



# WING Group Green Bond Second Opinion

18. August 2021

**The WING Group (WING) is a privately owned Hungarian real estate developer and investor.** WING's primary activities are construction, acquisition and refurbishment of real-estate assets, as well as property management and real-estate portfolio management. WING operates in a range of real-estate market segments, though is mainly focused on offices and industrial buildings. Principally operating in Hungary, WING is also active in the wider Central and Eastern European region – in particular Poland.

**WING considers it likely that around 2/3 of the proceeds under its green bond framework will be used to develop new green buildings, while 1/3 will be used to refurbish existing buildings to improve their energy efficiency.** WING informs us it currently plans to use proceeds within Hungary, though it may also use proceeds in other EU Member States. Per its eligibility criteria, for new buildings WING requires at least a Hungarian EPC rating of BB. Commercial buildings must also achieve at least a BREEAM Very Good or LEED Gold certification, though no such equivalent is included for non-commercial buildings. This demonstrates solid ambition, with EPC BB buildings using 23% less energy than those built to regulation. However, investors should note that from June 2022, all new buildings in Hungary must achieve an EPC BB rating. From then, non-commercial buildings built according to regulation can satisfy the eligibility criteria. According to WING, for projects outside of Hungary, it will use energy performance criteria equivalent in ambition to Hungarian EPC BB. Refurbishment must lead to higher energy efficiency, lower energy consumption and/or lower greenhouse gas emissions, though no thresholds or other criteria are given. WING has informed us that new buildings in Budapest will be connected to district heating, which is predominately fossil-fuel powered, while refurbishment can include efficiency improvements in fossil-fuel heating systems.

**WING could benefit from emission reductions targets and clear policies on how it aims to achieve these.** Given the extent of emissions generated in the construction of buildings – including in the production of materials – any targets should ideally extend to Scope 3 emissions. We welcome the involvement of an external environmental expert in the green bond selection process and WING's commitment to increasing the environmental competence of its Green Committee members through sustainability training. WING's strong commitment to impact reporting provides transparency to investors.

Based on the overall assessment of the project types in WING's green bond framework, governance and transparency considerations, the green bond framework receives an overall **CICERO Light Green** shading and a governance score of **Good**. For a darker shading, WING would need to increase its ambitions in respect of new buildings and include more specific requirements for refurbishment projects. WING's framework would also benefit from emissions measurement, an emissions reduction target and reporting.

## SHADES OF GREEN

Based on our review, we rate WING's green bond framework **CICERO Light Green**.

Included in the overall shading is an assessment of the governance structure of the green bond framework. CICERO Shades of Green finds the governance procedures in WING's framework to be **Good**.



## GREEN BOND PRINCIPLES

Based on this review, this framework is found in alignment with the principles.





# Contents

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<b>1</b>	<b>Terms and methodology</b> .....	<b>3</b>
	Expressing concerns with 'Shades of Green' .....	3
<b>2</b>	<b>Brief description of WING's green bond framework and related policies</b> .....	<b>4</b>
	Environmental Strategies and Policies .....	4
	Use of proceeds .....	5
	Selection .....	5
	Management of proceeds .....	5
	Reporting .....	6
<b>3</b>	<b>Assessment of WING's green bond framework and policies</b> .....	<b>9</b>
	Overall shading .....	9
	Eligible projects under the WING's green bond framework .....	9
	Background.....	13
	Governance Assessment .....	14
	Strengths .....	15
	Weaknesses .....	15
	Pitfalls.....	16
	<b>Appendix 1: Referenced Documents List</b> .....	<b>17</b>
	<b>Appendix 2: About CICERO Shades of Green</b> .....	<b>18</b>

