

RESTRICTED



GREEN BOND FRAMEWORK





Contents

INTRODUCTION.....	2
ABOUT KHAN BANK.....	2
KHAN BANK’S SUSTAINABLE DEVELOPMENT POLICY	3
GREEN FINANCE AT KHAN BANK.....	4
KHAN BANK GREEN BOND FRAMEWORK.....	8
RATIONALE.....	8
USE OF PROCEEDS.....	9
Alignment of the use of proceeds with the UN SDGs and NDC Mongolia	12
Excluded activities of KHAN BANK	14
GREEN LOAN EVALUATION AND SELECTION PROCESS.....	15
MANAGEMENT OF PROCEEDS	16
REPORTING	17
Allocation reporting.....	17
Impact reporting.....	17
EXTERNAL REVIEW.....	18





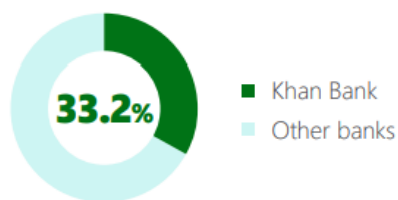
INTRODUCTION

ABOUT KHAN BANK

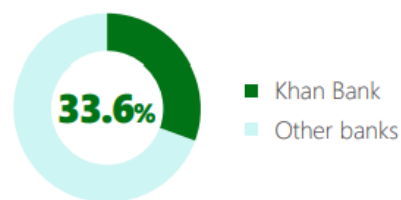
KHAN Bank was first established in 1991 as the Agricultural Bank of Mongolia with a total of 326 branches and over 2,000 employees. Today, KHAN Bank has 547 branches countrywide reaching its 2.7 million client base across 330 soums in rural areas and districts in Ulaanbaatar, providing essential banking services to 80% of all households in Mongolia 24/7 through its branches and digital banking platforms with over 6,500 employees. As a result, KHAN Bank has become the leading commercial bank in Mongolia, accounting for one-third of the country's banking sector.

Figure 1 - Market share of KHAN Bank as of 2021YE

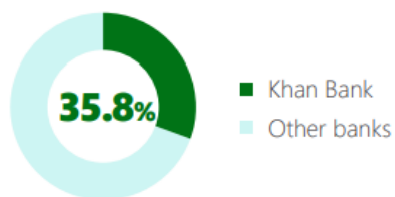
Total assets



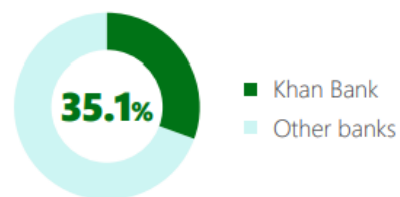
Total loans



Deposits



Equity



For the 30 years since its establishment, Khan Bank has been able to earn the trust of its customers with its strong financial performance and reliability, and we were the first to introduce many frontier fin-tech advances to the Mongolian market, such as mobile banking, internet banking, applications, and self-service banking units (kiosks), which allow customers to receive banking services anytime and anywhere, changing the paradigm of traditional banking models to technology-based digital banking.

As a result of our contributions to increasing the use of digital banking to reach more customers with a convenient banking service and decrease workloads for tellers, we have





expanded our service channels by operating over 204 Express Banking centers, over 1,431 ATMs, 215 Kiosks and 30,000 POS terminal.

On the occasion of our 31st anniversary, KHAN Bank, which has been the trusted advocate during our customers' financial journey, opened a new chapter in its history by unveiling a brand refresh. We believe that sustainable development is the future. Thus, we aspire to create an environmentally-friendly and sustainable business. KHAN Bank strives to grow with its customers and become the country's most trusted bank, contributing to society's well-being and Mongolia's development. We continue to be a leader in sustainable development to be the most reliable institution that thrives for years to come.

OUR VISION

To be the most trusted bank that grows together with our customers.

OUR MISSION

We strive to bring the best and most innovative financial resources to our customers, at every step of their financial journey.

OUR VALUES

- Be the champion of prosperity – Our role is not to simply provide banking solutions. We put our customers, employees, and shareholders on the path toward growth and prosperity.
- **Sustainability is the future – We don't stand still. We learn, adapt, and improve to build a truly sustainable business, so that we continue to equip our customers for the future.**
- Provide access to the best digital tools – Everyone deserves the best experience, and we will constantly innovate and extend access to the best financial tools.
- Be the trusted advocate for our customers – For decades, customers have trusted us with their financial lives, and we will continue to be with them, progress for them and help them reach their goals.

