

# Second-Party Opinion

## mBank S.A. Group Green Bond Framework



### Evaluation Summary

Sustainalytics is of the opinion that the mBank S.A. Group Green Bond Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds – Green Buildings; Renewable Energy; Clean Transportation; Electricity Transmission, Distribution and Storage; and Waste Management – are aligned with those recognized by the Green Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDGs 7, 9, 11 and 12.



**PROJECT EVALUATION AND SELECTION** mBank S.A. Group has established Sustainable Development Committees at both the Group and issuing entities level. The committees will be responsible for evaluating and selecting projects in line with the Framework's eligibility criteria. mBank S.A. Group has implemented a risk assessment process that is applicable to all allocation decisions under the Framework. Sustainalytics considers the risk management system to be adequate and the project evaluation and selection process to be in line with market practice.



**MANAGEMENT OF PROCEEDS** mBank S.A. Group's Sustainable Development Committees will track the allocation of proceeds through an internal information system. mBank S.A. Group intends to fully allocate the proceeds to eligible assets within two years of issuance. Pending allocation, proceeds will be integrated into the treasury's liquidity reserve and invested temporarily in cash, cash equivalents or short-term liquid instruments. This is in line with market practice.



**REPORTING** mBank S.A. Group intends to report on the allocation of proceeds on its website on an annual basis until full allocation. Allocation reporting will include information such as the total amount of proceeds allocated to eligible projects and assets, the balance of unallocated proceeds and the share of financing versus refinancing. In addition, mBank S.A. Group is committed to reporting on relevant impact metrics. Sustainalytics views mBank S.A. Group's allocation and impact reporting as aligned with market practice.

<b>Evaluation Date</b>	September 2, 2024 <sup>1</sup>
<b>Issuer Location</b>	Warsaw, Poland

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**For inquiries, contact the Sustainable Corporate Solutions project team:**

<b>Siga Wu (Amsterdam)</b> Project Manager siga.wu@sustainalytics.com (+31) 205 602 936
<b>Ayaka Okumura (Amsterdam)</b> Project Support
<b>Astrid Bruchou (Amsterdam)</b> Project Support
<b>Andrew Johnson (Paris)</b> Client Relations susfinance.emea@sustainalytics.com (+44) 20 3880 0193

<sup>1</sup> This document is an update to the mBank S.A. Group Green Bond Framework Second-Party Opinion originally provided on February 18, 2022.

## Introduction

mBank S.A. Group ("mBank", or the "Group") is a Polish bank offering retail, SME, corporate and investment banking services and other financial services, including commercial real estate financing, wealth management, insurance, corporate finance and advisory. Established in 1986, mBank is headquartered in Warsaw, Poland and employed 7,322 people globally in 2023.<sup>2</sup> As of March 2024, the Group has approximately 35,000 corporate clients and serves 5.7 million retail clients across Poland, Czechia and Slovakia.<sup>3</sup>

mBank has developed the mBank S.A. Group Green Bond Framework, dated September 2024 (the "Framework") under which the Group and its subsidiaries<sup>4</sup> intend to issue green bonds and covered bonds<sup>5</sup>, and use the proceeds to finance or refinance, in whole or in part, existing and future projects that are expected to support Poland's and the EU's transition to a low carbon economy. The Framework defines eligibility criteria in the following areas:

1. Green Buildings
2. Renewable Energy
3. Clean Transportation
4. Electricity Transmission, Distribution and Storage
5. Waste Management

mBank engaged Sustainalytics to review the Framework and provide a Second-Party Opinion on the Framework's environmental credentials and its alignment with the Green Bond Principles 2021 (GBP).<sup>6</sup> The Framework will be published in a separate document.<sup>7</sup>

### Scope of work and limitations of Sustainalytics' Second-Party Opinion

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent<sup>8</sup> opinion on alignment of the Framework with current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework's alignment with the Green Bond Principles 2021, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer's sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.17, which is informed by market practice and Sustainalytics' expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with representatives of mBank to understand the sustainability impact of its business processes and planned use of proceeds, as well as the management of proceeds and reporting aspects of the Framework. mBank representatives have confirmed that: (1) they understand it is the sole responsibility of mBank to ensure that the information provided is complete, accurate and up to date; (2) they have provided Sustainalytics with all relevant information; and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and mBank.

<sup>2</sup> mBank, "ESG Report of the mBank Group 2023", (2024), at: <https://www.mbank.pl/pdf/esg/esg-report-of-the-mbank-group-2023.pdf>

<sup>3</sup> mBank, "Introduction to mBank Group", (2024), at: <https://www.mbank.pl/pdf/relacje-inwestorskie/introduction-to-mbank-eng.pdf>

<sup>4</sup> Two subsidiaries of the mBank S.A. Group - mBank Hipoteczny, the mortgage bank, and mLeasing, the leasing company - intend to issue green bonds under this Framework. mBank Hipoteczny, in particular, intends to issue green covered bonds under this Framework.

<sup>5</sup> mBank has confirmed that the type of covered bond issued under the Framework will be secured green standard bonds, which will be specified as per the voluntary process guidelines published in Appendix 1 of the GBP 2021 (June 2022 update), and there will be no double counting of eligible projects under any other outstanding sustainable financing instruments.

