that the institution is required to fulfil under law or has voluntarily defined. Where the institution discloses its plans in accordance with Article 19a(2)(a)(iii) or Article 29a(2)(a)(iii) of the Accounting Directive, the MNB expects it to first consider the reuse of relevant information already available.

16. It is expected that the institution shall ensure that its plans and target values are properly embedded in its business strategy and aligned with its risk and funding strategy, risk appetite, internal capital adequacy assessment process, and the risk management framework set out in Chapter VI. The governance framework, the scope of the transition planning process, and the degree of sophistication of the objectives, target values and metrics set out in the plans shall reflect the nature, size and complexity of the institution's activities, as well as the materiality assessment of ESG risks, in line with the application of the principle of proportionality set out in point 3.

17. Given the institution's obligation to ensure the consistent and appropriate integration of the systems, processes and mechanisms related to its plans, including within its subsidiaries established outside the European Union, and in view of the obligation of those subsidiaries to be capable of producing data and information relevant for the supervision of the consolidated plans in accordance with Section 115(2) of the Credit Institutions Act, the MNB expects the parent institution, when developing and implementing the consolidated plan, to take into account, having regard to the applicable legislation and regulatory ESG objectives, those ESG risks to which subsidiaries established outside the European Union are materially exposed. The MNB therefore expects the parent institution to be able to demonstrate a consolidated approach supported by appropriately substantiated information.

IV.1.1. Governance

Roles and responsibilities

18. It is expected that the institution shall clearly define the responsibilities related to the development, approval, implementation and monitoring of the plans. When assigning roles and responsibilities at appropriate governance and decision-making levels, the institution shall take into account the interlinkages between the transition planning process and other processes – such as the broader business strategy and risk appetite – as well as its impact on them.

19. The MNB expects that the approval of the plans and the oversight of their implementation shall fall within the responsibility of the management body. As part of its oversight of implementation, the management body shall, inter alia, receive regular information on relevant developments and on

progress made against the institution's target values, and, where significant deviations are identified, shall take decisions on corrective measures to be implemented.

20. In order to ensure that ESG risks are integrated into the three lines of defence in accordance with point 53, the MNB expects that:
    a) the first line of defence shall be responsible for engaging in dialogue with counterparties[22] on their own transition strategies and for assessing, on the basis of the clear engagement policies specified in subpoint ea) of point e) of point 39, their alignment with the institution's objectives and risk appetite. For this purpose, the institution should ensure that the relevant staff possess adequate expertise and skills to assess the extent to which counterparties' transition strategies, including their transition plans where available, enhance their resilience to ESG risks and align with the institution's targets;
    b) the risk management function shall ensure, as part of the risk management framework, that the risk limits set out in the risk appetite statement are consistent with all components of the institution's plan, including its sectoral policies;
    c) the internal audit function shall review, as part of the risk management framework, the institution's plan and assess whether it complies with the legal and regulatory requirements and whether, with regard to ESG risks, it is aligned with the institution's risk strategy and risk appetite. For this purpose, the internal audit function should consider, first, whether the plan enables the institution to identify and manage changes in its risk profile; second, how the institution addresses deviations from its targets; and, third, whether the selection and application of the underlying assumptions, methodologies and criteria are consistent.

Internal processes and capacity

21. It is expected that the institution shall ensure meaningful and regular communication and information exchange at all levels of the organisation in order to enable the views and feedback of internal stakeholders to be taken into account in the development, implementation and review of the plans. For this purpose, the institution shall involve at least the units, departments and functions responsible for strategic planning, risk management, sustainability disclosures, legal services and compliance in the development of the plans and shall assess whether the involvement of any additional units, departments or functions is necessary.
22. The MNB expects the institution, in accordance with Chapter V, to ensure that it has sufficient capacity, expertise and resources to design and implement its transition planning process, as well as to regularly assess the robustness of its plans and monitor their implementation. In this regard, the institution shall identify existing gaps in skills and expertise and, where necessary, take corrective measures to address them.

Data processing

23. The institution shall have robust governance arrangements in place for the collection, validation and aggregation of data necessary to support its transition planning efforts, as well as for monitoring the implementation of those efforts, including through the use of publicly available information and the transition plans of counterparties referred to in points 71–77.

[22] For the purposes of this Recommendation, counterparties shall mean the natural or legal persons in respect of whom the institution has a risk exposure, in accordance with the provisions of the CRR. This concept serves, inter alia, as the basis for capital requirement calculations, large exposure limits and, in the present context, the assessment and management of ESG risks.

IV.1.2. Transition planning

Scenarios and pathways

24. The MNB expects the institution to understand its exposure to ESG risks, in particular the transition and physical risks arising under different scenarios, including scenarios involving elevated physical risk or a disorderly transition. The institution shall understand how different scenarios may affect its transition planning efforts.
25. It is expected that the institution shall carefully select scenarios for the purpose of monitoring and managing potential environmental risks arising from the process of adapting to climate-related and environmental regulatory objectives in the jurisdictions in which it operates, by undertaking all of the following steps:
    a) it shall assess the potential impacts of the transition pathway objectives of the European Union, the Member States and, where relevant, third countries, at least in respect of the selected sectors identified on the basis of the materiality assessment. In carrying out this process, the institution shall take into account the likely pathways arising from the European Green Deal[23] and the European Climate Law, as well as the most recent reports and recommended actions of the European Scientific Advisory Board on Climate Change;
    b) it shall take into account scientifically sound and up-to-date scenarios developed by the national, Union or international organisations referred to in point 86;
    c) it shall take into account the institution's climate change mitigation and adaptation objectives or commitments, whether undertaken voluntarily or required by law.
26. It is expected that the geographical scope and level of granularity (for example, by regional segmentation) of the scenarios and pathways used by the institution shall be relevant to the institution's business model and exposures.
27. In accordance with the principle of proportionality, it is expected that the range and complexity of the scenarios used by the institution shall be proportionate to the institution's size and complexity. A small and non-complex institution, as well as any other institution that is not a large institution, may rely on a simplified set of key parameters and assumptions, covered risks, time horizons considered and regionally disaggregated impacts. A large institution shall compare its plans, including both final and interim target values, to a scenario that is compatible with limiting global warming to 1.5 °C in accordance with the Paris Agreement and with the objective of achieving climate neutrality by 2050 as set out in the European Climate Law.
28. The MNB expects the institution to ensure that the scenarios and pathways used in its plans are applied consistently across the organisation and throughout all time horizons considered, for example when developing business strategies and setting short-, medium- and long-term target values. The institution shall document the process for selecting scenarios, as well as the rationale for any modifications thereto or any deviations in their application. Decisions to use different scenarios for different purposes, as well as decisions to modify scenarios, shall be clearly justified.

Time horizons and milestones

29. The MNB expects the institution to define different time horizons in its plans, including short-, medium- and long-term planning horizons, with the long-term horizon extending to at least ten

[23] https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_hu

years. Measures developed for the monitoring and management of ESG risks across different time horizons shall take into account the principles set out in point 67.

30. It is expected that the institution shall establish milestones at regular intervals for the monitoring and management of ESG risks arising from the short-, medium- and long-term regulatory objectives of the jurisdictions in which it operates. These objectives include, inter alia, the European Union's objectives of reducing greenhouse gas emissions (hereinafter: the "GHG emissions") by 55 percent by 2030 compared to 1990 levels and achieving net-zero emissions by 2050, other intermediate climate targets established under Union or, where applicable, national legislation, as well as objectives relating to other environmental factors, such as nature restoration[24] or deforestation.[25]
31. The MNB expects the institution to ensure that its short-, medium- and long-term objectives and targets are interrelated and sufficiently well defined. This includes ensuring that long-term objectives, such as commitments to achieve net-zero GHG emissions, are reflected in medium-term strategies (for example, medium-term sectoral policies or growth targets for business lines) and ensuring that short-term financial metrics or targets [such as profit indicators, risk costs, key performance indicators (hereinafter: the "KPIs"), key risk indicators (hereinafter: the "KRIs"), risk limits and pricing frameworks] are measurable, quantified and capable of being monitored over time, and are consistent and aligned with the medium- and long-term objectives.

Basis for the materiality assessment

32. The MNB expects the institution's transition planning process to be designed to adequately address material ESG risks, in particular environmental transition risks and physical risks identified on the basis of a robust and regularly updated materiality assessment of ESG risks conducted in accordance with Section VI.1.1. of this Recommendation. The institution shall establish targeted measures for the monitoring and management of material ESG risks arising from exposures, portfolios, and financed economic activities and production capacities that may be particularly sensitive to the process of alignment of the economy with applicable legal and regulatory objectives relating to ESG factors.

Metrics

33. It is expected that the institution shall use a range of metrics, including forward-looking metrics, to support the setting of target values and to facilitate and monitor the implementation of its plans.
34. In this regard, it is expected that, for the purpose of setting target values, the institution shall use metrics and indicators selected after considering the metrics and indicators referred to in point 134. The institution shall determine, taking into account its business strategy and risk appetite, which additional risk-based and forward-looking metrics and target values should be incorporated in its plans for the purpose of monitoring and managing ESG risks. This includes the assessment, calculation and use of metrics necessary to evaluate the short-, medium- and long-term financial impacts of transition planning on the institution's business and risk profile, including the measurement of the effects of transition planning on financial performance, revenue streams,

[24] Regulation (EU) 2024/1991 of the European Parliament and of the Council of 24 June 2024 on nature restoration and amending Regulation (EU) 2022/869 (OJ L, 2024/1991, 29.7.2024).

[25] Regulation (EU) 2023/1115 of the European Parliament and of the Council of 31 May 2023 on the making available on the Union market and the export from the Union of certain commodities and products associated with deforestation and forest degradation, and repealing Regulation (EU) No 995/2010 (OJ L 150, 9.6.2023, p. 20)

profitability and the risk level of portfolios.

35. The MNB expects that, where the data necessary for the calculation of metrics and for supporting the setting of target values are not available, the institution shall follow the steps set out in points 74, 75 and 77.
36. A small and non-complex institution, as well as any other institution that is not large, may rely on a smaller number of indicators for the use of metrics and the setting of target values than a large and complex institution, and may have greater flexibility in formulating qualitative objectives.
37. Although the MNB's minimum expectation is that the institution applies a combination of metrics relating to climate-related risks, it should take steps to progressively incorporate metrics that also support the risk assessment and strategic management of exposures to, and the management of, environmental risks other than climate-related risks, such as risks arising from ecosystem degradation and biodiversity loss, including their potential effects on climate-related risks, as well as social and governance risks.