KHAN BANK'S SUSTAINABLE DEVELOPMENT POLICY

As the nation's largest and leading bank we aim to create a positive impact on social, economic, and environmental sustainability while we are working to ensure that the UN Global Compact's Ten Principles are at the heart of what we do at Khan Bank every day. The Bank is committed to such principles by supporting communities where our employees and customers live and work with actual contributions and real efforts. We are also focused on acting with transparency and supporting our highly ethical, environmentally conscious, and socially responsible employees across our business.





In 2019, the Bank has approved and started implementing the Sustainable development policy in its operations. The policy encompasses the following four main areas:

- Sustainable financing
- Sustainable operations
- Sustainable social investment
- Sustainable partnership and reporting

The core concept of the policy was based on the 17 Sustainable Development Goals defined by the UN in 2015, ten principles in four chapters of the Global Compact adopted by the UN in 2000, and eight principles defined by Mongolia's Sustainable Finance Program in 2013. The Bank has been including sustainable development objectives in its annual business plan since 2019. Within this scope, the Bank internally established a working group for Sustainable development which includes representatives from various departments of the Bank to define and implement the annual sustainable development initiatives of the Bank.

Since 2018, the Bank has been publishing the Sustainable Development report on an annual basis to provide detailed and transparent information about our sustainability efforts. The Sustainable Development report of the Bank can be found on the bank's website.

In February 2022, the Bank launched a brand refreshment and renewed its mission, vision, and values. Within this process, the Bank has incorporated a Sustainable Development in its core value with the aim to focus more on Sustainable development in the future.

GREEN FINANCE AT KHAN BANK

GREEN LOANS AND FINANCIAL SERVICES

As part of our Sustainable Development Policy, KHAN Bank focuses on raising awareness of green development at large and promoting responsible and environmentally savvy business activities by offering various green loan products on the market.

KHAN Bank has been implementing "green" projects and programs in collaboration with government agencies and international financial institutions for the purpose of financing environment-friendly businesses.

The green finance initiative is rooted back in 2006, when the Bank started disbursing sustainability-linked loans together with JICA for environmental protection to support small and medium enterprises.





In 2013, KHAN Bank signed a declaration to implement the Sustainable Finance (ToC) program together with other commercial banks, to encourage environmentally friendly and socially responsible financing.

In 2015, the European Bank for Reconstruction and Development launched the MONSEFF green loan program to support the financing of sustainable energy investment and energy efficiency in Mongolia. KHAN Bank has been providing these loans under the program to our customers from 2015 to 2020, to promote energy efficiency nationwide.

Air and soil pollution in Ulaanbaatar and other larger towns have been a significant concern for a long time, and international research and health institutions have determined that pollution causes increased incidences of respiratory disease among children and negatively impacts the health of the overall population. In order to decrease urban pollution, KHAN Bank started offering concessionary consumer green loan products together with the National Committee for the Reduction of Environmental Pollution and the Ministry of Environment and Tourism in 2019, which marks the start of consumer green lending at KHAN Bank. The customers are able to enjoy the concessionary interest rate offered by the Bank for various green loan purposes including upgrading the pit latrine and improving home energy through reducing heat loss of houses.

In 2021, KHAN Bank successfully concluded long-term facility agreements with Global Climate Partnership Fund managed by responsAbility Investment AG, to finance sustainable and green projects including energy efficiency, renewable energy generation projects, and green buildings.