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# 1 Terms and methodology

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

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

## Expressing concerns with 'Shades of Green'

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

CICERO Shades of Green	Examples
 <p><b>Dark green</b> is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Ideally, exposure to transitional and physical climate risk is considered or mitigated.</p>	 <p>Wind energy projects with a strong governance structure that integrates environmental concerns</p>
 <p><b>Medium green</b> is allocated to projects and solutions that represent steps towards the long-term vision, but are not quite there yet. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Physical and transition climate risks might be considered.</p>	 <p>Bridging technologies such as plug-in hybrid buses</p>
 <p><b>Light green</b> is allocated to projects and solutions that are climate friendly but do not represent or contribute to the long-term vision. These represent necessary and potentially significant short-term GHG emission reductions, but need to be managed to avoid extension of equipment lifetime that can lock-in fossil fuel elements. Projects may be exposed to the physical and transitional climate risk without appropriate strategies in place to protect them.</p>	 <p>Efficiency investments for fossil fuel technologies where clean alternatives are not available</p>

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



## 2 Brief description of WING's green bond framework and related policies

The WING Group (WING) is a privately owned Hungarian real-estate developer and investor. Its primary activities are the construction, acquisition and refurbishment of real-estate assets, as well as property management and real-estate portfolio management. WING operates in a range of real-estate market segments, namely offices, industrial and logistics properties, residential projects, hotels, and shopping malls. WING informs us that its two largest segments are office and industrial, accounting for 47.6% and 36.2% of total portfolio m<sup>2</sup> respectively. According to WING, its industrial buildings are predominantly warehouse and storage facilities.

Though most of its projects are in Hungary, WING also operates across the Central and Eastern European region, and actively seeks development and investment opportunities outside of Hungary.

### Environmental Strategies and Policies

WING does not currently measure its greenhouse gas (GHG) emissions – though it assumes the biggest source of its emissions are the buildings its owns and manages (Scope 1) – and does not have any quantitative targets for GHG emissions reductions.

WING focusses on energy efficiency and clean transportation to reduce its GHG emissions. In respect of energy efficiency, for new office developments since 2017, it targets at least BREEAM Good and/or LEED Silver certification. WING's biggest considerations around energy efficiency are in the design stage, where, for example, it emphasizes the use of energy efficient HVAC systems and the positioning of such systems to increase energy efficiency. It also aims to incorporate LED lighting, automated building managements systems, and the use of heat pumps and free cooling devices. According to WING, it is committed to ensuring that energy purchased for new developments and future refurbishments originates from certified green sources, and considers the use of certificates of origin and virtual energy purchase contracts to do so.

In respect of clean transportation, WING informs us that, given the widespread use of public transport in (urban) Hungary, proximity to public transport is a consideration in its investment decisions. WING aims to provide electric-vehicle chargers at new developments and to incorporate these into refurbishment plans. More specifically, it installs an electric-vehicle charger for every 50 parking spaces at its commercial buildings.

WING has not informed us of any environmental policies in respect of subcontractors or its supply chain, though it prefers to select partners who are certified per ISO 50 001 (energy management system) or ISO 14 001 (environmental management system).

Pursuant to Hungarian regulations, all buildings must be able to withstand extreme weather such as flooding and earthquakes. WING has not informed us of any further climate adaptation considerations, for example the use of climate scenarios or an intention to report in accordance with TCFD recommendations.

There is currently no dedicated entity within WING responsible for sustainable or environmental issues. Going forward, the Green Committee, which will be responsible for the selection and evaluation of projects under the green bond framework, will also be tasked with safeguarding sustainability and environmental protection broadly speaking.



WING intends to report on sustainability matters from 2022, and states in its green bond framework that the Green Committee will set medium and long-term sustainability targets which will be monitored and tracked in the sustainability report.

### **Use of proceeds**

WING's green bond framework includes a list of project categories towards which proceeds from the green bond issue may be allocated. These eligible project categories are green buildings, energy efficiency investments in the refurbishment of buildings, clean transportation, and biodiversity. According to WING, around 2/3 of proceeds are likely to go to developing new buildings with improved energy efficiency, while around 1/3 will be for refurbishing existing buildings to improve their energy efficiency. WING informs us it currently plans to use proceeds within Hungary, though it may also use proceeds in other EU Member States.

The proceeds may be used for financing new and existing eligible projects, whether in whole or part.

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

### **Selection**

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

WING has established a Green Committee with responsibility for governing selection and monitoring of eligible projects. The Green Committee will consider if a potential investment satisfies the eligibility criteria in the green framework.