IV.1.3. Key elements of the content of the plans

38. The MNB expects the institution to document its plans, including the methodologies, assumptions, criteria, target values and measures planned to achieve those target values, as well as the reviews carried out and those planned. The institution shall define the scope of risks covered by the various components of the plan, for example whether they relate to environmental, social or governance risks, and shall ensure that all components of the plan address at least environmental risks.
39. The MNB further expects large institutions to ensure that their plans include, at a minimum, the following aspects:
    a) the strategic objectives and implementation timeline of the plans:
        aa) a high-level overarching strategic objective for the management of ESG risks over the short, medium and long term, aligned with the institution's overall business strategy and risk appetite;
        ab) comprehensive long-term objectives, accompanied by interim milestones, to ensure the resilience of the business model to ESG risks, including the alignment of the business structure and revenues with such milestones;
        ac) key assumptions, inputs and background information relevant to understanding the institution's objectives and target values, including the selection of the central or reference scenario(s), as well as the institution's conclusions drawn from the results of the ESG risk materiality assessment, portfolio alignment assessment and other scenario analyses;
    b) target values and metrics:
        ba) quantitative targets established for the management of ESG risks, including risks arising from the adjustment process aimed at achieving the legal and regulatory sustainability objectives of the jurisdictions in which the institution operates, as well as from broader trends related to the transition to a sustainable economy, together with the metrics used to monitor ESG risks and to track progress towards the achievement of the target values;
        bb) the portfolios, sectors, asset classes, business lines and, where applicable, economic activities (i.e. specific technologies) covered by the target values and monitoring metrics, ensuring that such target values and metrics appropriately reflect the nature, size and complexity of the institution's activities, as well as the institution's materiality

assessment of ESG risks;

- bc) the time horizons to which the target values and metrics apply;

c) governance:

- ca) the governance structure of the plans, including the roles and responsibilities relating to their development, approval, implementation, monitoring and updating, as well as the escalation procedures to be followed in the event of deviations from the target values;
- cb) measures relating to capacities and resources to be implemented in order to ensure the availability of the knowledge, skills and expertise necessary for the effective implementation of the plan, including training on ESG risks and the promotion of an appropriate internal culture;
- cc) remuneration policies and practices designed to support the sound management of ESG risks, in alignment with the institution's objectives and risk appetite;
- cd) the data and systems used for the transition planning process;

d) implementation strategy:

- da) an overview of the short-, medium- and long-term measures implemented or planned within the institution's core banking activities and processes in order to achieve the target values set out in the plan, including how the institution integrates the objectives of the plan into its decision-making processes and its regular risk management framework; together with supplementary information on the observed effectiveness of each measure or its estimated contribution to the relevant target value(s);
- db) alignment with policies and procedures relating to financial risk categories, as well as with lending and investment policies and criteria applicable to key economic activities, sectors and locations;
- dc) changes introduced to the composition and pricing of services and products in order to support the implementation of the plan;
- dd) investments and strategic portfolio allocation supporting the institution's business strategy and its risk appetite in relation to ESG risks, including information on sustainability- and transition-related products and services, as well as on how any changes in strategic financing decisions are accompanied by proportionate risk management procedures;

e) Counterparty Engagement Strategy:

- ea) policies relating to counterparty engagement, including, inter alia, information on the frequency, scope and objectives of such engagement, the types of measures that may be taken, and the applicable escalation processes or criteria;
- eb) processes, methodologies and metrics for collecting and assessing information on counterparties' exposure to ESG risks and their alignment with the institution's objectives and risk appetite;
- ec) the outcomes of engagement activities, including an overview of counterparties' adaptive capacity and resilience in relation to the transition to a more sustainable economy.

40. The MNB expects a small and non-complex institution, as well as any other institution that is not large, to include in its plans at least the aspects set out in subpoints aa) and ab) of point a), subpoints ba) and bb) of point b), subpoint ca) of point c), subpoints da) and db) of point d), and subpoints

ea) and eb) of point e), all of point 39.

41. The institution may, at its discretion, use Annex 1 as a supporting tool for the preparation of its plans and the development of their structure.

IV.1.4. Monitoring, review and updating of the plans

42. The MNB expects the institution to monitor the implementation of its plans through monitoring processes and metrics, in accordance with the provisions set out in Sections IV.1.2 and VI.2.6. of this Recommendation. It is expected that the institution shall carry out regular projections in order to assess whether it is capable of achieving its target values.
43. It is expected that the monitoring framework shall enable the management body to simultaneously monitor developments in the metrics used to track ESG risks and progress towards the achievement of the milestones set out in the plan, together with clear and detailed explanations for any failure to meet target values or objectives, as well as an assessment of the potential impacts on the various types of financial risks across different time horizons.
44. The MNB expects the institution to review and, where necessary, update its plan on a regular basis, and at least whenever its business strategy is updated in accordance with Section 108(1) of the Credit Institutions Act, taking into account, for example, a renewed materiality assessment of ESG risks, developments in its portfolios and the activities of its counterparties, newly available scenarios, benchmarks or sectoral pathways, as well as updated information regarding the impacts of existing or forthcoming regulation.

IV.2. Enforcement of additional sustainability considerations

45. Given that the implementation of the business strategy has an impact on the environment, which may result in an increase in climate-related and environmental risks and, over time, affect the resilience of business models, the MNB considers it good practice that:
    a) the institution takes measures to reduce its overall carbon and ecological footprint and its ESG risks, particularly in relation to exposures that give rise to material financial ESG risks on the basis of its materiality assessment, Internal Capital Adequacy Assessment Process (hereinafter: the "ICAAP") and risk appetite framework, in accordance with the risk management tools set out in points 93 and 94;
    b) the institution ensures, in the plan developed pursuant to Chapter IV.1 for the management of material ESG risks, including physical and transition risks, that sustainability and climate risks are integrated into its strategy and business model; it is considered good practice for the plan to address not only measures relating to portfolios and customer exposures, but also ESG risks arising from the institution's own operations, the management and monitoring of which are further detailed in the provisions of this Recommendation relating to operational and reputational risks.
46. The MNB expects the institution, in accordance with the applicable sustainable finance and consumer protection requirements, to ensure that its customers receive appropriate, clear and non-misleading information regarding the environmental sustainability aspects of its products and services, their ESG risk characteristics, and their contribution to sustainability objectives. The information provided may, taking into account the characteristics of the products and services concerned, include in particular the energy characteristics of real estate collateral, their potential impact on the terms and conditions of credit, and – where reasonably estimable – the significant

environmental and social impacts arising throughout the entire life cycle of the financed products and services.

V. Expectations regarding governance

47. The MNB expects the management body in its management function to have knowledge and understanding of ESG risks in order to ensure that the level of risk assumed is consistent with the institution's risk appetite and strategy, internal rules and policies, and that the institution complies with the applicable legal and regulatory requirements and other obligations. It is expected that a sound and consistent risk culture incorporating ESG risks shall include clear communication from the management body in the form of a "tone from the top" statement, as well as appropriate measures that promote, throughout the institution, a deeper understanding of ESG factors and risks and awareness of the institution's own ESG strategic objectives and commitments.
48. The MNB further expects the management body in its management function to exercise effective oversight over the institution's ESG risks, as well as over the impacts of the institution's business strategy on climate-related and environmental sustainability objectives (see point 11).
49. Pursuant to Section 113(3) of the Credit Institutions Act, and in connection with MNB Recommendation No 1/2022 (I. 17.), the MNB expects the institution's management body to possess adequate collective knowledge, skills and experience with regard to ESG risks as well. In line with points 40 and 80 of MNB Recommendation No 1/2022 (I. 17.), the MNB expects the institution to
    a) allocate adequate human and financial resources to the training of the members of the management body and the relevant persons in key positions[26] on ESG risks,
    b) ensure that members of the management body and relevant persons in key positions become familiar with the institution's ESG risks from the commencement of their appointment as part of their induction and role-specific training, and,
    c) upon a change in the composition of the management body or in the cases specified in subpoints c) or d) of point 20 of MNB Recommendation No 1/2022 (I. 17.), assess whether the members of the management body in its management function and the management body in its supervisory function, collectively, are capable of performing, also with regard to ESG risks, the tasks referred to in point 67 of MNB Recommendation No 1/2022 (I. 17.) and point 52 of MNB Recommendation No 12/2022 (VIII. 11.).

    The procedures applicable to managers shall take into account that knowledge of ESG factors and ESG risks is relevant for the assessment of the suitability of members of the management body and persons in key positions. The MNB considers it good practice for the institution to provide tailored continuing training to these employees in order to ensure an adequate understanding of ESG risks.
50. In accordance with Section 109 of the Credit Institutions Act, the MNB expects the management body in its management function to ensure that the organisational units and functions involved in the management of ESG risks – particularly those performing control functions – are provided with adequate human and financial resources, as well as the necessary authority to perform their responsibilities.
51. It is expected that the institution shall continuously enhance its capabilities for the identification,

[26] This shall include, for the purposes of point 29, the head of the dedicated organisational unit responsible for the management and control of ESG risks, or the manager responsible for the management and control of ESG risks.

assessment, monitoring, management and mitigation of ESG risks, as necessary. In accordance with points 90 and 93 of MNB Recommendation No 12/2022 (VIII. 11.), the MNB expects the institution to

a) provide, as part of its training policy, regular training to the management body and employees on the implications of ESG factors and risks, taking into account the responsibilities of the individual staff members in the management of those risks;
b) ensure that all employees within the institution are aware of the tasks assigned to them in connection with the institution's management of ESG risks;
c) keep its policies and procedures relating to training activities up to date.

The MNB further considers it good practice for the institution to consider promoting general environmental and climate awareness among its employees.

52. The institution is expected, in connection with the general responsibilities set out in Section 107 of the Credit Institutions Act and MNB Recommendation No 12/2022 (VIII. 11.), and in accordance with the general principles relating to the internal lines of defence, to clearly define the responsibilities of the various internal governance and internal control functions with regard to ESG risks as well. In this regard, it is expected that the institution shall integrate ESG risks into its internal control framework across the three lines of defence. To this end, it is expected that the institution shall establish an organisational and operational structure that assists and supports the management body in obtaining a better overview of ESG risks affecting the institution and, where applicable, the group, and in managing those risks effectively. The management body in its management function is responsible for ensuring that the relevant responsibilities are transparent, clear, well-defined, consistent and adequately documented, and that compliance with the responsibilities assigned can be effectively enforced.
53. It is expected that, within the three lines of defence of the internal control framework, the responsibilities of the functions concerned shall be defined in accordance with the following principles.
    a) It is expected that staff within the first line of defence shall be responsible for identifying and recording relevant information relating to ESG risks arising from the nature of the customer, product or transaction during customer onboarding, lending and investment decision-making processes, as well as during the review and monitoring of existing customers, applying the principles of materiality and proportionality. The role of the first line of defence is not to classify or make the final assessment of ESG risks, but rather to identify and escalate such risks to the second line of defence and ensure that they are incorporated into the appropriate risk management processes. To this end, staff within the first line of defence shall possess the appropriate expertise and knowledge necessary to identify potential ESG risks.
    b) Within the second line of defence:
        ba) for the purposes of the compliance risks referred to in point 128 of MNB Recommendation No 12/2022 (VIII. 11.), the MNB considers the inadequate integration of ESG risks into existing processes to be included therein;
        bb) the risk management function is expected, independently of the first line of defence, to carry out the methodologically sound assessment, monitoring and aggregate management of ESG risks, including, in particular, the establishment of the risk appetite framework and limits for material ESG risks and the oversight of compliance therewith, as well as the professional review and challenge of the initial identification and

assessment performed by the first line of defence, in accordance with point 124 of MNB Recommendation No 12/2022 (VIII. 11.);

bc) the compliance function is expected to oversee the adequacy of the work performed by the first line of defence with regard to legal requirements relating to ESG risks, internal policies, and the sustainability claims and/or commitments made by the institution;

bd) the MNB expects that, in the case of the approval of new products with ESG characteristics or the enhancement of existing products with ESG-related features, appropriate consultations shall take place with the compliance and risk management functions.

c) It is expected that the institution's chief risk officer shall provide the management body in its management function with comprehensive and comprehensible information covering the institution's ESG risks as well.

d) It is recommended that the summary assessment prepared at least annually for the management body in its supervisory function by the compliance officer, head of compliance, chief risk officer and internal auditor should also encompass ESG risks.

54. The MNB further expects the institution's internal audit framework and audit trail to cover ESG risks arising over the short, medium and long term. It is expected that the internal audit function, acting as the third line of defence, shall regularly assess – through the independent or combined application of the audit types referred to in point 156 of MNB Recommendation No 12/2022 (VIII. 11.) – whether the internal control systems established and operated by the institution effectively ensure its preparedness to manage ESG risks arising over the short, medium and long term, and its ability to achieve its ESG risk management objectives. In this regard, it shall provide an independent review and objective assurance covering the first and second lines of defence, as well as the framework for the management of ESG risks.

55. The MNB expects institutions to establish a dedicated organisational unit or function responsible for the management and control of ESG risks – such as an "ESG Centre" or a dedicated Chief Sustainability Officer – or to designate a manager responsible for the management and control of ESG risks, who shall report regularly on these activities to the management body in its management function. The MNB considers quarterly or semi-annual reporting, taking into account the principle of proportionality, to be good practice. Taking into account the principle of proportionality set out in point 10 of MNB Recommendation No 12/2022 (VIII. 11.), in the case of smaller institutions carrying out less complex activities, a member of the management body in its management function may also be designated to perform the above responsibilities, provided that duties and responsibilities are appropriately segregated. Where the institution establishes a dedicated organisational unit or function in relation to ESG risks, it is expected to clearly define the integration of that organisational unit or function into existing processes and its interaction with other functions, including the allocation of powers and responsibilities, cooperation arrangements and reporting obligations.

