

SECOND PARTY OPINION

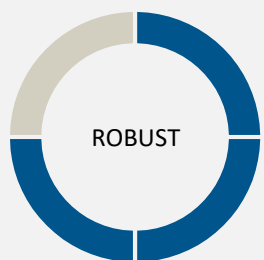
on the sustainability of Capitron Bank's Sustainable Bond Framework

V.E is of the opinion that Capitron Bank's Framework is aligned with the four core components of the Green Bond Principles 2021 ("GBP") and the Social Bond Principles 2021 ("SBP").



Framework

Contribution to Sustainability:



Advanced Limited

Robust Weak

Expected impacts

ESG risks management

SDG Mapping



* The target populations of the social category "General Social Target Population" include: micro, small and medium sized enterprises; women, female owned enterprises and migrant, marginalized, vulnerable groups

Characteristics of the Framework

Green and Social Project Categories	Renewable Energy; Energy Efficiency; Pollution Prevention and Reduction; Sustainable Agriculture, Land Use, Forestry and Eco-Tourism; Sustainable Transportation; General Social Target Population*
Project locations	Ulaanbaatar (capital city of Mongolia) and significant socio-economic development provinces
Existence of framework	Yes
Share of refinancing	To be disclosed at each bond issuance
Look back period	24 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 Capitron Bank'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.

Key findings

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

Use of Proceeds – aligned with GBP and SBP

- The Eligible Categories are clearly defined. The Issuer has communicated the nature of the expenditures, the location of Eligible Projects and the target populations for the social category.
- The Environmental and Social Objectives are clearly defined, which 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 transparently communicate the estimated share of refinancing for each bond issuance in bond documentation. The look-back period for refinanced eligible loans will be equal or less than 24 months from the issuance date, in line with good 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 categories loans). The roles and responsibilities are clear and include relevant internal expertise. The Process will be publicly disclosed in the Framework.
- Eligibility criteria (selection and exclusion) for loan 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 a majority of categories (see detailed analysis on pages 25 - 27).

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.
- The allocation period will be 24 months or less.
- Net proceeds of the Bonds will be placed in a general treasury 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 that as long as the Bond is outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to Eligible Loans made during that period.
- The Issuer has provided information on the procedure that will be applied in case of asset divestment or postponement and it has committed to reallocate divested proceeds to loans that are compliant with the bond framework.

Reporting - aligned with GBP and SBP

- The Issuer has committed to report on the Use of Proceeds annually, until full allocation and on a timely basis in case of material developments. The report and the external verification 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 Categories. The Issuer has also committed to report on material developments, including ESG controversies and issues, related to the Eligible Loans.
- The reporting methodology and assumptions used to report on environmental and social benefits of the Eligible Categories will be publicly disclosed in the annual reporting.

- An external auditor will verify the tracking and allocation of funds to Eligible Loans, and environmental and social benefits indicators, until full allocation and in case of material changes.

Contact

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SCOPE

V.E was commissioned to provide an independent opinion (thereafter “Second Party Opinion” or “SPO”) on the sustainability credentials and management of the Sustainable Bonds¹ (“Bonds”) to be issued by Capitron Bank (the “Issuer”) in compliance with the Sustainable Bond 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 ICMA’s Green Bond Principles (“GBP”) - edited in June 2021 - and Social Bond Principles (“SBP”) - edited in June 2021 - voluntary guidelines (referred together as the “GBP & SBP”).

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 Framework’s potential contribution to sustainability and its alignment with the four core components of the GBP & SBP.
- Issuer²: we assessed the Issuer’s management of potential stakeholder-related ESG controversies and its involvement in controversial activities³.

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 May 10th to June 14th, 2021. We consider that we were provided with access to all the appropriate documents and interviewees we solicited. To this purpose we used our reasonable efforts to verify such data accuracy.

Scope of External Reviews

<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

¹ The “Sustainable Bond” is to be considered as the bond to be potentially issued, subject to the discretion of the Issuer. The name “Sustainable Bond” has been decided by the Issuer: it does not imply any opinion from V.E.

² The Issuer is not part of our ESG performance rating universe.

³ 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 Capitron Bank'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 CO₂ 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.⁴ Moreover, unique to Mongolia, a third of the country's population⁵ or about 60% in Ulaanbaatar city⁶ live in urban *ger* areas where poor sanitation, solid waste management, electricity and water supplies pose health and environmental hazards.

Capitron Bank 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 2019, Capitron Bank established its "Sustainable Policy" in accordance with the Green Taxonomy of Mongolia.⁷ The Policy focuses on combating climate change through conscious actions such as continuously working towards reducing the bank's carbon footprint, offering and engaging in sustainable financial services to the people in our communities. The bank's new direction has also set the following objectives:

- 1) Become one of the industry leaders in Sustainable finance in Mongolia;
- 2) Creating sustainable products to specially help our SME/Mid-Corp clients' future-proof their businesses; and
- 3) Aligning our portfolio with Green Taxonomy of Mongolia.

In accordance with its Sustainable Policy, Capitron Bank has established specialist business unit to improve Sustainable Policy and related documents, reviewing implementation of the Policy, identify opportunities and to support its client by financing low-carbon/sustainable business.

The bank's sustainability activities have also been organised under three primary pillars according to the Sustainable Policy: Environmental and Social Risk Management, Key Policy Principals and Management Role and Structure. Under the three pillars, Capitron Bank initiated and lend business loans over 57.8 million USD under Regulation on Accessing and Managing Environmental and Social Risks and introduced 3 types of consumer green loans which promotes eco-sanitation which reduce soil pollution, electric bike and hybrid and electric car. It aims to increase its Sustainable Finance portfolio by at least 30 million USD by 2022 compared to 2019.

