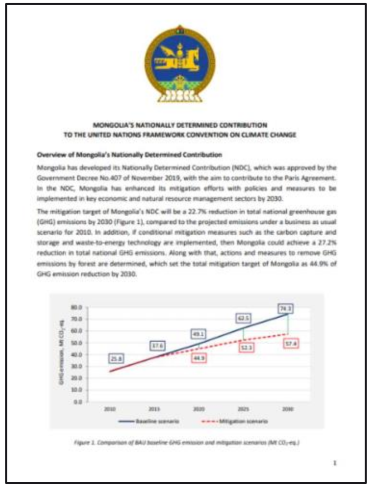
KHAN BANK

GREEN & SUSTAINABLE FINANCING

SUSTAINABLE DEVELOPMENT POLICY DOCUMENTS

SUSTAINABLE DEVELOPMENT



Mongolia's Nationally Determined Contribution

2019

"Vision 2050"

2020

SUSTAINABLE FINANCING

Green taxonomy

2019

National Sustainable financing Roadmap

2022

Sustainable Development goals taxonomy

2023

REPORT

ESG, Sustainability reporting guideline

2022

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MONGOLIA's SUSTAINABLE DEVELOPMENT GOALS

Mongolia has pledged to reduce greenhouse gas emissions by

22.7% by 2030

Funding needs and requirements

Nationally Determined Contribution (NDCs)

$11.5 billion

Funding required for operations within the framework of Mongolia's national contribution

Sustainable Development Goals

$101.7 billion

The amount of funding required to implement Sustainable Development Goals (7,9,13,15,3, and 4)

Sustainable Finance Roadmap objectives

Banking sector

10%

The share of green loans in the total loan portfolio of the banking sector by 2030

Non-bank financial sector

5%

The share of green loans in the loan portfolio of nonbank financial institutions by 2030

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Source: Mongolian Sustainable Finance Association (ToC), YCHT working group report, 2021

CHALLENGES FOR ISSUING GREEN & SUSTAINABLE BONDS

Lack of eligible assets

Market awareness, and demand

Verification costs

Technical capacity barriers

Policy uncertainty

Investor appetite

Lack of knowledge

Lack of policy support & gaps

Lack of standardized definitions & framework

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Limited financial incentives

Insufficient data

INNOVATIVE CAPITAL MARKETS PRODUCTS FOR GREEN & SUSTAINABLE FINANCING

TYPES OF BONDS

Green bond
The Green Bond Principles
Funding for green projects and programs

Social bond
The Social Bond Principles
Funding for social projects and programs

Sustainable bond
The Sustainability Bond Guidelines
Funding for green and social projects and programs

Sustainability - linked bond
The Sustainability-Linked Bond Principles
According to the needs and requirements of the organization

Climate Transition Finance
Climate Transition Finance
Organizations looking to make the transition

Blue bond
Protecting marine ecosystems

Gender bond
Aimed at Gender Equality

Main

Climate resilience bond

Catastrophe bond

Nature/Biodiversity bond

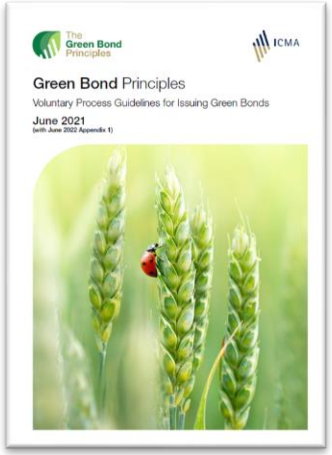
Pandemic/Health bond

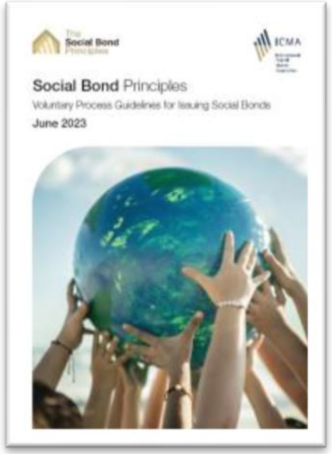
Emerging/niche

Bonds issued by Mongolia

ХААН БАНК
TDB TRADE & DEVELOPMENT BANK
TML PLASTIC
GOLOMT BANK Investing for a brighter future