56. In accordance with Sections 117–121 of the Credit Institutions Act and MNB Recommendation No 4/2022 (IV. 8.), it is expected that remuneration policies and practices shall contribute to a long-term approach to the management of ESG risks. In this regard, the MNB considers it good practice for the institution to incorporate sustainable finance-related performance indicators into its remuneration policy.

57. In line with MNB Recommendation No 12/2022 (VIII. 11.), institutions are expected to integrate

ESG risks into their internal data reporting systems in order to support informed decision-making at management level. The MNB acknowledges that the relevant metrics and tools are still evolving and that the available data may be incomplete. Nevertheless, in line with Section 109 of the Credit Institutions Act, point 295 of MNB Recommendation No 7/2024 (VI. 21.), and point 42 of MNB Recommendation No 12/2022 (VIII. 11.), the MNB expects that:

a) the institution's management body shall have access, through the management information system, to adequate information on the institution's ESG risks and any changes thereto;
b) the function(s) designated pursuant to points 52 and 53 of this Recommendation shall fulfil their reporting obligations, including with regard to ESG risks, at the frequency prescribed by legislation or MNB recommendations;
c) reports on ESG risks shall be reviewed regularly and, in parallel with the continuous expansion of the available ESG risk-related data, improve in terms of both their content and quality.

58. In accordance with Sections 108 and, in particular, 108/A of the Credit Institutions Act, it is expected that the management body in its management function shall ensure that the institution maintains effective and reliable data reporting, disclosure and communication systems, including systems capable of aggregating ESG risk data. In this regard, the MNB expects the institution to

a) assess the data requirements of its strategy-setting and risk management functions; identify data gaps and outline plans for eliminating such gaps and addressing any deficiencies;
b) examine whether modifications to its information and IT systems are necessary in order to collect and aggregate the data required to assess its exposures to these risks, with particular regard to data to be disclosed under Article 8 of the Taxonomy Regulation and, where relevant, under the SFDR, as well as aggregated information on the energy characteristics of real estate collateral;
c) establish a data taxonomy for these risks.

Where the expectations set out in subpoints b) and c) cannot be fully implemented due to the lack of comprehensive common definitions and taxonomies or because of data gaps, the MNB considers it good practice for the institution to consider establishing reporting processes and procedures based on internal qualitative data and/or external risk metrics. This helps ensure that the management body in its management function receives adequate reports on ESG risks. In such cases, it is expected that the management body in its management function shall be aware of the limitations of the reports received.

VI. Expectations regarding risk management

VI.1. Reference methodology for the identification and measurement of ESG risks

VI.1.1. Materiality assessment

59. The MNB expects the institution, as part of the reference methodology used to identify and measure ESG risks to be incorporated into its strategy and internal procedures, to conduct a materiality assessment of ESG risks on a regular basis. It is expected that the materiality assessment of ESG risks shall be carried out at least annually, and at least every two years in the case of a small and non-complex institution. In addition to the regular review cycle, all institutions, including small and non-complex institutions, shall update their assessment whenever a material change related to ESG factors occurs in their business environment. The MNB expects the materiality assessment of ESG risks to be updated, for example, where significant new public policies are introduced or where changes occur in the institution's business model, portfolios or operations.

60. The MNB expects the institution to carry out the materiality assessment of ESG risks as an institution-specific assessment that provides an overview of the financial materiality of ESG risks in relation to the institution's business model and risk profile, supplemented by a mapping of ESG factors and the channels through which they may be transmitted into traditional financial risk categories. A fundamental expectation is that the materiality assessment of ESG risks shall be consistent with other materiality assessments carried out by the institution, in particular those performed for the purpose of sustainability-related disclosures in accordance with the Accounting Directive and, where applicable, Commission Delegated Regulation (EU) 2023/2772[27] (hereinafter: the "ESRS"), and that it shall be incorporated into the materiality assessment conducted as part of the ICAAP.
61. The MNB further expects the institution to apply a risk-based approach when carrying out the materiality assessment of ESG risks, taking into account both the likelihood of ESG risks materialising and the potential magnitude of their financial impacts over the short and medium term, as well as over the long term, extending to a horizon of at least ten years.
62. It is expected that, for the purpose of conducting a comprehensive assessment of the materiality of ESG risks, the institution shall ensure that the scope of the materiality assessment adequately reflects the nature, size and complexity of its activities, portfolios, services and products. It is further expected that the institution shall take into account the impact of ESG risks on all traditional financial risk categories associated with its exposures, including credit risk, market risk, liquidity risk, operational risk – including litigation risk – reputational risk, business model risk and concentration risk. When determining material ESG risks, the institution shall take into account both their impact on financial risk categories and the amount and proportion of exposures, as well as revenues and profits that are exposed to such risks.
63. The MNB expects the institution to use both qualitative and quantitative information when carrying out the materiality assessment of environmental risks. The institution should take into account a sufficiently broad range of environmental factors, including, at a minimum, climate-related factors, ecosystem degradation and biodiversity loss. It is expected that the institution shall assess both transition risk factors and physical risk factors, taking into account at least the following considerations.
    a) With regard to transition risks:
        aa) the principal economic sectors supported by the financed assets or in which the institution's counterparty primarily operates;
        ab) ongoing and potential future material changes in public policies, technologies and market preferences (e.g. new environmental regulations or tax incentives, the development of innovative low-carbon technologies, or changes in consumer or investor demand);
        ac) with regard to climate-related risks:
            1. exposures to sectors that contribute significantly to climate change, as identified in recital (6) of Commission Delegated Regulation (EU) 2020/1818,[28] namely the sectors listed in Sections A–H and L of Annex I to Regulation (EC) No 1893/2006

[27] Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards
[28] Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks

of the European Parliament and of the Council,[29] in particular entities operating in the fossil fuel sector;

2. the degree of alignment or misalignment between the portfolios and the relevant regulatory sustainability objectives of the jurisdictions in which they operate, based, in the case of small and non-complex institutions and other institutions that are not large, at least on a high-level qualitative assessment;

b) With regard to physical risks:

ba) the geographical areas in which counterparties' key assets (e.g. production facilities) are located and, particularly in the case of real estate-related exposures, where the physical collateral is situated;

bb) the degree of vulnerability to environmental hazards (e.g. hazards related to temperature, wind, water or solid mass) under different climate scenarios and transition pathways or, in the case of a small and non-complex institution and any other institution that is not large, at least under one adverse scenario.

64. The MNB expects the institution, as part of the ICAAP, to adequately substantiate and document its materiality assessment of ESG risks, including the methodologies and thresholds applied, the inputs and factors taken into consideration, and the key results obtained and conclusions drawn, including conclusions that certain ESG risks are assessed as non-material.

65. The institution shall develop and implement, in accordance with Section VI.1.2., measurement methodologies that are proportionate to and informed by the results of the materiality assessment, risk management measures in accordance with Section VI.2., and transition planning processes in accordance with Section IV.1. To this end, it is expected that the institution shall establish a broader range of, and more sophisticated, measures in relation to ESG risks identified as material. The MNB further expects that the methods used by the institution to measure ESG risks and the metrics used to monitor ESG risks shall support, and provide input for, the regular updating of the materiality assessment. A smaller institution carrying out less complex activities may apply measures that are less extensive and less sophisticated; however, it is expected that such measures shall be proportionate to the results of the materiality assessment of ESG risks.

VI.1.2. Identification and measurement of ESG risks

General expectations

66. The MNB expects that, as part of the minimum requirements for the identification and measurement of ESG risks, the institution's internal procedures shall include tools and methods enabling, inter alia on a forward-looking basis, the assessment of ESG risk factors and the transmission channels through which those ESG risk factors affect the different prudential risk categories and financial risk metrics relating to the institution's exposures. According to Report EBA/REP/2021/18,[30] transmission channels refer to the causal pathways through which ESG risk drivers affect an institution via its customers and invested assets and ultimately translate into financial risks (e.g. credit risk, market risk, liquidity and funding risk, and operational risk).

67. The MNB expects the institution, in order to ensure the proper identification and management of

[29] Regulation (EC) No 1893/2006 of the European Parliament and of the Council of 20 December 2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 and certain EC Regulations on specific statistical domains

[30] https://www.eba.europa.eu/sites/default/files/document_library/Publications/Reports/2021/1015656/EBA%20Report%20on%20ESG%20risks%20management%20and%20supervision.pdf

ESG risks, to take into account the potential short-, medium- and long-term impacts of such risks. The level of granularity and accuracy of the data points, quantification tools, methodologies and indicators used by the institution shall take into account the institution's materiality assessment, as well as its size and complexity, and should generally be more granular and precise over the short and medium term than over the long term. It is expected that the institution shall take long-term time horizons into account at least from a qualitative perspective, and that such horizons shall support strategic assessments and decision-making.

68. The MNB expects that, with regard to environmental risks, internal procedures and methodologies shall enable the institution to
    a) quantify climate-related risks, for example by estimating the likelihood and magnitude of the financial impacts arising from climate-related factors;
    b) adequately understand the financial risks arising from other types of environmental risks, such as nature degradation, including biodiversity loss and the degradation of ecosystem services, or the financial risks arising from the lack of alignment of activities with measures aimed at protecting and restoring nature or reducing adverse impacts on nature;
    c) establish KRIs covering at least short- and medium-term time horizons and the exposures and portfolios identified in accordance with the results of the materiality assessment.
69. With regard to social and governance risks, the MNB expects that, where quantitative information is not initially available, the institution's internal procedures shall prescribe methodologies for first assessing, from a qualitative perspective, the potential impacts of such risks on the institution's operations and the financial risks to which it is exposed. The institution should then progressively develop more advanced qualitative and quantitative indicators. The MNB expects the institution to progressively enhance its approaches in this area in line with developments in regulation, scientific knowledge, data availability and methodologies.
70. With regard to the interactions between the various categories of environmental, social and governance risks, it is expected that the institution's internal procedures shall ensure that each risk category is first assessed on the basis of its specific characteristics before any potential interconnections and interdependencies are taken into account in the measurement of those risks.

Data-related processes

71. The MNB expects the institution's internal procedures to ensure the implementation of reliable information management systems for the purpose of identifying, collecting, structuring and analysing the data necessary to support the assessment, management and monitoring of ESG risks. It is expected that these systems shall be implemented across the institution as part of its overall data governance framework and IT infrastructure. It is expected that the institution shall regularly review its practices to ensure that it continues to keep pace with developments in both the public sector (e.g. increased data availability resulting from regulatory initiatives) and the market, and that it shall maintain policies and procedures aimed at assessing and improving data quality.
72. It is expected that the institution's internal procedures shall ensure that the institution collects and appropriately utilises the information necessary to assess, manage and monitor current and potential ESG risks that may affect it through its counterparties, while striving to obtain customer-level and asset-level data at an appropriate level of granularity.
73. The MNB expects the institution's internal procedures to be based on ESG data available both within and outside the organisation, including the regular review and use of sustainability

information disclosed by its counterparties, in particular information prepared in accordance with the European Sustainability Reporting Standards developed under the Accounting Directive or the voluntary reporting standards for non-listed small and medium-sized enterprises (SMEs), as referred to in Communication COM(2023) 535 on the SME Relief Package.[31]

74. It is expected that the institution shall examine and assess which additional data sources could effectively support the assessment, management and monitoring of ESG risks, such as information obtained through interactions with customers and counterparties in the context of new and existing business relationships, or data obtained from third parties. Where the institution relies on external service providers to obtain ESG data, it shall ensure that such providers have a sufficient understanding of the sources, data and methodologies used by the data providers, including any limitations associated with them.
75. Where the quality or availability of data is initially insufficient to meet risk management needs, the MNB expects the institution to assess such deficiencies and their potential impacts. The institution shall implement and document remedial measures, including the use of estimates or proxies, for example based on sectoral or regional characteristics, and, where feasible, shall make adjustments to take counterparty-specific factors into account. The institution shall endeavour to progressively reduce its reliance on estimates and proxies over time as the availability and quality of ESG data improve.
76. For corporate counterparties qualifying as large undertakings within the meaning of Article 3(4) of the Accounting Directive (hereinafter: the "large undertakings"), the MNB expects the institution, where relevant, to consider collecting or obtaining the following data points:
    a) with regard to environmental risks:
        aa) the geographical location of key assets (e.g. production facilities) and their exposure to environmental hazards (such as hazards related to temperature, wind, water or solid mass), at a level of granularity sufficient to support an appropriate physical risk analysis, as well as the availability of insurance coverage;
        ab) current greenhouse gas (GHG) emissions and, where available, targeted greenhouse gas emissions within Scopes 1, 2 and 3, expressed in absolute terms and, where appropriate, in terms of emissions intensity;
        ac) dependence on fossil fuels, whether in terms of input factors or sources of revenue;
        ad) energy and water requirements and consumption, whether in terms of input factors or sources of revenue;
        ae) the level of energy efficiency in the case of real estate-related exposures, as well as the counterparty's debt-servicing capacity;
        af) the current and expected financial effects of environmental risks and opportunities on the counterparty's financial position, financial performance and cash flows;
        ag) transition-related strategic plans, including, where available, a transition plan for climate change mitigation disclosed in accordance with Article 19a or Article 29a of the CSRD;
    b) with regard to social and governance risks:
        ba) alignment with the OECD Guidelines for Multinational Enterprises, the UN Guiding

[31] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – SME Relief Package (COM(2023) 535 final).