The Green Committee will meet on an annually pre-determined basis (and at least four times a year) and will consist of a Chairman, Secretary, and members delegated from the following departments: finance/controlling; risk management; technical engineering/design; development; and legal. WING states in its green bond framework that it will engage an external expert with environmental competence who will provide advice on all green investments, and that no investments will be concluded without the expert's review. Moreover, several members of the Green Committee will receive 'sustainability training' this year to increase environmental competence. The Green Committee may be supported by invited, non-voting members. Voting is by simple majority and in the event of a tie a motion shall be deemed to have failed. According to WING, no member holds a veto.

WING informs us that the Green Committee's methodology and criteria will be publicly available. Moreover, WING states in its green bond framework that the Green Committee's decisions will be summarized and published as part of its green bond reporting and that its selection processes and decisions will be subject to external audit.

### **Management of proceeds**

CICERO Green finds the management of proceeds in WING's green bond framework to be in accordance with the Green Bond Principles.



WING's Finance Team is responsible for the management of proceeds. The Finance Team is controlled by the CFO and involves financial experts and fund managers from different divisions of the Issuer.

The proceeds of each green bond will be deposited in separate accounts and earmarked against the pool of eligible projects. All expenditures allocated as proceeds under the green bond framework will be identified in the green register. Such register will contain relevant information to identify each green bond and the projects to which its proceeds have been allocated, including project category, country, and relevant information on the financial instrument.<sup>1</sup> This includes the aggregated net amount of outstanding green bonds.

The Green Committee will supervise the green register and will be reviewed on an annual basis by WING's Board of Directors. Such reviews shall themselves undergo an external annual review, the results of which will be reported.

WING's aim, over time, is that its allocations to eligible green projects match or exceed the balance of net proceeds from its outstanding green instruments. While WING's aim is to allocate the proceeds of any green bond issuance within 24 months of issuance, there may be periods when certain proceeds cannot be fully allocated to eligible green projects. In such cases, proceeds will be allocated, at WING's discretion, to temporary investments such as cash, cash equivalents or other liquid marketable investments. WING has confirmed to us that unallocated proceeds cannot be placed in investments connected to high-polluting activities, nuclear energy generation, weapons and defence, gambling or tobacco, and potentially environmentally negative resource extraction.

## Reporting

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

WING commits to publishing a green bond report no later than one year after the issuance of the financial instruments and annually thereafter or until full allocation of proceeds, as well as in the event of any material changes of allocation. The Green Committee will be responsible for the green bond report and it intends to have the report externally audited.

WING aims, on a best effort basis, to provide a list of projects which have received proceeds from a green bond, including a brief description of the projects and the amounts allocated. Where confidentiality agreements, competitive considerations or a large number of underlying projects limit the amount of detail which can be made available, WING may present information on an aggregated portfolio basis.

On a best effort basis, WING will align its reporting with the ICMA's handbook 'Harmonized Framework for Impact Reporting'.<sup>2</sup>

The green bond report will provide information on the allocation of net proceeds of green bonds. In particular, WING will report:

- Amount of net proceeds allocated to each project category, including a comparison to the aggregated portfolio amount, preferably expressed in percentage terms;

<sup>1</sup> ISIN number, coupon, maturity date, and principal amount of proceeds.

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



- A list of eligible projects related to the proceeds - the number of projects accompanied with the net allocated amounts;
- The remaining balance of unallocated net proceeds, if any;
- The proportional allocation of net proceeds to existing projects (refinancing) and new projects - the share of financing/refinancing;
- The geographical distribution of projects (re)financed by proceeds from any green bond;
- Other industry-specific details of the allocation of the proceeds (e.g. status of the green project constructions).

Moreover, in its reporting it will link each project to individual bond issues and report the share of each eligible project that derives from green financing.

In respect of impact reporting, WING will use the KPIs contained in Table 2. WING informs us that it may, if it is not possible to use a KPI from Table 2, use metrics recommended in the ICMA's handbook 'Harmonized Framework for Impact Reporting'. WING informs us it will disclose the methodologies and underlying assumptions of the KPIs.