<sup>6</sup> The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

<sup>7</sup> The mBank S.A. Group Green Bond Framework is available at: <https://www.mbank.pl/en/investor-relations/ratings-debt-instruments/green-bonds/>

<sup>8</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics' hallmarks is integrity, another is transparency.

Sustainalytics' Second-Party Opinion assesses the alignment of the Framework with market standards but provides no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the issuer.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee their realized allocation towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument in favour of or against the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that mBank has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the mBank S.A. Group Green Bond Framework

Sustainalytics is of the opinion that the mBank S.A. Group Green Bond Framework is credible and impactful, and aligns with the four core components of the GBP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
  - The eligible categories – Green Buildings; Renewable Energy; Clean Transportation; Electricity Transmission, Distribution and Storage; and Waste Management – are aligned with those recognized by the GBP.
  - The Framework has defined a look-back period of three years for the refinancing activities, which Sustainalytics considers to be in line with market practice.
  - Under the Green Buildings category, mBank may finance or refinance the construction, renovation, acquisition and refurbishment of new and existing residential and commercial (office, retail and logistics) buildings in Poland, and the installation, maintenance and repair of energy efficiency technologies for buildings according to the following criteria:
    - Residential and commercial buildings constructed after 31 December 2020 with a primary energy demand (PED) that is at least 10% lower than the Nearly Zero Energy Building (NZEB)<sup>9</sup> requirements in Poland.<sup>10</sup>
    - Residential and commercial buildings constructed before 31 December 2020 with an Energy Performance Certificate (EPC) of class A or above, or are among the top 15% of low-carbon buildings in Poland, based on PED or determined on the basis of a statistical analysis of residential buildings in Poland by year of construction, with reference to the Polish building codes.
    - Residential buildings that comply with one of the following low-carbon buildings criteria<sup>11</sup> in accordance with the Climate Bonds Initiative's (CBI) established residential building proxy for Poland<sup>12</sup>: i) comply with the Technical Condition (TC) 2017 or newer, ii) were constructed in 2017 or later or iii) have an EPC stating compliance with TC 2017 or newer. The required technical conditions are subject to change depending on the year of the bond issuance, the duration of the bond, and eligible buildings should meet the CBI's established 2050 linear zero-carbon trajectories for single-family or multi-family houses.
    - Commercial buildings that meet the CBI's location-specific criteria for commercial buildings.<sup>13</sup>
    - Commercial buildings that have achieved, or are expected to achieve, one of the following minimum certification levels: LEED Gold<sup>14</sup> with energy savings of at least

<sup>9</sup> European Commission, "Nearly Zero Energy Buildings", (2020), at:

[https://ec.europa.eu/energy/topics/energy-efficiency/energy-efficient-buildings/nearly-zero-energy-buildings\\_en](https://ec.europa.eu/energy/topics/energy-efficiency/energy-efficient-buildings/nearly-zero-energy-buildings_en)

<sup>10</sup> The PED requirements for buildings are in line with the Energy Performance of Buildings Directive (EPBD) as implemented in the Technical Condition (TC) 2021.

<sup>11</sup> CBI, "Low Carbon Buildings", at: <https://www.climatebonds.net/standard/buildings>

<sup>12</sup> CBI, "Eligible Residential Building – Poland", at: <https://www.climatebonds.net/files/files/Residential%20Proxy%20Poland%281%29.pdf>

<sup>13</sup> CBI, "Location Specific Criteria for Commercial Buildings & Calculator", at:

<https://www.climatebonds.net/standard/buildings/commercial/calculator>

<sup>14</sup> LEED: <https://www.usgbc.org/leed>

- 30% against ASHRAE 90.1., BREEAM Very Good with a minimum 70% score in the energy category,<sup>15</sup> HQE Excellent,<sup>16</sup> and DGNB Gold.<sup>17</sup>
- Refurbishment or renovation of buildings that: i) leads to at least a 30% reduction in PED compared to pre-renovation levels, or ii) leads to at least a 30% reduction in PED, based on energy performance and data from EPC<sup>18</sup>, or iii) is designed to fulfil the cost-optimal minimum energy performance requirements, as defined by the EPBD.<sup>19</sup> Sustainalytics notes that the performance standard reflected in the EU Taxonomy,<sup>20</sup> which requires meeting the relevant cost-optimal minimum energy performance requirements in accordance with the EPBD, could vary by region (EU Member States). Sustainalytics, therefore, encourages mBank to report on the actual PED performance level (or energy savings) achieved compared to the reference buildings, as defined based on existing building stock within the region.
  - Installation, maintenance and repair of renewable infrastructure in buildings, including: i) solar PV systems; ii) solar panels for hot water; iii) electric heat pumps; iv) solar transpired collectors; v) thermal or electrical renewable energy storage units; and vi) heat exchanger and recovery systems. mBank has confirmed that the heat pumps i) do not use refrigerants with high global warming potential (GWP), and ii) will have a refrigerant management plan in place with measures to monitor and minimize leakages.
  - Installation, maintenance and repair of energy efficiency equipment, such as i) thermal insulation of buildings in walls, roofs, lofts, basements and ground floors; ii) replacement of windows and doors; iii) energy-efficient light sources, such as LED lighting; and iv) heating, ventilation and air-conditioning (HVAC) and water heating systems, including equipment related to district heating services<sup>21</sup> with highly efficient technologies.
  - Installation, maintenance and repair of instruments and devices that measure and control the energy use of buildings, including: i) zone and smart thermostats and sensors; ii) building automation and control systems, building energy management systems, lighting control systems and energy management systems and iii) smart meters for heating, cooling and electricity.
  - The Framework excludes commercial buildings designed or intended for controversial activities with harmful social or environmental impacts including tobacco, weapons, gambling, as well as industrial facilities used for extraction, storage, transportation or manufacture of fossil fuels.
  - Sustainalytics considers the expenditures under this category to be aligned with market practice.
- Under the Renewable Energy category, mBank may finance or refinance the development, acquisition, maintenance and operation of renewable energy generation facilities and equipment manufacturing<sup>22</sup> for solar, onshore and offshore wind and hydropower projects. The Group may also finance the development, expansion and maintenance of infrastructure, technology and processes related to smart grids, battery energy storage, district heating systems and transmission and distribution of renewable electricity.
    - Solar power projects, including photovoltaic and concentrated solar heat and power generation (CSP). Sustainalytics notes that the Framework limits financing to CSP projects that generate at least 85% electricity from solar energy sources.
    - Onshore and offshore wind power projects.<sup>23</sup>
    - New hydropower projects that meet one of the following criteria: i) life cycle carbon emissions intensity below 50 gCO<sub>2</sub>e/kWh; ii) power density above 10 W/m<sup>2</sup> or iii) run-of-river facilities without an artificial reservoir. The Group may also finance the refurbishment of existing hydropower plants that meet one of the above criteria for new hydropower plants and where the refurbishment does not result in an