ХААН БАНК
TDB TRADE & DEVELOPMENT BANK
GOLOMT BANK Investing for a brighter future





ICMA | According to the principles of the ICMA

SECOND-PARTY OPINION | Second-Party Opinion

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KHAN BANK’S GREEN AND SOCIAL BOND

USD 60 MILLION - GREEN BOND (2023)

- Mongolia’s **first-ever green bond** on the **international market**
- Private Placement
- **International investors**
- **USD, 5-year**
- ICMA Green Bond Principles **“Green Bond Framework”**
- Obtained **Second-Party Opinion**

USD 30 MILLION - GREEN BOND (2023)

- Mongolia’s **first domestic green bond $ International market**
- Private Placement & Publicly traded on the Mongolian Stock Exchange
- **Strategic investors** and **Public**
- **USD, MNT, up to 5 years**
- ICMA Green Bond Principles **“Green Bond Framework”**
- Obtained **Second-Party Opinion**

USD 130 MILLION - SOCIAL BOND (2024)

- Mongolia’s first **social bond** on the international market
- Private Placement
- International investor
- USD, up to 3 years
- ICMA Social Bond Principles **“Social Bond Framework”**
- Obtained **Second-Party Opinion**

GENERAL DOCUMENTS FOR ISSUING GREEN BOND

Khan Bank's Green Bond Framework

The Green Bond Framework is a comprehensive document that determines the "green" characteristics of the bonds to be issued, the procedure to identify eligible green project to finance, and the commitment to transparently report the allocation of the bond funding to investors.

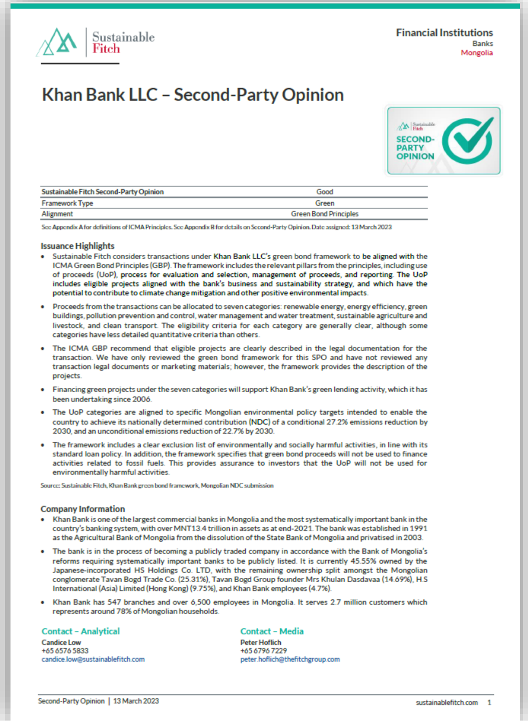
September 14, 2023

Khan Bank's Green Bond Framework includes above principles.

- Pillar 1 : Purpose
- Pillar 2 : Selection and evaluation
- Pillar 3: Fund management
- Pillar 4: Reporting

Second-Party Opinion

The Green Bond Framework is the primary document used by the external reviewers to certify whether the bond to be issued meets the requirements of the GREEN BOND PRINCIPLES



Financial Institutions
Banks
Mongolia

Khan Bank LLC – Second-Party Opinion

SECOND-PARTY OPINION

Sustainable Fitch Second-Party Opinion	Good
Framework Type	Green
Alignment	Green Bond Principles

See Appendix A for definitions of ICMA Principles. See Appendix B for details on Second-Party Opinion. Date assigned: 13 March 2023