⁴ https://sustainabledevelopment.un.org/content/documents/23342MONGOLIA_VOLUNTARY_NATIONAL_REVIEW_REPORT_2019.pdf

⁵ <https://www.adb.org/results/building-affordable-greenhouses-mongolia-s-ger-districts>

⁶ https://www.unescap.org/sites/default/files/S5_SukhabaatarBorkhuu_UB-compressed%20%281%29.pdf

⁷ Mongolian Green Taxonomy, <https://www.ifc.org/wps/wcm/connect/0c296cd3-be1e-4e2f-a6cb-f507ad7bdf9/Mongolia+Green+Taxonomy+ENG+PDF+for+publishing.pdf?MOD=AJPERES&CVID=nikyhlh>

By creating a Framework to issue Sustainable Bonds to finance or refinance, in full or in part, eligible green or social loans related to eight Green and Social Asset 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 formalised Sustainable Bond Framework which covers the four core components of the GBP 2021 and SBP 2021 (the last updated version was provided to V.E on June 14th, 2021). The Issuer has committed to make this document publicly accessible on its website⁸, 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, eligible loans in an Eligible Sustainable Loan Portfolio of new and existing loans falling under eight Green and Social Asset Categories ("Eligible Categories"), as indicated in Table 1.

- The Eligible Categories are clearly defined. The Issuer has communicated the nature of the expenditures, the location of Eligible Projects and the target populations for the social category.
- The Environmental and Social Objectives are clearly defined, which 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 transparently communicate the estimated share of refinancing for each bond issuance in bond documentation. The look-back period for refinanced eligible loans will be equal or less than 24 months from the issuance date, in line with good market practices.

BEST PRACTICES

- ⇒ Relevant environmental and/or social benefits are identified and measurable for all project categories
- ⇒ The Issuer has committed to transparently communicate the estimated share of refinancing for each bond issuance
- ⇒ The look-back period for refinanced assets is equal or less than 24 months, in line with good market practices

⁸ www.capitronbank.mn/sustainablebond

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

- Nature of expenditures: *see description in each category*
- Location of Eligible Projects/Assets: Ulaanbaatar (capital city of Mongolia) and significant socio- economic development provinces (Darkhan-Uul, Selenge, Orkhon, Dornogovi, Umnugovi, Bayan- Ulgii, Zamiin Uud, Khovd provinces)

ELIGIBLE CATEGORIES	ELIGIBILITY CRITERIA	GOAL	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Renewable Energy	<p>Proceeds may be allocated towards the acquisition, development, operation and maintenance of new and ongoing renewable energy activities which energy comes from natural sources or processes that are constantly replenished (such as wind farms, solar panel installations, low and medium hydropower less than 20MW⁹, biofuel projects¹⁰, and geothermal¹¹ power plants) including costs related to:</p> <ul style="list-style-type: none"> • Land acquisition and leasing¹² • Purchase of renewable energy applications and technologies and associated equipment • Construction work • Maintenance work • Equipment manufacturing • Improved lines of renewable energy transmission¹³ 	Reduce greenhouse gas emissions by 20 percent by 2030	<u>Climate change mitigation</u> Avoidance of GHG emissions	<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. Specific inclusion or exclusion criteria or thresholds have been set for most types of renewable energy projects.</p> <p>The intended environmental objective is clearly defined and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected environmental benefit is clear. It is considered relevant, measurable, and will be quantified in the reporting.</p>
Energy Efficiency	<p>Proceeds may be allocated towards the financing or refinancing of (i) warehouse facilities for residential energy efficiency loans, and (ii) consumer finance companies that provide residential energy efficiency loans for projects or assets that reduce energy</p>	20 percent reduction of greenhouse gas emissions ¹⁵	<u>Energy efficiency improvement</u> Energy saving	<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. A minimum 10% reduction of power consumption is set for eligible projects under this category. For energy-efficient building, a minimum energy saving rate of 20% is required in accordance with</p>

⁹ For "small and medium hydropower plants below 20 MW", the pump storage criteria must also meet the same energy criteria, facility will not be charged with carbon intensive energy.

¹⁰ The main sources of biofuels are livestock manure, vegetable waste and other organic agricultural wastes, so they will not compete with agriculture.

¹¹ Biofuel and geothermal projects will be limited to projects with direct emissions of less than 100gCO₂/kWh

¹² The site is intended for construction of renewable energy projects only.

¹³ "Improvement of Renewable Energy Transmission Lines" to finance the budgeted cost (Mongolian law approves the Feasibility Study for the work, and the Feasibility Study includes all budgets and plans. The transmission infrastructure will be dedicated only to eligible renewable projects under this category).

¹⁵ The basic level for reducing greenhouse gas emissions is determined by a 20% reduction and is confirmed by a laboratory-measured estimate Reducing 20% of power consumption as a requirement indicator, it is possible to calculate by measuring either of the above two indicators. /A basic level is a level of previous use or a defined use for a particular technology./

