Khan Bank LLC – 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 MNT14.9 trillion in assets as of end-2022. 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 545 branches and over 6,470 employees in Mongolia. It serves 2.8 million customers, which represents around 82% of Mongolian households.

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- Khan Bank's main business segments are retail banking, corporate banking, and SME banking. Retail banking accounted for the majority of Khan Bank's profit at end-2022. The bank's total loan portfolio was MNT7.97 trillion as at end-2022. The total loan portfolio comprises consumer loans (47%); micro, small and medium enterprises (MSME) loans (36%); and corporate loans (16%).
- Under retail banking, Khan Bank provides current and savings accounts, deposits, credit and debit cards, consumer and MSME loans, and mortgages. More than half (55%) of the bank's retail portfolio comprises consumer loans, with small business loans (31%) and mortgages (14%) accounting for the remainder.
- Khan Bank's SME and corporate banking units provide current, demand and term deposit accounts, overdrafts, loans and other credit facilities. The bank set up a dedicated SME unit in 2021 to support SMEs with consultation services. The micro-enterprise and SME sectors are important components of Mongolia's economy, accounting for around 77% of total registered businesses and 72% of the total workforce. SME lending therefore supports access to finance, job creation, and economic development.
- Agricultural loans for herders and farmers accounted for 7%, or MNT585 billion of Khan Bank's total loans in 2022. The sector is an intrinsic part of Mongolia's economy, accounting for over 13% of GDP in 2022, second only to mining and quarrying (25%).
- Khan Bank offers various green business and consumer loans at concessionary interest rates, in collaboration with government agencies and international financial institutions. The loans are offered based on environmental criteria such as achieving a 20% reduction in energy consumption or emissions. The vast majority (98%) of its present green loan portfolio are business loans, with SME loans accounting for 41% of total green loans. The bank's green lending activity supports positive environmental outcomes; however, further information on the sectoral exposure of the bank's total portfolio would provide useful context to understand its overall lending impacts.
- Khan Bank developed a sustainable development policy in 2020. It focuses on embedding sustainability in its financing, operations, social programmes, and reporting. The bank has undertaken measures to increase the energy, heat, water and resource efficiency of its operations, and has various voluntary community initiatives to support rural development, education, and public health. However, it does not have quantitative environmental or social targets for its operations at present.

Source: Sustainable Fitch, Khan Bank annual report 2021, Khan Bank website, other company materials, Mongolian statistical information service, Asian Development Bank

Use of Proceeds – Eligible Projects

Opinion: Good

Company Material	Fitch's View
Renewable energy	
• This UoP covers the construction, development operation, acquisition, maintenance, and distribution of renewable energy generation sources. The sources specified are onshore wind power, solar photovoltaic, solar thermal, concentrated solar power, geothermal, and small scale hydropower generation (below 20MW).	• We expect this UoP to be aligned with the renewable energy category of the ICMA GBP. • Renewable energy projects in Mongolia support UN Sustainable Development Goal (SDG) 7 (affordable and clean energy) and contribute to increasing the share of renewable energy in the country's energy supply and diversifying its energy mix, which is dominated by coal and oil. • We expect renewable energy projects to also contribute to alleviating air pollution, which is a significant problem in Mongolian cities, especially the capital Ulaanbaatar.
Energy efficiency	
• This UoP covers financing products, technology, or services that optimise energy consumption and promote energy efficiency. Energy efficiency projects need to generate energy or CO2 savings of at least 20% to be eligible. • This UoP can be used towards brownfield or greenfield investments. Brownfield investments refer to the modernisation, 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. • 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 the critical items of equipment are decommissioned or primarily involve the acquisition and deployment of new appliances or equipment. The baseline for greenfield projects is the minimum energy efficiency standards defined for the given type of technology or process. • Replacing equipment with higher capacity equipment is eligible if the new capacity is not more than twice the current capacity. In addition, the energy consumption or GHG emissions per unit of output should be reduced by 20% or more. • Eligible projects include: heat recovery for hot water from air conditioning or refrigeration systems; repair or replacement of leaking steam traps; automation and control of electrical and mechanical systems such as upgrading lighting and heating controls, variable speed drivers on motors, installing auto run-off switches and switching to induction heating; lighting upgrades from incandescent to compact fluorescent lamps or LED, or from fluorescent to LED or T8 or T5 light bulbs; purchase of motors with standard efficiency rating IE2 or IE3, or replacement of IE1 motors with those rated IE2 or IE3; and boiler upgrades. • Eligible boiler upgrades refer to switching from heat to condenser boilers for residential, office, and commercial boilers.	• We expect this UoP to be aligned with the energy efficiency category of the ICMA GBP. • Energy efficiency projects support SDGs 7, 9 (industry, innovation and infrastructure), and 11 (sustainable cities and communities) by achieving heat and energy savings which in turn contribute to reducing emissions. This improves the environmental sustainability of industry and the built environment. • The examples of energy efficiency projects provided in the framework refer mainly to applications for the industrial and buildings sectors, which account for over 85% of Mongolia's energy consumption. • We consider the 20% threshold for energy or emissions reductions as appropriate for Mongolia's context as a lower middle income country and note that the threshold is in line with the criteria specified in the Mongolian green taxonomy. Other international taxonomies may have higher thresholds. For example, the EU taxonomy requires a minimum 30% improvement in primary energy demand for building renovation activities to be eligible.
Green buildings	
• This UoP covers the financing of assets certified as green and renovations that lead to energy savings. • The UoP can be used for financing of building assets that have received, or expect to receive, certification based on their design, construction, and operation plans. The certifications may include LEED Silver, BREEAM Good, EDGE Standard, or Class A++, A+, A, and B as per BNaC 25-01-20 building thermal performance standard of Mongolia. The labels under the Mongolian standard indicate the	• We expect this UoP to be aligned with the green building category of the ICMA GBP. • Green buildings support SDGs 7 and 11 by reducing indirect emissions from heating or energy use and improving the environmental performance of the built environment. • The framework includes examples of internationally recognised green building certifications, which require buildings to fulfill several environmental criteria on aspects