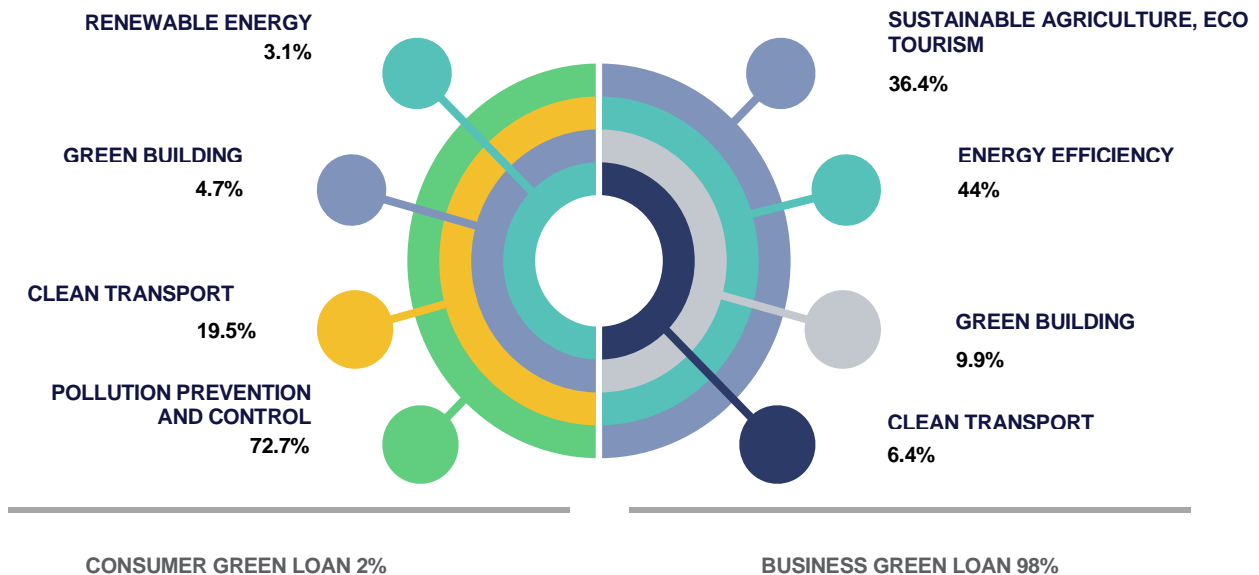
In the same year, KHAN Bank signed another long-term facility agreement of USD 120 million, of which USD 20 million was to be utilized for green purposes, with Dutch Entrepreneurial Development Bank (FMO), in cooperation with Europe's leading development banks and financial institutions.

As we are committed to advising and financing our customers in building resilient and sustainable business models, we are offering various green business and consumer loans on the market.





Figure 2 - KHAN Bank's green loans by green taxonomy categories as of 2022H1



Upon the approval the Mongolian Green Taxonomy in 2019 by the Financial Stability Committee of Mongolia, KHAN Bank has been reporting its green loan statistics to the Central Bank of Mongolia on quarterly basis.

Throughout the years, we have made significant progress in providing green loans to our retail and business customers, supporting our customers with their sustainability ambitions, and helping them to facilitate their shift toward becoming green businesses.

The information on green loan products and services can be found on the Bank's website.

CREDIT ENVIRONMENTAL AND SOCIAL MANAGEMENT ASSESSMENT

Upon approval of its first-ever Environmental and Social management policy in 2011, KHAN Bank has started systematically conducting an environmental and social risk assessment on loan requests and ESMS has become an integral part of KHAN Bank's Loan policy and lending processes.

In 2019, KHAN Bank improved its environmental and social management system in cooperation with Sustainability East Asia LLC, an Australian-based international consulting firm, and upgraded its ESMS process in line with IFC Performance Standards.

As per the existing ESMS procedure at the Bank, we conduct the following types of E&S assessment depending on the requested loan amount of the client and E&S impact:

- ☞ E&S Due Diligence by in-house Environmental and Social officers for business loan applications of USD 5 million or more with a 36-month tenor and those with





High and Medium E&S impact. If deemed necessary, the Bank hires the third-party to conduct an E&S Due diligence assessment.

- ⌘ E&S Risk Assessment by in-house ESG risk officers for loan applications of MNT 100 million (*equivalent in USD 31,400*) with High and Medium E&S impact

The Bank monitors the client's E&S performance on regular basis by conducting an on-site and off-site E&S performance review and identifies any non-compliance by developing and implementing an action plan to improve client's E&S performance and including in the loan agreement signed with the client.

E&S Due Diligence and E&S Risk assessment checklists and questionnaires cover all IFC Performance standards requirements, including:

- ⌘ Assessment and management of E&S impacts;
- ⌘ Labor and working conditions;
- ⌘ Resource efficiency and pollution prevention;
- ⌘ Community health, safety and security;
- ⌘ Land acquisition;
- ⌘ Biodiversity conservation and sustainable management of living natural resources;
- ⌘ Indigenous people; and
- ⌘ Cultural heritage