ELIGIBLE CATEGORIES	ELIGIBILITY CRITERIA	GOAL	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
	<p>consumption or mitigate greenhouse gas (GHG) emissions. Eligible projects or assets may include:</p> <ul style="list-style-type: none"> • Municipal district heating projects that only heating by renewable energy • Commercial and residential energy efficiency projects including: <ul style="list-style-type: none"> ○ Building envelope (insulation, cool roofing, air sealing, etc.) ○ Centralized energy control and heating systems ○ Lighting, pool equipment, water heating, windows, doors, skylights, and HVAC systems ○ Solar panel systems ○ Products and technology to address energy loss reduction in transmission and distribution • Improvement in energy-efficient equipment and technology • Energy efficient equipment of combined heat and power station (excluding thermal cogeneration plants) and triple heat exchanger • Energy efficient products for households and citizens (excluding those using fossil fuels) • Construction of new energy-efficient building¹⁴ <p>Follow building codes and regulations. Get an Electricity Pass, EDGE Green Building Assessment System. Reducing at least 10% of power consumption as a requirement indicator.</p>		<p><u>Climate change mitigation</u></p> <p>Reduction of GHG emissions</p>	<p>Mongolia's Green Taxonomy. The category has also explicitly excluded thermal cogeneration plants and energy efficient products for households and citizens that use 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>
Green Building	<p>Proceeds may be allocated towards financing of existing or new construction / renovation of residential and commercial buildings: Construction of new green buildings (commercial, public, house industrial and residential)</p> <p>“ENERGY: Use of highly efficient architectural designs, energy efficiency appliances and equipment, and building techniques that reduce building energy consumption, exceeding available standards and complying with high energy efficiency certification or rating schemes, such as green building rating standards of</p>	20 percent reduction of greenhouse gas emissions	<p><u>Promotion of green buildings</u></p> <p>Improved efficiency of energy and water use</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 objective is clearly defined and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected environmental benefit is clear. It is considered relevant, measurable, and will be quantified in the reporting.</p>

¹⁴ The National Energy Saving Program, approved by Government Resolution No. 274 of 2017, has demonstrated the determination and certification of energy consumption levels in buildings and will be confirmed by the estimate of an authorized auditor. Mongolia's Green Taxonomy has set a minimum energy saving rate as 20%.

ELIGIBLE CATEGORIES	ELIGIBILITY CRITERIA	GOAL	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
	<p>Mongolia or equivalent international standards for environmental performance.</p> <p>WATER: Use of water efficient fixtures and equipment, and building techniques that reduce building water consumption, exceeding available standards and complying with high water efficiency certification operating schemes, such as green building rating standards of Mongolia or equivalent international standards for environmental performance.</p> <p>MATERIALS: Use of construction material which minimizes contents that require high amount of energy to manufacture, such as steel or cement, and uses materials with low manufacturing energy or reused/recycled materials."</p> <p>Compliance to local building norms &/ Mongolian Energy Passport; or to have internationally and nationally recognized green building certification such as LEED, EDGE, BREEAM, Energy certifications such as US Energy Star and energy labeling schemes such as Energy Performance Certifications in the EU</p>			
Pollution Prevention and Reduction	<p>Proceeds may be allocated towards projects that reduce air, soil pollution (excluding projects in the mining operation). Eligible projects may include:</p> <ul style="list-style-type: none"> Facilities for the reduction of air pollution¹⁶ caused by production activities Heating equipment for households and small and medium businesses (excluding "heating equipment" that use fossil fuels) Technology, facilities and infrastructure for reducing and mitigating soil pollution Portable and eco-toilet solutions for ger areas, tourist camps and small businesses 	<p>Pollution¹⁷: Energy efficiency of 20% or 80% reduction of greenhouse gas emissions compared to coal.</p>	<p><u>Pollution Prevention and Control</u></p> <p>Reduction of air and soil Pollution</p> <p><u>Climate change mitigation</u></p> <p>Reduction of GHG emission</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. A minimum 20% reduction of power consumption is set for eligible projects under this category. The category has explicitly excluded projects in the mining operation, heating equipment that use fossil fuels and carbon storage technology / carbon capture used for fossil fuels projects.</p> <p>The Issuer has provided one type of project that contributes to soil pollution reduction. An area for improvement consist in providing more details on other types of technology, facilities and infrastructure, and/or relevant criteria/thresholds for soil pollution prevention and reduction that may be eligible under this category.</p>

¹⁶ Industrial pollution abatement and recycling facilities are facilities with new technologies to reduce industrial air pollution.

¹⁷ The National Air Pollution Reduction Program, approved by Government Resolution No. 98 of 2017, states to decrease air pollution by 80% by 2025, aiming to decrease PM2.5 dust particles from 256 µg / m3 to 70 and PM10 dust particles from 279 µg / m3 to 100.

ELIGIBLE CATEGORIES	ELIGIBILITY CRITERIA	GOAL	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
	<p>Reducing at least 20% of power consumption as a requirement indicator.</p> <p>Installation of self-contained and eco sanitation toilets that contributes to soil pollution reduction. composting toilets, container-based toilets, dry toilets, septic systems, UDDT</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>
Sustainable Water and Waste Use	<p>Proceeds may be allocated towards projects that improve water quality, efficiency and waste and wastewater. Eligible projects may include:</p> <ul style="list-style-type: none"> • Production, purchase and deployment of water saving, monitoring, storage and distribution technologies and systems¹⁸ • Water recycling facilities¹⁸ • Circular economy adapted products, production technologies and processes (such as the design and introduction of reusable, recyclable and refurbished materials, components and products; circular tools and services); and/or certified eco-efficient products; • Solid waste management facilities (Waste plastic, waste plastic bags, waste plastic bottle, waste paper, waste bone) • Waste sorting and material recovery, re-use, and recycling facilities (excluding hazardous waste from waste-related projects) • Wastewater treatment facilities 	20% efficiency in water consumption ¹⁹	<p><u>Sustainable water management</u></p> <p>Improving water use efficiency</p> <p><u>Pollution prevention and control</u></p> <p>Reduction of waste ending in landfill;</p> <p>Reduction of water pollution</p>	<p>The Eligible Category is overall clear. The Issuer has communicated the nature of the expenditures and the location of Eligible Projects/Assets. A minimum 10% efficiency in water consumption is set for water-related systems and water recycling facilities under this category. The category has explicitly excluded hazardous waste from waste-related projects.</p> <p>Areas for improvement include:</p> <ul style="list-style-type: none"> - for the third sub-category, to provide further details or examples regarding “eco-label or environmental certification”; - to provide more details on solid waste management regarding types of technologies. <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>
Sustainable Agriculture, Land Use, Forestry and Eco-Tourism	<p>Proceeds may be allocated toward:</p> <ul style="list-style-type: none"> • Organic agriculture products have to be Certified Organic label from Mongolian National Chamber of Commerce and Industry. • Afforestation and reforestation area is certified by tree planting certification from Ministry of Nature, Environment 	Forests: Reduce greenhouse gas emissions from forests by 2% in 2020 and up to 5% by 2030, respectively ²⁰ .	<p><u>Promoting sustainable agriculture practices</u></p> <p>Improving resources use efficiency in agriculture</p>	<p>The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures and the location of Eligible Projects/Assets, as well as relevant national certifications required for each sub-categories.</p> <p>The intended environmental objectives are clearly defined and set in coherence with sustainability objectives defined in international standards.</p>