Issuance Highlights

- Sustainable Fitch considers transactions under Khan Bank LLC's green bond framework to be aligned with the ICMA Green Bond Principles (GBP). The framework includes the relevant pillars from the principles, including use of proceeds (UoP), process for evaluation and selection, management of proceeds, and reporting. The UoP includes eligible projects aligned with the bank's business and sustainability strategy, and which have the potential to contribute to climate change mitigation and other positive environmental impacts.
- Proceeds from the transactions can be allocated to seven categories: renewable energy, energy efficiency, green buildings, pollution prevention and control, water management and water treatment, sustainable agriculture and livestock, and clean transport. The eligibility criteria for each category are generally clear, although some categories have less detailed quantitative criteria than others.
- The ICMA GBP recommend that eligible projects are clearly described in the legal documentation for the transaction. We have only reviewed the green bond framework for this SPO and have not reviewed any transaction legal documents or marketing materials; however, the framework provides the description of the projects.
- Financing green projects under the seven categories will support Khan Bank's green lending activity, which it has been undertaking since 2006.
- The UoP categories are aligned to specific Mongolian environmental policy targets intended to enable the country to achieve its nationally determined contribution (NDC) of a conditional 27.2% emissions reduction by 2030, and an unconditional emissions reduction of 22.7% by 2030.
- The framework includes a clear exclusion list of environmentally and socially harmful activities, in line with its standard loan policy. In addition, the framework specifies that green bond proceeds will not be used to finance activities related to fossil fuels. This provides assurance to investors that the UoP will not be used for environmentally harmful activities.

Source: Sustainable Fitch, Khan Bank green bond framework, Mongolian NDC submission

Company Information

- Khan Bank is one of the largest commercial banks in Mongolia and the most systematically important bank in the country's banking system, with over MNT13.4 trillion in assets as at end-2021. The bank was established in 1991 as the Agricultural Bank of Mongolia from the dissolution of the State Bank of Mongolia and privatised in 2003.
- The bank is in the process of becoming a publicly traded company in accordance with the Bank of Mongolia's reforms requiring systematically important banks to be publicly listed. It is currently 45.55% owned by the Japanese-incorporated HS Holdings Co. LTD, with the remaining ownership split amongst the Mongolian conglomerate Tavan Bogd Trade Co. (25.31%), Tavan Bogd Group founder Mrs Khulan Dasdavaa (14.69%), H.S International (Asia) Limited (Hong Kong) (9.75%), and Khan Bank employees (4.7%).
- Khan Bank has 547 branches and over 6,500 employees in Mongolia. It serves 2.7 million customers which represents around 78% of Mongolian households.

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Second-Party Opinion | 13 March 2023 sustainablefitch.com 1

March 13, 2023

Rating	**GOOD**
Framework type	**Green Bond**
Alignment	**Green Bond Principles**

Opinion

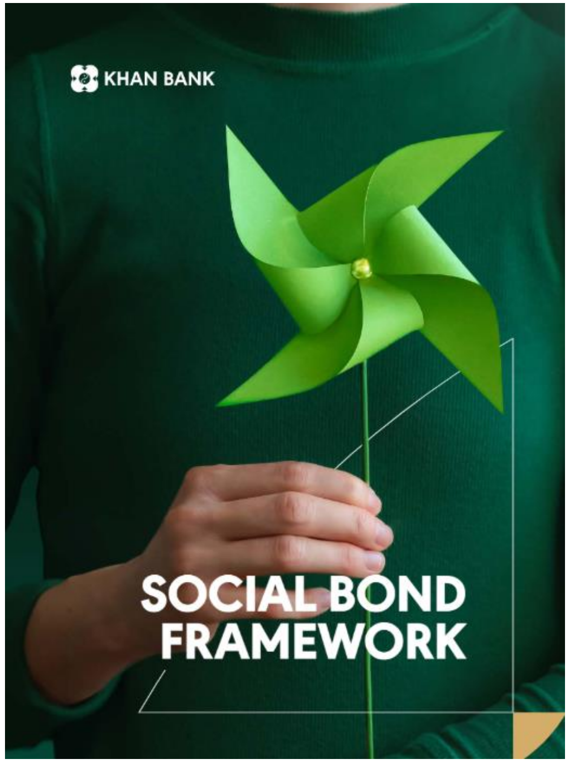
Considering that the Bank's green bond framework aligns with the ICMA Green Bond Principles, and the use of proceeds is clearly described, Sustainable Fitch assigned "Good" score.