Use of Proceeds – Eligible Projects

Opinion: Good

Company Material	Fitch's View
energy consumption required for heating and ventilation as a percentage of the normative standard. Class A++ buildings use less than 20% of energy consumption of a standard building, while class B buildings use 65% to 90% of the energy of a standard building. • The UoP also covers building renovations that lead to energy savings of at least 20% compared to the baseline of the building before renovation. Renovation projects include the insulation of walls and roofs, LED lighting, replacement of boilers, installation of energy management systems, and the replacement of heating, ventilation, and air conditioning systems.	such as energy performance, water usage, waste reduction, air and water quality, and public transport accessibility. • The Mongolian taxonomy considers green buildings with these international certifcations as eligible. The framework specifies the standard or intermediate tiers of these international certifications, rather than the top tiers which have the most stringent requirements. We expect that these requirements would still generate positive environmental impacts given that Mongolia is a lower middle income country with nascent green building stock. • The use of Mongolian building thermal performance labels to select assets ensures that the financed assets will be at least 10% more energy efficient than a standard building. • We consider the 20% threshold for energy savings from building renovations as appropriate for Mongolia's context. The renovation measures mentioned in the framework focus on improving insulation and heating and lighting systems. These are material given the necessity for heating buildings during Mongolia's winter period, when temperatures can drop to minus 40°C. Other international taxonomies may have higher thresholds. For example, the EU taxonomy requires a minimum 30% improvement in primary energy demand for building renovation activities to be eligible.
Pollution prevention and control	
• This UoP covers the development, manufacturing, construction, operation and maintenance of waste management activities. Eligible activities include waste prevention and reduction, collection and processing of various types of waste, water recycling projects that recover or reuse materials and waste as inputs into new products or as a resource, collection bins and trucks for expansion of separate collection of recyclable materials and bio-waste (plant, animal, fibre) and renewal of existing fleet with vehicles that result in permitted emissions reductions, and composting facilities for biowaste. • This UoP excludes all activities related to hazardous, medical, and biomedical (human or animal) waste, and waste incineration and similar types of thermal treatment.	• We expect this UoP to be aligned with the pollution prevention and control category of the ICMA GBP. • Waste prevention, reduction, and recycling supports SDG 12 (responsible consumption and production) by reducing waste generation, contributing to the environmentally sound management of waste, and conserving natural resources. • This UoP addresses an acute need for waste management and recycling infrastructure in Mongolia. The country is experiencing increased waste volumes and widespread illegal disposal, which poses environmental risks. Improved infrastructure to safely manage waste and increase recycling rates is therefore expected to generate positive environmental impacts.
Water management and wastewater treatment	
• This UoP covers the materials, equipment, appliances, and technologies that enable reduction in water consumption and/or improve water use. Eligible projects include production, purchase, and deployment of water-saving, monitoring, storage and distribution technologies and systems; water recycling facilities; wastewater treatment facilities; and rainwater harvesting, storage and distribution. • Eligible projects shall achieve energy and water savings of at least 20% compared to the reference energy and water baselines, or be sustainable water generation installations with capacity equal to or greater than $100m^3$ per year.	• We expect this UoP to be aligned with the sustainable water and wastewater management category of the ICMA GBP. • Sustainable water and wastewater management and treatment supports SDG 6 (clean water and sanitation) by enabling water efficiency improvements, increasing the rate of water recycling, and improving the quality of wastewater treatment. • This UoP addresses the need to improve water and wastewater management in Mongolia, which we view as vulnerable in terms of water security. Water consumption has increased due to urbanisation and industrial development, at the same time that human activities have led to increased ground and surface water contamination. Only around 40% of the country's wastewater treatment facilities are fully operational. • Water and wastewater collection and treatment facilities are typically assessed for sustainability based on energy consumption criteria. The 20% energy savings specified is