¹⁸ 10% efficiency in water consumption

¹⁹ The Green Taxonomy, approved by a joint order of the Governor of the Bank of Mongolia and the Chairman of the Financial Regulatory Commission, provides for a 20% reduction in water consumption, which is measured by a 20% reduction from the previous base consumption. In the absence of a previous baseline, it is required to be identified on the technology card.

²⁰ There is a level of reduction in carbon emissions due to forest fires or deforestation. It is measured in terms of GHG emissions, measured in terms of forest type or unit of change of reforested tree species (such as deforestation per hectare).

ELIGIBLE CATEGORIES	ELIGIBILITY CRITERIA	GOAL	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
	<p>and Tourism and trees is supplied by licensed arboricultural companies by Ministry of Nature, Environment and Tourism.</p> <ul style="list-style-type: none"> Sustainable hotel & camp management have to be Green Hotel certification from Mongolian National Chamber of Commerce and Industry. 		<p><u>Natural resource conservation</u></p> <p>Increasing carbon stock</p>	The expected environmental benefits are clear. They are considered relevant, measurable, and will be quantified in the reporting.
Sustainable Transportation	<p>Proceeds may be allocated toward²¹:</p> <ul style="list-style-type: none"> Hybrid, gas, all-electric vehicles purchase Low carbon transport infrastructure (Charging stations for electric cars) 	Increase the share of hybrid vehicles from 6.5% in 2014 to 13% by 2030	<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 emission</p>	<p>The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures and the location of Eligible Projects/Assets. The category has defined thresholds of 50gCO₂/p-km for passenger transport and 25gCO₂/t-km for freight transport, both of which are in line with international best practices, such as CBI Land Transport Criteria (at least until 2025). An area for improvement would be to set declining emission thresholds and timeline for all eligible vehicles (e.g. 0gCO₂ per p-km or per t-km from 2026 onwards).</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>

²¹ Threshold: <50gCO₂/p-km for passenger transport and <25gCO₂/t-km for freight transport, as of 2020.








ELIGIBLE CATEGORIES	ELIGIBILITY CRITERIA	ADDITIONAL CRITERIA	TARGET POPULATION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
General Social Target Population	<p>Proceeds may be allocated toward²²:</p> <ul style="list-style-type: none"> Financing or re-financing of any project that promotes the formalization and growth of micro, small and medium sized Enterprises²³. Financing or re-financing of any projects that aim to provide women, female owned enterprises and migrant, marginalized, vulnerable groups with access to financial services and nonfinancial services (financial and legal education). <p>Following Central bank of Mongolia's requirement to fulfill 'monthly debt/ income ratio' < 60 percent.</p>	<ul style="list-style-type: none"> Number of SMEs financed and Value of SME loans Number of female owned enterprises Estimated number of jobs created 	micro, small and medium sized enterprises; women, female owned enterprises and migrant, marginalized, vulnerable groups	<p><u>Access to SME financing and microfinance</u></p> <p>Improved access to financing</p>	<p>The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures and the location of Eligible Projects/Assets, as well as the definition of SME and female owned enterprise. For the first sub-category, the criteria have specified that "SME's businesses may not conduct businesses that could be considered harmful to the environment or are in contravention with one or more of the eligibility criteria outlined in this framework".</p> <p>The category has also set the maximum 'monthly debt/ income ratio' to be less than 60 percent, citing Central bank of Mongolia's requirement. This could potentially help prevent over-indebtedness in case of providing financial services to migrant, marginalized, vulnerable groups.</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>





²² SME's businesses may not conduct businesses that could be considered harmful to the environment or are in contravention with one or more of the eligibility criterion outlined in this framework.

²³ SME: Enterprises that have less than 50 employees, assets and annual sales of less than USD700'000 each will be considered SME. Enterprise qualifies as a female owned enterprise if it meets the following criteria: (1) ≥ 51% owned by female; (2) (i) has female CEO (ii) 30% of the board of directors composed of women, where a board exists.