<sup>15</sup> BREEAM: <https://breeam.com/standards/new-construction>

<sup>16</sup> HQE: <https://www.greenbuilding.saint-gobain.com/hqe-international>

<sup>17</sup> DGNB: <https://www.dgnb.de/en/building-certification>

<sup>18</sup> The required improvement depends on the bond term, with a minimum improvement in emissions intensity of 50% required for bond terms of 30 years and 30% for bond terms of five years. Between five and 30 years, it is derived based on the linear trajectory between five and 30 years, which is in line with Condition 3 of the CBI Buildings Criteria v2.1.

<sup>19</sup> The Framework specifies the cost-optimal minimum energy performance requirements in accordance with the PED requirements, as referenced in the TC 2014 and cost-optimum report for Poland.

<sup>20</sup> European Commission, "Taxonomy Report: Technical Annex to the Final report of the Technical Expert Group on Sustainable Finance", (2020), at: [https://ec.europa.eu/info/sites/default/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes\\_en.pdf](https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en.pdf)

<sup>21</sup> mBank has confirmed that the district heating services will meet the same criteria as defined under the Renewable Energy category for district heating.

<sup>22</sup> The Group has confirmed that financing will be limited to equipment and facilities that are wholly dedicated to components for renewables.

<sup>23</sup> The Group has communicated to Sustainalytics that it does not finance wind turbine manufacturing projects and will strictly prohibit the use of balsa wood based on certificates provided by investors.

increase in the size of the reservoir. mBank has confirmed that all new hydropower projects will undergo an environmental and social risk assessment.<sup>24</sup>

- Projects that support the integration of renewable energy into power systems, such as smart grid technologies. Smart grid technologies and projects may include those aimed at connecting renewable sources, improving efficiency and enabling demand side response, such as smart meters, IT systems supporting network control, sensors, measurement and control tools. mBank has confirmed that smart grid solutions will not be applied to transmission lines connected or dedicated to fossil fuel power.
- Energy management systems, such as i) battery energy storage connected to renewables and ii) district heating systems. Sustainalytics notes that financing for district heating and cooling systems will be limited to those with 100% generation from renewables, industrial waste heat or both. In the case where financing is only for distribution networks, mBank will limit the financing to networks powered primarily (more than 50%) by renewables, waste heat or both, as defined by the Energy Efficiency Directive 2012/27/EU.<sup>25</sup> mBank has confirmed to Sustainalytics that: i) if the system is powered by energy from incineration of municipal solid waste, recyclables will be segregated before energy conversion and ii) waste heat from the fossil fuel production and operations will be excluded.
- Transmission and distribution infrastructure, where electrical grid development and maintenance is dedicated to connecting renewables to the power grid or supporting or integrating at least 90% renewable electricity.
- Sustainalytics considers the expenditures under this category to be aligned with market practice.
- Under the Clean Transportation category, mBank may finance or refinance the development, manufacturing, upgrade, acquisition, maintenance, operation and leasing of low-carbon passenger and freight transportation, key components and related infrastructure, including:
  - Zero direct emission passenger vehicles, light commercial vehicles, buses and coaches.
  - Hybrid passenger vehicles, light commercial vehicles, buses and coaches with an emissions threshold below 50 gCO<sub>2</sub>e/pkm based on the Worldwide Harmonized Light Vehicles Test Procedure (WLTP), which are considered eligible investments under the Framework until the end of 2025.
  - Zero direct emissions trains, metros, trams and low-carbon rail transport that complies with a direct emissions threshold of 50 gCO<sub>2</sub>e/pkm or 80.47 gCO<sub>2</sub>/pmi for passenger rail, and 25 gCO<sub>2</sub>e/tkm or 40.23 gCO<sub>2</sub>/tmi for freight rail. mBank may also finance supporting infrastructure, such as metro tracks, stations, traction maintenance depots and motive power depots. The Group has confirmed that depots will only be financed for the storage, maintenance and servicing of electric rolling stock.
  - Supporting infrastructure for green transportation, such as dedicated electric vehicle charging stations and hydrogen fuelling stations.<sup>26</sup>
  - Active mobility infrastructure, such as public pedestrian and cycling infrastructure and cycling schemes.
  - The Group may also finance the manufacture of batteries, such as high-density lithium-ion batteries, where the batteries are limited to use in electric vehicles.
  - The Framework excludes commercial vehicles and railways for which the primary purpose is the transport of fossil fuels.
  - Sustainalytics considers the expenditures under this category to be aligned with market practice.
- Under the Electricity Transmission, Distribution and Storage category, the Group may finance or refinance the following types of projects and technologies:
  - i) Construction, upgrade and operation of infrastructure dedicated to connecting or expanding a renewable power generation facility (wind or solar power) to the grid; ii) manufacture, installation, leasing and operation of equipment and infrastructure aimed at increasing the generation or use of renewable energy; and iii) construction, upgrade, or operation of electricity storage facilities dedicated to