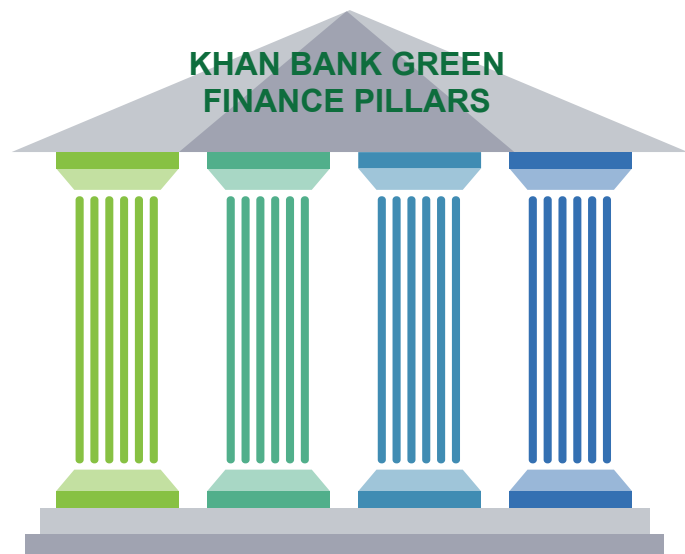
KHAN BANK GREEN BOND FRAMEWORK

RATIONALE

KHAN Bank's green bond program supports the Nationally Determined Contributions of Mongolia under Paris Climate Agreement, while contributing to address climate change mitigation and adaptation challenges, focusing on the mobilization of financial resources to green economic development.

As KHAN Bank aims to fund projects that demonstrate positive environmental and climate outcomes for the benefit of society, through the issuance of green bonds, we have defined high-level pillars to guide our Green finance approach. These green finance pillars describe the real-world environmental and socio-economic outcomes we seek to achieve through our green finance products and services.

Figure 3 - KHAN Bank Green Finance pillars



This Green Bond Framework has been designed with the intention to reflect current best market practices, thus it was aligned with the Green Bond Principles (GBP), 2021 version, as published by the International Capital Market Association (ICMA). The GBP is a set of voluntary guidelines that recommend transparency and disclosure, and promote integrity in the development of the green bond market by clarifying the approach for issuing green bonds.

In accordance with the Green Bond Principles, this framework is composed of the following four components:





- 🌀 Use of proceeds
- 🌀 Process for green loan evaluation and selection
- 🌀 Management of proceeds
- 🌀 Reporting

The Framework may be further updated or expanded from time to time to reflect future updates to the Green Bond Principles. The Green Banking team under the Credit Policy and Regulations Department will manage any future updates to the Framework, including expansion of its eligible Use of Proceeds categories, and future amendments to reflect developments in KHAN Bank’s strategy, market, and regulatory developments.

USE OF PROCEEDS

An amount equal to the proceeds of Green Bond issuance will be exclusively used to finance or refinance in whole or in part, projects and activities (the Green eligible loans) that seek to achieve positive environmental impacts, a notable contribution to climate change mitigation. Eligible projects or activities to be refinanced by the bond proceeds shall not exceed 20% of the total amount of proceeds and the look-back period shall be up to 180 days before the date of the Green Bond issuance.

Project or activities to be financed by the proceeds of green bonds should meet at least one of the eligibility criteria as described in the table below.

ELIGIBLE GREEN ACTIVITIES	KHAN Bank Green finance pillars
<p>RENEWABLE ENERGY</p> <p>Financing the construction, development, operation, acquisition, maintenance and distribution of the following renewable energy generation sources:</p> <ul style="list-style-type: none"> 🌀 Onshore wind power 🌀 Solar PV 🌀 Solar thermal 🌀 Concentrated solar power 🌀 Geothermal 🌀 Small scale (<20MW) hydropower generation 	<p>Pillar 1: Reduce greenhouse gas emissions</p> <p>Pillar 2: Enable the transition to a low-carbon economy</p>
<p>ENERGY EFFICIENCY</p> <p>Financing products, technology, or services that optimize energy consumption and promote energy efficiency. Eligible Energy Efficiency projects should generate energy / CO₂ savings of at least 20%.</p> <p>Brownfield investment focus on modernization and upgrading, improvement or rehabilitation of existing installations, plants and other facilities, or new installations that directly replace existing installations. The baseline for brownfield projects is the existing situation.</p> <p>Greenfield investments refer to projects on new sites or in existing facilities where the vast majority of the plant and equipment is new. For projects in existing facilities, all</p>	<p>Pillar 1: Reduce greenhouse gas emissions</p> <p>Pillar 2: Enable the transition to a low-carbon economy</p>





the critical items of equipment are decommissioned or primarily involve the acquisition and deployment of new appliances or equipment. The baseline for Greenfield projects are the minimum energy efficiency standards defined for the given type of technology or processes.

Replacing equipment with higher capacity equipment, is eligible if the new capacity is not more than twice the current capacity and the energy consumption or GHG emissions are reduced by 20% or more per unit of output.

- ☉ Heat recovery for hot water (from A/C or Refrigeration systems)
- ☉ Repair / replacement of leaking steam traps
- ☉ Boiler upgrades:
 - Residential, office and commercial boilers where the change is from heat boilers to condenser boilers
 -
- ☉ Automation and control of electrical and mechanical systems: upgrade of lighting controls (e.g. occupancy sensors); upgrade of heating controls (e.g. timers), variable Speed Drives on motors; install auto run-off switches; switch to induction heating, and critical system components related to any of the above
- ☉ Lighting upgrades from incandescent to CFL or LED or from fluorescent to LED or T8/T5.
- ☉ Purchase IE2 or IE3 motors, or replacement of IE1 with IE2 or IE3.