SDG Contribution

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

ELIGIBLE CATEGORY	SDG	SDG TARGETS
General Social Target Population	 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
General Social Target Population	 5 Gender Equality	5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic, and public life
Sustainable Water and Waste Use	 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	 7 Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Energy Efficiency		7.3 By 2030, double the global rate of improvement in energy efficiency
General Social Target Population	 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
Energy Efficiency	 9 Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Sustainable Water and Waste Use		
Sustainable Agriculture, Land Use, Forestry and Eco-Tourism		
General Social Target Population	 10 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
Green Building		11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums

ELIGIBLE CATEGORY	SDG	SDG TARGETS
Pollution Prevention and Reduction	 11 Industry, Innovation and Infrastructure	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
Sustainable Transportation		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	 12 Responsible Production and Consumption	12.2 By 2030, achieve the sustainable management and efficient use of natural resources
Sustainable Agriculture, Land Use, Forestry and Eco-Tourism		12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Renewable Energy	 13 Climate Action	<i>Take urgent action to combat climate change and its impacts</i>
Sustainable Agriculture, Land Use, Forestry and Eco-Tourism	 15 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



- 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 categories loans). The roles and responsibilities are clear and include relevant internal expertise. The Process will be publicly disclosed in the Framework.
- Eligibility criteria (selection and exclusion) for loan 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 a majority of categories (see detailed analysis on pages 25 - 27).

Process for Project Evaluation and Selection

- For the purpose of the Bonds, a sustainable bond specialist team has been created, composed of representatives of:
 - Sustainability Finance Unit
 - Risk Management Unit
 - Environmental and Social Risk Management (ESRM)
- The sustainable bond specialist team is responsible for:
 - Screening potentially eligible assets against Capitron Bank's Sustainable Bond eligibility criteria, and determining whether projects meeting the eligibility criteria should be added to the Sustainable Loan Portfolio
 - Monitoring the Eligible Loans portfolio during the lifetime of the Bonds. The sustainable bond specialist team will be responsible for replacing an Eligible Loan if it no longer meets the eligibility criteria or if the Eligible Loan has matured.
- The traceability and verification of the selection and evaluation of the projects is ensured throughout the process:
 - The Issuer reports that it will annually monitor compliance of selected loans with eligibility and exclusion criteria specified in the Framework throughout the life of the instrument. In case a Loan no longer complies with the eligibility criteria, has matured or been reimbursed, it will be excluded from the Portfolio, and replaced with another Eligible Loan within 24 months.
 - The Issuer reports that it will annually monitor potential ESG controversies associated with the selected loans throughout the life of the instrument. In case a controversy found, the loan will be replaced by another Eligible Loan within 24 months.
 - The traceability of the decision-making process is ensured through the documentation of the credit approval process, credit committee minutes and decisions.

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, which are clearly defined for all the Eligible Categories.
- The exclusion criteria are listed in the Framework. We consider them relevant and exhaustive.

BEST PRACTICES

- ⇒ The Issuer reports that it will monitor compliance of selected loans 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 selected loans 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.
- The allocation period will be 24 months or less.
- Net proceeds of the Bonds will be placed in a general treasury 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 that as long as the Bond is outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to Eligible Loans made during that period.
- The Issuer has provided information on the procedure that will be applied in case of asset divestment or postponement and it has committed to reallocate divested proceeds to loans that are compliant with the bond framework.

Management Process

- The net proceeds of the Bonds will be credited to the general treasury and then allocated to the Eligible Sustainable Loan Portfolio and will be managed in a portfolio approach.
- Capitron Bank commits to reaching 100% of allocation within two years of the date of issuance, on a best effort basis.
- In case the Eligible Sustainable Loan Portfolio is smaller than the Bonds' net proceeds outstanding, Capitron Bank will hold the balance unallocated amount in cash, cash equivalents and/or other liquid marketable instruments (including Treasury, Mongol bank's securities) in Capitron Bank's liquidity portfolio until the amount can be allocated towards the Capitron Bank Sustainable Bond Loan Portfolio.
- In case of projects postponement, cancelation, divestment or ineligibility, or in case an Eligible Loan has matured, the Issuer has committed to remove the asset from the Eligible Sustainable Loan Portfolio and allocate the proceeds to another Eligible Loan, within 24 months.

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

Not Aligned	Partially Aligned	Aligned	Best Practices
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- The Issuer has committed to report on the Use of Proceeds annually, until full allocation and on a timely basis in case of material developments. The report and the external verification 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 Categories. The Issuer has also committed to report on material developments, including ESG controversies and issues, related to the Eligible Loans.
- The reporting methodology and assumptions used to report on environmental and social benefits of the Eligible Categories will be publicly disclosed in the annual reporting.
- An external auditor will verify the tracking and allocation of funds to Eligible Loans, and environmental and social benefits indicators, until full allocation and in case of material changes.

Indicators

The Issuer has committed to transparently communicate at least at the Eligible Category level and on an aggregated basis, on:

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

REPORTING INDICATORS
<ul style="list-style-type: none"> ⇒ list of projects and description ⇒ the total amount of proceeds allocated to eligible loans ⇒ the number of eligible loans ⇒ the balance of unallocated proceeds ⇒ the amount or the percentage of new financing and refinancing ⇒ % of co-financing (in case a project is also financed by funds other than bond proceeds) ⇒ Types of temporary unallocated funds placements and uses

- Environmental/social benefits: The indicators selected by the Issuer to report on the environmental and social benefits are clear, relevant, and exhaustive. The Issuer also expressed its intension to align its reporting on a portfolio basis with “Handbook – Harmonized Framework for Impact Reporting (June 2021)”²⁴.