<sup>24</sup> In addition, mBank has confirmed that there should be no significant risk or expected negative impact identified, and there should be no significant controversy surrounding eligible hydropower projects.

<sup>25</sup> The Directive defines efficient district heating and cooling networks if they use at least 50% renewable energy, 50% waste heat, 75% cogenerated heat or a 50% combination of such energy and heat. EUR-Lex, "Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency", at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32012L0027>

<sup>26</sup> The Framework limits financing of alternative fuel infrastructure to when such infrastructure is separable from fossil fuel filling stations and garages.



- renewable energy generation facilities.<sup>27</sup> Project examples include the construction of overhead lines, conductors, insulators, pylons,<sup>28</sup> transformers, reactors and substations, underground cables, circuit breakers and switchgear, battery facilities serving a power generation facility and technologies that reduce the curtailment of renewable energy into the grid or increase its capacity factor in the energy system.
- The Group may also finance operating expenditures associated with the transmission, distribution and storage assets, and activities listed above, including: i) the operation of labour force and equipment for the installation, maintenance and operation dedicated to such projects; and ii) the operation or leasing of vehicles for monitoring and maintenance of such projects mBank has confirmed that any vehicles financed will be required to meet the emissions thresholds defined under the Clean Transportation category; and iii) the construction, leasing and operation of buildings that house maintenance equipment, dedicated staff or vehicles. mBank has confirmed to Sustainalytics that it will not finance general corporate expenses and that financing will be limited to expenditures that are directly linked to eligible assets.
  - Sustainalytics considers the expenditures under this category to be aligned with market practice.
  - Under the Waste Management category, mBank may finance or refinance municipal waste collection, including wastewater treatment, sorting and treatment activities aimed at recycling and reuse of waste, and mechanical recycling of non-hazardous waste into another raw material.
    - Sustainalytics notes the following: i) segregation of waste will be carried out at source before waste collection; ii) recycling of electronic waste will be subject to an environmental and social risk assessment to avoid health impacts and leakages of toxic substances into the surrounding environment; iii) waste collection vehicles will be required to meet the emissions thresholds defined under the Clean Transportation category; iv) treatment of wastewater from fossil fuel operations will be excluded; v) mechanical recycling of non-hazardous waste will be limited to cases where the conversion rate of such waste exceeds 50%; vi) waste-to-energy projects will be limited to those in which plastics, metals and recyclables are segregated from the feedstock.
    - Sustainalytics considers these investments to be in line with market practice.
  - The Framework refers to the general exclusionary criteria in mBank's policies, which exclude the financing of: i) new hard coal and lignite mines or an expansion of the capacity of existing mines and entities active in the extraction of coal or lignite; ii) entities engaged in the generation of electricity or heat from coal and/or lignite; iii) energy companies with coal-fired power units or entities aimed at developing coal energy; iv) entities involved in the production or trade of radioactive materials, or construction and development of nuclear power plants; and v) companies whose dominant activity is focused on exploration and extraction of shale gas, amongst others.
  - Project Evaluation and Selection:
    - mBank has established a Sustainable Development Committee ("Committee") at the issuing entity level and a Group-wide Sustainable Development Committee ("Group Committee") at the Group level. The Committee, which consists of representatives from the Treasury, Risk, ESG Risk & Sustainable Finance, Assets origination and management departments, will be responsible for evaluating and selecting eligible assets in line with the Framework's eligibility criteria. A separate Sustainable Development Committee has been established for mBank Hipoteczny.
    - The Group Committee, which is headed by mBank's Chief People and Regulatory Officer, consists of the following representatives: Chief Risk Officer, Chief Financial Officer, Head of Corporate and Investment Banking, Head of Retail Banking, Head of Operations and IT, and is supported by the following members, who have no voting rights: Chief Sustainability Officer, Chief Environmental Risk Officer, Director Responsible for Sustainable Development Reporting, Chairpersons of the Sustainable Development Committees at the issuing entities level, and subject matter experts. The Group Committee will oversee the project evaluation

<sup>27</sup> mBank has confirmed that there will be no double counting of projects under the Renewable Energy category and Electricity Transmission, Distribution and Storage category.

