

# SECOND PARTY OPINION

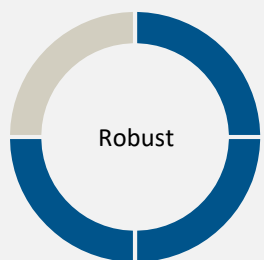
## on the sustainability of Trade and Development Bank of Mongolia's Sustainability Framework

V.E is of the opinion that Trade and Development Bank of Mongolia's Framework is aligned with the four core components of the Green Bond Principles 2018 ("GBP") and the Social Bond Principles 2020 ("SBP")



### Framework

#### Contribution to Sustainability:



○ Advanced ○ Limited

○ Robust ○ Weak

Expected impacts

ESG risks management

	Weak	Limited	Robust	Advanced
Expected impacts				
ESG risks management				

#### SDG Mapping



\* Residents in under-served areas of Ulaanbaatar city and other urban areas; young families and/or low-income households; youth, under-educated people, under-served people, aging people, people requiring special care (e.g. disabled population) and people requiring specialized medical attention; under-served people and enterprises, especially those facing liquidity difficulties and impacted by the pandemic; women entrepreneurs (51% ownership and/or 30% of senior management are women)

#### Characteristics of the Framework

Green and Social Project Categories	Renewable energy; Low pollution energy; Energy efficiency; Green building; Sustainable water & waste use & treatment; Sustainable agriculture, land use, forestry & biodiversity conservation; Clean transport; Affordable basic infrastructure; Affordable Housing; Access to Essential Services; SME Financing & Microfinance.
Project locations	Mongolia
Target population Social Categories	Clearly identified*
Existence of framework	Yes
Share of refinancing	30% maximum
Look back period	36 months

### Issuer

#### Controversial Activities

The Issuer does not appear to be involved in any of the 17 controversial activities screened under our methodology:

- |   |  |   |   |
|---|--|---|---|
| <input type="checkbox"/> Alcohol              | <input type="checkbox"/> Fossil fuels industry | <input type="checkbox"/> High interest rate lending | <input type="checkbox"/> Pornography                |
| <input type="checkbox"/> Animal welfare       | <input type="checkbox"/> Coal                  | <input type="checkbox"/> Human embryonic stem cells | <input type="checkbox"/> Reproductive medicine      |
| <input type="checkbox"/> Cannabis             | <input type="checkbox"/> Gambling              | <input type="checkbox"/> Military                   | <input type="checkbox"/> Unconventional oil and gas |
| <input type="checkbox"/> Chemicals of concern | <input type="checkbox"/> Genetic engineering   | <input type="checkbox"/> Nuclear power              | <input type="checkbox"/> Tobacco                    |
| <input type="checkbox"/> Civilian firearms    |  |   |   |

#### ESG Controversies

Number of controversies	None
Frequency	NA
Severity	NA
Responsiveness	NA

### Coherence

Coherent

Partially coherent

Not coherent

We are of the opinion that the Framework is coherent with TDBM's strategic sustainability priorities and sector issues as well as the sustainability challenges in Mongolia and that it contributes to achieving the Issuer's sustainability commitments.

## Keys findings

V.E is of the opinion that Trade and Development Bank of Mongolia's Framework is aligned with the four core components of the GBP and SBP.

### Use of Proceeds – aligned with GBP and SBP

- Eligible Categories are clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria and location of all Eligible Projects, as well as the target population for Social Categories.
- The Environmental and Social Objectives are clearly defined. They are relevant for all the Eligible Categories and set in coherence with sustainability objectives defined in international standards.
- The Expected Environmental and Social Benefits are clear and precise. They are considered relevant, measurable, and will be quantified for all the eligible categories in the reporting
- The Issuer has committed to limit the share of refinancing to no more than 30%. The look-back period for refinanced Eligible Projects/Assets will be equal or less than 36 months from the issuance date, in line with market practices.

### Evaluation and Selection - aligned with GBP and SBP

- The process for Project Evaluation and Selection has been clearly defined and detailed by the Issuer, it is considered well-structured in all the evaluation and selection steps (including the proposal, selection, validation, monitoring of Eligible Projects/Assets). The roles and responsibilities are clear and include relevant internal and external expertise when relevant. The Process will be publicly disclosed in the Framework and the herewith SPO.
- Eligibility criteria (selection and exclusion) for project/asset selection have been clearly defined by the Issuer for all the Eligible Categories.
- The process applied to identify and manage potentially material E&S risks associated with the projects is publicly disclosed in the herewith SPO. The Process is considered robust: it combines monitoring, identification and corrective measures for all projects/assets (see detailed analysis on pages 28 - 31).

### Management of Proceeds – aligned with GBP and SBP

- The Process for the Management and Allocation of Proceeds is clearly defined and is publicly available in the Framework and the herewith SPO.
- The allocation period will be 24 months or less.
- Net proceeds of the Bond will be placed in a segregated account and tracked by the Issuer in an appropriate manner and attested in a formal internal process.
- Information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed.
- The Issuer has committed to periodically adjust the balance of the tracked net proceeds to match allocations to Eligible Projects/Assets.
- The Issuer has provided information on the procedure that will be applied in case of project/asset divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the bond framework within 24 months.

### Reporting - aligned with GBP and SBP

- The Issuer has committed to report on the Use of Proceeds annually until Bond maturity. The report will be publicly available until bond maturity.
- The reporting will cover relevant information related to the allocation of Bond proceeds and to the expected sustainable benefits of the Eligible Projects/Assets. The Issuer has also committed to report on material developments/controversies related to the projects/assets.
- The reporting methodology and assumptions used to report on environmental and social benefits of the Eligible Projects/Assets will be publicly disclosed.

- An external auditor will verify the tracking and allocation of funds to Eligible Projects/Assets from full allocation of net proceeds until bond maturity, and verify the Indicators used to report on environmental and social benefits of the Eligible Projects/Assets once at bond maturity.

## Contact

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# SCOPE

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V.E was commissioned to provide an independent opinion (thereafter “Second Party Opinion” or “SPO”) on the sustainability credentials and management of the Green, Social and Sustainability Bonds<sup>1</sup> (“GSS Bonds” or “Bonds”) to be issued by Trade and Development Bank of Mongolia (“TDBM” or the “Issuer”) in compliance with the Sustainability Framework (the “Framework”) created to govern their issuance.

Our opinion is established according to V.E’s Environmental, Social and Governance (ESG) exclusive assessment methodology and to the latest version of the voluntary guidelines of ICMA’s Green Bond Principles (GBP) - edited in June 2018 - and Social Bond Principles (SBP) - edited in June 2020.

Our opinion is built on the review of the following components:

- Framework: we assessed the Framework, including the coherence between the Framework and the Issuer’s environmental commitments, the Bond’s potential contribution to sustainability and its alignment with the four core components of the GBP 2018 & SBP 2020.
- Issuer: we assessed the Issuer’s management of potential stakeholder-related ESG controversies and its involvement in controversial activities<sup>2</sup>.

Our sources of information are multichannel, combining data (i) gathered from public sources, press content providers and stakeholders, (ii) from V.E’s exclusive ESG rating database, and (iii) information provided from the Issuer, through documents and interviews conducted with the Issuer’s managers and stakeholders involved in the Bonds issuance, held via a telecommunications system.

We carried out our due diligence assessment from March 15<sup>th</sup> to May 12<sup>th</sup>, 2021. We consider that we were provided with access to all the appropriate documents and interviewees we solicited. Reasonable efforts have been made to verify data accuracy.

## Type of External Reviews supporting this Framework

<input checked="" type="checkbox"/>	Pre-issuance Second Party Opinion	<input checked="" type="checkbox"/>	Independent verification of impact reporting
<input checked="" type="checkbox"/>	Independent verification of funds allocation	<input type="checkbox"/>	Climate Bond Initiative Certification

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<sup>1</sup> The “Green, Social and Sustainability Bonds” are to be considered as the bonds to be potentially issued, subject to the discretion of the Issuer. The name “Green Bond”, “Social Bond” or “Sustainability Bond” has been decided by the Issuer: it does not imply any opinion from V.E.

<sup>2</sup> The 17 controversial activities screened by V.E are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Fossil Fuels industry, Unconventional oil and gas, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

# COHERENCE

Coherent
Partially coherent
Not coherent

We are of the opinion that the Framework is coherent with TDBM's strategic sustainability priorities and sector issues as well as the sustainability challenges in Mongolia and that it contributes to achieving the Issuer's sustainability commitments.

The main role of banks is to enhance the social and economic development by supporting the real economy and to mitigate risks resulting from activities with negative impacts for society. Financial inclusion and the support of clients in financial distress are also a key responsibility for banks.

The integration of environmental factors in the allocation of resources to companies and individuals is relevant to influence them towards more environmentally responsible behaviours. With the Paris agreement, climate change remains the focus of the debate, which is why the scope of the analysis has been enlarged to cover banks' efforts to reduce their own carbon footprint, their financed emissions, and to support the energy transition. Financial institutions can also address their direct impacts by minimising the CO<sub>2</sub> consumption of their own operations and by implementing an Environmental Management System.