ELIGIBLE CATEGORIES	ENVIRONMENTAL BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS
Renewable Energy	<ul style="list-style-type: none"> • Total energy produced in MW 	<ul style="list-style-type: none"> • GHG emissions reduction per year
Energy Efficiency		<ul style="list-style-type: none"> • MWh saved/reduced per year • GHG emissions reduction per year
Green Building	<ul style="list-style-type: none"> • Number of units financed 	<ul style="list-style-type: none"> • GHG emissions reduction per year

²⁴ <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2021-100621.pdf>

ELIGIBLE CATEGORIES	ENVIRONMENTAL BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS
Pollution Prevention and Reduction		<ul style="list-style-type: none"> Reduced air and environmental pollutant sources GHG emissions reduction per year
Sustainable Water and Waste Use	<ul style="list-style-type: none"> Number of water meters installed 	<ul style="list-style-type: none"> Total population served by the system Volume of water (m³) saved/reduced/treated Increased the volume of recycled waste as percentage of total waste
Sustainable Agriculture, Land Use, Forestry and Eco-Tourism		<ul style="list-style-type: none"> Restored land degradation % GHG emissions reduction per year
Sustainable Transportation	<ul style="list-style-type: none"> Annual ridership of each transit system supported 	<ul style="list-style-type: none"> GHG emissions reduction per year
General Social Target Population		<ul style="list-style-type: none"> Number of SMEs financed and Value of SME loans Number of female owned enterprises Estimated number of jobs created

BEST PRACTICES

- ⇒ 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 categories. The Issuer has also committed to report on material developments related to the assets, including ESG controversies.
- ⇒ The indicators selected by the Issuer are exhaustive with regards to allocation reporting.
- ⇒ The indicators selected by the Issuer are clear and relevant and cover all expected benefits associated with the Eligible Categories
- ⇒ The reporting methodology and assumptions used to report on environmental and social benefits of the Eligible Categories will be disclosed publicly.
- ⇒ Environmental & Social benefits and impacts will be externally verified, until full allocation and in case of material changes.

Contribution to sustainability

Expected Impacts

The potential positive Impact of the eligible projects on environmental and social objectives is considered to be robust.

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Renewable Energy	ADVANCED	Currently nearly 97% of Mongolia's total energy supply relies on coal and oil, and renewable energy contributes less than 1%. ²⁵ Developing renewable energy is key for the decarbonisation of the country's energy mix and reducing its GHG emissions. Specific inclusion or exclusion criteria or thresholds have been set for most types of renewable energy projects. For instance, for biofuel and geothermal projects, the Issuer commits to limit direct emissions to be less than 100gCO ₂ /kWh. although this threshold has not been extended to other types of renewable energy projects.
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 GHG emissions reduction or energy savings of at least 20% reduction than the existing predominant technologies, and for energy-efficient buildings, incorporated relevant energy efficiency labels in the eligibility criteria (e.g. Electricity Pass, EDGE Green Building Assessment System).
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. ²⁶ By constructing new green buildings or renovating existing buildings that receives relevant certificates indicated in the eligibility criteria, the Eligible Projects/Assets can help reduce resources usage (e.g. energy, water, materials) in buildings. However, the eligibility criteria do not specify the minimum level (if relevant) of certification that the Eligible Projects/Assets need to achieve.
Pollution Prevention and Reduction	ROBUST	Air pollution is an important issue in Mongolia, especially in its capital where 46% of the country's population resides, with one of the defining characteristics being the high concentration of particulate matter. ²⁷ Soil pollution, mainly in relation to heavy metal pollution, also pose ecological and human health risks in Ulaanbaatar, especially for people residing in the ger district. ²⁸ The Eligible Projects could potentially help mitigate air and soil pollution. However, the definition of the category is overall broad. An area for improvement consists in for soil pollution prevention and reduction, providing more details on eligible types of technology, facilities and infrastructure, and/or relevant criteria/thresholds.
Sustainable Water and Waste Use	LIMITED	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. ²⁹ 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. ³⁰ The Eligible Projects could help improve water and wastewater infrastructure and promote better waste management, in particular waste collection, recycling and reuse. However, the definition of the category is overall general and broad, and it has not set any criteria or thresholds for waste related projects.

²⁵ <https://www.iea.org/countries/mongolia>

²⁶ <https://gggi.org/mongolia-accelerates-building-energy-efficiency-deep-dive-program/>

²⁷ <https://www.who.int/bulletin/volumes/97/2/19-020219/en/>

²⁸ <https://www.mdpi.com/1660-4601/17/13/4668/htm>

²⁹ <https://www.adb.org/sites/default/files/institutional-document/618776/mongolia-country-water-security-assessment.pdf>

³⁰ <https://www.uncrd.or.jp/content/documents/6133Country-G-2-Mongolia.pdf>

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
		Areas for improvement include: for the third sub-category, to provide further details or examples regarding “eco-label or environmental certification”; to provide more details on solid waste management regarding types of technologies.
Sustainable Agriculture, Land Use, Forestry and Eco-Tourism	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.³¹ As a result, agriculture practices and forest management are interconnected with nature and biodiversity conservations in Mongolia.³²</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.³³</p> <p>The Issuer has specified relevant national certifications required for each sub-category. Moreover, the Bank follows the Mongolian Sustainable Finance Principles - Agriculture Sector Guideline, which sets out detailed environmental and social risks management requirements and control measures for different types of agriculture activities.³⁴</p>
Sustainable Transportation	ROBUST	<p>CO₂ emissions from transport account for 11.1% of total fuel combustion in Mongolia.³⁵ 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.³⁶</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>V.E recognise the importance of promoting low-emission hybrid and fuel-efficient vehicles in the context of Mongolia given the status and challenges of its transport system. The category has defined thresholds of 50gCO₂/p-km for passenger transport and 25gCO₂/t-km for freight transport, both of which are in line with international best practices, such as CBI Land Transport Criteria (at least until 2025).</p> <p>However, even with the thresholds, investing in hybrid and gas vehicles may still bring negative impacts on air pollution and GHG emissions. An area for improvement would be to set declining emission thresholds and timeline for all eligible vehicles (e.g. 0gCO₂ per p-km or per t-km from 2026 onwards).</p>
General Social Target Population	ROBUST	<p>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.³⁷ For the target enterprises, specific criteria have been set. The Eligible Projects could help address</p>