GBP Project Category	Eligible Projects	Eligibility Criteria
Energy Efficiency	Investments for new projects	<ul style="list-style-type: none"> <li>• Number of buildings compared to the total real estate portfolio, which meet at least one of the following standards:               <ul style="list-style-type: none"> <li>○ BREEAM (Very good or above)</li> <li>○ LEED (Gold or above)</li> <li>○ Hungarian EPC rating of at least BB</li> </ul> </li> </ul>
Energy Efficiency	Investments for refurbishment projects	<ul style="list-style-type: none"> <li>• CO<sub>2</sub> emissions reduced/avoided in tCO<sub>2</sub></li> <li>• Energy saving in kWh/m<sup>2</sup>a</li> <li>• Water saving/reused in m<sup>3</sup>/m<sup>2</sup>a</li> <li>• Amount of waste minimized, reused, or recycled in tons</li> </ul>
Clean Transportation	Investments for the development of e-mobility	<ul style="list-style-type: none"> <li>• CO<sub>2</sub> emissions reduced/avoided in tCO<sub>2</sub></li> <li>• Number of EV charging stations</li> <li>• Geographical coverage of the EV charging stations in km<sup>2</sup></li> <li>• Increased number of people affected positively, preferably in thousands</li> </ul>



Biodiversity	Investments for new or refurbishment projects	<ul style="list-style-type: none"><li>• Developed natural surface in m<sup>2</sup></li></ul>
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Table 1. KPIs used for impact reporting



### 3 Assessment of WING’s green bond framework and policies

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

#### Overall shading

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

#### Eligible projects under the WING’s green bond framework

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

Category	Eligible project types	Green Shading and some concerns
Green Buildings	 <p>Preparation, design, and construction of buildings which meet recognized standards:</p> <ul style="list-style-type: none"> <li>• BREEAM (Very good or above) or LEED (Gold or above); and</li> <li>• Hungarian EPC rating of at least BB</li> </ul> <p>Preparation, design, and construction of buildings where internationally recognized standards would not be used:</p> <ul style="list-style-type: none"> <li>• Hungarian EPC rating of at least BB</li> </ul>	<p><b>Light Green</b></p> <ul style="list-style-type: none"> <li>✓ According to WING, BREEAM and/or LEED criteria will be used for commercial buildings only.</li> <li>✓ WING informs us that if it uses proceeds outside of Hungary, it will use energy performance criteria equivalent in ambition to Hungarian EPC BB.</li> <li>✓ The criteria for new buildings to achieve a Hungarian EPC rating of at least BB displays a solid amount of ambition, with buildings labelled EPC BB deemed ‘nearly zero energy’ in Hungary and using 23% less energy than buildings rated EPC CC. Indeed, new buildings with at least EPC BB certification will be amongst the most</li> </ul>



energy efficient in Hungary: WING informs us that, in Hungary in 2020, 5.2% of all buildings are rated EPC BB or above, and 10.6% of office buildings are rated EPC BB or above (falling to 5.7% in Budapest).

- ✓ While new buildings in Hungary must currently achieve EPC CC, investors should note that, from late June 2022, EPC BB will be the requirement for all new buildings in Hungary. From then, non-commercial buildings built according to regulation can satisfy the eligibility criteria without additional requirements. Moreover, as the minimum Hungarian classification aligned with ‘nearly zero energy’ requirements, EPC BB does not guarantee alignment with the EU Taxonomy – this requires primary energy demand at least 10% lower than the threshold set for nearly zero-energy building requirements as contained in national measures.
  
- ✓ WING informs us that new office developments in Budapest are connected to district heating, around 97% of which comes from fossil fuels. Non-commercial buildings can also be heated by fossil-fuels, and this is not excluded under the green bond framework. According to WING, it looks into installing renewable energy equipment such as solar panel and heat pumps and recovery devices. This would be welcome, and we understand that, in any event, to achieve an EPC BB rating, renewable energy would need to account for at least 25% of a building’s energy consumption.
  
- ✓ The highest shading level, Dark Green, is reserved for the highest building standards such as Zero-Energy Buildings and passive houses.