As an agriculture-based, livestock-dominated economy, with a high dependency on natural resources, Mongolia's primary, extractive sector-dominant economy is not resilient to external shocks including both economic factors and natural disasters. Mongolia is significantly impacted by climate change. The frequency of natural disasters induced by climate change is not only directly affecting the livelihoods of people, but also exacerbating environmental degradation and, as a result also impacting economic growth. Despite Mongolia's progress placing it among "high" human development countries, its persisting poverty, longstanding unemployment, and deepening inequality, are hindering the country's further progress. The deepening of inequality and increased prevalence of population groups at "risk of being left behind" are important development challenges for the future.<sup>3</sup> Moreover, unique to Mongolia, a third of the country's population<sup>4</sup> or about 60% in Ulaanbaatar city<sup>5</sup> live in urban *ger* areas where poor sanitation, solid waste management, electricity and water supplies pose health and environmental hazards.

TDBM appears to acknowledge its role in managing its investments' impacts to support society's transition to a low- carbon economy and to promote social and economic development.

In 2012, TDBM became the first bank in Mongolia to integrate Environmental and Social Risk Management System (ESRMS) fully into its banking operations, through collaboration with the Dutch Development Bank (FMO). In 2013, TDBM, along with all other commercial banks of Mongolia, established the Mongolia Sustainable Finance Initiative (later reorganised as the Mongolian Sustainable Finance Association).

In 2020, TDBM established its Green Funding Office (GFO) within the Foreign Fund Management and Monitoring Unit of the International Banking Department. In April 2020, the Bank was accredited as National Direct Access Entity of the Green Climate Fund (GCF), which enables TDBM to finance medium-size (US\$50-250 million) climate mitigation and adaptation projects through the international climate finance mechanism.

To support the UN SDGs, TDBM will mainly focus on four specific SDGs, namely climate action (Goal 13), gender equality (Goal 5), quality education (Goal 4), and sustainable and inclusive economic growth (Goal 8), as well as indirectly and directly contributing to all 17 SDGs.

TDBM has committed to providing financing solutions for green and climate projects and programs, and is developing its "Climate 30+ Initiative" for its corporate, SMEs and retail clients to assist in their effort to reach low carbon green growth and ultimately support the Government of Mongolia in achieving its climate ambitions. TDBM is also developing Green Loan Program (GLP) for its SME and retail clients, which is aiming to support the green and resilient growth by diversifying the economy and supporting the sustainable growth of the SMEs. Moreover, the Bank will launch the Women Entrepreneur Support Program (WESP) which is the Bank's first loan program dedicated specifically for women entrepreneurs and women-led and owned businesses.

<sup>3</sup> [https://sustainabledevelopment.un.org/content/documents/23342MONGOLIA\\_VOLUNTARY\\_NATIONAL\\_REVIEW\\_REPORT\\_2019.pdf](https://sustainabledevelopment.un.org/content/documents/23342MONGOLIA_VOLUNTARY_NATIONAL_REVIEW_REPORT_2019.pdf)

<sup>4</sup> <https://www.adb.org/results/building-affordable-greenhouses-mongolia-s-ger-districts>

<sup>5</sup> [https://www.unescap.org/sites/default/files/S5\\_SukhabaatarBorkhuu\\_UB-compressed%20%281%29.pdf](https://www.unescap.org/sites/default/files/S5_SukhabaatarBorkhuu_UB-compressed%20%281%29.pdf)

By creating a Framework to issue GSS Bonds to finance or refinance, in full or in part, Eligible Projects/Assets related to the eleven Green and Social Project Categories, the Issuer coherently aligns with its sustainability strategy and commitments and addresses the main issues of the sector as well as the country in terms of sustainable development.

# FRAMEWORK

The Issuer has described the main characteristics of the Bonds within a formalized Sustainability Framework which covers the four core components of the GBP 2018 and SBP 2020 (the last updated version was provided to V.E on May 12<sup>th</sup>, 2021). The Issuer has committed to make this document publicly accessible on its website<sup>6</sup>, in line with good market practices.

## Alignment with the Green and Social Bond Principles

### Use of Proceeds



The net proceeds of the Bonds will exclusively finance or refinance, in part or in full, projects falling under eleven Green and Social Project Categories ("Eligible Categories"), as indicated in Table 1.

- Eligible Categories are clearly defined. The Issuer has communicated the nature of the expenditures, eligibility criteria and location of Eligible Projects, as well as the target population for Social Categories.
- The Environmental and Social Objectives are clearly defined. They are relevant for all the eligible categories and set in coherence with sustainability objectives defined in international standards.
- The Expected Environmental and Social Benefits are clear and precise. They are considered relevant, measurable, and will be quantified for all the eligible categories in the reporting
- The Issuer has committed to limit the share of refinancing to no more than 30%. The look-back period for refinanced Eligible Projects/Assets will be equal or less than 36 months from the issuance date, in line with market practices.

#### BEST PRACTICES

- ⇒ Relevant environmental and social benefits are identified and measurable for all project categories
- ⇒ The Issuer has committed to limit the share of refinancing to 50%

<sup>6</sup> <https://www.tdbm.mn/en/>

Table 1. V.E' analysis of Eligible Categories, Sustainability Objectives and Expected Benefits as presented in the Issuer's Framework

- Nature of expenditures: (i) Capital expenditures and select operating expenditures (such as operations and maintenance costs that either increase the lifetime or the value of the assets) of assets or financial assets meeting the Eligibility Criteria described in the Framework; (ii) Research and development ("R&D") expenditures aimed at developing new and/or upgrading products and solutions as per the Eligibility Criteria of the Framework.
- Location of Eligible Projects/Assets: Mongolia

ELIGIBLE CATEGORIES	ELIGIBLE SUB-CATEGORIES	ELIGIBILITY CRITERIA	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Renewable energy	Development and installation of Development and installation of renewable energy generation facilities, including wind (onshore) and PV and CSP solar power facilities, both on-grid and off-grid, and small-scale hydro power stations (small hydro power stations with reservoirs and pumped storage, fossil fuel only charged pumped storage will be excluded) not exceeding 25MW	- Net GHG emissions reductions	<u>Climate change mitigation</u> Reduction/avoidance of GHG emissions	The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Projects/Assets. The category explicitly excludes small hydro power stations with reservoirs and pumped storage projects charged only by fossil fuels.  The intended environmental objective is clearly defined and set in coherence with sustainability objectives defined in international standards.  The expected environmental benefit is clear. It is considered relevant, measurable, and will be quantified in the reporting.
Low pollution energy	Waste-to-energy plants and facilities (incineration, gasification, pyrolysis and plasma, facilities for household waste with production of electricity and/or heat as a byproduct; industrial and/or hazardous waste will not be used, incineration of recyclables and reusable waste will be excluded)	- Reduce air pollution (PM2.5) by at least 80% compared to baseline (coal) - Reduce GHG emissions by at least 20% compared to baseline (coal, diesel) - For WtE facilities, minimum thresholds are energy recovery rate of at least 25% and metal recovery rate of at least 50% from bottom ash	<u>Pollution Prevention and Control</u> Reduction of waste ending in landfill; Reduction of PM2.5  <u>Climate change mitigation</u> Reduction of GHG emissions	The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Projects/Assets. The category explicitly excludes use of industrial and/or hazardous waste, as well as recyclables and reusable waste "provided there are existing facilities for such waste".  The intended environmental objectives are clearly defined and set in coherence with sustainability objectives defined in international standards.  The expected environmental benefits are clear. They are considered relevant, measurable, and will be quantified in the reporting.  An area for improvement is to set a higher minimum metal recovery rate from ash (e.g. 90%), in order to in line with international best practices (e.g. as per CBI Waste Criteria).
Energy efficiency	Energy efficient equipment and technology improvements, building retrofitting, insulation and energy efficient lighting, end-user products, and related services	- Projects resulting in energy savings of at least 20% reduction in energy than the existing predominant technologies - Products with Energy Star labelling, and/or EU energy labelling with	<u>Energy efficiency improvement</u> Reduction of energy usage; Reduction/avoidance	The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Projects/Assets.  The intended environmental objective is clearly defined and set in coherence with sustainability objectives defined in international standards.