<sup>28</sup> Pylons are used to support electrical cables that transmit high-voltage electricity from a power station to homes and businesses through the grid. National grid, "Everything you ever wanted to know about electricity pylons", at: <https://www.nationalgrid.com/stories/energy-explained/everything-you-ever-wanted-know-about-electricity-pylons>

and selection process and ensure the Framework's consistent application at the Group level.

- mBank has set up policies, such as the Sustainability Standards, to assess the environmental and social risks of borrowers' activities. These risk management policies are applicable to all lending decisions made under the Framework. Sustainalytics considers mBank's environmental and social risk management systems to be adequate and aligned with the requirements of the GBP. For additional detail, see Section 2.
- Based on the establishment of dedicated Sustainable Development Committees and the presence of risk management systems, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
  - mBank's Sustainable Development Committee will be responsible for the management and allocation of proceeds. The Committee will manage the proceeds on a portfolio basis through internal information systems.
  - mBank intends to fully allocate the proceeds to eligible assets within two years of issuance. Pending allocation, unallocated proceeds will be integrated into the treasury's liquidity reserve and invested on a temporary basis in cash, cash equivalents or short-term liquid instruments.
  - mBank Hipoteczny's Sustainable Development Committee will manage proceeds using a separate register and unallocated proceeds will be invested in its liquidity portfolio in money market instruments.
  - Based on the presence of an internal information system and the disclosure of the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
  - mBank intends to report on the allocation of proceeds and corresponding impact in its Allocation and Impact Report, which will be published on mBank's website on an annual basis. Allocation reporting will include: i) the notional amount and maturities of outstanding green bond issuances; ii) the total amount of proceeds allocated to eligible assets and projects; iii) the balance of unallocated proceeds; iv) the amounts or percentage of financing versus refinancing and the years of allocation of the green bonds to the eligible assets portfolio compared to the previous report. mBank may also report on specific examples of refinanced eligible assets, where possible.
  - Where feasible, impact reporting may include metrics such as: i) energy savings (MWh/GWh); ii) emissions reduced or avoided (tCO<sub>2</sub>e); iii) total energy production from renewable sources (MWh), and iv) waste collected, treated, prevented, minimized, reused and recycled (in percentage or avoided in tCO<sub>2</sub>e).
  - In addition to the Group level reporting, mBank Hipoteczny will report separately on its green covered bonds following the Group level reporting policy, as mentioned above.
  - The Bank may appoint an independent external verifier to review the allocation of the proceeds to the eligible assets portfolio annually until maturity.
  - Based on the commitment to both allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

#### **Alignment with Green Bond Principles 2021**

Sustainalytics has determined that the mBank S.A. Group Green Bond Framework aligns with the four core components of the GBP.

## **Section 2: Sustainability Strategy of mBank**

### **Contribution to mBank's sustainability strategy**

mBank's commitment to sustainability is underpinned by the Group's five-year business strategy and action plans, which have a focus on environmental, social and governance aspects.<sup>29</sup> Sustainalytics highlights the Group's efforts on the environmental pillar due to its relevance to the projects that may be financed.

<sup>29</sup> mBank, "Strategy of mBank Group for 2021-2025", (2024), at: <https://www.mbank.pl/pdf/relacje-inwestorskie/strategy-of-mbank-group-for-2021-2025en.pdf>

mBank has set a target to become climate neutral by 2050.<sup>30</sup> To achieve the target, the Group is committed to transforming its loan portfolio to achieve net zero by 2050.<sup>31</sup> mBank reports its emissions in accordance with the GHG Protocol reporting standard and discloses its progress in reducing emissions in its annual report.<sup>32,33</sup> In addition, the Group is working to submit its decarbonization targets to SBTi for approval by 30 September 2024.<sup>34</sup>

As part of its decarbonization commitment, the Group has established the following targets to improve the sustainability performance of its portfolio: i) allocating PLN 10 billion (USD 2.5 billion)<sup>35</sup> in green projects related to renewable energy, decarbonization, circular economy and electric mobility by the end of 2025; ii) increase the annual sale of mortgage loans (by volume) on real estate properties, which has a PED 10% lower than the NZEB requirements, to 14% by 2024 and 18% by 2025; and iii) offer at least 50% of the Group's managed investment solutions to align with Article 8 of the Sustainable Finance Disclosure Regulation<sup>36</sup> by 2025.

As of 31 December 2023, mBank has provided PLN 5,315 million (USD 1,328 million) of green financing to corporate clients and the share of mortgage loans financing low-energy houses<sup>37</sup>, apartments and single-family houses reached 10% of the Group's total sales.<sup>38</sup> For the same period, 10% of the Group's total investment solutions met the definition of Article 8 of the SFDR.<sup>39</sup> In 2018, the Group also established a Financing Policy for Renewable Energy Sources, with an aim to increase lending to the fast-growing renewable energy sector in Poland. Based on this policy, mBank earmarked PLN 6.4 billion (USD 1.6 billion) for wind farms and photovoltaics between 2018 and 2024.<sup>40</sup>

In addition, mBank signed the Commitment to Financial Health and Inclusion<sup>41</sup> in 2022 and the Principles for Responsible Banking<sup>42</sup> in 2021 under the United Nations Environment Programme Finance Initiative.<sup>43</sup> This reflects the Group's commitment to supporting projects that enable the transition to a low-carbon, climate-resilient economy required to limit global warming.<sup>44</sup>

Sustainalytics is of the opinion that the mBank S.A. Group Green Bond Framework is aligned with the Group's overall sustainability strategy and initiatives and will further mBank's action on its key environmental priorities.

#### Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the proceeds from the bonds issued under the Framework will be directed towards eligible projects that are expected to have positive environmental impacts. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks possibly associated with the eligible projects may include: land use and biodiversity issues associated with large-scale infrastructure development; emissions, effluents and waste generated during construction; community relations and stakeholder participation, and business ethics. Sustainalytics notes that mBank plays a limited role in the development of the specific projects financed, but by offering lending and financial services, it is exposed to risks associated with the companies and projects that it may finance.

Sustainalytics is of the opinion that mBank is able to manage or mitigate potential risks through implementation of the following:

- To address ESG risks, including those associated with biodiversity loss, waste and effluents generated from large-scale infrastructure development, mBank has established a Sustainability Standards. Under the standards, the Group integrates ESG factors into its regular risk assessment process for corporate clients. This includes evaluating ESG risks during client

<sup>30</sup> mBank, "Strategy of mBank Group for 2021-2025", (2024), at: <https://www.mbank.pl/pdf/relacje-inwestorskie/strategy-of-mbank-group-for-2021-2025en.pdf>

<sup>31</sup> Ibid.

<sup>32</sup> The Greenhouse Gas Protocol, "Corporate Accounting and Reporting Standard", at: <https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf>

<sup>33</sup> mBank, "ESG Report of the mBank Group 2023", (2024), at: <https://www.mbank.pl/pdf/esg/esg-report-of-the-mbank-group-2023.pdf>

<sup>34</sup> Ibid.

<sup>35</sup> With PLN 5 billion directly from mBank and PLN 5 billion from other sources, such as consortia and green bonds issuance arranged for mBank's clients.

<sup>36</sup> Article 8 of the SFDR pertains to financial products that promote environmental or social characteristics and requires clear disclosure of how these characteristics are incorporated into investment decisions. EU, "Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector", at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02019R2088-20240109>

<sup>37</sup> Low-energy houses defined as the PED 10% below the NZEB requirements.

<sup>38</sup> mBank, "ESG Report of the mBank Group 2023", (2024), at: <https://www.mbank.pl/pdf/esg/esg-report-of-the-mbank-group-2023.pdf>

<sup>39</sup> Ibid.

<sup>40</sup> mBank, "mBank S.A. Group Green Bond Framework", (2024), at: <https://www.mbank.pl/en/investor-relations/ratings-debt-instruments/green-bonds/>

<sup>41</sup> UNEP FI, "Commitment to Financial Health and Inclusion", at: <https://www.unepfi.org/banking/commitments/commitment-to-financial-health-and-inclusion/>

<sup>42</sup> UNEP FI, "About the Principles", at: <https://www.unepfi.org/banking/more-about-the-principles/>

<sup>43</sup> mBank, "Responsible bank", at: <https://www.mbank.pl/en/about-us/corporate-social-responsibility/our-commitments/>

<sup>44</sup> mBank, "ESG Report of the mBank Group 2023", (2024), at: <https://www.mbank.pl/pdf/esg/esg-report-of-the-mbank-group-2023.pdf>



onboarding and periodically reassessing them.<sup>45</sup> The Group conducts detailed assessments for clients seeking financing in excess of PLN 8 million (EUR 1.8 million), while other clients are assessed on the basis of industry-specific ESG risks.<sup>46</sup> In addition, in certain situations, the Group requires clients to carry out legal or technical due diligence. The results of the ESG analysis inform decisions regarding the continuation and development of client relationships, which ensures that the Group's portfolio is in line with its sustainability objectives.

- To manage risks associated with community relations and stakeholder participation, the Group has established an Information Policy, which outlines the various channels through which the Group communicates with investors, the media and clients. It also ensures compliance with the relevant laws and regulations on information disclosure.<sup>47</sup>
- To address risks associated with business ethics, mBank implemented a Code of Conduct, which serves as a guide for the Group and its subsidiaries, forming the basis of the Group's internal and external relations.<sup>48</sup> The Code applies to all employees, and it defines permitted and prohibited business practices, appropriate workplace behaviour, financial rules and corporate social responsibility.<sup>49</sup> In addition, mBank's Ethics Programme outlines guidelines for building an ethical corporate culture and responsibility for each subject, as well as actions and standards that all employees are required to comply with.<sup>50</sup>
- The Group has an Anti-Corruption Policy and a Conflicts of Interest Policy in place, which outlines the Group's zero-tolerance approach to corruption.<sup>51</sup> Furthermore, the Group has established an anonymous whistleblowing procedure, allowing anyone to report misconduct via the website.<sup>52</sup>
- The majority of the Group's operations are in Poland, which is recognized as "Designated Country" under the Equator Principles, ensuring the presence of robust environmental and social governance, legislation systems and institutional capacity to mitigate the environmental and social risk associated with projects financed under this Framework.<sup>53</sup>
- mBank has been a signatory to the UN Global Compact Principles since 2016 and conforms to its 10 principles on upholding human rights, eliminating unfair labour practices, preventing environmental degradation, and anti-corruption.<sup>54</sup> mBank also abides by various international regulations, including the Universal Declaration of Human Rights, the Standards of the International Labour Organisation, the OECD Guidelines, the Rio Declaration on Environment and Development – Agenda 21 and the United Nations Convention against Corruption.<sup>55</sup>
- In addition to the exclusionary criteria provided in the Framework, mBank implemented restrictions on investments in companies that have activities associated with child labour, forced or otherwise grossly abuse human rights, that are oriented towards economic exploitation of areas of high natural value or that threaten global cultural heritage.<sup>56</sup>