- ✓ Voluntary environmental certifications such as LEED – and in particular BREEAM – have many environmental benefits but do not guarantee a reduction in GHG emissions or ensure increased energy efficiency.
- ✓ Certifications do not usually include considerations of resiliency. The impacts of climate change – in particular flooding – will increasingly be felt throughout Europe. We encourage WING to increase its attention to resiliency issues. We also encourage the consideration of construction phase emissions and, where available, the use of recycled and sustainable building materials.
- ✓ We understand from WING that proceeds may be used to fund logistics developments. Logistics facilities will, by their nature, generate local transport, potentially disturbing the local environment. On the other hand, a smart localization of such facilities can reduce overall transport.

Energy efficiency - investments for refurbishment projects



- Renovation or refurbishment of existing buildings to also achieve higher efficiency, lower energy consumption (solar panels and heat pumps) and lower GHG emissions (new heating system, thermal insulation).
- Design and installation of building management systems based on renewable energy sources.

**Light Green**

- ✓ From a climate point of view, refurbishment of existing buildings is often better than new construction. Refurbishments should, however, ideally come with high energy efficiency improvements: the IEA, for example, states that building envelopes need to improve efficiency by 30% by 2025.
- ✓ WING’s eligibility criteria have no minimum or specific criteria for improvement measures, though WING informs us it will strive for EPC BB or above for renovations.



- ✓ Improvement in energy efficiency may lead to rebound effects.
- ✓ According to WING, this category could include the improvement of fossil fuel powered heating systems. Similarly, it could include the instalment of more efficient heating systems and, principally, connection to district heating. These scenarios increase the risk of locking in fossil fuel use. WING has confirmed any investments into oil based heating are excluded. As above, according to WING, it looks into installing renewable energy equipment such as solar panels and heat pumps and recovery devices in refurbishments.

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Clean Transportation • Design and construction of electric vehicle charging stations related to real estate developments **Dark Green**



- E-car-sharing availability and support for real estate projects

- ✓ Transportation systems are important for the overall sustainability of real-estate projects.
- ✓ WING states in its green bond framework that access to public transport (where feasible) and prioritization of cyclists and pedestrians are considered in investment decisions.
- ✓ WING has clarified that ‘E-car sharing availability and support for real-estate projects’ refers to entering into agreements with an e-car sharing provider to provide it with parking spaces for its vehicles and hosting its chargers at developments.
- ✓ WING informs us the development of new buildings under the green bond framework could involve the construction of parking lots including spaces for non-electric vehicles.



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

Biodiversity - new or refurbishment projects

Natural landscape restoration through the establishment of green roofs, green facades, and roof gardens **Dark Green**



- ✓ The greening of urban spaces, including rooftop spaces, are welcome investments, even if their overall climactic effect is comparatively negligible.
- ✓ WING has confirmed that investments under this project category are limited to funding landscape restoration projects e.g. a project which does not meet the energy efficiency criteria set out above cannot receive proceeds under the green bond framework on the basis it includes landscape restoration.

Table 2. Eligible project categories

### Background

The real estate sector has a major impact on the environment, estimated by the International Energy Agency (IEA) to be responsible for 40% of total energy consumption and 36% of total carbon emissions.<sup>3</sup> Investing in green and energy efficient buildings therefore plays a key role in the energy transition. Indeed, the IEA reports that the efficiency of building envelopes needs to improve by 30% by 2025 to keep pace with increased building size and energy demand.<sup>4</sup> Moreover, the IEA's Sustainable Development Scenario suggests 50% of new constructed building area in 2030 to be near zero emissions, in addition to increased use of renewable energy sources up to 25% in 2030.<sup>5</sup> Energy performance of existing buildings should be improved via refurbishment, with the IEA recommending 30% increases in energy efficiency from refurbishment projects.

Approximately 50% of life cycle emissions from buildings stem from energy use, though this becomes less important over time with the increasing adoption of off-grid solutions such as geothermal and solar. The energy use and efficiency of buildings is dependent on multiple factors, including material selection and use, energy management systems, increasing affluence and expectations of larger living areas, population growth and

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

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

<sup>5</sup> <http://www.iea.org/tcep>



unpredictable and extreme weather. The other 50% of life cycle emissions from buildings relates to materials and construction. Choice of building materials is therefore becoming more and more important. For example, a large number of life cycle analyses show that wood-frame buildings result in lower primary energy use and GHG emissions compared to non-wood alternatives such as concrete and steel.