ELIGIBLE CATEGORIES	ELIGIBLE SUB-CATEGORIES	ELIGIBILITY CRITERIA	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
		minimum requirement of D and above, or similar grade on other equivalent energy efficiency labelling	of GHG emissions	The expected environmental benefit is clear. It is considered relevant, measurable, and will be quantified in the reporting.
Green building	Construction of new green buildings and renovation of existing buildings (commercial, public, industrial and residential) that receive green building certificates	<ul style="list-style-type: none"> <li>- New or refurbished buildings achieving a 20% reduction in energy and water against baseline/conventional buildings.</li> <li>- Building that receives Design, Post-construction or in-use certification of EDGE or other equivalent rating tools recognized/accepted by World Green Building Council</li> </ul>	<u>Promotion of green buildings</u> Increase of the number of green buildings; Reduction/avoidance of GHG emissions	The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Projects/Assets. The intended environmental objective is clearly defined and set in coherence with sustainability objectives defined in international standards. The expected environmental benefit is clear. It is considered relevant, measurable, and will be quantified in the reporting.
Sustainable water and waste use and treatment	<ul style="list-style-type: none"> <li>- Water related projects (including the collection, treatment, recycling, or reuse of water, rainwater or wastewater; and excluding construction of large-scale dams and reservoirs), including the construction, development, operation, acquisition and maintenance of infrastructure for such activities</li> <li>- Solid waste management (collection, sorting, recycling or reuse of waste; excluding transportation of waste to and construction of landfill sites, and excluding industrial and/or hazardous waste), including the construction, development, operation, acquisition and maintenance of infrastructure for such activities</li> </ul>	<ul style="list-style-type: none"> <li>- Activities that reduce water consumption by 20% than current practices</li> <li>- Activities that reduce solid waste in landfills by 20% than current practices</li> <li>- Activities that increase the amount of recycled waste by 20% than current practices</li> <li>- Activities with expected negative net GHG emissions compared to a defined baseline</li> </ul>	<u>Sustainable water and wastewater management</u> Reduction of water consumption  <u>Pollution prevention and control</u> Reduction of waste ending in landfill	The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Projects/Assets. The category explicitly excludes construction of large-scale dams and reservoirs, transportation of waste landfill sites, construction of landfill, and industrial and/or hazardous waste. The intended environmental objective is clearly defined and set in coherence with sustainability objectives defined in international standards. The expected environmental benefits are clear. They are considered relevant, measurable, and will be quantified in the reporting.

ELIGIBLE CATEGORIES	ELIGIBLE SUB-CATEGORIES	ELIGIBILITY CRITERIA	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Sustainable agriculture, land use, forestry & biodiversity conservation	<ul style="list-style-type: none"> <li>- Sustainable agricultural production, i.e. sustainable animal husbandry</li> <li>- Climate-smart agriculture, i.e. crop farming</li> <li>- Development and deployment of resilient seeds and crops, development of organic fertilizers and resilient agricultural method</li> <li>- Natural land management, including activities increasing carbon stock and reducing desertification and land degradation.</li> </ul>	<ul style="list-style-type: none"> <li>- Livestock farming activities evidencing the enhancement of carbon sequestration of pasture, improved water and manure management, and no conversion of natural landscapes and high carbon stock lands including wetlands, peatlands, forested areas</li> <li>- Arable farming practices evidencing low emission practices e.g. use of renewable energy, sustainable use of residues, no open burning, reduced tillage, and reduced use of nitrogen fertilizer.</li> <li>- Improved or sustainable agro-production and arable farming resilient to climate impacts – including the use of crops (drought tolerance and/or pest resistance) and breeds adapted to climate change; increasing the efficiency of water and other inputs; ecological buffering of climate impacts e.g., irrigation, water storage, agroforestry, windbreak, and rotations.</li> <li>- Pasture and grassland management activities aligned with sustainable pasture management best practices and standards of the National System for Responsible Nomads<sup>7</sup>; and demonstrating the increase of carbon stock and reduction of desertification and degradation,</li> </ul>	<p><u>Climate change adaptation</u></p> <p>Improve drought tolerance and/or pest resistance</p> <p><u>Promoting sustainable agriculture practices</u></p> <p>Reduce use of nitrogen fertiliser; Improving water use efficiency</p> <p><u>Natural resource conservation</u></p> <p>Increasing carbon stock</p>	<p>The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Projects/Assets.</p> <p>The intended environmental objectives are clearly defined and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected environmental benefits are clear. They are considered relevant, measurable, and will be quantified in the reporting.</p> <p>An area for improvement is to identify relevant standards, national/international regulations/guidelines, and/or internationally recognised certifications for “sustainable agricultural production”, “climate-smart agriculture” and “natural land management” sub-categories.</p>

<sup>7</sup> <http://en.greenmongolia.mn/>

ELIGIBLE CATEGORIES	ELIGIBLE SUB-CATEGORIES	ELIGIBILITY CRITERIA	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
		as well as land remediation and clean up		
Clean transport	<ul style="list-style-type: none"> <li>- Zero direct emission and low-emission vehicles purchase, including electric, hybrid and fuel-efficient vehicles (hybrid and fuel-efficient vehicles being important for a transition portfolio in Mongolia's national context)</li> <li>- Development and installation of electric charging points and stations to support the wide-spread adoption of EVs</li> <li>- ICT solutions that improve asset utilization, flow and modal shift, regardless of transport mode</li> <li>- Development and installation of LNG and CNG charging stations to support adoption of low-emission freight and public transport vehicles</li> </ul>	<ul style="list-style-type: none"> <li>- Vehicles with zero direct emissions</li> <li>- Passenger vehicles with a CO<sub>2</sub> emission of less than 100g/km until 2030, vehicles with CO<sub>2</sub> emission of less than 50g/km until 2040, and from 2041 only vehicles with zero direct emissions such as electric</li> <li>- Public transport vehicles with direct CO<sub>2</sub> emissions less than 100g/seat-km until 2030, 50g/seat-km until 2040, and from 2041 only zero direct emissions public transport vehicles are eligible</li> <li>- Low-emission freight vehicles with direct CO<sub>2</sub> emissions of less than 30% of their reference CO<sub>2</sub> emissions of all vehicles in the same sub-group until 2030, and from 2031 freight vehicles with direct CO<sub>2</sub> emissions of less than 50%</li> </ul>	<p><u>Pollution Prevention and Control</u></p> <p>Reduction of air pollution</p> <p><u>Climate change mitigation</u></p> <p>Reduction of GHG emissions</p>	<p>The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Projects/Assets. The Framework explicitly excludes upstream/midstream/downstream supply and transportation of LNG/CNG, and shipping/transport of LNG/CNG vehicles that relies on fossil fuels.</p> <p>The intended environmental objectives are clearly defined and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected environmental benefits are clear. They are considered relevant, measurable, and will be quantified in the reporting.</p> <p>Areas for improvement are:</p> <ul style="list-style-type: none"> <li>- For passenger vehicles, set declining emission thresholds and timeline in line with international best practices, such as CBI Land Transport Criteria (max 50gCO<sub>2</sub> per p-km until 2025 and 0gCO<sub>2</sub> per p-km onwards) and EU Taxonomy (max 50g CO<sub>2</sub>/km until 2025 and 0g CO<sub>2</sub>/km from 2026 onwards); and</li> <li>- For low-emission freight and public transport vehicles, set declining emission thresholds in line with international best practices (e.g. CBI Land Transport Criteria, EU Taxonomy).</li> </ul>

ELIGIBLE CATEGORIES	ELIGIBLE SUB-CATEGORIES	ELIGIBILITY CRITERIA	TARGET POPULATION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Affordable basic infrastructure	<ul style="list-style-type: none"> <li>- Activities providing and/or expanding access to clean drinking water, improved sanitation, and related services</li> <li>- Public spaces and services which support the health and well-being of citizens including multi-functional green public spaces, parks, pedestrian and bicycle roads and services, including flood protection, street lighting, water, sanitation and waste facilities (e.g. replacing latrine and improving waste disposals)</li> <li>- Development of telecommunication networks (mobile and high-speed internet) and related infrastructure to support wide access to affordable internet services</li> </ul>	Activities targeting under-served areas <sup>8</sup> of Ulaanbaatar city and other urban areas	Residents in under-served areas of Ulaanbaatar city and other urban areas	<p><u>Improved infrastructure of clean drinking water and telecommunication networks</u></p> <p>Improved access to clean drinking water and telecommunication networks;</p> <p>Affordable access to internet services</p>	<p>The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Projects/Assets.</p> <p>The target population is clearly defined.</p> <p>The intended social objective is clearly defined and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected social benefit is clear. It is considered relevant, measurable, and will be quantified in the reporting.</p>
Affordable Housing	Construction, renovation and maintenance of affordable housing, provision of affordable housing development loans and mortgage loans, and development and provision of public rental housing	<ul style="list-style-type: none"> <li>- Housing targeting under-served areas of Ulaanbaatar city and other urban areas, young families and/or low-income households</li> <li>- Affordable housing that meet the Affordable Housing Financing Guidelines, approved by the Cabinet Resolution No. 369, dated 5 December 2018, of not exceeding 80sq.m for apartments and 120sq.m for houses</li> </ul>	Residents in under-served areas of Ulaanbaatar city and other urban areas, young families and/or low-income households	<p><u>Contribute to broaden access to affordable housing</u></p> <p>Increase of the number of affordable home units</p>	<p>The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Projects/Assets.</p> <p>The target population is clearly defined.</p> <p>The intended social objective is clearly defined and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected social benefit is clear. It is considered relevant, measurable, and will be quantified in the reporting.</p>

<sup>8</sup> Under-served areas are the ger districts of Ulaanbaatar, which are characterized as peri-urban areas with lack of, or not connected to the central water, sewage and heating systems, and other less developed urban centers and rural areas