GREEN BUILDING

Financing assets that have received, or expect to receive certification based on their design, construction, and operation plans, according to third-party verified building standards, including:

- ☉ LEED “Silver”
- ☉ BREEAM “Good”
- ☉ EDGE “Standard”
- ☉ Class A++, A+, A, B as per BNaC 25-01-20 “Building thermal performance” of Mongolia. Building thermal performance ratio is based on the energy required for heating and ventilation versus the normative standard.

<i>Energy label</i>	<i>Building energy classification</i>	<i>Performance ratio</i>
A++	Passive building	<20%
A+	Low-energy building	20% to 40%
A	High energy efficient building	40% to 65%
B	Energy efficient building	65% to 90%

Building renovation leads to energy savings of at least 20% in comparison to the baseline performance of the building before the renovation.

- ☉ insulation of walls and roofs,
- ☉ LED lighting,
- ☉ replacement of boilers,
- ☉ install energy management systems,
- ☉ replacement of heating, ventilation, and air conditioning systems

Pillar 1: Reduce greenhouse gas emissions

Pillar 3: Promote a circular economy through resource efficiency, waste recycling, and pollution control

POLLUTION PREVENTION AND CONTROL

Financing development, manufacturing, construction, operation and maintenance of waste management activities, including:

- ☉ Waste prevention, waste reduction
- ☉ Collection and processing of various types of waste
- ☉ Waste recycling projects that recover or reuse materials and waste as inputs into new products or as a resource

Pillar 2: Enable the transition to a low-carbon economy

Pillar 3: Promote a circular economy through resource efficiency, waste





<ul style="list-style-type: none"> 🌀 Collection bins and trucks for expansion of separate collection of recyclable materials and bio-waste (plant, animal, fiber) and renewal of existing fleet with vehicles that result in permitted emission reductions 🌀 Composting facilities for bio-waste <p>Excluded waste activities:</p> <ul style="list-style-type: none"> 🌀 All activities related to hazardous waste 🌀 All activities related to medical and biomedical (human or animal) waste 🌀 Waste incineration and similar types of thermal treatment 	<p>recycling, and pollution control</p>
<p>WATER MANAGEMENT AND WATER TREATMENT</p> <p>Financing materials, equipment, appliances, and technologies that enable reduction in water consumption and/or improve water use.</p> <ul style="list-style-type: none"> 🌀 Production, purchase, and deployment of water-saving, monitoring, storage, and distribution technologies and systems 🌀 Water recycling facilities 🌀 Wastewater treatment facilities 🌀 Rainwater harvesting, storage, and distribution <p>The investment shall achieve</p> <ul style="list-style-type: none"> 🌀 a energy savings of at least 20% when compared to the “Reference energy baseline” And 🌀 a water savings of at least 20% when compared to the “Reference water baseline”, or 🌀 sustainable water generation installations including those of capacity equal to or greater than 100m3/year. 🌀 	<p>Pillar 3: Promote a circular economy through resource efficiency, waste recycling, and pollution control</p>
<p>SUSTAINABLE AGRICULTURE AND LIVESTOCK</p> <p>Assets that contribute to sustainable management of natural resources and land use, including organic agriculture and animal husbandry products, and climate-smart agriculture.</p> <ul style="list-style-type: none"> 🌀 Organic agriculture and animal husbandry products 🌀 Climate-smart agriculture 🌀 Afforestation and reforestation 🌀 Sustainable forest management <p>Eligible investments include</p> <ul style="list-style-type: none"> 🌀 Sustainable Fibre Alliance (SFA) certified herder organizations and processing plants that meets the requirements for animal welfare, rangeland stewardship, and clean fibre processing. 🌀 Compliance with Responsible nomad, green gold or other nationally recognized standard. Such as, overall score of over 60% of total Indicators of Responsible Nomads-Standard for Sustainable Code of Practices of Livestock production approved by State Standardization Office in February 2020 <p>Good Agricultural Practice (GAP) certified farmers</p>	<p>Pillar 4: Supporting the sustainable agriculture and livestock management practice</p>
<p>CLEAN TRANSPORT</p> <p>Financing the establishment, acquisition, expansion, upgrades, maintenance, and operation of brand-new electric passenger vehicles and related infrastructures.</p> <ul style="list-style-type: none"> 🌀 Projects that increase the production or distribution of electric public transportation 🌀 Projects that enable the deployment of clean transportation assets, such as electric charging stations 	<p>Pillar 1: Reduce greenhouse gas emissions</p> <p>Pillar 2: Enable the transition to a low-carbon economy</p>