Additionally, Sustainalytics' research has identified that mBank is exposed to legal risks stemming from the ongoing court proceedings related to Swiss franc-denominated mortgage loans in its retail business.<sup>57</sup> Sustainalytics acknowledges that the controversy pertains to legacy issues that will not directly impact eligible projects that may be financed. mBank has created provisions to address the financial exposure resulting from customer claims arising from the court proceedings.

Based on these policies, standards and assessments, Sustainalytics is of the opinion that mBank has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

<sup>45</sup> mBank, "ESG factors in credit policies", (2022), at: <https://www.mbank.pl/pdf/esg/standardy-esg-polityki-kredytowe-en.pdf>

<sup>46</sup> Ibid.

<sup>47</sup> mBank, "Information Policy of mBank for communication with investors, the media and clients", at: <https://www.mbank.pl/pdf/relacje-inwestorskie/pozostale/communication-policy-investors-media-clients.pdf>

<sup>48</sup> mBank, "Responsible bank", at: <https://www.mbank.pl/en/about-us/corporate-social-responsibility/our-standards/>

<sup>49</sup> Ibid.

<sup>50</sup> mBank, "mBank Ethics Programme", at: <https://www.mbank.pl/pdf/esg/program-etyczny-en.pdf>

<sup>51</sup> mBank, "Sustainability standards Ethics", (2023), at: <https://www.mbank.pl/pdf/esg/standardy-esg-etyka-en.pdf>

<sup>52</sup> mBank, "mSygnal", at: <https://www.bkms-system.net/bkwebanon/report/clientInfo?cin=2brebank11&c=-1&language=eng>

<sup>53</sup> Equator Principles, "Designated Countries", at: <https://equator-principles.com/about-the-equator-principles/designated-countries/>

<sup>54</sup> UNGC, "mBank S.A.", at: <https://www.unglobalcompact.org/what-is-gc/participants/71651-mBank-S-A->

<sup>55</sup> mBank, "Sustainable Development Code for Suppliers and Partners of mBank S.A.", at: [https://www.mbank.pl/pdf/CSR/mbank\\_kodeks-dostawcow\\_2021\\_en\\_.pdf](https://www.mbank.pl/pdf/CSR/mbank_kodeks-dostawcow_2021_en_.pdf)

<sup>56</sup> mBank, "Our sustainability standards", at: <https://www.mbank.pl/en/about-us/corporate-social-responsibility/our-standards/>

<sup>57</sup> In the 2000s, Polish borrowers took out Swiss franc (CHF) denominated mortgages to take advantage of low-interest rates in Switzerland. However, the rise in value of Swiss franc in 2015 resulted in higher repayments due to questioned indexation clauses in contracts which in turn led to legal disputes with Polish banks, including mBank. To reduce its exposure to legal risks, in September 2022, mBank launched a settlement programme for all its borrowers with active CHF mortgage loans, including borrowers in a court dispute with mBank. The programme aided in reducing the outstanding gross loan exposure from PLN 13.2 billion (EUR 3.06 billion) in Q3 2022 to PLN 6.3 billion (EUR 1.46 billion) in Q2 2024. Additionally, the number of active loan contracts reduced by 72.6% in Q2 2024 (23,474 contracts), compared to the total number of CHF mortgages signed by mBank (85,500 contracts). Furthermore, the coverage of the active CHF portfolio with the provisions created for legal risks was at the 130% level as of 30 June 2024.

## Section 3: Impact of Use of Proceeds

All use of proceeds categories are aligned with those recognized by the GBP. Sustainalytics focuses below on where the impact is specifically relevant in the local context.

### Importance of financing green buildings in the EU and Poland

In 2021, the buildings sector accounted for 35% of the EU's energy-related emissions.<sup>58</sup> The EU has committed to reducing GHG emissions by 55% by 2030 compared to 1990 levels.<sup>59</sup> This commitment implies reducing GHG emissions from buildings by 60%, final energy consumption by 14% and energy consumption from heating and cooling by 18% by 2030, compared to 2015.<sup>60</sup> The EU's 2023 revision of the Energy Performance of Buildings Directive (EPBD) actively supports the objective of achieving climate neutrality in the buildings sector by 2050.<sup>61</sup> It mandates zero emissions for all new public buildings from 2026 and extends this requirement to all new buildings from 2028, while progressively tightening standards for existing buildings over time.<sup>62</sup>