ELIGIBLE CATEGORIES	ELIGIBLE SUB-CATEGORIES	ELIGIBILITY CRITERIA	TARGET POPULATION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Access to Essential Services	<ul style="list-style-type: none"> <li>- Construction, renovation and extension of healthcare centres</li> <li>- The purchase of healthcare materials and equipment to improve access to affordable and/or quality health care services</li> <li>- Construction, renovation and extension of public and private kindergarten, primary, secondary and higher education facilities to improve the provision and access to affordable and/or quality education</li> </ul>	<i>See target population</i>	<ul style="list-style-type: none"> <li>- Youth</li> <li>- Under-educated people</li> <li>- Under-served people</li> <li>- Aging people</li> <li>- People requiring special care (e.g. disabled population) and people requiring specialized medical attention</li> <li>- Demonstration of accessibility for education services is sought for the area depending on the number of population (number of school/ kindergarten to population ratio)</li> <li>- Healthcare centers/ facilities that accept national medical insurance; and/or demonstrate specialized healthcare services, that currently do not exist and/or not readily accessible, will be provided</li> </ul>	<p><u>Access to healthcare</u> Improved access to healthcare and specialized healthcare</p> <p><u>Access to education</u> Improved access to quality education</p>	<p>The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Projects/Assets.</p> <p>The target population is clearly defined.</p> <p>The intended social objectives are clearly defined and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected social benefits are clear. They are considered relevant, measurable, and will be quantified in the reporting.</p>
SME Financing and Microfinance	<ul style="list-style-type: none"> <li>- Equal access to banking, financial services and other economic resources</li> <li>- Financing and advisory services for non-mining micro, small and medium-sized enterprises</li> <li>- Overall socio-economic advancement including loans for women entrepreneurs and businesses</li> </ul>	<i>See target population</i>	<ul style="list-style-type: none"> <li>- Under-served people and enterprises, especially those facing liquidity difficulties and impacted by the pandemic</li> <li>- Women entrepreneurs (51% ownership and/or 30% of senior management are women)</li> </ul>	<p><u>Access to SME financing and microfinance</u> Improved access to financing</p>	<p>The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Projects/Assets. The category explicitly excludes micro, small and medium-sized enterprises in the mining sector.</p> <p>The target population is clearly defined.</p> <p>The intended social objective is clearly defined and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected social benefit is clear. It is considered relevant, measurable, and will be quantified in the reporting.</p>

## SDG Contribution

The Eligible Categories are likely to contribute to thirteen of the United Nations' Sustainable Development Goals ("SDGs"), namely:

ELIGIBLE CATEGORY	SDG	SDG TARGETS
Affordable Housing SME Financing and Microfinance	 1 No Poverty	1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance
Sustainable agriculture, land use, forestry & biodiversity conservation	 2 Zero Hunger	2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality 2.a Increase investment, including through enhanced international cooperation, in rural infrastructure, agricultural research and extension services, technology development and plant and livestock gene banks in order to enhance agricultural productive capacity in developing countries, in particular least developed countries
Access to Essential Services	 3 Good Health and Well-Being	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
Access to Essential Services	 4 Quality Education	4.a Build and upgrade education facilities that are child, disability and gender sensitive and provide safe, non-violent, inclusive and effective learning environments for all
Sustainable water and waste use and treatment Affordable basic infrastructure	 6 Clean Water and Sanitation	6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all 6.2 By 2030, achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations 6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally 6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity
Renewable energy Low pollution energy Energy efficiency	 7 Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix 7.3 By 2030, double the global rate of improvement in energy efficiency
SME Financing and Microfinance	 8 Decent Work and Economic Growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services

ELIGIBLE CATEGORY	SDG	SDG TARGETS
Affordable basic infrastructure	 <b>9</b> 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
SME Financing and Microfinance		9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets
Affordable Housing	 <b>10</b> Reduced Inequalities	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status
SME Financing and Microfinance		
Low pollution energy	 <b>11</b> Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Green building		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
Clean transport		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
Sustainable water and waste use and treatment		11.7 By 2030, provide universal access to safe, inclusive and accessible, green and public spaces, in particular for women and children, older persons and persons with disabilities
Affordable Housing		
Sustainable water and waste use and treatment	 <b>12</b> Responsible Production and Consumption	12.2 By 2030, achieve the sustainable management and efficient use of natural resources
Sustainable agriculture, land use, forestry & biodiversity conservation		12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Renewable energy	 <b>13</b> Climate Action	<i>Take urgent action to combat climate change and its impacts</i>
Clean transport		
Sustainable agriculture, land use, forestry & biodiversity conservation		13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries
Sustainable agriculture, land use, forestry & biodiversity conservation	 <b>15</b> Life on Land	15.3 By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world
		15.a Mobilize and significantly increase financial resources from all sources to conserve and sustainably use biodiversity and ecosystems 15.b Mobilize significant resources from all sources and at all levels to finance sustainable forest management and provide adequate incentives to developing countries to advance such management, including for conservation and reforestation

## Evaluation and Selection of Eligible Projects/Assets



- The process for Project Evaluation and Selection has been clearly defined and detailed by the Issuer, it is considered well-structured in all the evaluation and selection steps (including the proposal, selection, validation, monitoring of Eligible Projects/Assets). The roles and responsibilities are clear and include relevant internal and external expertise (if relevant). The Process will be publicly disclosed in the Framework and the herewith SPO.
- Eligibility criteria (selection and exclusion) for project/asset selection have been clearly defined by the Issuer for all the Eligible Categories.
- The process applied to identify and manage potentially material E&S risks associated with the projects is publicly disclosed in the herewith SPO. The Process is considered robust: it combines monitoring, identification and corrective measures for all projects/assets (see detailed analysis on pages 28 - 31).

### Process for Project Evaluation and Selection

- TDBM's business segments and front officers will first identify and propose potentially Eligible Projects/Assets for the use of net proceeds of each financing issued under the Framework. These projects will need to meet all lending criteria established by TDBM for lending in the ordinary course of its business.
- TDBM's Green Funding Office (GFO) will assess the environmental and social impact of potential Eligible Projects/Assets by screening customer information against the Eligible Use of Proceeds and will make a recommendation for inclusion as Eligible Use of Proceeds.
- The ESG officer within the Credit Risk Department will assess the environmental and social risk of the projects and the Credit Committee will make financing decisions in accordance with the Environmental and Social Policy and Procedures.
- Annually, the GFO and respective business segment units will review the allocation of the GSS proceeds to the Eligible Categories and determine if any changes are necessary.
- The GFO will ensure that all projects included under the Eligible Use of Proceeds still align with the Eligible Criteria during the lifetime of the Bonds or will determine if replacement / deletion / additions are necessary
- The traceability and verification of the selection and evaluation of the projects is ensured throughout the process:
  - Annually, and until the maturity of each GSS Bonds, the GFO will monitor and ensure that all projects included under the Eligible Use of Proceeds still align with the Eligible Criteria or will determine if replacement / deletion / additions are necessary.
  - ESG Controversy monitoring will be done prior to approval of the Eligible Project/Assets by the Bank, during credit assessment, and consequently updated every calendar year-end until maturity of the GSS Bonds.
  - The decision-making process decisions will be recorded and traceable by either paper trail and/or electronic trail with supporting documents and minutes of meeting of relevant bodies

### Eligibility Criteria

The process relies on explicit eligibility criteria (selection and exclusion), relevant to the environmental and social objectives defined for the Eligible Categories.

- The selection criteria are based on definitions in Eligible Categories defined Table 1 in the Use of Proceeds section.
- The list of exclusion criteria included in the Framework are clear and relevant for the Eligible Categories. In particular, the list explicitly excludes financing of projects and assets related to GHG-intensive activities, in particular fossil fuel exploration and production.



#### BEST PRACTICES

- ⇒ The Issuer reports that it will monitor compliance of selected projects/assets with eligibility and exclusion criteria specified in the Framework throughout the life of the instrument and has provided details on content, frequency, duration and on procedure adopted in case of non-compliance
- ⇒ The Issuer reports that it will monitor potential ESG controversies associated with the projects/assets throughout the life of the instrument and has provided details on frequency, content and procedures in case a controversy is found on a project

## Management of Proceeds



- The Process for the Management and Allocation of Proceeds is clearly defined and is publicly available in the Framework and the herewith SPO.
- The allocation period will be 24 months or less.
- Net proceeds of the Bond will be placed in a segregated account and tracked by the Issuer in an appropriate manner and attested in a formal internal process.
- Information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed.
- The Issuer has committed to periodically adjust the balance of the tracked net proceeds to match allocations to Eligible Projects/Assets.
- The Issuer has provided information on the procedure that will be applied in case of project/asset divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the bond framework within 24 months.

## Management Process

- TDBM will establish a dedicated GSS Bonds Account to record the allocations and track the use of proceeds from GSS Bonds. The proceeds will be deposited in the general funding accounts and earmarked for allocation to eligible assets.
- The Bank will fully allocate net proceeds earmarked for sustainable finance under the Framework within 24 months from issuance of GSS Bonds.
- The Bank commits to annually adjusting the balance of the tracked net proceeds to match the allocations to the Eligible Criteria, after full allocation is achieved, and will disclose any material changes to the allocation.
- The unallocated funds would be held will be held as cash and/or highly liquid money market assets such as Central Bank bills and Government treasury bills. The Bank may also use the unallocated net proceeds for general corporate purposes in line with Exclusions reflected in Section 5 of the Framework.
- In the case of project postponement of and/or divestment from allocated eligible projects, the Bank will allocate towards other eligible projects pursuant to procedures set forth in Section 6 of the Framework within 6 months, or within the full allocation period, whichever comes latest.