Principles on Business and Human Rights, and the International Labour Organization Declaration on Fundamental Principles and Rights at Work;

bb) material adverse impacts on own workforce, workers in the value chain, affected communities, and consumers/end-users, including information relating to due diligence efforts or procedures aimed at preventing, mitigating and remedying such impacts.

77. The MNB expects that, with regard to exposures to types of counterparties that are not large undertakings, the institution:
   a) identifies the data points necessary for the identification, measurement and management of ESG risks, taking into account the list set out in point 76 for the purpose of supporting the assessment;
   b) where necessary to address data gaps, uses expert judgement, qualitative data, portfolio-level assessments and proxies in accordance with point 75.

   The MNB emphasises that ESG risks must not be excluded from risk assessments merely because they are difficult to quantify or because the relevant data are not available.

Key characteristics of the reference methodologies for the identification and measurement of ESG risks

78. It is expected that the institution's internal procedures shall, in accordance with points 79–90, prescribe a combination of risk assessment methodologies, including the use of exposure-based, sector-based, portfolio-based and scenario-based approaches. The methodologies shall be combined in such a way as to enable the institution to carry out a comprehensive assessment of ESG risks across all relevant time horizons. Accordingly, the institution should, at a minimum, apply exposure-based methods in order to obtain a short-term view of how ESG risks affect the risk profile and profitability of its counterparties; it should apply sector-based, portfolio-based and scenario-based methods to support the medium-term planning process and the setting of risk limits and risk appetite in pursuing its strategic objectives; and it should assess its sensitivity to ESG risks using scenario-based methods over different time horizons, including long-term horizons.

Exposure-based methodologies

79. In accordance with the provisions set out in points 123 and 143 of the Guidelines on Loan Origination and Monitoring,[32] the MNB expects institutions to have exposure-based internal procedures for assessing the extent to which their counterparties' activities and key assets are exposed to ESG factors, in particular environmental factors and the impacts of climate change, and for assessing the adequacy of measures aimed at climate change mitigation. For this purpose, the institution should ensure that ESG factors, in particular environmental factors, are adequately reflected in its internal risk classification procedures, are taken into account in the comprehensive assessment of the borrower's default risk and, where justified by their materiality, are incorporated into risk metrics, internal models for credit scoring or credit rating, and collateral valuation.
80. With regard to the exposure-level assessment of environmental risks, the MNB expects the institution's internal procedures to include risk factors and criteria that take into account both physical and transition risk factors. The MNB expects that, in the case of a large institution, this shall, where relevant, include at least the following:
   a) the degree of vulnerability to environmental hazards, taking into account the geographical

[32] Which were incorporated into the MNB's supervisory expectations, at the time of issuance of this Recommendation, by point 18 of MNB Recommendation No 7/2024 (VI. 21.).

location of counterparties and guarantors' key assets, as well as any physical collateral securing the exposures, with due regard to both on-balance-sheet and off-balance-sheet exposures;

b) the degree of vulnerability to transition risks, taking into account relevant technological developments, the impact of existing or future environmental regulations affecting the counterparty's sector of activity, the counterparty's current and, where available, planned GHG emissions expressed in absolute terms and, where appropriate, in terms of emissions intensity, the effects of changing market preferences, and, in the case of exposures related to residential or commercial real estate, the level of energy efficiency and the debt-servicing capacity of the counterparties;
c) the exposure of the counterparty's business model and supply chain to critical disruptions arising from environmental factors, such as biodiversity loss, water scarcity or the impacts of water pollution;
d) the counterparty's exposure to reputational risk and litigation risk, taking into account concluded, ongoing or impending legal proceedings relating to environmental matters;
e) the (expected) maturity or yield profile of the exposure or asset;
f) risk-mitigating factors, such as the availability of private or public insurance coverage, including under applicable national disaster relief schemes or similar frameworks, as well as the counterparty's resilience to transition and physical risks, including through forward-looking transition planning.

81. Where the data required to assess certain criteria are not yet available, for example in the case of smaller corporate counterparties, the MNB expects the institution to follow the steps described in points 74, 75 and 77.
82. With regard to the exposure-level assessment of social and governance risks, the MNB expects the institution to implement due diligence processes for the purpose of assessing the financial impacts arising from counterparties' business models and their vulnerability to social and governance factors, taking into account, for example, corporate counterparties' compliance with the social and governance standards referred to in subpoint ba) of point b) of point 76, the counterparty's exposure to litigation risk relating to social or governance matters, and the laws applicable in the jurisdiction in which the counterparty operates.

Sector-based, portfolio-based and portfolio alignment methodologies

83. The MNB expects the institution's internal procedures to prescribe sector-based and portfolio-based methodologies, in particular heat maps which, in accordance with points 127 and 149 of the Loan Origination and Monitoring Guidelines, highlight the ESG risks of individual economic sectors and sub-sectors through graphical representations or rating scales. It is expected that the methodologies applied by the institution shall enable it to map its portfolios according to ESG risk factors and to identify any concentrations relating to one or more types of ESG risk.
84. With regard to ESG factors other than climate-related factors, the MNB expects a large institution to develop the following:
    a) methodologies for identifying sectors that are significantly dependent on, or have a significant impact on, ecosystem services, as well as tools for measuring the financial impact of nature degradation and measures aimed at protecting and restoring nature or reducing adverse impacts on nature;
    b) approaches for measuring the positive and adverse impacts of its portfolios on the achievement

of the UN Sustainable Development Goals, as well as for assessing any related financial risks.

85. It is expected that, with regard to climate-related risks, the institution's internal procedures shall prescribe the use of at least one portfolio alignment methodology to assess, on a sectoral basis, the degree of alignment of the institution's portfolios with climate pathways and/or benchmark scenarios. The institution shall also consider assessing alignment at the counterparty level, for example by comparing a given counterparty's GHG emissions intensity to an applicable sectoral benchmark.
86. For the purposes of point 85, it is expected that the institution shall use scenarios that are scientifically grounded, relevant and up to date with regard to the economic sectors and geographical locations of its exposures, and that are developed by national, EU or international bodies, such as national environmental agencies, the European Commission's Joint Research Centre, the International Energy Agency, the Network for Greening the Financial System, or the Intergovernmental Panel on Climate Change. Sectoral decarbonisation pathways shall be aligned with the applicable policy objectives, such as the EU targets of achieving net-zero GHG emissions by 2050 and reducing emissions by 55 percent by 2030 compared to 1990 levels, or, where relevant, any applicable national targets.
87. For the purposes of point 85, it is expected that the institution shall determine the appropriate scope of its portfolio alignment assessments and the degree of sophistication of the methodologies applied, taking into account the characteristics of its portfolios, the results of its materiality assessment, and its size and complexity. As part of this assessment, a large institution with securities traded on a regulated market within the European Union shall take into account the list of sectors set out in Table 3 of Section 21 of Annex I to Commission Implementing Regulation (EU) 2024/3172. The MNB accepts that a small and non-complex institution, as well as any other institution that is not large, may use representative samples of exposures within its portfolio for the purpose of assessing portfolio alignment.
88. The MNB expects the institution to justify and document its methodological decisions, including the selection of scenario(s) and the base year, the selection of sectors and, in the case of a small and non-complex institution or any other institution that is not large, the identification of a representative sample of exposures, as well as any material methodological changes made over time. Where the data required to measure alignment are unavailable, the institution shall follow the steps set out in points 74, 75 and 77.
89. The MNB expects the institution to take into account the experience gained from portfolio alignment methods aimed at enforcing climate criteria in order to:
    a) assess and monitor climate change-related transition risks arising from the misalignment of counterparties and portfolios with Union, Member State or third-country regulatory objectives and pathways consistent with the applicable climate objectives, and to assess and monitor any associated financial risks;
    b) provide information to support decision-making in the development and implementation of the institution's risk appetite, business strategy and transition planning, including with regard to the prioritisation of engagement with certain counterparties.

Scenario-based methodologies

90. The MNB expects that, in addition to exposure-based, sector-based, portfolio-based and portfolio alignment methodologies, the institution's internal procedures shall also prescribe the use of

scenario-based analyses to assess its resilience to ESG risks – primarily climate-related risks – under different scenarios.[33]

VI.2. Minimum requirements and reference methodologies for the management and monitoring of ESG risks

VI.2.1. General principles for the management of ESG risks

91. The MNB expects that, for the purpose of integrating ESG risks into the institution-wide risk management framework, the institution shall, in accordance with point 92 of MNB Recommendation No 12/2022 (VIII. 11.), consider the role of ESG risks as potential drivers of all traditional financial risk categories, including credit risk, market risk, operational risk – including litigation risk – reputational risk, liquidity risk, business model risk and concentration risk.
92. The MNB expects the institution to integrate ESG factors and the related ESG risks into its regular risk management systems and processes, ensuring consistency with its overall business and risk strategies, including the plans described in greater detail in Section IV.1. It is further expected that the institution shall ensure a fully integrated approach under which ESG risks are appropriately captured and taken into account as part of its risk management strategy, policies and limits. Where the institution has specific policies or procedures relating to ESG risks, it shall ensure that these are reflected in, and contribute to, its regular risk management framework.
93. It is expected that the institution shall, taking into account the principles set out in point 67, establish a sound and robust approach to the management and mitigation of ESG risks over the short and medium term, as well as over the long term, extending to a horizon of at least ten years.
94. It is expected that the institution shall determine which combination of risk management and risk mitigation tools would contribute most effectively to this objective, considering a broad range of measures, including the following:
   a) engagement with counterparties for the purpose of gaining a better understanding of their risk profiles and ensuring alignment with the institution's risk appetite and strategic objectives, in particular through the following:
      aa) the identification of prospective counterparties for engagement, taking into account the results of the materiality assessment and the risk measurement process;
      ab) the establishment of a dialogue with the relevant counterparties in order to review their resilience to ESG risks, taking into account sector-specific legislation applicable to those counterparties and the transition plans developed by them;
      ac) where relevant and feasible, the provision of relevant information and advice to customers on the assessment or mitigation of ESG risks associated with their exposures; and
      ad) the consideration of a broad range of counterparty-specific measures, such as adjustments to the product offering, agreement on a plan and remedial actions aimed at supporting transition efforts and enhancing the counterparty's resilience or, as a last resort, the termination of the relationship where its continuation is incompatible with the institution's risk appetite and strategic objectives.
   b) the adjustment of financial terms (e.g. maturity), lending and legal terms (e.g. contractual

[33] Pursuant to point (d) of the mandate set out in Article 87a(5) of the CRD, supplementary EBA Guidelines will provide for scenario analysis aimed at assessing institutions' resilience to environmental, social and governance factors.

collateral arrangements), and pricing on the basis of criteria relevant from an ESG risk perspective, as well as the institution's risk strategy and internal capital policy;

c) the consideration of ESG risks in the development of sectoral policies and in the setting of global, regional and sectoral risk limits, exposure limits and deleveraging strategies;
d) the diversification of lending and investment portfolios on the basis of criteria relevant from an ESG risk perspective, for example with regard to economic sectors or geographical areas;
e) other risk management tools deemed appropriate in accordance with the institution's risk appetite, such as the possible reallocation of financing across and within sectors with a view to prioritising exposures that are more resilient to ESG risks.