Use of Proceeds – Eligible Projects

Opinion: Good

Company Material	Fitch's View
	aligned with the Mongolian taxonomy requirement for energy efficiency measures. • Other international taxonomies have requirements on absolute emissions levels. For example, the EU taxonomy requires water supply facilities to have net average energy consumption lower than 0.5kWh/m^3 of produced water supply, while the CBI taxonomy requires screening to determine if facilities have zero or negative net GHG emissions. • Rainwater harvesting, storage, and distribution would support the strengthening of Mongolia's water security as rainwater can serve as an additional water source and replenish groundwater, which accounts for 80% of the country's water supply.
Sustainable agriculture and livestock	
• This UoP covers assets that contribute to sustainable management of natural resources and land use, including organic agriculture and animal husbandry products and climate-smart agriculture. Eligible projects include afforestation, reforestation, and sustainable forest management projects. • Eligible projects include those certified by the Sustainable Fibre Alliance, Responsible Nomads, Green Gold or other nationally recognised standards, and Good Agricultural Practice. For the Responsible Nomads standard, an overall score above 60% of the indicators for its sustainable code of practices for livestock production is required.	• We expect this UoP to be aligned with the environmentally sustainable management of living natural resources and land use category of the ICMA GBP. • Sustainable agriculture and animal husbandry activities support SDG 2 (zero hunger) by improving the sustainability of food production systems and the climate resiliency of agricultural practices. • Afforestation, reforestation, and sustainable forest management activities support SDG 15 (life on land) by protecting and restoring natural ecosystems. • The framework mentions example certifications by the Sustainable Fibre Alliance, Responsible Nomads, and Good Agricultural Practice. The Sustainable Fibre Alliance requirements cover animal welfare, rangeland stewardship, and clean fibre processing, and applicants are subject to on-site evaluations and annual surveillance. The Responsible Nomads' code of practices for sustainable nomadic livestock production is adopted as a national standard in Mongolia. It covers aspects such as maintenance and improvement of rangeland health and traceability of livestock. The Mongolian Good Agricultural Practice certification has requirements on food safety and environmental protection practices. Only government-approved pesticides and fertilisers may be used in order to be certified, and verification is carried out by accredited third-party organisations.
Clean transportation	
• This UoP covers the establishment, acquisition, expansion, upgrades, maintenance and operation of new electric passenger vehicles and related infrastructure. Eligible projects include those that increase the production or distribution of electric public transportation, and projects that enable the deployment of clean transportation assets, such as electric vehicle charging stations.	• We expect this UoP to be aligned with the clean transportation category of the ICMA GBP. • Electric public transport vehicles and infrastructure support SDG 11 by providing sustainable transport systems that alleviate negative environmental impacts such as air pollution. • We understand from Khan Bank that this UoP is intended to finance new fully electric vehicles. Fully electric vehicles have zero tailpipe emissions and are a clean alternative to diesel-powered vehicles, which currently account for most of Ulaanbaatar's public bus fleet. Electric charging infrastructure is necessary to enable electric vehicle transport and therefore generates positive environmental outcomes as well.
Source: Khan Bank green bond framework	Source: Sustainable Fitch, IEA, IRENA, Mongolian national waste management for improvement strategy and plan, ADB, Montsame article,