### BEST PRACTICES

- ⇒ The allocation period is 24 months or less
- ⇒ The Issuer has provided information on the procedure that will be applied in case of project/asset divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the bond framework within 24 months.

## Monitoring & Reporting



- The Issuer has committed to report on the Use of Proceeds annually until Bond maturity. The report will be publicly available until bond maturity.
- The reporting will cover relevant information related to the allocation of Bond proceeds and to the expected sustainable benefits of the Eligible Projects/Assets. The Issuer has also committed to report on material developments/controversies related to the projects/assets.
- The reporting methodology and assumptions used to report on environmental and social benefits of the Eligible Projects/Assets will be publicly disclosed.
- An external auditor will verify the tracking and allocation of funds to Eligible Projects/Assets from full allocation of net proceeds until bond maturity, and verify the Indicators used to report on environmental and social benefits of the Eligible Projects/Assets once at bond maturity.

## Indicators

The Issuer has committed to transparently communicate at Eligible Category level, bond by bond, for the allocation of proceeds, and at Bond level for the environmental and social benefits, on:

- Allocation of proceeds: The indicators selected by the Issuer to report on the allocation of proceeds relevant and exhaustive.

### REPORTING INDICATORS

- ⇒ A confirmation that the use of net proceeds of the GSS Bonds align with the requirements set out in this Framework;
- ⇒ The total allocated amount under each eligible category level, the list of projects and their description, both refinanced existing eligible projects as well as new, including their share of co-financing from other sources ;
- ⇒ The balance amount of unallocated net proceeds and temporary unallocated fund placement and uses.

- Environmental and social benefits: The indicators selected by the Issuer to report on the environmental and social benefits are clear and relevant.

ELIGIBLE CATEGORIES	ENVIRONMENTAL BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS
Renewable energy	- Total renewable energy generated, MWh/Year	- Amount of CO <sub>2</sub> e reduced and/or avoided, Ton
Low pollution energy	- Total low pollution energy generated, MWh/Year	- Amount of CO <sub>2</sub> e reduced and/or avoided, Ton
Energy efficiency		- Amount of energy saved, kWh - Amount of CO <sub>2</sub> e reduced and/or avoided, Ton

ELIGIBLE CATEGORIES	ENVIRONMENTAL BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS
Green building		<ul style="list-style-type: none"> <li>- Amount of CO<sub>2</sub>e reduced and/or avoided, Ton</li> <li>- Amount of water saved, m<sup>3</sup></li> </ul>
Sustainable water and waste use and treatment	<ul style="list-style-type: none"> <li>- % of solid waste collected and adequately disposed</li> </ul>	<ul style="list-style-type: none"> <li>- Amount of recycled waste, Ton</li> <li>- Amount of treated hazardous waste, Ton</li> <li>- Amount of water saved, m<sup>3</sup></li> </ul>
Sustainable agriculture, land use, forestry & biodiversity conservation	<p>Depending on the project, indicators may vary and selected from the following:</p> <ul style="list-style-type: none"> <li>- Land area under improved soil conservation practices, Ha</li> <li>- Area (ha) under climate smart agriculture</li> <li>- Amount of crop yield, yield/ha per year</li> </ul>	<p>Depending on the project, indicators may vary and selected from the following:</p> <ul style="list-style-type: none"> <li>- Amount of carbon sequestered, CO<sub>2</sub>e</li> <li>- Amount of water saved, m<sup>3</sup></li> <li>- % of reduction in pesticide and N-fertilizers used per ha</li> </ul>
Clean transport	<ul style="list-style-type: none"> <li>- Number of EV, LNG and CNG or other fuel-efficient vehicles financed</li> </ul>	<ul style="list-style-type: none"> <li>- Amount of CO<sub>2</sub>e reduced</li> <li>- Amount of PM2.5 reduced</li> </ul>
Affordable basic infrastructure	<ul style="list-style-type: none"> <li>- Area of green public spaces, ha</li> </ul>	<ul style="list-style-type: none"> <li>- Number of people benefitting from public space improvement</li> <li>- Number of households newly connected to central water, sewage, waste and heating systems</li> </ul>
Affordable Housing	<ul style="list-style-type: none"> <li>- Number of affordable houses built</li> </ul>	<ul style="list-style-type: none"> <li>- Number of individuals/families benefitting from affordable housing</li> </ul>
Access to Essential Services		<ul style="list-style-type: none"> <li>- Number of people benefitted from healthcare services</li> <li>- Number of children enrolled in Kindergarten/School</li> </ul>
SME Financing and Microfinance		<ul style="list-style-type: none"> <li>- Number of SMSs benefitted from the services</li> <li>- Jobs created and/or saved</li> </ul>

#### BEST PRACTICES

- ⇒ The Issuer will report on the Use of Proceeds until bond maturity
- ⇒ The issuer report will be publicly available
- ⇒ The reporting will cover relevant information related to the allocation of Bond proceeds and to the expected sustainable benefits of the projects/assets. The Issuer has also committed to report on material development related to the projects, including ESG controversies.
- ⇒ The indicators selected by the Issuer are exhaustive with regards to allocation reporting
- ⇒ The reporting methodology and assumptions used to report on environmental/social benefits of the Eligible Projects/Assets will be disclosed publicly
- ⇒ Environmental & Social benefits and impacts will be externally verified at bond maturity

## Contribution to sustainability

### Expected Impacts

The potential positive Impact of the Eligible Projects/Assets on environmental and social objectives is considered to be robust.

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Renewable energy	ROBUST	Currently nearly 97% of Mongolia's total energy supply relies on coal and oil, and renewable energy contributes less than 1%. <sup>9</sup> Developing renewable energy is key for the decarbonisation of the country's energy mix and reducing its GHG emissions. However, the category does not include specific technical performance criteria, such as energy efficiency of solar PV or specific environmental/technical guidelines that small hydropower projects will follow (e.g. UNIDO's Small Hydropower Technical Guidelines <sup>10</sup> ).
Low pollution energy	LIMITED	Waste-to-energy (WtE) is ranked low in the waste hierarchy. Currently in Mongolia, 93.5% of waste was disposed using burial method. <sup>11</sup> The Eligible Projects could potentially reduce the amount of waste ending in landfills and hence reduce associated environmental impacts (e.g. methane emission from landfill, groundwater pollution, etc.). However, it is worth noting that WtE projects will not completely abate GHG emissions and do not remove the need for landfills; and some projects may not be able to eliminate unsafe emissions, despite advanced emission control technologies. <sup>12</sup> In addition, invest in waste-to-energy could lead to lock-in such facilities, diverting necessary investment needed for promoting waste recycling and reuse.  The Issuer has indicated no use of industrial and/or hazardous waste, and exclusion of recyclables and reusable waste. It has set minimum levels of energy recovery rate of WtE facilities and metal recovery rate from bottom ash. However, the threshold for metal recovery rate from bottom ash is not meeting the minimum levels set in international standards/taxonomies (e.g. CBI Waste Criteria, etc.).
Energy efficiency	ROBUST	Electricity and heat production mostly rely on fossil fuels (e.g. coal) in Mongolia. Reducing energy demand by promoting energy-efficient equipment and appliances is a crucial step to reduce the consumption of fossil fuels in the country. The Issuer has set the criteria of minimum energy savings of at least 20% reduction than the existing predominant technologies and incorporated relevant energy efficiency labels in the eligibility criteria (e.g. Energy Star labelling, EU energy labelling).
Green building	ROBUST	Mongolia's Green Development Policy and INDC document set out a goal to reduce building heat loss by 20% by 2020, and 40% by 2030. <sup>13</sup> By constructing new green buildings or renovating existing buildings with a minimum 20% energy reduction and that receives EDGE certificates, the Eligible Projects/Assets can help reduce energy usage in buildings.