VI.2.2. Strategies and business models

95. The MNB expects the institution to take ESG risks into account in the development and implementation of its overall business and risk management strategies, which shall include at least the following:
    a) an understanding and assessment of its operating environment and of how, over the short, medium and long term, it is exposed to structural changes in the economy, the financial system and the competitive landscape arising from ESG factors;
    b) an understanding and assessment of how ESG risks – particularly environmental risk factors, including transition and physical risks – may adversely affect, over the short, medium and long term, the viability of its business model and the sustainability of its business strategy, including its profitability and sources of income;
    c) consideration of how such ESG risks – particularly environmental risk factors, including transition and physical risks – may affect the achievement of its strategic objectives and its ability to remain within the limits of its risk appetite;
    d) the formulation, implementation and monitoring of plans and targets in accordance with Section IV.1.
96. For the purposes of point 95, and in order to ensure that its strategies are sufficiently robust and well-founded, it is expected that the institution shall take into account, inter alia, insights derived from a combination of the following forward-looking risk assessment methodologies:
    a) the portfolio alignment methodologies referred to in Section VI.1.2;
    b) analysis of environmental risk scenarios, taking into account the (potential) business environment(s) in which the institution may operate in the short and medium term, as well as in the long term over a time horizon of at least ten years;
    c) climate or environmental stress tests conducted by the institution.
97. The MNB expects that the institution shall have a comprehensive understanding of its business model, strategic objectives and risk strategy from the perspective of ESG risks, and ensure that its governance arrangements, transition planning process and risk management framework – including its risk appetite – are adequate to support their implementation.

VI.2.3. Risk appetite

98. The MNB expects that the institution shall ensure that its risk appetite clearly defines and addresses those ESG risks that are included in its risk inventory following the materiality assessment. It is expected that the risk appetite shall define the level and types of ESG risks that the institution is willing to assume within its portfolio, including with regard to its portfolio concentration and

diversification objectives. It is further expected that the integration of ESG risks into the risk appetite shall be aligned with the institution's strategic objectives and commitments, as well as with the plans and targets set out in Section IV.1.

99. The MNB expects that the institution shall operationalise its risk appetite through ESG-related KRIs, including, inter alia, through limits, thresholds or exclusions, as appropriate. In determining relevant and appropriate KRIs, the institution is expected to take into account the results of its materiality assessment and the specific features of its business model, having regard to the business lines, activities and products concerned, as well as exposures to economic sectors and geographical areas, including jurisdictions and smaller geographical areas. The institution should take into account the metrics listed in Section VI.2.6 when determining which selected KRIs are to be used within its risk appetite framework.
100. The MNB expects that the institution shall ensure that all relevant group entities, business lines and units bearing risk appropriately understand and implement the institution's risk appetite with regard to ESG risks. Risk limits are expected to be established, particularly within large institutions, at different levels, ensuring consistency with the overall risk appetite, and to incorporate considerations relating to ESG risks with regard to products or financial instruments issued, originated or held by the institution, customer segments, types of collateral and risk mitigation instruments.
101. It is expected that the institution's risk appetite and the related KRIs shall be subject to the monitoring and escalation processes referred to in point 131.

VI.2.4. Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process

102. The MNB expects that the institution shall incorporate material ESG risks and their impact on financial risk categories into its Internal Capital Adequacy Assessment Process (ICAAP) in order to continuously assess and maintain the amount, types and distribution of internal capital that it considers adequate to cover the nature and level of ESG risks, taking into account risks over the short, medium and long term.
103. When the institution considers longer time horizons for the coverage of ESG risks, the MNB expects that such time horizons shall be used as a source of information to ensure that the institution sufficiently understands the potential impact of ESG risks on capital planning within the standard time horizons of the ICAAP. It is expected that the time horizons considered for determining adequate internal capital to cover ESG risks shall be aligned with the time horizons applied within the institution's overall ICAAP framework. It is expected that the Internal Capital Adequacy Assessment Process shall be sufficiently forward-looking. Where the institution considers that risks should not be covered by capital but should instead be mitigated through other means or measures, the MNB expects that it shall provide an appropriately documented explanation for such an assessment.
104. The MNB expects that the institution shall, inter alia, use the insights gained from its ESG risk assessment methodologies in the identification and measurement of ESG risks to identify and measure the internal capital requirements associated with exposures or portfolios assessed as being more sensitive to ESG risks. In this regard, it is expected that the institution shall take into account the differing levels of availability and maturity of methodologies for the quantification of environmental risks compared to social and governance risks.

105. It is further expected that, with regard to environmental risks, the institution shall assess, as part of the ICAAP and in a forward-looking manner, its capital adequacy under adverse scenarios incorporating the identified environmental risk factors. With regard to adverse scenarios, the MNB recommends that the institution assumes developments that are extreme but plausible and sufficiently severe in terms of their impact on capital adequacy. Furthermore, in accordance with point 90 of the EBA Guidelines on institution stress testing (EBA/GL/2018/04),[34] the institution should identify any adjustments to its business plan arising from climate or environmental risk stress testing and reverse stress testing, as well as any other actions required as a result of such stress tests.

106. It is expected that the institution shall incorporate material environmental risks, as well as the impact of such risks on liquidity, into its Internal Liquidity Adequacy Assessment Process (ILAAP), within the scope of the ILAAP and over appropriate time horizons.

107. The MNB expects that the institution shall include within its ICAAP and ILAAP frameworks a description of the risk appetite, thresholds and limits established in respect of material ESG risks and material environmental risks, as well as their impact on solvency and liquidity, together with a description of the procedures applied to ensure that such thresholds and limits remain up to date. The institution should provide sufficient supporting information to enable an understanding of its analyses of the capital and liquidity implications of ESG risks and environmental risks, including by ensuring transparency regarding the methodologies applied and the underlying assumptions used.

108. When integrating ESG risks into the ICAAP and environmental risks into the ILAAP, the complexity of the processes and the degree of sophistication of the methodologies applied by the institution should be commensurate with the institution's size and complexity, as well as with the results of its materiality assessment.

VI.2.5. Policies and procedures relating to financial risk categories

109. The MNB expects the institution, including through the use of forward-looking analyses, to understand and manage the current and potential future effects of ESG risks on its exposures to credit risk, the valuation of its positions exposed to market risk, in particular for the purposes of prudent valuation, its liquidity risk profile and buffers, its operational risks, including litigation risks, and its reputational risks.

Credit risk

110. The institution is expected to ensure that, in accordance with point 92, the integration of ESG risks into credit risk policies and procedures results in lending sectoral policies reflecting ESG risks being consistently implemented across all relevant levels of the institution. To this end, these expectations are expected to be reflected in clear lending criteria available to staff working in the business lines and to those responsible for taking lending decisions. It is further expected that the institution shall ensure the adequate integration of ESG risks into its credit risk monitoring framework.

111. In line with points 71–77 and 110–115, the MNB expects that, in the process of credit risk taking, measurement, management and control, the institution shall act in accordance with the provisions

[34] https://www.eba.europa.eu/documents/10180/2537426/9abe6910-f1a0-4311-b3ab-e8bd5b8aef0a/Guidelines%20on%20institutions%20stress%20testing%20(EBA-GL-2018-04)_COR_HU.pdf

set out in MNB Recommendation No 7/2025 (VI. 23.) and apply, within its procedures, the minimum set of questions for assessing ESG information. However, the MNB draws the institution's attention to the fact that compliance with MNB Recommendation No 7/2025 (VI. 23.) does not in itself constitute full compliance with the expectations set out in the present Recommendation.

112. In order to operationally integrate the strategic toolkit set out in points 94 and 95, the MNB continues to expect that the institution's internal customer and counterparty rating systems, credit risk decision-support processes, and collateral valuation framework reflect the risk differentials arising from ESG risks, in line with the institution's risk appetite and business strategy. The MNB considers it good practice if, in the valuation of real estate collateral, the institution takes into account and records in its internal registers the location and the technical and energy characteristics of commercial or residential real estate.

113. With regard to environmental risks, it is expected that the institution shall incorporate both qualitative and quantitative aspects into its policies and procedures. The institution should, based on its materiality assessment and risk appetite, define quantitative credit risk metrics covering its most significant customer segments, collateral types and risk mitigation instruments.

114. The MNB expects an institution that carries out, or plans to carry out, environmentally sustainable lending activities to develop an environmentally sustainable lending policy and internal rules, forming part of its credit risk policy, in line with its overall objectives, strategy and policies relating to sustainable finance and with the objectives referred to in point 5. The MNB expects that the institution shall set, where possible quantifiable, targets for the development and integrity of its environmentally sustainable lending activities and regularly assess their achievement and their contribution to the objectives set out in point 5.

a) It is expected that the environmentally sustainable lending policy:
   - aa) shall include a list of the projects and activities, and the criteria, that the institution considers to constitute environmentally sustainable financing purposes; or
   - ab) shall refer to standards for environmentally sustainable lending that define which loans qualify as environmentally sustainable.

b) Furthermore, with regard to environmentally sustainable lending activities, the credit risk taking and credit risk management process should include procedures and methodologies through which the institution is able to verify that the loan is indeed used to finance sustainable activities. For loans granted to corporates, it is expected that the credit risk taking and credit risk management process shall include the following:
   - ba) the collection of information on borrowers' climate-related and environmentally or otherwise sustainable business objectives;
   - bb) the assessment of whether borrowers' financing projects meet the conditions and related criteria applicable to environmentally sustainable projects or activities;
   - bc) ensuring that borrowers are willing and able to adequately monitor and report on the use of proceeds for environmentally sustainable projects or activities;
   - bd) regular monitoring of the appropriate use of proceeds, which may include requesting updated information from borrowers on the use of proceeds until the relevant credit instrument has been repaid.

c) The MNB expects that, in line with point 79, in relation to environmentally sustainable lending activities, the documentation of credit risk-taking decisions shall include the outcome of the customer's ESG risk due diligence, as well as the contractual and disbursement conditions established to mitigate such risks.

115. Consistent with the above, the institution is expected to design its general lending practices in such a way that the information to be identified as part of the decision-preparation process referred to in subpoint aa) of point 84 of MNB Recommendation No 7/2024 (VI. 21.) includes the results of the ESG risk due diligence performed in respect of customers.

Market risk

116. The MNB expects that, with regard to market risk, the institution shall assess how ESG risks may affect the value of financial instruments in its portfolio. In this regard, the institution should assess the potential risk arising from losses affecting its portfolio as well as increased volatility in portfolio value, and should establish effective procedures, as part of its market risk management framework, to manage or mitigate the related impacts. As part of this, where necessary, it should, inter alia, review the trading book risk appetite and define internal limits for positions or customer exposures.

117. With particular regard to the credit spread risk component of banking book positions, the MNB expects the institution to assess the significance of credit spreads related to ESG risks among all key drivers of overall market risk.

Liquidity and funding risk

118. The MNB expects that, with regard to liquidity and funding risk, the institution shall assess, at a minimum, how ESG risks may affect net cash outflows (e.g. increased drawdowns of credit lines) or the value of assets forming part of its liquidity buffer, and, where appropriate, incorporate these impacts into the calibration of its liquidity buffer or its liquidity risk management framework.

119. Where liquidity and funding risks are considered material, it is expected that the institution, within the framework of the applicable regulatory provisions on liquidity risk measurement and management and MNB Recommendation No 12/2015 (VIII. 24.), shall take steps to integrate ESG risks as material factors affecting liquidity risk into the following processes:
   a) the identification, measurement, management and monitoring of liquidity risk over appropriate time horizons, tailored to individual business lines, currencies and group entities, as well as the maintenance of adequate liquidity buffers,
   b) the measurement and management of all material sources and impacts of market liquidity risk, and the management of the risk of liquidity shortfalls arising from the earlier maturity of short positions than long positions.

120. Where ESG risks are material from a liquidity risk perspective, in addition to their integration into the processes referred to in point 119, the MNB expects this to be documented in writing and appropriately reflected in other relevant internal policies and procedures.

121. With regard to environmental risks, the institution should further assess how such risks may affect the availability and stability of its funding sources and should take them into account in the management of funding risk. For this purpose, the institution should take into account different time horizons and both normal and adverse conditions, which should reflect, inter alia, the potential impacts of environmental risks on reputational risks, impaired or more costly access to market funding and accelerated deposit withdrawals.