³¹ https://mongolia.panda.org/en/about_mongolia/

³² <https://www.cbd.int/countries/profile/?country=mn>

³³ <https://www.undp.org/content/undp/en/home/news-centre/news/2020/gcf-and-undp-enter-new-partnership-to-strengthen-climate-resilience.html>

³⁴ <http://toc.mn/category/41>

³⁵ <https://data.worldbank.org/indicator/EN.CO2.TRAN.ZS?locations=MN>

³⁶ https://www.istage.ist.go.jp/article/easts/13/0/13_2521/pdf

³⁷ <https://openknowledge.worldbank.org/bitstream/handle/10986/27091/731000WP0Mong0C0disclosed010050120.pdf?sequence=1&isAllowed=y>

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
		the financing challenge. The category has also set the maximum 'monthly debt/income ratio' to be less than 60 percent, citing Central bank of Mongolia's requirement. This could potentially help prevent over-indebtedness in case of providing financial services to migrant, marginalized, vulnerable groups.
OVERALL ASSESSMENT	ROBUST	

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 are considered robust.

Capitron Bank has established its Sustainability Policy, where it commits to implement "Environmental and Social Risk Management System" to prevent, mitigate and remedy environmental and social risks associated with its operations, its suppliers and its customers. The Issuer also commits that it *"will not finance projects, programs and activities that are harmful to the environment and society as specified in the Credit Policy of the bank"*. In addition, the Policy also states that *"any breach or violation of this policy and other policies and procedures consistent with this policy is subject to disciplinary actions under internal regulations or local laws"*.

Risk identification and assessment

Capitron Bank has developed their own "Environmental and Social Risk Assessment" procedure based on the "Sector Guidelines"³⁸ approved by the Mongolian Sustainable Finance Association and the "Mongolian Green Taxonomy"³⁹ approved by the Mongolian Financial Stability Board. This procedure is described in their *Regulation on Assessing and Managing Environmental and Social Risks*.

In order to identify, evaluate and manage client's environmental and social risks, the Bank takes the following steps:

1. Primary assessment of environmental and social risk levels

The Customer Account Manager at the bank conducts a primary risk assessment to evaluate the level of environmental and social risk for the client's loan application. All loans with a value of MNT 50.0 million (around USD17,500) or more and a term of 12 months or more are evaluated. For loans under 50 million MNT, those with terms over 12 months also must undergo the evaluation, while those with terms less than 12 months may not. However, the Bank clarified that it is planning to use funds from the bond for loans with minimum term of 12 months.

By answering an initial set of questions, the Customer Account Manager determines the Environmental and Social risk category of the loan. Loans identified as having a "red" risk level (or Category A) are refused and the Financial Sustainability Officer is notified. The Bank has a list of activities for which lending is prohibited, which we consider to cover relevant ESG topics, and in line with good market practices. Loans identified as having a "yellow" risk level (or Category B) require an additional environmental and social risk assessment. For loans identified as having a "green" risk level (or Category C), the borrowers must fill the primary environment and social risk assessment to move onto the next stage of their loan application, and there is no need to have an additional assessment.

The Bank has identified additional environmental requirements for borrowers in 4 broad sectors, 3 of which may be relevant to the Eligible Loans (e.g. construction, agriculture and processing); for protection of human rights and social issues, activities in all sectors will be checked against special requirements listed in the internal procedure document.

2. Additional assessment of environmental and social risks

For loans identified as having a "yellow" risk level, the Customer Account Manager carries out an additional environmental and social risk assessment. Borrowers are required to fill an Environmental and Social Risk Questionnaire and provide supporting documentation. The topics included in the questionnaire are considered to cover relevant ESG issues, namely: fundamental labour rights, health and safety, past environmental or social issues, ongoing conflicts (complaints, protests, strikes, court cases, etc), industrial accidents, pollution, land rehabilitation, waste management, ecosystems, inconveniences, impact on local residents, cultural heritage, local socio-economic development, relationship to local stakeholders. The borrowers must submit documents covering occupation safety and health regulations (instructions and plans), environmental and social responsibilities policy, human resources policy, and an environmental impact assessment and report.

In the course of this additional environmental and social risk assessment, the Customer Account Manager does two types of assessment: the customer risk assessment and the credit risk assessment. The customer risk assessments consider responsibility (whether the client complies with environmental and social responsibility laws and regulations), competence (whether the client is capable of managing risks and meeting their responsibility requirements), and customer history (whether the environmental and social responsibility requirements have been adequately implemented in the past). The credit environmental and social risk assessment covers the previously listed topics, and includes recorded on-site visits and documents.

³⁸ <http://toc.mn/category/41>

³⁹ Mongolian Green Taxonomy, <https://www.ifc.org/wps/wcm/connect/0c296cd3-be1e-4e2f-a6cb-f507ad7bdfef/Mongolia+Green+Taxonomy+ENG+PDF+for+publishing.pdf?MOD=AJPERES&CVID=nikyhlh>

The result of the credit and customer risk assessment forms a matrix, which determines the corresponding actions to take for environmental and social risk management. If indicated in the risk matrix, the client must submit an Environmental Impact Assessment (EIA) made by a third party or specialised agency to the Ministry of Environment and Tourism. The bank's approval of the loan is dependent on the results of this EIA: it may refuse to provide a loan if the conclusion of the EIA indicates environmental or social danger, and if it grants a loan, the results of the EIA and Environmental Management Plan are included in the loan documentation and conditions.