<sup>9</sup> <https://www.iea.org/countries/mongolia>

<sup>10</sup> <https://www.unido.org/our-focus/safeguarding-environment-clean-energy-access-productive-use-renewable-energy-focus-areas-small-hydro-power/shp-technical-guidelines>

<sup>11</sup> <https://www.uncrd.or.jp/content/documents/6133Country-G-2-Mongolia.pdf>

<sup>12</sup> <https://www.unenvironment.org/ietc/resources/publication/waste-energy-considerations-informed-decision-making>

<sup>13</sup> <https://gggi.org/mongolia-accelerates-building-energy-efficiency-deep-dive-program/>

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Sustainable water and waste use and treatment	ROBUST	<p>Regional differences in rainfall and population result in local hot spots of water insecurity, particularly in Ulaanbaatar. Water pollution is mainly a problem downstream of urban areas, such as in Ulaanbaatar. Wastewater treatment plants are limited and often in poor condition.<sup>14</sup></p> <p>Solid waste management is another important issue in Mongolia. Currently, the overall waste collection coverage is 70% in urban areas and only 40% in rural, and 93.5% of waste was disposed of using burial method. 13% of paper, 11% of plastic, 2.5% of metal, and 25-30% of construction waste is recycled.<sup>15</sup></p> <p>The Eligible Projects could help improve water and wastewater infrastructure and promote better waste management, in particular waste collection, recycling and reuse. Although the definition of the category is overall general and broad, the eligibility criteria have included minimum performance levels such as water use efficiency or waste recycling improvement.</p> <p>The category explicitly excludes construction of large-scale dams and reservoirs, and transportation of waste to landfill sites, as well as industrial and/or hazardous waste.</p>
Sustainable agriculture, land use, forestry & biodiversity conservation	ROBUST	<p>73.76% of Mongolia's total land area was under use of agricultural production including pasture land use and crop production, 9.14% of the land was under forested or forest fund area, whilst only 0.45% comprising of settled areas such as city, town or any other urban area. Main drivers for biodiversity loss are include mostly anthropogenic impacts such as unsustainable use of land, intensification of mining activities as well as climate change impacts.<sup>16</sup> As a result, agriculture practices and forest management are interconnected with nature and biodiversity conservations in Mongolia.<sup>17</sup></p> <p>Mongolia's economy relies heavily on the agriculture and livestock husbandry sectors, with a high dependency on natural resources. Livestock accounts for 90% of the agriculture sector and represents the lion's share of provincial economies (around 85%). Herder households are particularly vulnerable to climate change impacts. Adaptation needs are expected to increase significantly as climate change impacts intensify.<sup>18</sup></p> <p>The Eligible Category has set specific criteria to minimise potential negative impacts from Eligible Projects/Assets, although the category itself is overall broad and general. An area for improvement is to identify relevant standards, national/international regulations/guidelines, and/or internationally recognised certifications for "sustainable agricultural production", "climate-smart agriculture" and "natural land management" sub-categories.</p>
Clean transport	LIMITED	<p>CO<sub>2</sub> emissions from transport account for 11.1% of total fuel combustion in Mongolia.<sup>19</sup> Vehicle emissions are also a major contributor to smog in Ulaanbaatar. Public transport routes are overlapping significantly, which leads to traffic congestion due to lack of a paved urban network. Another reason for increasing traffic congestion is due to lack of integrated logistics system in Ulaanbaatar.<sup>20</sup></p> <p>Eligible Projects related to zero direct emission vehicles and electric charging points and stations could help promote the wider adoption of EVs, while ICT solutions could potentially help ease the traffic congestion.</p> <p>In addition to EVs, V.E recognise the importance of promoting low-emission hybrid and fuel-efficient vehicles in the context of Mongolia given the current status and challenges of its transport system. However, for passenger, public transport and freight vehicles, the emission thresholds and timeline are not on par with international best</p>

<sup>14</sup> <https://www.adb.org/sites/default/files/institutional-document/618776/mongolia-country-water-security-assessment.pdf>

<sup>15</sup> <https://www.uncrd.or.jp/content/documents/6133Country-G-2-Mongolia.pdf>

<sup>16</sup> [https://mongolia.panda.org/en/about\\_mongolia/](https://mongolia.panda.org/en/about_mongolia/)

<sup>17</sup> <https://www.cbd.int/countries/profile/?country=mn>

<sup>18</sup> <https://www.undp.org/content/undp/en/home/news-centre/news/2020/gcf-and-undp-enter-new-partnership-to-strengthen-climate-resilience.html>

<sup>19</sup> <https://data.worldbank.org/indicator/EN.CO2.TRAN.ZS?locations=MN>

<sup>20</sup> [https://www.jstage.jst.go.jp/article/easts/13/0/13\\_2521/\\_pdf](https://www.jstage.jst.go.jp/article/easts/13/0/13_2521/_pdf)

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
		practices (e.g. CBI Land Transport Criteria or EU Taxonomy). There is also no absolute declining emission thresholds for low-emission freight vehicles.
Affordable basic infrastructure	ROBUST	A third of Mongolia's population live in urban ger areas where poor sanitation, solid waste management, electricity and water supplies pose health and environmental hazards. <sup>21</sup> This percentage is about 60% in Ulaanbaatar city. <sup>22</sup> The target population has been defined although it includes all residents in target areas. However, there is no specific criteria in place on how to prioritise those most in need. In addition, V.E lacks sufficient information with regards to the types of projects related to "telecommunication networks and related infrastructure".
Affordable Housing	ROBUST	As mentioned above, a third of Mongolia's population live in urban ger areas with poor conditions. The target population has been defined although it includes all residents in target areas. The selection of projects follows the national regulation "Affordable Housing Financing Guidelines". However, there is no specific criteria in place on how to prioritise those most in need.
Access to Essential Services	ROBUST	<p>In terms of health care, there are ongoing issues of obsolete and poorly functioning health facilities that limited the accessibility, availability and quality health care services in Mongolia.<sup>23</sup> While in terms of education, although Mongolia has a high literacy rate (&gt;98% for population 15 years old and above), there is a lack of educational facilities. Classrooms at public schools in Ulaanbaatar are overloaded by 1.5-2.0 times the national standard mainly due to population concentration in the capital city.<sup>24</sup> The Eligible Projects could help improve the infrastructure and needs for better healthcare and education.</p> <p>The target population has been detailed although cover wide groups of people. For healthcare centers/facilities, one of the criteria allows those that accept national medical insurance, and/or demonstrate specialized healthcare services, that currently do not exist and/or not readily accessible. For kindergartens/schools, one of the criteria requires demonstration of accessibility for education services is sought for the area depending on the number of population (number of school/kindergarten to population ratio).</p>
SME Financing and Microfinance	ROBUST	Micro, small, and medium enterprises (MSMEs) contribute 25% of GDP and employ half of the workforce in Mongolia. However, they lack favourable financing conditions that would enable them to expand operations and contribute to further growth. The Enterprise Survey shows that access to finance is the most important constraint amongst the top 10 constraints reported by firms. <sup>25</sup> For both target groups, under-served people and enterprises and women entrepreneurs, specific criteria have been set. The Eligible Projects could help address the financing challenge.
OVERALL ASSESSMENT	ROBUST	

<sup>21</sup> <https://www.adb.org/results/building-affordable-greenhouses-mongolia-s-ger-districts>

<sup>22</sup> [https://www.unescap.org/sites/default/files/S5\\_SukhabaatarBorkhuu\\_UB-compressed%20%281%29.pdf](https://www.unescap.org/sites/default/files/S5_SukhabaatarBorkhuu_UB-compressed%20%281%29.pdf)

<sup>23</sup> <https://www.adb.org/sites/default/files/publication/674131/eawp-035-supporting-primary-health-care-mongolia.pdf>

<sup>24</sup> [https://sustainabledevelopment.un.org/content/documents/23342MONGOLIA\\_VOLUNTARY\\_NATIONAL\\_REVIEW\\_REPORT\\_2019.pdf](https://sustainabledevelopment.un.org/content/documents/23342MONGOLIA_VOLUNTARY_NATIONAL_REVIEW_REPORT_2019.pdf)

<sup>25</sup> <https://openknowledge.worldbank.org/bitstream/handle/10986/27091/731000WP0Mongol0C0disclosed010050120.pdf?sequence=1&isAllowed=y>



## ESG Risks Identification and Management systems in place at project level

The identification and management of the environmental and social risks associated with the Eligible Projects/Assets are considered robust.

### Environmental management system and environmental impact assessment

Although no specific requirements on ISO 14001 certification, TDBM has an Environmental and Social Responsibility Management System (ESMS) in place, which was audited by third parties (PwC and SEC). TDBM has a formalized Environment and Social (E&S) Risk Management Policy, the E&S Policy Implementation Procedure, and a dedicated E&S Risk Management Procedures for Climate Finance. The E&S Risk Management Policy aims to be aligned with international principles such as the UN Global Compact and IFC Performance Standards.<sup>26</sup>

TDBM has put in place client and transaction E&S due diligence tools to assess and screen of its clients and their transactions, based on a range of E&S criteria. The bank conducts an Environmental and Social Risk Assessment (ESRA) of projects or programmes to identify E&S risks and assist in developing mitigation measures. TDBM follows sector-specific E&S guidance (e.g. mining, construction, manufacturing, agriculture and textile), which are developed as companion documents to the Mongolian Sustainable Finance Principles. TDBM has also identified a list of activities as sensitive and require additional due diligence in regards with Mongolian Sustainable finance initiative. These include for instance, trade and domestication of genetically modified organisms (GMO), and large projects involving oil, natural gas and construction of natural gas pipeline, etc.