Use of Proceeds – Eligible Projects

Opinion: Good

Company Material	Fitch's View
	Sustainable Fibre Alliance, Mongolia National Federation of Pasture User Groups, Mongolian Ministry of Food, Agriculture and Light Industry

Use of Proceeds – Other Information

Opinion: Good

Company Material	Fitch's View
• Khan Bank will use an amount equal to the proceeds of the green bond issuance to finance or refinance, in whole or in part, projects and activities that seek to achieve positive environmental impacts and thereby contribute 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. The lookback period shall be up to 180 days before the date of the green bond issuance. • The defined UoP are aligned with Mongolia's national environmental and sustainable finance policy targets. • The framework includes a financing exclusion list that covers activities such as production, import, and trade of drugs and narcotics unless otherwise stated in laws; organising pornographic events; gambling and casino activities; the manufacture of weapons and ammunition; exploration and mining of minerals in the buffer zone of any river delta and wetlands or in forest reserves; activities that involve exploitative forced or child labour; and dam construction activities which have negative environmental and social impacts.	• The framework provides information on the share of projects to be refinanced versus financed, and the lookback period, in line with the ICMA GBP recommendations . In general, a higher proportion of new projects indicates a higher level of additionality in terms of environmental impact so the 20% threshold for refinancing indicates a high level of additionality. • Khan Bank has a clearly defined list of excluded activities that include both environmentally and socially harmful and controversial 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, including coal and coal-related activities, and activities not included in the exclusion list but which the bank assesses to have significant adverse impacts. This provides assurance to investors that the UoP will not be used for environmentally harmful activities.
Source: Khan Bank green bond framework	Source: Sustainable Fitch

Process of Evaluation and Selection

Opinion: Good

Company Material	Fitch's View
• The bank's green banking team will manage the evaluation and selection of eligible projects. This team is part of the credit policy and regulations department that reports to the head office credit risk committee. • The bank will apply its standard credit process to ensure compliance with applicable national regulations, "know your customer" processes, and relevant internal policies such as its credit policy, credit operational procedure, and policies on anti-money laundering, counter-terrorist financing and sanctions. • Green loan requests will be first received at the sub-branch level, where the loan officer will request for permission from the green banking team to process the application. The team will conduct an initial screening against the eligibility criteria and based on this grant the permit to start the standard credit assessment process. Technical experts will concurrently conduct a technical assessment on the green loan applications. • The final loan proposal submitted to the respective credit committee will be accompanied by the technical assessment and other expert opinions, such as legal, risk analyst, and compliance opinions. • Each project will be screened for environmental and social risks and classified as green (low risk), yellow (medium risk) or red (high risk).	• The ICMA GBP require that there is a clear process for evaluation and selection of eligible projects. Khan Bank's framework clearly describes the standard credit procedures and additional screening layers for environmental and social risks, including a structured risk screening and due diligence procedure to assess clients for environmental and social risks. • The bank provides details on how various legal, risk analysis, and other specialist experts are involved in contributing technical opinions on the green loan applications. For example, a civil engineers' opinion is required for construction loan requests. The involvement of multiple teams contributes different types of expertise to the evaluation and selection process. • The bank will conduct in-house due diligence on applications for loans of USD5 million or more and with a tenor of over 36 months. Loans assessed to have medium to high environmental and social impacts will undergo external assessments by a third party, if deemed necessary by the bank. Further details on how the necessity is determined would provide more transparency on the evaluation of higher risk clients. • The framework states that final loan proposals are submitted to respective credit committees. We understand this to refer to the approval authorities set out in the bank's

Process of Evaluation and Selection

Opinion: Good

Company Material	Fitch's View
• Projects tagged as green will undergo Khan Bank's standard credit assessment process. Projects tagged as yellow or red will undergo due diligence. • The level of due diligence is calibrated based on the requested loan size and expected environmental and social impact. For loans of USD5 million or more with a 36-month tenor, the bank may hire a third party to conduct due diligence if necessary. For loans of over MNT100 million (about USD31,400) , the due diligence will be conducted by in-house ESG risk officers. • The bank monitors clients' environmental and social performance through on-site and remote reviews. It develops action plans for non-compliant clients to reduce adverse impacts.	standard loan procedure, which indicate different approval authorities depending on the loan amount.
Source: Khan Bank green bond framework	Source: Sustainable Fitch