Operational and reputational risks

122. The MNB expects that, with regard to operational risk, the institution shall assess how ESG risks may affect its own operations, as well as the various types of regulatory operational risk events referred to in Article 324 of the CRR. It is further expected that the institution shall assess its ability to continue critical operations and integrate material ESG risks into its operational risk management framework.

123. The geographical location in which the institution operates may render it more exposed to physical risks. This is particularly relevant in relation to outsourced services and IT activities, especially where service providers are located in areas with a higher likelihood of extreme weather events or other adverse environmental events occurring. From an operational risk perspective, climate change may also increase the institution's operating costs through transition risk channels, for example via higher energy prices or increased emissions reporting requirements. With regard to environmental risks, the institution is expected to

a) identify losses related to environmental risks in accordance with the risk taxonomy and the methodology for classifying loss events set out in the regulatory technical standards adopted by the Commission pursuant to Article 317(9) of the CRR and flag such losses in its register of operational losses;
b) establish processes for assessing and managing the likelihood and impact of environmental litigation risks;
c) determine, through scenario analysis, how physical risk factors may affect the continuity of its business operations; and
d) take material environmental risks into account when developing business continuity plans.

In this regard, the MNB expects the institution to develop risk mitigation procedures for climate-related and environmental risk events affecting operational risk.

In particular, when assessing critical functions, the institution is recommended to take into account the impacts of climate change on the provision of services. Where the outcome of such assessment is material for any of the institution's business lines or for its overall operations, it is expected to be reflected in the institution's business continuity plan.

124. The MNB considers it important that the institution itself strives to reduce its ecological and carbon footprint, as insufficient knowledge thereof or a lack of effective reduction, in addition to hindering constructive contribution to the efforts required under international agreements and the objectives set out in point 5, may also entail legal and reputational risks.

With regard to the institution's own operational risk, the MNB expects the following:

a) measurement of direct emissions arising from its activities ("Scope 1"),
b) measurement of indirect emissions associated with purchased energy ("Scope 2"),
c) measurement of other indirect emissions, excluding financed emissions ("Scope 3"),

The MNB therefore considers it good practice for the institution to operate an environmental management system in accordance with an internationally recognised standard, and, within this framework, to measure its environmental performance and strive for its continuous improvement.

With regard to other environmental impacts of operations and measures aimed at their reduction, the MNB recommends the following:

d) the introduction and promotion of cashless payment methods,
e) the implementation of paperless or paper-saving administration,
f) other initiatives relating to its own operations, based on verified environmental performance indicators.

With regard to the ecological footprint, the MNB recommends the following:

g) development of plans to further reduce the ecological footprint,

h) neutralisation or offsetting of residual emissions remaining after emission reductions and currently not technically or economically feasible to reduce further, preferably through the implementation of credible and verified, primarily domestic, habitat restoration projects that, in addition to GHG removal, also contribute to biodiversity enhancement, and, as a secondary option, through the purchase of carbon credits.

125. With regard to reputational risk, it is expected that the institution shall take into account and manage the impact of ESG risks on its reputation, inter alia by considering the potential risks associated with lending to and investing in undertakings that may be exposed to ESG-related controversies, such as social or human rights violations.

126. The MNB expects that the institution shall take into account the extent to which the nature of its operational and business activities increases future reputational damage or legal risks – including liability risk or litigation risk – arising from losses caused by physical or transition risks related to climate change.[35]

Where appropriate, the institution should also take into account reputational risks associated with the failure to meet its sustainability commitments or transition plans, or with the (perceived) lack of credibility of such commitments and plans.

127. As part of the management of conduct, reputational and litigation risks, the institution should have robust processes in place to identify, prevent and manage risks arising from greenwashing or perceived greenwashing practices, taking into account the high-level principles set out in Section 2.1 of the EBA Report on the monitoring and supervision of greenwashing by the European Supervisory Authorities.[36] For this purpose, the MNB expects the institution, in an integrated and auditable manner within its risk management processes, to take all necessary steps to ensure that sustainability-related communications are fair, clear and not misleading, and to ensure that sustainability-related claims are accurate, substantiated and up to date, fairly reflect the institution's overall profile or the product profile, and are presented in an understandable manner. This should be ensured both at institutional level (e.g. in relation to sustainability commitments, including forward-looking targets) and at product or activity level (e.g. in relation to products and activities marketed as sustainable), inter alia through the monitoring of regulatory changes, market practices and debates surrounding potential greenwashing practices.

Concentration risk

128. The institution is expected to take into account and manage the risks arising from concentrations of exposures or collateral in individual counterparties that may be more vulnerable to ESG risks, interdependent counterparties, or certain industries, economic sectors or geographical areas (hereinafter: the "ESG-related concentration risk").

129. In order to identify ESG-related concentration risks, the institution should take into account the

[35] Point 66 of Report EBA/REP/2021/18: Legal risks – i.e. liability risk or litigation risk – may also qualify as physical or transition risks. However, these may also be considered a separate risk category, as they may arise not only from climate-related and environmental risks, but also from social and governance risks. Liability risk in the context of ESG factors refers to the risk arising from persons or undertakings seeking compensation for losses allegedly incurred due to ESG factors, for example where counterparties of institutions are held liable for the negative impacts of their activities on ESG factors. In the context of climate-related and environmental risks, changes in preferences may lead to a situation where business activities and conduct currently considered acceptable may become legally challengeable in the future. Possible causes include, for example, principal–agent conflicts, information asymmetry between producers and consumers regarding environmental risks, or legal claims arising from inadequate climate adaptation and mitigation measures.

[36] Final Report of the EBA on monitoring and supervision of greenwashing (EBA/REP/2024/09).

size and proportion of exposures potentially affected by ESG risks relative to total exposures and Common Equity Tier 1 capital. It is expected that the institution shall take into account multiple ESG factors, including at least GHG emissions, sectoral characteristics, the vulnerability of geographical areas to physical risks, as well as social or governance deficiencies or weaknesses identified in the jurisdictions where exposures or collateral are located, and the availability of risk mitigants.

130. The institution should assess whether, and how and to what extent, ESG-related concentration risk increases the existing vulnerability of its exposures.

VI.2.6. Monitoring

131. The MNB expects that the institution shall monitor ESG risks through effective internal reporting frameworks that provide adequate information and aggregated data to senior management and the management body, in line with the expectations on corporate governance set out in Chapter V. As part of this, acceptable solutions may include, for example, the integration of ESG risks into regular risk reports or the development of dashboards containing metrics supporting effective oversight.

132. It is expected that the institution shall continuously monitor ESG risks and ensure that an institution-wide overview of its vulnerability to ESG risks is maintained. Within this framework, it should ensure that:

a) the overview and monitoring appropriately take into account the nature, size and complexity of its activities,
b) it maintains an overview of the portfolios identified as most significant on the basis of the materiality assessment,
c) it closely and regularly monitors counterparties, exposures and portfolios assessed as materially exposed to ESG risks.

The MNB considers it good practice, inter alia, if such monitoring is carried out by integrating ESG risk considerations into the institution's credit risk monitoring process for retail counterparties, as well as into the regular credit reviews of medium-sized and large non-retail counterparties, or by making such reviews more frequent and more detailed due to ESG risks.

133. The MNB expects that the institution shall define early warning indicators and thresholds and shall have in place appropriate procedures for escalating alerts, breaches and infringements to higher levels. It is further expected that, in the event of breaches of limits, procedures shall be in place for taking corrective and mitigation measures, inter alia through adjustments to the business strategy and risk management tools.

134. As part of monitoring, the institution should track a range of backward-looking and forward-looking ESG risk metrics and indicators. The MNB expects that large institutions shall monitor at least the following indicators.

a) In line with recital (6) of Commission Delegated Regulation (EU) 2020/1818, the amount and proportion of exposures and income (interest, fees and commissions) arising from business relationships with counterparties operating in sectors that contribute significantly to climate change, i.e. sectors listed in Sections A to H and L of Annex I to Regulation (EC) No 1893/2006 of the European Parliament and of the Council.

   It is expected that the institution shall apply the most granular sectoral differentiation possible. The level of granularity should enable the institution, in particular, to monitor the amount and proportion of exposures and income arising from relationships with specific counterparties, such as fossil fuel sector entities and companies excluded from EU Paris-aligned benchmarks.[37]

b) Portfolio alignment metrics that, at sectoral level, indicate the extent to which exposures and production capacities operated by customers are, or are expected to be, (mis)aligned with the applicable legal and regulatory climate objective – based on alignment metrics for selected sectors and using the methodologies described in points 83–89 – such as a pathway consistent with achieving net-zero GHG emissions by 2050.
The institution should complement these indicators with information relating to the assessment of the potential financial risk impacts arising from misalignment.

c) Financed GHG emissions, expressed in absolute terms and broken down by Scope 1, Scope 2 and Scope 3 emissions, and
   - ca) where relevant, by emissions intensity relative to units of production or revenue,
   - cb) by sector, applying the most granular sectoral differentiation possible, at least for the selected sectors identified on the basis of the materiality assessment.

   It is expected that the institution shall complement these metrics with qualitative or quantitative information and criteria that support the interpretation of their evolution over time, including, for example, temporary increases due to transition financing provided to GHG-intensive counterparties, and that specify the underlying drivers of changes in emissions. (For the calculation of these metrics, reference may be made, inter alia, to the Global GHG Accounting and Reporting Standard for the Financial Industry developed by the Partnership for Carbon Accounting Financials, and the Carbon Disclosure Project.)

d) The level of progress in implementing key financing strategies defined by the institution to ensure its resilience to ESG risks and its preparedness for the transition to a more sustainable economy, for example through monitoring financial flows towards financial instruments or counterparties that share common characteristics relevant to the institution's targets or its risk appetite in terms of ESG risks.

e) Customer engagement metrics providing information on the following:
   - ea) the percentage of counterparties for which ESG risk assessments have been carried out, including with regard to their transition strategies and, where available, their transition plans, as well as the alignment of these with the institution's objectives, specifying the scope of selected sectors, products and business lines covered by such assessments;
   - eb) the outcomes of customer engagement, such as positive – or any sub-classification within the relevant category – or negative – or any sub-classification within the relevant category – assessments of counterparties' adaptability and resilience to the transition to a sustainable economy, progress in alignment with the institution's targets and objectives, as well as the monitoring measures taken by the institution.

f) Breakdown of real estate collateral portfolios by the energy efficiency level of the collateral.

g) The proportion of financing for low-carbon energy supply technologies relative to financing for fossil fuel-based energy supply technologies.

h) The proportion of environmentally sustainable exposure financing activities that contribute to or enable the achievement of the environmental objective related to climate change mitigation referred to in Article 9(a) of the Taxonomy Regulation, in the context of GHG-intensive exposures

i) The level of physical risks associated with the institution's exposures, as well as the impact of

[37] In accordance with Article 12(1), points (d) to (g), and Article 12(2) of Commission Delegated Regulation (EU) 2020/1818.

such risks on financial risks, taking into account multiple scenarios and all hazards relevant to the institution's activities, together with supplementary information on progress achieved in the implementation of risk mitigation measures.

j) Measurement of concentration risk associated with physical risk factors (e.g. exposures or collateral located in areas with high flood risk, water stress or wildfire risk) and transition risk factors (e.g. exposures to sectors subject to high transition risk), using a sufficiently granular geographical breakdown of exposures.

k) The amount of historical losses related to ESG risks, as well as forward-looking estimates of ESG risk exposures and potential future financial losses based on scenario-based methodologies.

l) Measurement of ESG-related reputational risk, tracking how regulation, communications, commitments or public debates relating to current and future business activities may directly or indirectly affect the institution, taking into account interactions with operational risk as well as strategic and business model risks, such as the loss of business opportunities or strategic partnerships.

m) Any ESG-related litigation claims in which the institution has been or may become involved, based on available information.

n) The status of capacity building related to ESG risks, for example the percentage of employees who have received specialised training.

o) Metrics related to non-climate factors (such as portfolio-level dependencies and impacts on ecosystem services, or exposures to counterparties with material dependencies or negative impacts on biodiversity), also taking into account sectoral and geographical location information.

p) Progress relative to all targets established by the institution in relation to ESG risks and ESG objectives, including those set out in its plan referred to in Section IV.1 or under other sustainability commitments undertaken by the institution.