Each business engagement is categorised according to its potential E&S risk profile at an early stage in the credit approval process. The High-Level Screening results in a red, yellow, or green light similar to a traffic light system, which indicates the level of E&S due diligence required: 1) Where the High-Level Screen gives a green light, no further E&S due diligence is required. Transaction approval should continue under the regular approval process; 2) Where the High-Level Screen gives yellow and red lights, detailed E&S due diligence is required. There is also an established list of conditions and document requirements for assessing the risks of a project. When material risks are identified, TDBM will seek to identify mitigation measures and recommendations for the client to address these risks. Where appropriate, the mitigation measures and/or recommendations may be included in loan covenants or other legal agreements and monitored periodically.<sup>27</sup>

Based on the EIA and ESRA, TDBM will impose requirements on its client to develop Environmental and Social Management Plan (ESMP) and Environmental and Social Action Plan (ESAP). The ESAP and the other related covenants will be an annex of the legal agreements and will be legally binding. The Bank's E&S Risk Analyst will monitor the environmental and social management of projects and programmes. Projects and programmes also need to have the required level of Environmental Impact Assessment done as stated in the Law on Environmental Impact Assessment of Mongolia. For climate projects and programmes, the bank will conduct E&S review periodically as specified in the article 6.1 of chapter 6 of "TDBM's Environmental and social risk management procedures for climate finance" in relation to the ESMP and the ESAP regardless of the loan review dates specified in other loan operating procedures.<sup>28</sup>

### Eco-design and life cycle impacts

No dedicated eco-design or life-cycle assessment policy, however relevant environmental and social impacts during the lifetime of a project may be covered when assessing the Environmental and Social Risks of the project. For such sectors such as manufacturing, life cycle analysis will be included in the EIA.

For end-of-life and decommissioning of construction-related projects, the Bank's E&S risks assessment follows National laws, regulations and Law on Waste and the Construction Sector Guideline which is developed by the Mongolian Sustainable Finance Association. No specific risk identification and mitigation measures are visible for other projects that may involve dispose of equipment or facilities.

### Protection of biodiversity and ecosystems

TDBM commits to comply with international conventions and protocols as well as the National Law on Environmental Protection and other relevant legislation. The Bank's E&S risk analyst uses IFC's Performance Standards (PS) for the E&S assessment, which include the following components related to the impacts on biodiversity: 1) Assessment of Biodiversity and the state of the environment and habitat; 2) Impact of the project or programme on biodiversity; 3) Protection and conservation of biodiversity; 4) Maintenance of benefits from ecosystem services; and 5) Sustainable management of living natural resources.

<sup>26</sup> <https://www.tdbm.mn/bundles/public/uploads/downloads/20191212-04.pdf>

<sup>27</sup> <https://www.tdbm.mn/en/12277/c?m224&mc=12278>

<sup>28</sup> <https://www.tdbm.mn/bundles/public/uploads/downloads/20191212-05.pdf>

Specifically for renewable energy projects, especially those related to construction of wind farm and potential impact on bird migration, TDBM reports that the EIA will include the findings and recommendations relating to the biodiversity, which will examine the potential impacts from the installation and operation of wind turbines and related substations, access roads and transmission lines. The assessment will also include study of migratory birds, resident birds and mammals. The Environmental and Social Action Plan includes specific measures to mitigate the potential impacts on birds and construction-related erosion, as well as monitoring program during the migratory and breeding seasons.

#### Energy use and GHG emissions

Both energy use and GHG emissions are two of the components covered under PS3 "Resource Efficiency and Pollution Prevention" of IFC's Performance Standards (PS), which is used by the E&S risk analyst when conducting the E&S assessment. In terms of energy use and efficiency, TDBM will require Energy Efficiency Assessment conducted by Certified Energy Auditors or Energy Auditing Agencies. The assessment includes verification, monitoring and analysis of use of energy by the project and organizations; assessment report; recommendations for improving energy efficiency.

In terms of GHG emissions, TDBM, together with the Mongolian Sustainable Finance Association and the Ministry of Environment, are currently involved in a project to develop a GHG emission calculation tool with the Swiss carbon finance consultancy firm South Pole. Once the tool is developed and verified by first its implementation, TDBM will use it in its E&S assessment on a regular basis.

Moreover, in compliance with the Green Investment Principles for the Belt and Road Initiative, including its Principle 3 "Disclosing environmental information", TDBM commits to conduct analysis of the environmental impact of its investments and operations, which should cover energy consumption, greenhouse gas (GHG) emissions, pollutants discharge, water use and deforestation, and explore ways to conduct environmental stress test of investment decisions, as well as intends to continually improve its environmental/ climate information disclosure and do its best to support the implementation of the disclosure practices of the Task Force on Climate-related Financial Disclosures (TCFD) in Mongolia's Banking Sector. TDBM has committed to integrate the TCFD practices into the Bank's operations by 2025.

#### Adapting to climate change impacts

The EIA may include assessment on potential climate change impact and consequences. However, no visibility on requirements for specific adaptation measures. One of the Eligible Categories include Eligible Projects/Assets dedicated to improving climate resilience of the agriculture production. For the other categories, no specific adaptation requirements and measures are visible.

#### Pollution prevention and control, prevention and mitigation of environmental/industrial accidents and inconveniences

Risk identification are in place through E&S assessment and EIA. Pollution prevention use is one of the components covered under PS3 "Resource Efficiency and Pollution Prevention" of IFC's Performance Standards (PS), which is used by the E&S risk analyst when conducting the E&S assessment. The EIA will include guidance on relevant mitigation measures. The environmental management plan includes Environmental Protection Plan and Environmental monitoring mechanism which will include the prevention from pollutions and contamination and monitoring mechanisms.

For waste management, TDBM's E&S risk analyst requires clients to comply with the Waste management plan and EIA guidance, including provision of relevant documents and agreement on waste disposal: type of waste, including solid, hazardous and non-hazardous, wastewater which should be legally binding documents issued from relevant state agencies. If waste management measures are found to be insufficient, they are required to be implemented according to Waste Management Plan and Environmental Protection Plan's recommendations.

For environmental/industrial accidents, the risks management follows the Law on Disaster Protection of Mongolia: for instance, the Bank requires from its business clients to provide their emergency protection plans, emergency risk assessment and mitigation plans, which shall be developed and approved by the local Emergency Management Agency.

For risks related to inconveniences (dust, noise, odours, vibrations, aesthetic...), the E&S risk analyst requires clients to comply with the recommendations for mitigating inconveniences set out in the Environmental Impact Assessment's guidance as well as Construction Sector Guidelines, which includes relevant control and mitigation measures.

#### Fundamental human and labour rights

TDBM commits to ensure that all projects financed by TDBM respect human rights standards and prevent their violations (dignity, no harassment, property rights, etc.). As per Chapter II. "Principles under the E&S responsibility policy" of the Bank's Environmental and Social Responsibility policy, the Bank will make it a priority to finance clients who practice integrity in managing the environment, and protecting the rights of people as well as their rights to be provided with proper working conditions, and will effectively mitigate the E&S risks of its clients whose operation possess medium to high risk through

partnership with clients. TDBM also has a dedicated Gender Equality policy, which focuses on gender inequality, discrimination, prevention and elimination in the Bank's workplace, clients and projects.<sup>29</sup>

In terms of labour rights and working conditions, TDBM follows the principles set out in the IFC's second Performance Standard "Labor and Working Conditions", including: fair treatment, non-discrimination, equal opportunity; good worker–management relationship; comply with national employment and labour laws; protect workers, in particular those in vulnerable categories; promote safety and health; and avoid use of forced labour or child labour. During the credit risk assessment, TDBM asks the clients to provide information and evidence on respecting and protecting labour rights.

TDBM reports that, in case of non-compliance of these requirements by the Bank's potential clients, TDBM will not finance the respective project/program of these clients.

#### Health and safety of workers and local stakeholders

TDBM commits to ensure the respect of Health and Safety in all projects, for all workers of the projects. It also commits to support good worker–management relationship, comply with national employment and labor laws, protect workers, in particular, those in vulnerable categories, as well as promote safety and health, anticipates and avoids adverse impacts on the health and safety of the affected community, safeguards personnel and property in accordance with relevant human rights principles.

During its assessment of potential clients/projects, it applies the IFC's Performance Standard 2 "Labor and Working Conditions" and Performance Standard 4 "Community health, safety and security". Specific questions are asked by the E&S Risk analyst to check whether the respective client respects Health and Safety in all the projects as well as for all workers of the projects. In relation to local stakeholders, TDBM also requests from its potential client to provide information and documents on no violation of health, security and safety requirements of the project participants as well as of all the stakeholders impacted by the project.

#### Promote dialogue with local stakeholders and communities

TDBM commits that for all projects, it verifies with local stakeholders and communities if the project to be financed by the Bank will directly assist the relevant Mongolian national goals and objectives. By doing so, the Bank and relevant local stakeholders and communities are all involved in active communication and consultation processes regarding the project. In terms of grievance mechanism, within the framework of the TDBM's E&S Risk Management Procedures for Climate Finance, the E&S Officer asks clients, whether there are any grievances by the employees working on the climate project or program (complaints, opposition, strike, legal proceedings etc.). In addition, following IFC's Performance Standard 1 "Assessment and management of environmental and social risks and impacts", TDBM commits to engagement with affected communities or other stakeholders throughout funding proposal cycle of a project, which includes communications and grievance mechanisms.

#### Requirements on the integration of environmental and social factors in supply chain

TDBM commits to ensure all projects respect the integration of social and environmental factors in the procurement process. In accordance with its "Procurement, Sales and Contracting Unit's operating procedures", TDBM commits to promote responsible relations with suppliers and contractors through the processes, including the following activities to improve the operational process: to promote and implement environmentally friendly and green procurement; to cooperate with other departments and units in social responsibility and community-oriented activities, to conclude relevant agreements and monitor their implementation; and the objectives of compliance risk prevention and non-conflict of interest are being implemented.