Management of Proceeds

Opinion: Good

Company Material	Fitch's View
• Khan Bank will manage the green bond proceeds on an individual bond basis. • The proceeds will be allocated to a green asset pool at the time of issuance. The bank will earmark the identified eligible green assets that constitute the green asset pool. • The bank will use its management information system to monitor the allocation of net proceeds from green bonds issued under the framework. • As long as green bonds are outstanding, Khan Bank intends to exclusively allocate an amount equivalent to the instruments' net proceeds to a portfolio of eligible green assets. • Khan Bank will remove any loans that cease to fulfil eligibility criteria during the life of the green bond from the eligible green loan portfolio. • The bank will invest unallocated proceeds in liquid government securities, as per its standard liquidity policy.	• The ICMA GBP require proceeds from green loans to be credited to a sub-account, moved to a sub-portfolio, or tracked in another appropriate manner to provide a high level of transparency to investors. The bank has clearly described its intention to allocate proceeds to a pool of earmarked green assets that are monitored by its internal management system. • The framework describes how unallocated proceeds will be invested, which is in line with the ICMA GBP requirement to make known to investors the intended types of temporary placement for the balance of unallocated net proceeds. • It is positive that the bank will remove loans that become ineligible as this supports adherence to the eligibility criteria. • The bank intends to seek limited assurance on the allocation of proceeds on an annual basis.
Source: Khan Bank green bond framework	Source: Sustainable Fitch

Reporting

Opinion: Good

Company Material	Fitch's View
• The bank intends to publish green bond reports within one year from the first issuance and on an annual basis thereafter until bond maturity. The reports will be published on the bank's website and include both allocation and impact reporting. • The allocation reporting will include the total amounts of green bond proceeds, total amount of allocated proceeds, an overview of the green loan portfolio broken down by green loan categories and product type (e.g. capital investment), an overview of the geographical distribution of allocated assets, and the balance of any unallocated proceeds. • The impact reporting will include qualitative and quantitative environmental performance indicators for each UoP category. For example, impact reporting on renewable energy loans may include renewable energy generation	• We view positively Khan Bank's commitment to publish annual green bond reports with allocation and impact information, which is in line with the ICMA GBP requirement for regular reporting on allocation of proceeds and their impacts. • The proceeds of the bonds can be managed on a bond level or on an aggregated basis for multiple green bonds (portfolio approach).The bank intends to report at the portfolio level with a breakdown by green loan category, which we understand to refer to UoP categories. This would allow transparency over the allocation of proceeds within each bond issuance, and across different bonds if there are multiple issuances. • The framework indicates a commitment to report on the mix of capital investments and operating costs financed by green bond proceeds. This information will be helpful for

Reporting

Opinion: Good

Company Material	Fitch's View
(MWh per year), installed renewable energy capacity (MW), and GHG emissions reduction (tonnes per year).	investors to understand the impacts resulting from the green bonds. • The ICMA GBP require the annual report to include a list of the projects to which green bond proceeds have been allocated, as well as a brief description of the projects, the amounts allocated, and their expected impact. • The sample impact indicators provided by Khan Bank are mostly quantitative energy, emissions, and water indicators. Such indicators directly quantify environmental impacts from green loans, which is good practice for impact reporting. However, aggregated reporting at the category level will constrain investors' ability to identify the impacts arising from specific bonds if there are multiple issuances.
Source: Khan Bank green bond framework	Source: Sustainable Fitch

Relevant UN Sustainable Development Goals

2.4: By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality	2 ZERO HUNGER
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	6 CLEAN WATER AND SANITATION
7.2: By 2030, increase substantially the share of renewable energy in the global energy mix 7.3: By 2030, double the global rate of improvement in energy efficiency	7 AFFORDABLE AND CLEAN ENERGY
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	9 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 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	11 SUSTAINABLE CITIES AND COMMUNITIES
12.2: By 2030, achieve the sustainable management and efficient use of natural resources 12.5: By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries	13 CLIMATE ACTION