Alignment of the use of proceeds with the UN SDGs and NDC Mongolia





ALIGNMENT TO UN SDGs and POLICY TARGET OF MONGOLIA

All the eligible green projects financed by KHAN Bank with the green bond proceeds contribute to the following policy targets related to climate change mitigation and the Nationally Determined Contributions of Mongolia under the Paris Agreement and the achievement of UN SDGs.

ELIGIBLE GREEN ACTIVITIES	SDG ALIGNMENT 	ALIGNMENT WITH KEY POLICY TARGETS OF MONGOLIA 
<p>RENEWABLE ENERGY</p>	<p>7 AFFORDABLE AND CLEAN ENERGY</p> 	<ul style="list-style-type: none"> Reduce greenhouse gas emissions in the energy sector, through increased energy efficiency by 20 percent in 2030, and by ensuring that the share of renewable energy used in total energy production is at 20 percent by 2020, and at 30 percent by 2030. This will be achieved by renewing energy production and other industrial technologies, by reducing excessive consumption and losses, and by the optimization of pricing policies. Increase renewable electricity capacity to 20% by 2020 and to 30% by 2030 as a share of total electricity generation capacity.
<p>ENERGY EFFICIENCY</p>	<p>7 AFFORDABLE AND CLEAN ENERGY</p>  <p>9 INDUSTRY INNOVATION AND INFRASTRUCTURE</p>  <p>11 SUSTAINABLE CITIES AND COMMUNITIES</p> 	<ul style="list-style-type: none"> Reduce internal energy use of Combined heat and power plants (improved plant efficiency) from 14.4% in 2014 to 11.2% by 2020 and 9.14% by 2030. Improve the energy efficiency of designated entities by 15%. Reduce electricity transmission losses from 13.7% in 2014 to 10.8% by 2020 and to 7.8% by 2030.
<p>GREEN BUILDING</p>	<p>7 AFFORDABLE AND CLEAN ENERGY</p>  <p>11 SUSTAINABLE CITIES AND COMMUNITIES</p> 	<ul style="list-style-type: none"> Reduce GHG emissions in the construction sector by 16% in 2030. Reduce building heat loss by 20% by 2020 and by 40% by 2030.
<p>POLLUTION PREVENTION AND CONTROL</p>	<p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p> 	<ul style="list-style-type: none"> Reduce GHG emissions from waste by 21% by 2030. Reduce solid waste in landfills by 20% by 2020, and by 40% by 2030, by improving waste management, increasing waste recycling and





		<p>processing, and promoting the production of value added products.</p> <ul style="list-style-type: none"> ▪ Increase the amount of recycled waste to 30% of the total waste.
<p>WATER MANAGEMENT AND WATER TREATMENT</p>		<ul style="list-style-type: none"> ▪ Provide at least 90% of the population with access to safe drinking water ▪ Maintain availability of water resources through the protection of runoff formation zones and their native ecosystems in river basins ▪ Protect at least 50% of water resources, river streams, and water sources under special protection and find solutions for sustainable water supply in Ulaanbaatar and for industries and mining in the Gobi region.
<p>SUSTAINABLE AGRICULTURE AND LIVESTOCK</p>	 	<ul style="list-style-type: none"> ▪ Increase the processing of raw materials such as leather, wool, and cashmere to 60% by 2020, and to 80% by 2030, through the promotion of sustainable agriculture development, and the development of an industrial processing cluster that is export-oriented and based on green technology ▪ Reduce GHG emissions from deforestation and forest degradation by 2% by 2020 and 5% by 2030. ▪ Maintain livestock population at appropriate levels according to the pasture carrying capacity. ▪ Increase the forest area to 9% by 2030 through reforestation activities.
<p>CLEAN TRANSPORT</p>		<ul style="list-style-type: none"> ▪ Increase the share of private hybrid road vehicles to approximately 13% by 2030. ▪ Shift from liquid fuel to LPG for vehicles in Ulaanbaatar and aimag centers by improving taxation and environmental fee system. ▪ Introduce sustainable public transportation systems (development of a BRT system and improvement of the public transport system in Ulaanbaatar)

ALIGNMENT TO MONGOLIAN SUSTAINABLE FINANCE ROADMAP

Mongolian Sustainable Finance Roadmap was approved by the Financial Stability Council of Mongolia, which includes the Minister of Finance, the Governor of the Bank of Mongolia, the Head of the Financial Regulatory Commission, and the Director of the Deposit Insurance Corporation of Mongolia, as members, on March 29, 2022. With the





approval of the roadmap, the goal is to increase green lending to 10% in the banking sector and 5% in the non-bank financial sector by 2030, and to make Mongolia a center of sustainable financing and leadership in the region.