TDBM relies on the audited financial statements and other relevant documents to assess or confirm the ESG performance of the projects' suppliers or contractors. In case of non-compliance, the contract will be terminated, and the supplier/contractor will also be listed as a non-contracting entity.

#### Business ethics

TDBM commits to comply with banking ethics in accordance with the Banking Law of Mongolia, the Company Law of Mongolia as well as TDBM's Charter, and implements anti-corruption systems, which have been extended to a range of ethics and integrity issues to. Particularly, TDBM ensures to conduct its banking operations against corruption in all its forms, including extortion and bribery, and to not provide financing to projects that do not respect principles of business ethics and do not exclude corruption practices by their realization. TDBM is committed to be responsible, open and transparent, and adopt an approach to support fair competition and not tolerate corruption.

<sup>29</sup> <https://www.tdbm.mn/bundles/public/uploads/downloads/20191212-GEN.pdf>

TDBM reports that it conducts various trainings for its staff on principles of business ethics, including issues on corruption and conflict of interest as well as engages in close cooperation with a wide range of national and international business consulting companies in order to launch such trainings for the Bank's clients. In addition, TDBM also reports that it encourages its client to undertake third party due diligence and external audits for their project on issues of corruption practices and management of conflict of interest.

In addition, in accordance with this Framework, potential governance issues associated with the Eligible Projects, such as bribery and fraud, anticompetitive practices and high interest rate lending, will be monitored when checking on potential overall ESG controversies of the projects as one of the monitoring pillars. The association of the Eligible Projects to these controversies will be rated on a 3-scale grading: No Involvement, Minor Involvement, and Major Involvement, which will feed into the overall ESG Controversy rating of the eligible project (graded as Green, Yellow or Red).

In case of non-compliance of above-mentioned requirements by the Bank's potential clients, TDBM will not finance the respective project/program of these clients.

# ISSUER

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The Trade and Development Bank of Mongolia (TDBM) is a commercial bank located in Ulaanbaatar. It is the oldest, as well as one of the largest banks in Mongolia. The Bank acts as a primary lender to most of Mongolian leading corporations as well as foreign corporations and foreign representative offices across all major industrial and commercial sectors.

## Management of ESG Controversies

As of today, the review conducted by V.E did not reveal any ESG controversy against TDBM over the last four years.

## Involvement in Controversial Activities

The Issuer appears to be not involved in any of the 17 controversial activities screened under our methodology, namely: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Fossil Fuels industry, Unconventional oil and gas, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

The controversial activities research provides screening of companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from V.E.

# METHODOLOGY

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In V.E's view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organisation, activity or transaction. In this sense, V.E provides an opinion on the Issuer's ESG performance as an organisation, and on the processes and commitments applicable to the intended issuance.

Our Second Party Opinions (SPOs) are subject to internal quality control at three levels (Analyst, Project Manager and Quality Reviewer). If necessary, this process is complemented by a final review and validation by the Expertise Committee and Supervisor. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team in contact with the company; then the Executive Director in charge of Methods, Innovation & Quality; and finally, V.E's Scientific Council. All employees are signatories of V.E's Code of Conduct, and all consultants have also signed its add-on covering financial rules of confidentiality.

## COHERENCE

Scale of assessment: not coherent, partially coherent, coherent

This section analyses whether the activity to be financed through the selected instrument is coherent with the Issuer's sustainability priorities and strategy, and whether it responds to the main sustainability issues of the sector where the Issuer operates.

## FRAMEWORK

### Alignment with the Green and Social Bond Principles

Scale of assessment: Not aligned, Partially aligned, Aligned, Best Practices

*The Framework has been evaluated by V.E according to the International Capital Market Association's (ICMA) Green Bond Principles - June 2018 ("GBP") and the Social Bond Principles - June 2020 ("SBP") and on our methodology based on international standards and sector guidelines applicable in terms of ESG management and assessment.*

#### Use of proceeds

The definition of the Eligible Projects and their sustainable objectives and benefits are a core element of Green/Social/Sustainable Bonds and Loans standards. V.E evaluates the clarity of the definition of the Eligible Categories, as well as the definition and the relevance of the primary sustainability objectives. We evaluate the descriptions of the expected benefits in terms of relevance, measurability and quantification. In addition, we map the potential contribution of Eligible Projects to the United Nations Sustainable Development Goals' targets.

#### Process for evaluation and selection

The evaluation and selection process is assessed by V.E on its transparency, governance and relevance. The eligibility criteria are assessed on their clarity, relevance and coverage vs. the intended objectives of the Eligible Projects.

#### Management of proceeds

The process and rules for the management and the allocation of proceeds are assessed by V.E on their transparency, traceability and verification.

#### Reporting

The monitoring and reporting process and commitments defined by the Issuer are assessed by V.E on their transparency, exhaustiveness and relevance, covering the reporting of both proceeds' allocation and sustainable benefits (output, impact indicators).

## Contribution to sustainability

Scale of assessment: Weak, Limited, Robust, Advanced

V.E's assessment of activities' contribution to sustainability encompasses both the evaluation of their expected positive impacts on environmental and/or social objectives, as well the management of the associated potential negative impacts and externalities.

### Expected positive impact of the activities on environmental and/or social objectives

The expected positive impact of activities on environmental and/or social objectives to be financed by the Issuer or Borrower is assessed on the basis of:

- i) the relevance of the activity to respond to an important environmental objective for the sector of the activity; or to respond to an important social need at country level;<sup>30</sup>
- ii) the scope of the impact: the extent to which the expected impacts are reaching relevant stakeholders (i.e. the issuer, its value chain, local and global stakeholders); or targeting those populations most in need;
- iii) the magnitude and durability of the potential impact of the proposed activity on the environmental and/or social objectives (capacity to not just reduce, but to prevent/avoid negative impact; or to provide a structural/long-term improvement);
- iv) only for environmental objectives, the extent to which the activity is adopting the best available option.

### Activities' ESG risk management

The identification and management of the potential ESG risks associated with the eligible projects/activities are analysed on the basis of V.E's ESG assessment methodology, international standards and sector guidelines applicable in terms of ESG management and assessment.

## ISSUER

### Management of stakeholder-related ESG controversies

A controversy is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against an Issuer on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation based on unproven facts.

V.E reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources is considered as long as it is public, documented and traceable.

V.E provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- **Frequency:** reflects for each ESG challenge the number of controversies that the Issuer has faced. At corporate level, this factor reflects on the overall number of controversies that the Issuer has faced and the scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- **Severity:** the more a controversy is related to stakeholders' fundamental interests, proves actual corporate responsibility in its occurrence, and have caused adverse impacts for stakeholders and the company, the higher its severity is. Severity assigned at the corporate level will reflect the highest severity of all cases faced by the company (scale: Minor, Significant, High, Critical).
- **Responsiveness:** ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non- Communicative).

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, V.E's controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

### Involvement in controversial activities

17 controversial activities have been analysed following 30 parameters to screen the company's involvement in any of them. The company's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The specific nature of the controversial products or services provided by the company.

<sup>30</sup> The importance of a specific social need at country level is assessed on the basis of the country performance on the priority SDG that the project is targeting using data from Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G., Woelm, F. 2020. The Sustainable Development Goals and COVID-19. Sustainable Development Report 2020. Cambridge: Cambridge University Press.

## V.E'S ASSESSMENT SCALES

Scale of assessment of Issuer's ESG performance or strategy and financial instrument's Contribution to sustainability	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the sustainability objective. An advanced expected impact combined with an advanced to robust level of E&S risk management & using innovative methods to anticipate new risks.
Robust	Convincing commitment; significant and consistent evidence of command over the issues. A robust expected impact combined with an advance to robust level of assurance of E&S risk management or an advanced expected impact combined with a limited level of assurance of E&S risk management.
Limited	Commitment to the objective of sustainability has been initiated or partially achieved; fragmentary evidence of command over the issues. A limited expected impact combined with an advanced to limited level of assurance of E&S risk management; or a robust expected impact combined with a limited to weak level of assurance of E&S risk management; or an advanced expected impact combined with a weak level of assurance of E&S risk management.
Weak	Commitment to social/environmental responsibility is non-tangible; no evidence of command over the issues. A weak expected impact combined with an advanced to weak level of assurance of E&S risk management or a limited expected impact with a weak level of assurance of E&S risk management.

Scale of assessment of financial instrument's alignment with Green and Social Bond Principles	
Best Practices	The Instrument's practices go beyond the core practices of the ICMA's Green and Social Bond Principles.
Aligned	The Instrument has adopted all the core practices of the ICMA's Green and Social Bond Principles.
Partially Aligned	The Instrument has adopted a majority of the core practices of the ICMA's Green and Social Bond Principles, but not all of them.
Not Aligned	The Instrument has adopted only a minority of the core practices of the ICMA's Green and Social Bond Principles.



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This opinion aims at providing an independent opinion on the sustainability credentials and management of the Bond, based on the information which has been made available to V.E. V.E has neither interviewed stakeholders out of the Issuer/Borrower's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer/Borrower. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer/Borrower. The Issuer/Borrower is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by V.E neither focuses on the financial performance of the Bond, nor on the effective allocation of its proceeds. V.E is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction.

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