WING's primary place of business is Hungary. As a member of the EU, Hungary is subject to the EU's climate targets of reducing collective EU GHG emissions by 40% by 2030 compared to 1990 levels, increasing the share of renewable energy to 32% and improving energy efficiency by at least 32.5%.<sup>6</sup> The European Green Deal aims for carbon neutrality by 2050.<sup>7</sup> The provisionally agreed European Climate Law would increase this ambition to a 55% reduction in GHG emissions compared to 1990 levels.<sup>8</sup> According to the EBRD, buildings are the largest final energy users in Hungary with over 40 per cent of primary energy consumption, and much of the building stock was built before 1980 with low energy standards.<sup>9</sup>

### EU Taxonomy

In 2020, the EU adopted the EU Taxonomy Regulation (Taxonomy) which seeks to create a common framework to classify whether certain activities can be considered environmentally sustainable. In April 2021, the EU published its technical screening criteria (TSC). If an activity complies with these criteria, it is deemed to contribute to one or more of the Taxonomy's environmental objectives and to not cause significant harm to such objectives. In respect of real estate and construction, the TSC require, among others: primary energy demand at least 10% lower than the threshold set for nearly zero-energy building requirements as contained in national measures; the certification of energy performance using EPC certificates; and at least 70% (by weight) non-hazardous demolition and construction waste prepared for reuse, recycling and other material recovery. Cicero Shades of Green has not been retained to provide a screening against the Taxonomy.

### **Governance Assessment**

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

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<sup>6</sup> [https://ec.europa.eu/clima/policies/strategies/2030\\_en](https://ec.europa.eu/clima/policies/strategies/2030_en)

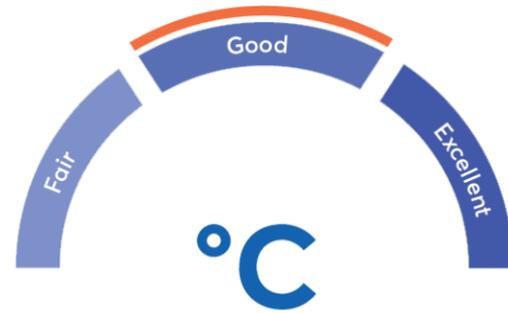
<sup>7</sup> [https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en)

<sup>8</sup> In May 2020, Hungary issued its own green bond, for which CICERO Green provide a Second Opinion. For further background on Hungary's climate goals and policies, please see our Second Opinion: [https://pub.cicero.oslo.no/ciceroxmlui/bitstream/handle/11250/2720294/CICERO\\_Green\\_Hungary\\_SPO\\_25May2020.pdf](https://pub.cicero.oslo.no/ciceroxmlui/bitstream/handle/11250/2720294/CICERO_Green_Hungary_SPO_25May2020.pdf)

<sup>9</sup> <https://www.ebrd.com/news/2020/energy-efficiency-in-hungary-begins-at-home.html>



WING acknowledges the importance of increased energy efficiency in its buildings and targets a minimum of BREEAM Good and/or LEED Silver certification for new office developments. Though welcome, this could be improved through a standalone energy efficiency target and the collection of current energy efficiency data. WING would also benefit from a broader focus on GHG emissions reductions. In this respect, we note that WING does not currently measure its emissions or have an explicit target for their reduction, including for Scope 3 emissions. While WING is obliged by law to consider aspects of resilience in its developments, this process could be formalized and improved by reporting in line with TCFD recommendations. We are encouraged by WING's broader sustainability-related plans as part of its green bond process, for example the introduction of a sustainability report and the establishment of a Green Committee who, among other roles, will set medium and long-term sustainability targets.



WING's selection process is compliant with the Green Bond Principles. We are encouraged that WING is involving an external environmental expert in the selection process and that it will provide sustainability training to members of its Green Committee to increase their environmental competence.

WING is strongly committed to transparent reporting under its green bond framework: for example, it has relevant and good impact indicators, will disclose the methodologies and assumption involved in its reporting, and will have its green bond report externally verified.

The overall assessment of WING's governance structure and processes gives it a rating of **Good**.