Excellent
Good
Average
Sub-average
Poor

GENERAL DOCUMENTS FOR ISSUING SOCIAL BOND

KHAN Bank's Social Bond Framework

The Social Bond Framework is a comprehensive document that determines the "Social" characteristics of the bonds to be issued, the procedure to identify eligible social project to finance, and the commitment to transparently report the allocation of the bond funding to investors.



June 2024

ICMA
International Capital Market Association

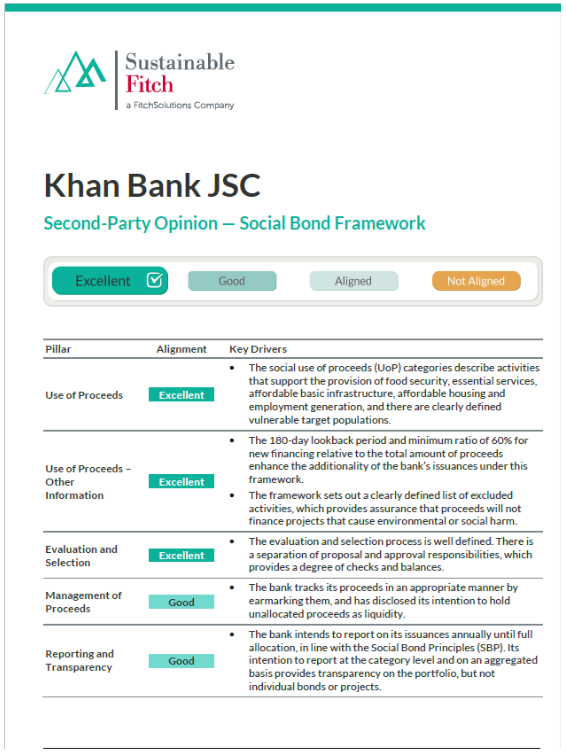
IFC International Finance Corporation WORLD BANK GROUP

Khan Bank's Social Bond Framework includes above principles.

- Pillar 1 : Use of Proceeds
- Pillar 2 : Selection and evaluation
- Pillar 3: Management of Proceeds
- Pillar 4: Reporting

Second-Party Opinion

Second-Party Opinions (SPO) are a way for issuers to obtain an independent external review on their green, social, sustainability and sustainability-linked instruments.



Sustainable Fitch
a FitchSolutions Company

Khan Bank JSC

Second-Party Opinion — Social Bond Framework

Excellent | Good | Aligned | Not Aligned

Pillar	Alignment	Key Drivers
Use of Proceeds	Excellent	• The social use of proceeds (UoP) categories describe activities that support the provision of food security, essential services, affordable basic infrastructure, affordable housing and employment generation, and there are clearly defined vulnerable target populations.
Use of Proceeds – Other Information	Excellent	• The 180-day lookback period and minimum ratio of 60% for new financing relative to the total amount of proceeds enhance the additionality of the bank's issuances under this framework. • The framework sets out a clearly defined list of excluded activities, which provides assurance that proceeds will not finance projects that cause environmental or social harm.
Evaluation and Selection	Excellent	• The evaluation and selection process is well defined. There is a separation of proposal and approval responsibilities, which provides a degree of checks and balances.
Management of Proceeds	Good	• The bank tracks its proceeds in an appropriate manner by earmarking them, and has disclosed its intention to hold unallocated proceeds as liquidity.
Reporting and Transparency	Good	• The bank intends to report on its issuances annually until full allocation, in line with the Social Bond Principles (SBP). Its intention to report at the category level and on an aggregated basis provides transparency on the portfolio, but not individual bonds or projects.

July 2024

Sustainable Fitch

Rating	**EXCELLENT**
Framework type	**Social Bond**
Alignment	**Social Bond Principles**

Opinion

Considering that the Bank's social bond framework aligns with the ICMA Social Bond Principles, and the use of proceeds is clearly described, Sustainable Fitch assigned "Excellent" score.