Excluded activities of KHAN BANK

KHAN Bank does not finance the following activities under its loan policy. In addition, the bank will not finance any activities related to fossil fuels (including coal and coal-related activities) using the green bond proceeds:

- 🌀 Any activities subject to a ban under Mongolian laws.
- 🌀 Activities prohibited by international treaty and conventions
- 🌀 Production, import and trade of drugs and narcotics unless otherwise stated in the laws
- 🌀 Organizing pornographic events, and any types of promotion and support thereof
- 🌀 Gambling and casino activities
- 🌀 Manufacture of weapons and ammunition
- 🌀 Activities that earn monetary gain through deceitful multi-layered marketing or pyramid schemes
- 🌀 Exploration and mining of minerals in the buffer zone of any river delta and wetlands or in forest reserves
- 🌀 Activities involving harmful or exploitative forms of forced labor / harmful child labor, discriminatory practices, or practices, which prevent employees from lawfully exercising their rights of association and collective bargaining
- 🌀 Production or trade-in or use of unbounded asbestos fibers or asbestos-containing products
- 🌀 Prepare logs from the forest without rehabilitation
- 🌀 Tropical rainforest cutting equipment and equipment sale
- 🌀 Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage
- 🌀 Production or trade in products containing Polychlorobiphenyl (PCBs)
- 🌀 Production or trade in pharmaceuticals subject to international phase-outs or bans
- 🌀 Production or trade in ozone-depleting substances subject to international phase-outs
- 🌀 Trade in wildlife or wildlife products related under CITES
- 🌀 Drift net fishing in the marine environment using nets in excess of 2.5 km in length
- 🌀 Shipment of oil or other hazardous substances in tankers that do not comply with IMO requirements
- 🌀 Transboundary transport and disposal of international wastes
- 🌀 Anti-democratic, racism-propagating activities





- ☯ Storage and disposal of radioactive waste production, sales, and radioactive waste. It does not involve the sale of health and quality control equipment that the radioactive sources are safeguarded.
- ☯ Energy generation using nuclear fuels
- ☯ Disruption, involuntary resettlement and relocation of livelihoods of citizens
- ☯ Activities involving the release of genetically modified organisms (GMOs) in the natural environment, and trade in GMOs to be released into the environment.
- ☯ Projects and/or activities which have had a significant adverse impact on the environment, occupational health and safety, and violations of relevant laws and regulations that are known to the public.
- ☯ Dam construction activities: a. destroying the natural ecosystem in the upstream and downstream side of the dam, b. changing natural hydrology, c. flooding large areas, d. affecting biodiversity, e. involuntary resettlement of a large number of local residents (5,000 or more people), f. adversely affecting the livelihoods of local residents.

The green bond proceeds shall not be used to finance any projects and/or activities which is likely to have significant adverse environmental and social impact based on the result of E&S risk assessment of the bank.

GREEN LOAN EVALUATION AND SELECTION PROCESS

The Green Loan Evaluation and Selection process will be managed by the Green Banking team under the Credit Policy and Regulations Department, overseen by the Head Office Credit Risk Committee of the Bank.

Each green loan request will be assessed and evaluated in alignment with the Green Bond Framework and Eligible green activities.

All potential green loans in KHAN Bank go through the standard credit process which intends to ensure compliance with applicable national rules and regulations, KYC processes, and KHAN Bank's internal policies and procedures, such as Credit policy and credit operational procedure, AML, Counter-Terrorist Financing, and Sanctions policies.

According to KHAN Bank's Lending operations procedure, each project or loan request is screened against E&S risk level by three color system, where green is low risk, yellow is medium risk, and red is high risk. If the E&S risk of the loan applicant's business sector is green, the loan officer will proceed credit assessment process as normal. If the E&S risk is yellow or red, based on the loan size requested in the application, a simple or comprehensive due diligence (DD) is applied for the loan requested.





The credit underwriting process for green loans starts with receiving a potential green loan request at the sub-branch level, loan officer requests for permission to process the loan application from the Green Banking team. The team completes the initial screening against the eligibility criteria and grants the permit to start the standard credit assessment process. A technical assessment simultaneously starts on the potential green loan request by technical experts. A loan proposal is submitted to the respective Credit Committee with the final technical assessment report and other necessary expert opinions listed in the table below.