### Strengths

We are encouraged by WING's understanding of energy efficiency as the key climate consideration for real-estate in contexts where power and heat are largely provided through fossil fuels. It has included energy efficiency criteria of solid ambition, with Hungarian EPC BB buildings using 23% less energy than those built to regulation. This complements, in the case of new commercial buildings, the use of voluntary certification schemes. WING is also significantly increasing its own corporate ambitions in its this green bond framework: we understand from WING that only two properties in its portfolio are currently Hungarian EPC BB rated. It is a strength that the framework extends to energy efficiency in refurbishment projects – for example such projects often generate fewer Scope 3 emissions than new construction projects.

WING's involvement of an external environmental expert in its selection process – coupled with its up-skilling of Green Committee members on sustainability matters – is also a strength.

Finally, WING's commitment to impact reporting in line with the ICMA's handbook 'Harmonized Framework for Impact Reporting', though on a best effort basis, increases transparency to investors.

### Weaknesses

Prior to late June 2022, WING's eligibility criterion that all new buildings in Hungary must achieve a rating of EPC BB will exceed regulation. From that date, however, all new buildings in Hungary must achieve such a rating and non-commercial buildings built according to regulation can satisfy the eligibility criteria without additional requirements. WING informs us that the date from which all new buildings in Hungary must achieve a rating of



EPC BB has been pushed back twice – should this occur again, WING’s criterion would exceed regulation for a longer period.

Though Hungarian EPC BB has requirements regarding renewable energy use, such buildings can use fossil fuel heating, including via district heating.

### Pitfalls

WING’s corporate environmental governance is currently somewhat underdeveloped and under-formalized. For example, it would benefit from a GHG emissions reductions target and clear policies on how it aims to achieve these. Given the extent of GHG emissions generated in the construction of buildings – including in the production of materials – any targets should ideally extend to Scope 3 GHG emissions. We welcome WING’s plans to broaden its sustainability considerations as part of its green bond process, including the setting of medium and long-term environmental goals.

A minimum Hungarian EPC rating of BB for new buildings – as required by WING’s framework – demonstrates solid ambition, with buildings labelled Hungarian EPC BB deemed ‘nearly zero energy’ in Hungary and using 23% less energy than those built to regulation. Investors should note, however, that from late June 2022 this criterion will not exceed Hungarian regulations. Nor does Hungarian EPC BB guarantee alignment with the EU Taxonomy – this requires primary energy demand at least 10% lower than the threshold set for nearly zero-energy building requirements as contained in national measures. For proceeds used outside of Hungary, WING informs us it will use energy performance criteria equivalent in ambition to Hungarian EPC BB. The use of ‘equivalent’ criteria can provide some less certainty and specificity for investors.

Although voluntary environmental certifications such as BREEAM and LEED can measure and/or estimate the environmental footprint of buildings and raise awareness of environmental issues, they do not guarantee a reduction in GHG emissions or ensure increased energy efficiency, and do not necessarily include considerations of resiliency. In respect of energy efficiency, this is currently mitigated by the inclusion of eligibility criteria in WING’s framework requiring new buildings to be certified at least EPC BB.

For refurbishment projects, the eligibility criteria do not contain any minimum levels of improvements or other thresholds for selection. Lesser improvements could therefore theoretically receive proceeds under the green bond framework. The lack of ambition in this area could risk locking in investments in buildings with several decades of underperformance compared to best-in-class investments.

WING has informed us that its new office developments in Budapest will be connected to district heating, around 97% of which comes from fossil fuels. Similarly, in respect of refurbishments, WING has confirmed that improvements in fossil-fuel heating could be eligible for proceeds. Both these scenarios increase the risk of locking in fossil fuel use.

While the potentially increased use of electric vehicles (including via e-car sharing schemes) is welcome, WING has confirmed that the development of new buildings under the green bond framework could involve the construction of parking lots including spaces for non-electric vehicles. This could induce increased non-electric car usage.



# Appendix 1: Referenced Documents List

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Document Number	Document Name	Description
1	WING Green Bond Framework (August 2021)	WING's green bond framework

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## Appendix 2: About CICERO Shades of Green

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

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

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