135. It is expected that small and non-complex institutions and other non-large institutions shall monitor a broad range of indicators selected on the basis of the results of the materiality assessment referred to in point 134 and take steps to further expand the list of monitored indicators over time.

136. The MNB expects that the institution shall have clear and well-documented methodologies for its monitoring metrics and indicators. In the absence of the data required for the calculation of the metrics, the institution should follow the steps set out in points 74, 75 and 77.

VII. Closing provisions

137. The Recommendation is a regulatory instrument issued pursuant to Section 13(2)(i) of Act CXXXIX of 2013 on the Magyar Nemzeti Bank, which is not binding on supervised institutions. The content of the recommendation issued by the MNB expresses the requirements set out in the legislation, the principles and methods recommended for application based on the MNB's practice of applying the law, as well as market standards and customs.

138. Compliance with the Recommendation is monitored and assessed by the MNB in the course of its inspection and monitoring activities with respect to supervised institutions, in line with general European supervisory practice.

139. The MNB draws attention to the fact that the institution may incorporate the content of the Recommendation into its rules. In this case, the institution is entitled to indicate that the provisions

of its relevant rules comply with the recommendation issued by the MNB under the relevant number. Where the institution intends to incorporate only certain parts of the Recommendation into its rules, it should avoid referencing the Recommendation and should apply any reference thereto only in relation to the provisions transposed from the Recommendation.

140. The MNB expects the Recommendation to be applied from 1 July 2026, except for the provisions set out in points 141 and 142.

141. The MNB expects the Recommendation to be applied by small and non-complex institutions from 1 January 2027.

142. The MNB expects the application of the recommendations related to the plans referred to in Section IV.1
   a) from 1 January 2027 in the case of large and complex institutions,
   b) and from 1 July 2027 in the case of small and non-complex institutions.

143. On 1 July 2026, MNB Recommendation No 10/2022 (VIII. 2.) on environmental risks related to the climate change and the enforcement of environmental sustainability considerations in the activities of credit institutions shall be repealed.

Mihály Varga sgd.
Governor of the Magyar Nemzeti Bank

This Annex serves as a supporting tool for the institution in developing the plans required under Section 109(2a) of the Credit Institutions Act, as further detailed in Chapter IV.1 of this Recommendation. The Annex does not introduce any new requirements; however, it provides examples, references and potential metrics for each of the key content elements set out in the Recommendation, which the institution may take into account when designing the structure and format of its plans. The institution may adjust the format of this common approach, provided that it ensures that its plans include all required key content elements. In view of the need to ensure consistency with other applicable requirements under Section IV.1, and in particular point 15, the institution should ensure that the information used for the purpose of complying with the Recommendation is consistent with the information disclosed in accordance with the Accounting Directive and Commission Delegated Regulation (EU) 2023/2772 (hereinafter: the “ESRS”).

<table>
<tr><td rowspan="2">IV.1.3. Key elements of the content of the plans</td><td colspan="2">Key words or the required key content elements</td><td colspan="2">Examples of qualitative and quantitative outputs and possible supporting metrics</td><td colspan="2">References to other EU frameworks</td></tr>
<tr><td colspan="2">Clarifications and references to recommendations</td><td>Possible (qualitative) output</td><td>Possible (quantitative) output</td><td>Pillar 3</td><td>CSRD/ESRS</td></tr>
<tr><td colspan="7">How should this tool be interpreted?</td></tr>
<tr><td rowspan="2">Direct excerpt from point 39 of the Recommendation</td><td>Keywords or component element</td><td>Clarifying guidance with reference to the relevant point of the Recommendation</td><td rowspan="2">Qualitative description of possible outputs related to the requirement set out in the Recommendation:
- examples or reminders,
- for example, in the form of a report.</td><td rowspan="2">Quantitative description of a possible output related to the requirement set out in the Recommendation:
- examples or warnings relating to the use of metrics and target values,
- for example, by recalling the different</td><td colspan="2" rowspan="2">Links with Pillar 3 and those requirements of the ESRS that the institution should, where relevant, take into account in order to ensure consistency and linkages; to the greatest extent possible, the institution should rely</td></tr>
<tr><td>Keywords or component element</td><td>Clarifying guidance with reference to the relevant point of the Recommendation</td></tr>
</table>

			All examples are for illustrative purposes only.	aspects that a given key performance indicator may cover. All examples relating to key performance indicators / key risk indicators are for illustrative purposes only.	on information that is substantially the same or materially comparable and relevant. References to Pillar 3 and the ESRS may need to be updated to reflect future regulatory developments.

IV.1.3. Key elements of the content of the plans	Key words or the required key content elements		Examples of qualitative and quantitative outputs and possible supporting metrics		References to other EU frameworks	
		Clarifications and reference to the relevant point of the Recommendation	***Possible (qualitative) output***	***Possible (quantitative) output***	***Pillar 3***	***CSRD / ESRS***
a) The strategic objectives and implementation timeline of the plan						
aa) A high-level overarching strategic objective for the management of ESG risks over the short, medium and long term, in line with the overall business strategy and risk appetite.	Overarching objective:	*This refers to the overarching strategic objective that the institution intends to achieve in relation to ESG risks, in line with the integration of ESG risks into its business and risk strategies, as well as its risk appetite, in accordance with Sections VI.2.2 and VI.2.3 of the Recommendation.*	# A qualitative description of strategies ensuring the compatibility of business models with the transition to a climate-neutral and sustainable economy, in particular where they fall within the scope of the CSDDD and/or CSRD requirements, as well as a description of how these strategies influence the direction and priorities of initiatives aimed at managing ESG risks # High-level approaches to managing the ESG risks considered most material in light of the institution's activities and materiality assessment	# The overarching objectives may be linked to target values for selected key performance indicators or key risk indicators # Cross-references to other parts of the plan, such as subpoint aa) of point a), or point b), may be considered.	Qualitative: Table 1, rows a) and b) Table 2, rows a) and b) Table 3, rows c) and d)	ESRS-E1-1 ESRS 2 – BP1 ESRS-E1-MDR-P ESRS-E1-2
	Short, medium and long term:	*This refers to how the strategic objective is applied across the different time horizons considered in accordance with points 29–31 of the Recommendation.*				

ab) Overarching long-term objectives with intermediate milestones to ensure the resilience of the business model to ESG risks, including the alignment of the business structure and revenues with these milestones.	Long-term objectives:	*Long-term objectives that, in line with the Credit Institutions Act and point 29 of the Recommendation, support the achievement of the overarching objective over a time horizon of at least ten years.*	# Long-term objectives aimed at managing risks arising from the EU objective of achieving net-zero GHG emissions by 2050, with an intermediate milestone for 2030, taking into account the EU target of a 55-percent reduction in emissions compared to 1990 levels # Long-term objectives and intermediate milestones aimed at managing risks arising from EU objectives related to deforestation or nature restoration # How does the institution ensure that its business structure and revenue streams are aligned with its long-term objectives and intermediate milestones?	# Financial exposures to different economic sectors # Portfolio alignment metrics # Profit indicators: yield indicators and risk-adjusted return indicators, reported with appropriate breakdowns (e.g. by sector, portfolio, products, etc.) # Metrics relating to the business strategy: forward-looking KPIs describing the institution's strategy in terms of pricing, capital, liquidity and balance sheet allocation # The percentage of ESG milestones achieved on time	Qualitative: Table 1, rows b) and j) Table 2, rows b), k) and l) Table 3, rows c) and d) Quantitative: Document template 1 Document template 3	ESRS-E1-1 Target values for reducing GHG emissions: ESRS-E1-4
	Intermediate milestones:	*Intermediate milestones measuring progress towards the achievement of long-term objectives, in accordance with point 30 of the Recommendation.*				
	Alignment of the business structure and revenues with the milestones:	*How will the institution ensure that it can generate adequate profitability in the interim?*				
ac) The key assumptions, inputs and underlying information relevant for	Key assumptions and selection of reference	*This refers to the documentation of key methodological criteria*	# Identification and justification of the selected scenario(s),	# The degree of alignment with, or deviation from,	Qualitative: Table 1, rows j), k)	ESRS-E1-SBM3 ESRS-E1- IRO

understanding the institution’s objectives and targets, including the selection of central or reference scenarios, as well as the institution’s conclusions drawn from the results of the materiality assessment of ESG risks, portfolio alignment assessments and other scenario analyses.	scenario(s):	*and assumptions under point 38 of the Recommendation, including the reference scenario(s) selected by the institution in accordance with points 24–28 of the Recommendation.*	for example those developed by national environmental agencies, the European Commission’s Joint Research Centre, the International Energy Agency, the Network for Greening the Financial System (NGFS) or the Intergovernmental Panel on Climate Change # Qualitative description of material ecological transition and physical risks affecting the institution	climate change pathways and reference scenarios for selected sectors and counterparties # Quantitative measurement of the impact of environmental risks on financial risk categories # Quantitative results of the materiality assessment of ESG risks	and l) Table 2, rows h), i) and j) Table 3, row d) Quantitative: Document template 3	ESRS-E1-9
	Results of the materiality assessment, the portfolio alignment assessment and scenario analyses:	*Findings and conclusions based on the materiality assessment performed in accordance with Section VI.1 of the Recommendation, portfolio alignment methodologies and scenario analyses.*				
b) Target values and metrics						
ba) Quantitative targets established for the management of ESG risks – including risks arising from the adjustment process aimed at achieving the legal and regulatory sustainability objectives of the jurisdictions in which the institution operates, as well as broader trends in the transition to a	Target values for the management of ESG risks, as well as monitoring metrics:	*This refers to the metrics and target values used by the institution in accordance with points 33–37 and Section VI.2.6 of the Recommendation.*	Not applicable	#Exposures to high-risk sectors or counterparties #Portfolio alignment metrics and target values #Financed emissions, for the relevant breakdowns #Progress achieved in key financing	Qualitative: Table 1, rows b) and c) Table 2, row b) Quantitative: All document templates	ESRS-E1-1 Target values for reducing GHG emissions: ESRS-E1-4
	Risks arising from the process of alignment with regulatory sustainability objectives:	*This refers to specific metrics and target values used to monitor and manage ESG risks arising from the process of alignment with relevant*				

sustainable economy – and the metrics used to monitor ESG risks and track progress towards the achievement of target values.		*regulatory sustainability objectives – such as the objectives set out in the European Climate Law in conjunction with Section 109(2a) of the Credit Institutions Act – and from the transition process.*		strategies ## Real estate portfolios defined by specified energy efficiency levels # The ratio of bank financing provided to low-carbon versus fossil fuel-based energy supply (ESBR) # The level of physical risks associated with the institution's exposures # Disclosure on the risk profile of the portfolio for the relevant breakdowns (e.g. non-performing exposures)		
bb) Portfolios, sectors, asset classes, business lines and, where applicable, economic activities (i.e. individual technologies) covered by target values and monitoring metrics, ensuring that the targets and metrics appropriately reflect the nature, size and complexity of the	Scope of coverage	*This refers to information on the scope of application of target values and metrics and their risk and financial materiality.*	# Which activities, asset classes, sectors and business lines are covered for each objective # Institution-level target values broken down into more granular sectoral target values #Target values applied to specific portfolios,	#The percentage of identified ESG risks that the institution actively monitors and manages #The percentage of business units whose ESG risk-related target values are integrated into the	Qualitative: Table 1, rows b), c) and j) Table 2, rows h) and i) Quantitative: All document	ESRS-E1-1 ESRS 2 – MDR-T Current revenues by sector: ESRS 2 – SBM -1 Target values

institution's activities, as well as the materiality assessment conducted by the institution in relation to ESG risks.			exposures, asset groups or investments with similar characteristics or risks #Specific, actionable target values relating to individual projects, technologies or business activities #Considered on-balance sheet and off-balance sheet activities # Exclusion from coverage or from the planned scope of coverage	institution's operational plan #The percentage of activities with ESG risk-related target values and initiatives across different regions # The percentage of sectors that have developed specific action plans aligned with the group-level ESG risk target. # Achievement of sectoral target values	templates	for reducing GHG emissions: ESRS-E1-4
bc) The time horizons to which the target values and metrics apply.	Time horizons:	*This refers to the short-, medium- or long-term time horizons to which metrics and target values are linked in accordance with points 29–31 of the Recommendation.*	#Qualitative description of target values and metrics applied over the short, medium and long term #Where applicable, justification for short-term increases in metrics and target values	# Evolution, for example increases/decreases in the level of target values to be achieved across different time horizons		ESRS-E1.IRO-1_10_ AR 12a ESRS-E4-1_04 13d