Poland is the EU's fourth-largest emitter of GHG emissions annually.<sup>63</sup> The buildings sector is the fourth-largest contributor of CO<sub>2</sub> emissions in the country, responsible for 13.8% of the Poland's total energy-related CO<sub>2</sub> emissions in 2020.<sup>64</sup> Poland's residential sector, in particular, relies heavily on solid fuels, more than in any other EU country, with coal playing a dominant role in electricity production and heating.<sup>65</sup> To achieve the EU's 2030 emissions reduction target, the Polish Energy Policy 2040 aims to reduce buildings' primary energy consumption by 23% by 2030 compared to 2020.<sup>66</sup> This goal is expected to be achieved through modernizing residential buildings and phasing out coal use in urban households by 2030 and in rural areas by 2040.<sup>67</sup> Regarding this, the Polish government estimates that the country needs to achieve an average building renovation rate of approximately 3.8% annually.<sup>68</sup> Furthermore, in its National Energy and Climate Plan for 2021-2030, Poland set a target to thermally insulate 70% of the total housing stock by 2030, compared to 56% in 2015,<sup>69</sup> including through the Clean Air incentive programme, aimed at replacing heating sources and insulating residential units.<sup>70</sup>

Based on the above, Sustainalytics is of the opinion that mBank's financing of green buildings is expected to contribute to reducing GHG emissions and energy consumption in Poland, supporting the EU's emissions reduction goals.

### Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the mBank S.A. Group Green Bond Framework are expected to advance the following SDG(s) and targets:

Use of Proceeds Category	SDG	SDG target
Green Buildings	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities

<sup>58</sup> European Environment Agency, "Greenhouse gas emissions from energy use in buildings in Europe", (2023), at: <https://www.eea.europa.eu/en/analysis/indicators/greenhouse-gas-emissions-from-energy>

<sup>59</sup> European Commission, "A Renovation Wave for Europe - greening our buildings, creating jobs, improving lives", (2020), at: [https://eur-lex.europa.eu/resource.html?uri=cellar:0638aa1d-0f02-11eb-bc07-01aa75ed71a1.0003.02/DOC\\_1&format=PDF](https://eur-lex.europa.eu/resource.html?uri=cellar:0638aa1d-0f02-11eb-bc07-01aa75ed71a1.0003.02/DOC_1&format=PDF)

<sup>60</sup> Ibid.

<sup>61</sup> IEA, "Energy Systems – Buildings", at: <https://www.iea.org/energy-system/buildings>

<sup>62</sup> Ibid.

<sup>63</sup> European Parliament, "Climate change in Europe: facts and figures", (2023), at: <https://www.europarl.europa.eu/topics/en/article/20180703ST007123/climate-change-in-europe-facts-and-figures>

<sup>64</sup> IEA, "Poland 2022 Energy policy review", at: <https://iea.blob.core.windows.net/assets/b9ea5a7d-3e41-4318-a69e-f7d456ebb118/Poland2022.pdf>

<sup>65</sup> Attia, S. et al (2022), "Energy efficiency in the polish residential building stock: A literature review", Journal of Building Engineering, at: <https://orbi.uliege.be/bitstream/2268/264395/1/Energy%20efficiency%20in%20the%20polish%20residential%20building%20stock.pdf>

<sup>66</sup> Government of Poland, Ministry of Climate and Environment, "Energy Policy of Poland until 2040", (2021), at: <https://www.gov.pl/web/energy-policy-of-poland-until-2040-epp2040>

<sup>67</sup> Ibid.

<sup>68</sup> Government of Poland, Ministry of Development "Long-term building renovation strategy of Poland", (2022), at: [https://energy.ec.europa.eu/system/files/2022-06/PL%202020%20LTRS%20\\_%20EN%20version.pdf](https://energy.ec.europa.eu/system/files/2022-06/PL%202020%20LTRS%20_%20EN%20version.pdf)

<sup>69</sup> Government of Poland, Ministry of State Assets, "The National Energy and Climate Plan for the years 2021-2030", (2019), at: [https://energy.ec.europa.eu/system/files/2020-08/pl\\_final\\_necp\\_part\\_1\\_3\\_en\\_0.pdf](https://energy.ec.europa.eu/system/files/2020-08/pl_final_necp_part_1_3_en_0.pdf)

<sup>70</sup> Ibid.

Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Electricity Transmission, Distribution and Storage	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities" – this goal can be supported by, for example, investments into improving the efficiency of energy distribution networks
Waste Management	11. Sustainable Cities and Communities	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management
	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse

## Conclusion

mBank has developed the mBank S.A. Group Green Bond Framework, under which the Group and its subsidiaries may issue green bonds and covered bonds and use the proceeds to finance projects that support Poland's and the EU's transition to a low carbon economy. Sustainalytics considers that the projects funded by the bond proceeds are expected to provide positive environmental impacts.

The mBank S.A. Group Green Bond Framework outlines a process for tracking, allocation and management of proceeds, and makes commitments for reporting on allocation and impact. Sustainalytics considers that the mBank S.A. Group Green Bond Framework is aligned with the overall sustainability strategy of mBank and that the use of proceeds will contribute to advancing UN Sustainable Development Goals 7, 9, 11 and 12. Additionally, Sustainalytics is of the opinion that mBank has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Based on the above, Sustainalytics is confident that mBank is well positioned to issue green bonds and covered bonds and that mBank S.A. Group Green Bond Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles 2021.

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