Monitoring and control mechanism

This process is supervised by the bank's risk management unit, which verifies the environmental and social risk assessments made by the Customer Manager. The Credit Risk Analysts monitor whether the environmental and social risk assessments of the loans have been performed in accordance with the bank's procedures. The Credit monitoring unit monitors the credit activities, to verify completeness of the documents and compliance with the regulation. The Customer Account Manager monitors the lender's compliance with the bank's requirements for environmental and social responsibility. They also periodically review the loan documentation and the progress monitoring, in relation to the Environmental and Social Management Plans, at least once a year, and at any moment deemed necessary. Each loan's risk level is recorded in the banking system.

In addition, the Sustainable Finance Officer will submit a quarterly "Green Loan Balance Sheet Credit Report" and a "Sustainable Finance Program Implementation Report" every six months, both to the Bank of Mongolia (BOM).

Employees who are found to violate the regulation of environmental and social risk evaluation and management may be subject to criminal or administrative liability, and disciplinary sanction will be applied, following the Bank's Code of Conduct.

Below are some further observations related to specific risks:

Environmental management system and environmental impact assessment

Environmental impact assessments are imbedded in the loan approval process, as described above in the *Regulation on Assessing and Managing Environmental and Social Risks*. For loans with a "green" risk level, the borrower must fill the primary environmental and social risk assessment. For loans with a "yellow" risk level, the Environmental Impact Assessment is a mandatory part of the review process and included as part of the loan documentation.

Eco-design and life cycle impacts

There is 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 disposal of equipment or facilities.

Protection of biodiversity and ecosystems

The *Regulation on Assessing and Managing Environmental and Social Risks*, described above, requires the project proponent to refuse financing if the business financed by the loan adversely affects the diversity of nature, flora, fauna and soil, to conduct general and detailed environmental impact assessments to reduce risk, and to develop and implement annual environmental plans.

Energy use and GHG emissions

In accordance with Mongolian law, the Bank of Mongolia and the Mongolian Sustainable Finance Association, the bank conducts measurements with a special audit firm to verify whether the project reduces GHG emissions, and whether the equipment is certified based on technical specifications.

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.

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

The Bank applies legal requirements from national legislation to borrowers and projects, namely: the Mongolian Law on Environmental Protection, the Law on Air Pollution, the Law on Soil Protection, and other laws that require companies that conduct activities that affect the environment to approve and implement general and detailed environmental assessments, environmental protection plans, and other documents. These elements are also covered in the *Regulation on Assessing and Managing Environmental and Social Risks*.

Fundamental human and labour rights

According to the Issuer, if the project implementation violates the bank's requirements, measures are taken to recall the project and amend the loan agreement as non-sustainable loan which borrower should pay loan issue fee and related costs according to the bank's *Regulation of Assessment and Management of Environmental and Social Risks and Sustainable Policy*.

Health and safety of workers and local stakeholders

Same as above, if the project implementation violates the bank's requirements, measures are taken to recall the project and amend the loan agreement as non-sustainable loan which borrower should pay loan issue fee and related costs according to the bank's *Regulation of Assessment and Management of Environmental and Social Risks and Sustainable Policy*.

Promote dialogue with local stakeholders and communities

With regards to grievance mechanism for local communities, the Issuer reports that according to the national laws, local governments and local councils will check whether the interests of the citizens are affected and make demands on the project implementers. The bank will check whether those requirements are met during for the assessment of sustainable loan requests.

Business ethics

According to its Sustainability Policy, the Issuer commits to comply with the general practices of good business ethics and the Policy document defines its environmental and social obligations and guiding principles.

If the project implementation violates the bank's requirements, measures are taken to recall the project and amend the loan agreement as non-sustainable loan which borrower should pay loan issue fee and related costs according to the bank's *Regulation of Assessment and Management of Environmental and Social Risks and Sustainable Policy*.

ISSUER

Capitron Bank was established in 2001 and is headquartered in Ulaanbaatar, Mongolia. Capitron Bank operates commercial banking activities in Ulaanbaatar city, and Erdenet, Darkhan, Dornogobi, Umnugobi and Bayan-Ulgii provinces.

Management of ESG Controversies

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

Involvement in Controversial Activities

The Issuer does not appear to be 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

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 ICMA's Green Bond Principles - June 2021 ("GBP") and the Social Bond Principles - June 2021 ("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;⁴⁰
- 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

V.E defines a controversy as public information or contradictory opinions from reliable⁴¹ sources that incriminate or make allegations against an issuer regarding how it handles ESG issues as defined in V.E ESG framework. Each controversy may relate to several facts or events, to their conflicting interpretations, legal procedures or non-proven claims.

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:

⁴⁰ 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.

⁴¹ 'Reliable' means that there are sufficient details to substantiate claims made, with due attention paid to the political dimension of news and the danger of misinformation. V.E draws on investigative journalism, the business press, NGO and trade union reports which focus on corporate behavior relating to ESG issues. It is neither possible nor advisable to create a prescriptive fixed list of sources as new, valid sources arise all the time and it is necessary to investigate these as and when they are retrieved in order to comprehensively cover evolving issues and media.

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

V.E'S ASSESSMENT SCALES

Scale of assessment of financial instrument's Contribution to sustainability		Scale of assessment of financial instrument's alignment with Green and Social Bond Principles	
Advanced	An advanced expected impact combined with an advanced to robust level of E&S risk management & using innovative methods to anticipate new risks.	Best Practices	The Instrument's practices go beyond the core practices of the ICMA's Green and Social Bond Principles by adopting recommended and best practices.
Robust	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.	Aligned	The Instrument has adopted all the core practices of the ICMA's Green and Social Bond Principles.
Limited	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 advance expected impact combined with a weak level of assurance of E&S risk management.	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.
Weak	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.	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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