c) Governance

ca) The governance structure of the plans, including the roles and responsibilities related to the development, approval, implementation, monitoring and updating of the plan, including escalation steps in the event of deviations from target values.	Governance structure: Deviation and escalation procedures:	*The governance structure of the plan in accordance with points 18–22 and Section IV.1.4 of the Recommendation.* *The governance framework for decision-making on corrective measures in the event of significant deviations, in accordance with points 19 and 133 of the Recommendation.*	# The roles and responsibilities of the management body, any sub-committees and the three lines of defence # An escalation protocol defining the process for managing deviations, including the persons to be notified and the actions to be taken.	# The frequency of management body meetings dealing with the plan #Delays in the approval of the plan #The number of internal audits conducted in relation to the plan #The percentage of audit recommendations implemented #The number of escalations processed and unresolved escalations	Qualitative: Table 1, rows e), g), h) and q) Table 2, rows d) and f) Table 3, row a)	ESRS 2 GOV-1 _AR 4
cb) Measures related to capacities and resources to ensure the availability of adequate knowledge, skills and expertise for the effective implementation of the plan, including ESG risk-related training and internal culture.	Capacity and resources:	*Measures related to capacity and resources necessary for the effective implementation of the plan, based on the institution's initial assessment, carried out in accordance with Chapter V, of any gaps and needs relating to internal culture and capabilities in relation to ESG risks.*	#Training and development programmes on ESG risks # Temporary staffing and recruitment plans # Knowledge-sharing and collaboration platforms #Management commitment	#The completion rate of ESG risk-related training #Identified gaps in skills and knowledge related to ESG risks #The frequency and quality of internal communication on objectives related to and progress in addressing ESG risks	Qualitative: Table 1, rows f) and m)	ESRS 2 GOV-1 – paragraph 23; ESRS G1 GOV-1 – paragraph 5(b)

cc) Remuneration policies and practices aimed at promoting the sound management of ESG risks, in line with the institution's objectives and risk appetite.	Remuneration policies and practices:	*This refers to how the institution takes into account its ESG risk-related risk appetite within its remuneration policy and practices pursuant to Section 107(1)(f) of the Credit Institutions Act.*	# A qualitative description of how remuneration policies and practices have so far aligned, and currently or in the future will align, with the overarching strategic objective for managing ESG risks and the risk appetite	#Metrics used to integrate ESG risk appetite into remuneration policies #The proportion of employees whose remuneration takes ESG risk-related metrics into account #The weighting of ESG risk-related metrics in total remuneration	Qualitative: Table 1, row i) Table 2, row g) Table 3, row a)	ESRS 2-GOV-2 – paragraph 29 ESRS-E1-GOV-3
cd) Data and systems used in the transition planning process	Data and systems:	*This refers to the data and systems used for the preparation, implementation and monitoring of the plans in accordance with points 23 and 71–77 of the Recommendation.*	#A data inventory containing the identification of all relevant ESG risk data points, as well as the assessment of their availability and quality #Policies and procedures for ensuring data quality	#The percentage of collected and available relevant data points #The percentage of systems and processes integrating ESG data	Qualitative: Table 1, row p)	ESRS 1, Appendix B ESRS 2 AR 2 ESRS 2 SBM-1_42a ESRS-E2-4_30c ESRS-S1- 6_50d ESRS-S1-7_55b
d) Implementation strategy						
da) Overview of short-, medium- and long-term measures implemented or planned within core banking activities and	Measures taken or planned within core banking activities:	*This refers to how the institution will implement its objectives and target values through its core activities.*	# The introduction of new tools for assessing ESG risks into existing portfolios #The integration of objectives related to	# The percentage of activities covered by implementation measures	Qualitative: Table 1, row n) Table 2, row a)	Key measures: ERSR-E1-1_16b ESRS-E1 MDR-A ESRS

processes to achieve the targets of the plan, including how the institution integrates the objectives of the plan into its decision-making process and its standard risk management framework; together with supplementary information on the observed effectiveness of each measure or its estimated contribution to the relevant target value(s).	Changes to the standard risk management framework:	*This refers to how the institution will integrate its target values into the various existing risk management tools in accordance with Section VI.2 of the Recommendation (e.g. the Internal Capital Adequacy Assessment Process, the Internal Liquidity Adequacy Assessment Process, the early warning system, risk appetite limits, capital/portfolio allocation, budgeting process, strategic plan and funding plan).*	addressing ESG risks into medium- and long-term strategic planning and decision-making processes #The integration of ESG risks into the risk management framework	#The percentage of business decisions aimed at implementing the plan's target values #The adoption rate of tools for managing ESG risks	Table 3, row c)	2 MDR-A ESRS-E1-2 ESRS-E1-3 --- ESRS-E2-E5 ESRS-S1-S4 ESRS-G1 MDR-A ESRS-E3 MDR-A ESRS-E4 MDR-A ESRS-E5 MDR-A
db) Alignment with policies and procedures relating to financial risk categories, as well as lending and investment policies and conditions relating to key economic activities, sectors and locations.	Policies and conditions relating to activities, sectors and locations: Policies and procedures relating to financial risk categories:	*Policies and the conditions applicable thereto, including updates to existing policies and newly established policies, in accordance with subpoints b) and c) of point 94 of the Recommendation.* *This refers to adjustments to policies and procedures in accordance with Section VI.2.5 of the*	#List of current policies and the original ESG risk status #Update or development of a roadmap detailing policies and conditions and their scope of application, including the method and timing of the update or development, as well	# Policy adoption rate, for example the percentage of branches or departments that have adopted new ESG risk policies #The number of reviews and updates of policies aimed at managing ESG risks within a given period #The percentage of	Qualitative: Table 1, rows d) and o) Table 2, rows c) and e) Table 3, rows c) and d)	ESRS-E1-1_16b ESRS-E1-2 ESRS-E1-3 Activities related to sites located in or near biodiversity-sensitive areas: ESRS

		Recommendation.	as the persons responsible for carrying it out. # The following aspects may be included for each policy: Objective: how it reflects the strategic objective and risk strategy, and how it supports the implementation of the plan Scope of application: exact specification of the business activities, locations, sectors, etc., that are governed and affected Conditions: clear conditions ensuring seamless applicability and traceability Exclusions: any exclusions in line with the risk appetite	activities that comply with updated policies aimed at managing ESG risks #Results of internal and external reviews focused on the ESG risk management framework		E4.IRO-1_19a
dc) Changes introduced to the composition and pricing of services and products in order to support the implementation of the plan.	Composition and pricing of services and products:	*This refers to how the institution adjusts, in accordance with subpoint b) of point 94 of the Recommendation, its service and product*	#Risk-based pricing: adjustment of pricing based on the ESG risk profile of the borrower or the project #Risk mitigation	#The frequency and magnitude of pricing adjustments based on ESG risk profiles	Qualitative: Table 1, row r) Table 2, row j) Table 3, row	Activities incompatible with the transition: ESRS-E1.IRO-1

		offering and their pricing based on ESG risk-related criteria, as well as its risk strategy and internal capital policy.	incentives: provision of incentives to customers implementing ESG risk mitigation strategies	#The number of customers benefiting from incentive-based pricing	d)	AR12
dd) Investments and strategic portfolio allocation supporting the institution's business strategy and its ESG risk-related risk appetite, including information on sustainability- and transition-related products and services, as well as on how any changes in strategic financing decisions are accompanied by proportionate risk management procedures.	Sustainability- and transition-related products and services:	*Types of financial instruments (e.g. green and sustainability-linked loans, bonds, mortgage loans, funds) and advisory services offered or managed by the institution.*	# Strategy, policies and criteria relating to green, transition-related or ESG-linked mortgage loans, loans and bonds	# Growth in sustainable financing: year-on-year growth in the volume and proportion of sustainable financing # Default rate of green, transition-related or ESG-linked mortgage loans or loans	Qualitative: Table 1, rows m) and r) Table 2, row e) Quantitative: Document template 06–10	ESRS-E1-3 ESRS-E4-1 AR 1 e Outcomes for affected communities: ESRS-S3-4 AR 34 b
	Alignment between strategic financing decisions and risk management procedures:	*This refers to how the institution will ensure, where it decides to adjust its business structure and strategy, that such changes are aligned with the risk management rules to be implemented in accordance with Section VI.2 of the Recommendation.*	# Diversification of lending and investment portfolios based on criteria relevant from an ESG risk perspective, for example with regard to economic sectors or geographical areas # Credit risk policies relating to green loans and green mortgage loans # How institutions financing renewable energy projects ensure	# The proportion of newly financed projects that are subject to a comprehensive ESG risk assessment # The percentage of lending decisions that explicitly take ESG risks into account # Profit margin of ESG-related products: Comparison of the		

			that such projects comply with environmental requirements in order to avoid legal and reputational risks	profit margins of ESG-related products and conventional products		
e) Engagement strategy						
ea) Policies relating to counterparty engagement, including, inter alia, information on the frequency, scope and objectives of engagement, the types of potential measures, and escalation processes or criteria.	Engagement policies:	*Clear policies that the institution will follow for the purpose of engaging identified counterparties in order to achieve its strategic and risk management objectives, taking into account the results of the materiality assessment and risk measurement methodologies, in accordance with subpoint a) of point 94 of the Recommendation.*	# Purpose and overall objective, for example understanding the risk profile or assessing alignment with the risk appetite and target values # Options available to the counterparty # Escalation and validation process	# The percentage of counterparties with whom engagement has taken place or is planned # The percentage of counterparties for which ESG risk assessments have been carried out # The proportion of sectors, products and business lines covered	Qualitative: Table 1, rows d) and o) Table 2, row c) Table 3, rows b) and c)	ESRS 2-SBM 2
eb) Processes, methodologies and metrics used to collect and assess information on counterparties' exposure to ESG risks, as well as their alignment with the institution's objectives and risk appetite.	Processes, methodologies and metrics for the assessment of ESG risks:	*This refers to the institution's application of exposure-based methodologies, sector-based methodologies, portfolio-based methodologies and portfolio alignment methodologies in accordance with points*	# Screening carried out to identify high-risk counterparties based on predefined criteria # ESG risks reflected in internal or external scores or ratings # Methodologies for measuring the	# The percentage of counterparties subject to ESG risk due diligence # Changes in counterparties' credit ratings taking into account the impact of ESG risks	Qualitative: Table 1, rows k) and l) Table 2, rows i) and k)	ESRS-E1.IRO-1 ESRS-E4-1.AR-1a

		78–91 of the Recommendation.	alignment of selected counterparties with climate policy pathways	# Concentration of exposures within certain sectors exposed to high transition or physical risks # Involvement in ESG-related controversies or incidents		
ec) Outcomes of counterparty engagement practices, including an assessment of counterparties' adaptability and resilience to the transition to a more sustainable economy.	Results:	*This refers to the outcomes of counterparty engagement, enabling a meaningful interpretation of counterparties' risk profiles and the measures taken by the institution, in accordance with subpoint eb) of point e) of point 134 of the Recommendation.*	# Criteria used to identify counterparties presenting significant ESG risks that may require immediate attention # Adjustment of credit terms, such as interest rates or collateral requirements, based on the assessment of ESG risks Enhanced due diligence, for example the implementation of more stringent due diligence processes for high-risk counterparties # More targeted engagement, for example, the development of specific counterparty	# Positive assessments (or any sub-classification within the relevant category) or negative assessments (or any sub-classification within the relevant category) regarding the resilience of such customers and their alignment with the institution's target values and risk appetite # The number and types of follow-up	Qualitative Table 1, row o) Table 2, row m) Table 3, rows c) and d)	ESRS-E1 ESRS 2 – SBM-2_45a AR 16

			engagement plans to address identified ESG risks, such as setting improvement objectives or offering new financial products tailored to counterparties’ needs	actions taken by the institution		