Expert opinions	Description	Issued by
Civil engineer opinion	Civil engineer’s opinion is required for construction loan requests.	Civil Engineer, Corporate Credit Risk Department
Legal opinion	Legal opinion and Risk analyst opinion are required for all proposals to be discussed at Head Office Credit committee and Head Office sub-credit committee.	Legal advisor, Legal Department
Risk analyst opinion		Risk analyst, Corporate Credit Risk Department
Compliance opinion	Compliance opinion is required for all proposals to be reviewed by the Board of Directors.	Compliance officer, Compliance Department
ESG risk assessment	ESG risk assessment is required for business loan request with amount higher than MNT 100 million and business operation fall under Category Red and Yellow activity.	ESG risk analyst, Credit Policy and Regulation Department
ESG due diligence	ESG due diligence is required for business loan requests with amounts higher than USD 5 million with a tenor longer than 36 months, where business operation of customer fall under Category Red and Yellow activity.	ESG risk analyst, Credit Policy and Regulation Department

MANAGEMENT OF PROCEEDS

The Green Bond proceeds will be managed by KHAN Bank on an individual bond basis. The proceeds of a green finance instrument will be utilized by means of allocation to the green asset pool at the time of issuance. This allocation will be made transparent by earmarking the identified eligible green assets that constitute the green asset pool. The Green Banking team of KHAN Bank shall monitor the allocation of net proceeds from green bonds issued under the framework through the bank’s management information system (MIS), so as to maintain the transparency and integrity of the instrument.





As long as Green Bonds are outstanding, it is intended to exclusively allocate an amount equivalent to the net proceeds of these instruments to a portfolio of Green Eligible Assets which meet the eligibility criteria and other criteria as described in the Framework.

During the life of the green bond, if a loan ceases to fulfill eligibility criteria, KHAN Bank will remove the loan from the Eligible Green Loan Portfolio.

In addition, the proceeds temporarily unallocated will be invested in liquid government securities following the bank's standard liquidity policy.

REPORTING

KHAN Bank intends to publish Green Bond reporting within one year from the first issuance, and on an annual basis thereafter until the bond maturity. KHAN Bank's Green Bond reporting will be made publicly available on KHAN Bank's website and will include disclosure on both allocation and impact objectives.

Allocation reporting

The green bond report will include information on the allocation of the Green Bond proceeds annually until all proceeds have been allocated. The allocation reporting will include:

- ☉ The total amount of green bond proceeds
- ☉ The total amount of allocated green bond proceeds An overview of the green loan portfolio per green loan category
- ☉ An overview of the green loan portfolio per product type \e.g. capital investment\
- ☉ Summary of projects with a brief description, amounts allocated, and impact An overview of the geographical distribution of allocated assets
- ☉ The balance of unallocated proceeds (if any)

Impact reporting

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

GREEN LOAN CATEGORY	KEY PERFORMANCE INDICATORS
RENEWABLE ENERGY	<ul style="list-style-type: none"> ▪ Renewable energy generation (MWh per year) ▪ Installed renewable energy capacity (MW) ▪ GHG emissions reduction (tonnes per year)
ENERGY EFFICIENCY	<ul style="list-style-type: none"> ▪ Annual energy savings (MWh) ▪ GHG emissions reduction (tonnes per year)
GREEN BUILDING	<ul style="list-style-type: none"> ▪ Annual energy savings (MWh) ▪ GHG emissions reduction (tonnes per year) ▪ Water efficiency





POLLUTION PREVENTION AND CONTROL	<ul style="list-style-type: none">▪ GHG emissions reduction (tonnes per year)
WATER MANAGEMENT AND WATER TREATMENT	<ul style="list-style-type: none">▪ Annual volume of water preserved and/or treated (m³)
SUSTAINABLE AGRICULTURE AND LIVESTOCK	<ul style="list-style-type: none">▪ Compliance with a sustainability standard for cashmere and codes of practice (SFA certified)
CLEAN TRANSPORT	<ul style="list-style-type: none">▪ GHG emissions reduction (tonnes per year)

EXTERNAL REVIEW

Prior to any issuance, KHAN Bank will commission an independent party to provide a second-party opinion for its Green Bond Framework and also conduct a pre-issuance verification.

KHAN Bank will request on an annual basis, starting one year after issuance and until maturity, a limited assurance report of the allocation of the proceeds of bonds issued under the framework to Eligible Projects.

The external review will be publicly available on the KHAN bank's website and/or through any other accessible communication channels as appropriate.