Excellent
Good
Average
Sub-average
Poor

THE PROCESS OF ISSUING BOND

Green & Social bond issued on the international market through private placement

Internal approval

Approval of the Board of Directors

Stakeholders

- Bond issuer
- Potential investors
- Legal advisors

Required documents

- Introduction of the bond
- "Green Bond Framework"
- "Social Bond Framework"
- **Second-Party Opinion**

Approval

- Notify the regulatory bodies

Fund raising

- Sign the bond subscription agreements with investors
- Receive the funds
- Offer green & social loans

Reporting

- Use of proceeds allocation report
- Impact report

Green & Social bond issued on Mongolian Stock Exchange through public offering

Internal approval

Approval of the Board of Directors

Stakeholders

- Bond issuer
- Underwriter
- Law firm
- Auditor
- Rating Agency

Required documents

- Introduction of the bond
- "Green Bond Framework"
- "Social Bond Framework"
- **Second-Party Opinion**

Approval

- Mongolian Stock Exchange
- Financial Regulatory Commission

Fund raising

- Primary market trading
- Secondary market trading

Reporting

- Use of proceeds allocation report
- Impact report

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USE OF PROCEEDS FOR SUSTAINABLE FINANCING

GREEN TAXANOMY (8)

1. RENEWABLE ENERGY
2. ENERGY SAVING
3. GREEN BUILDING
4. POLLUTION PREVENTION & CONTROL
5. WATER MANAGEMENT & WATER SAVING
6. SUSTAINABLE AGRICULTURE
7. CLEAN TRANSPORT
8. LOW POLLUTION ENERGY

KHAN Bank's Green Bond Framework

SOCAL CLASSIFICATION OF MONGOLIAN SDG FINANCE TAXANOMY (4)

1. EDUCATION & CULTURE
   - ACCESS TO ESSENTIAL SERVICES - EDUCATION
2. HEALTH
   - ACCESS TO ESSENTIAL SERVICES - HEALTHCARE
   - FOOD SECURITY AND SUSTAINABLE FOOD SYSTEMS
3. AFFORDABLE INFRASTRUCTURE
   - AFFORDABLE BASIC INFRASTRUCTURE
   - AFFORDABLE HOUSING
   - EMPLOYMENT GENERATION – MSME's FINANCING
4. INFORMATION TECHNOLOGY & COMMUNICATION

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KHAN Bank's Social Bond Framework

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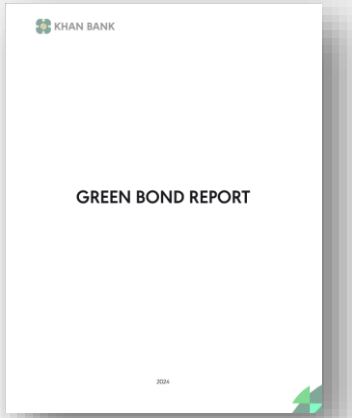
GREEN & SOCAL BOND REPORT

GREEN BOND Use of proceeds allocation reporting

- The total amount of green bond/green finance proceeds
- The total amount of allocated green bond/green finance proceeds
- An overview of the green loan portfolio per green loan category as defined under the Green Bond Framework
- Summary of projects with a brief description, amounts allocated, and impact
- Geographical distribution of allocated assets



Impact reporting

The report will include qualitative and quantitative environmental performance indicators on the green loan portfolio financed by the bond proceeds.

- Renewable energy generation (MWh per hour/year)
- GHG emissions reduction (tonnes per year)
- Annual energy savings (MWh per hour)
- Annual volume of water preserved and/or treated (m3)
- Compliance with a sustainability standard for cashmere and codes of practice

SOCIAL BOND Use of proceeds allocation reporting

- Total amount allocated
- Allocation breakdown based on categories of projects
- Regional distribution
- Project descriptions
- Status of projects
- Unallocated Proceeds
- Share of financing versus refinancing d assets

Impact reporting

Example of impact indicators may include:

- Number of affordable units/houses/dwellings constructed, improved, rented, financed, or acquired.
- Number of patients benefitting from healthcare or medical treatment
- Number of loans made to SMEs with majority women in senior management or ownership positions
- Farmers provided with access to agricultural
- inputs (financial inputs, equipment, etc
- Number of water infrastructure projects built/ upgraded

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GREEN DATABASE PLATFORM

HTTPS://GREEN.KHANBANK.COM/ platform provides the following features:

Centralized data base	User friendly, publicly accessible, and easy to understand	Simplified access to green finance	Setting baseline	Streamlined verification process

PLATFORM ADVANTAGES & BENEFITS

For vendors:

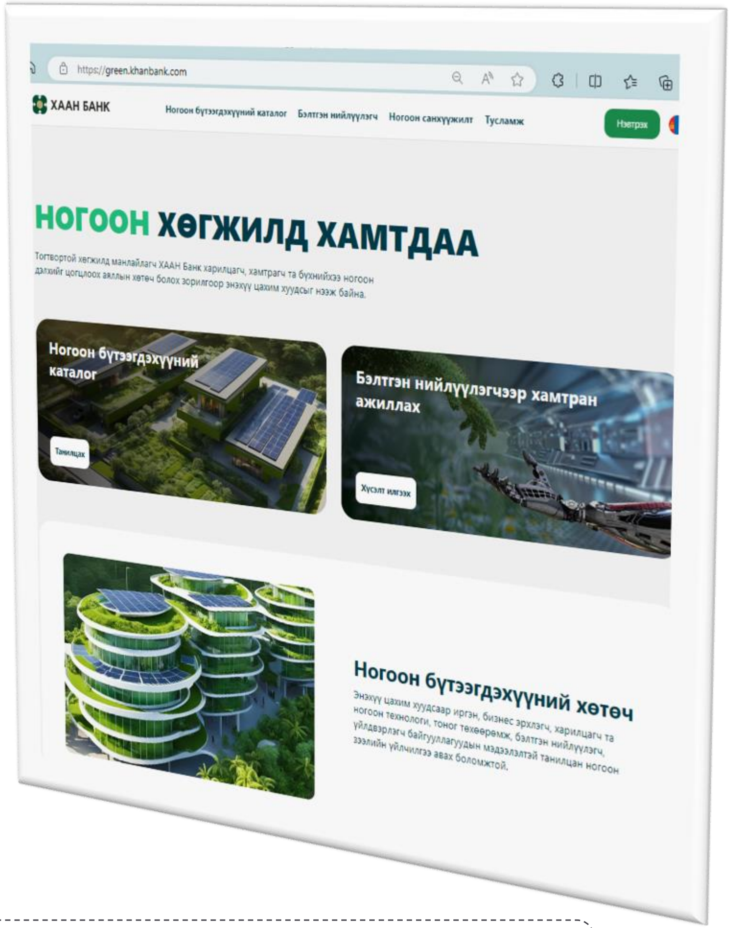
- Digitally execute collaboration agreements for green product offerings in a streamlined and convenient manne.
- Get listed as a local eligible green product vendor and enhance public visibility

For customers:

- View and select information on green products and vendors from the centralized database.
- Purchase green products through the bank's green loan
- Access knowledge and insights about green products

For the bank:

- Enhanced process for green loans for consumer and technical investment green loan
- Streamlined operational workflow
- Centralized database for green product information



In the present

488 Number of registered green products on green.khanbank.com (across 6 categories)

127 Number of registered vendors on green.khanbank.com

In the future

- Develop a database of over **10,000** green technology products across **58** subcategories defined in the green taxonomy.
- Facilitate the processing of consumer and business green loan applications via the platform.
- Increase the number of green vendors to **500** by 2026.
- Integrate with third-party verification organizations

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CAPACITY BUILDING FOR CUSTOMERS

SUPPORTING WOMEN ENTREPRENEURS PROGRAM (2020)

GREEN BUSINESS PROGRAM (2023)

GREEN FINANCING BEST PRACTICES (2023)

Information on program announcements can be accessed through the following channels

- Khanbank.com
- Khan Bank social media
- Digital newsletter for business owners
- Other news website

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THANK YOU
FOR YOUR ATTENTION!