Source: Sustainable Fitch, UN

Appendix A: Definitions

Term	Definition
Debt types	
Green	Proceeds will be used for green projects and/or environmental-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Green Bond Principles or other principles, guidelines or taxonomies.
Social	Proceeds will be used for social projects and/or social-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Social Bond Principles or other principles, guidelines or taxonomies.
Sustainability	Proceeds will be used for a mix of green and social projects and/or environmental and social-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Sustainability Bond Guidelines or other principles, guidelines, taxonomies.
Sustainability-linked	Financial and/or structural features are linked to the achievement of pre-defined sustainability objectives. Such features may be aligned with ICMA Sustainability-linked Bond Principles or other principles, guidelines or taxonomies. The instrument is often referred to as an SLB (sustainability-linked bond) or SLL (sustainability-linked loan).
Conventional	Proceeds are not destined for any green, social or sustainability project or activity, and the financial or structural features are not linked to any sustainability objective.
Other	Any other type of financing instrument or a combination of the above instruments.
Standards	
ICMA	International Capital Market Association. In the Second-Party Opinion we refer to alignment with ICMA's Bond Principles: a series of principles and guidelines for green, social, sustainability and sustainability-linked (or KPI-linked) instruments.
EU Green Bond Standard	A set of voluntary standards created by the EU to "enhance the effectiveness, transparency, accountability, comparability and credibility of the green bond market".

Source: Sustainable Fitch, ICMA, UN, EU Technical Expert Group

Appendix B: Second-Party Opinion Methodology

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.

As per the ICMA Guidelines for External Reviewers, an SPO entails an assessment of the alignment of the issuer's green, social, sustainability or sustainability-linked bond or loan issuance/framework/programme with the relevant principles. For these purposes, "alignment" should refer to all core components of the relevant principles.

Sustainable Fitch analysts vary analysis based on the type of instruments, to consider whether there are defined use of proceeds or KPI and Sustainability Performance Targets. The analysis is done on a standalone basis, separate to the entity.

Analytical Process

Analysis considers all available relevant information (ESG and financial). The reports transparently display the sources of information analysed for each section and provide a line-by-line commentary on the sub-factors analysed. The ESG analysts working on an SPO will also engage directly with the issuer to acquire any additional relevant information not already in the public domain or in instrument-related documentation.

An important part of the analysis is the assessment of the E and S aspects of the use of proceeds. In addition to the alignment with ICMA Principle and Guidelines, the analysis may also refer to major taxonomies (e.g. the EU taxonomy for E aspects, and the UN Sustainable Development Goals for S aspects).

Once the analyst has completed the analysis, with commentary for the related ESG Ratings, it is submitted to the approval committee, which reviews it for accuracy and consistency. Based on issuer preference and mandate, an SPO can be monitored (annually or more frequently, if new information becomes available) or on a point-in-time basis.

Scale and Definitions

	ESG Framework
Excellent	Framework structure is excellent in terms of alignment with ambitious best practises and proceeds are dedicated to excellent environmental and/or social activities/projects.
Good	Framework structure is good in terms of alignment with ambitious best practises and proceeds are dedicated to good environmental and/or social activities/projects.
Average	Framework structure is average in terms of alignment with ambitious best practises and proceeds are dedicated to average environmental and/or social activities/projects.
Sub-average	Framework structure is sub-average in terms of alignment with ambitious best practises and proceeds are dedicated to sub-average environmental and/or social activities/projects.
Poor	Framework structure is poor in terms of alignment with ambitious best practises and proceeds are dedicated to poor environmental and/or social activities/projects.

Source: Sustainable Fitch

Appendix C: Principles and Guidelines

ICMA Labelled: Green Bond

Four Pillars	
1) Use of Proceeds (UoP)	Yes
2) Project Evaluation & Selection	Yes
3) Management of Proceeds	Yes
4) Reporting	Yes

Independent External Review Provider	
Second-party opinion	Yes
Verification	No
Certification	No
Scoring/Rating	No
Other	n.a.

1) Use of Proceeds (UoP) – based on expected or actual instrument allocation	
UoP as per Green Bond Principles (GBP)	
Renewable energy	Yes
Energy efficiency	Yes
Pollution prevention and control	Yes
Environmentally sustainable management of living natural resources and land use	Yes
Terrestrial and aquatic biodiversity conservation	No
Clean transportation	Yes
Sustainable water and wastewater management	Yes
Climate change adaptation	No
Eco-efficient and/or circular economy adapted products, production technologies and processes	No
Green buildings	Yes
Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP	No
Other	n.a.

2) Project Evaluation & Selection	
Evaluation & Selection	
Credentials on the issuer's environmental sustainability objectives	Yes
Documented process to determine that projects fit within defined categories	Yes
Defined and transparent criteria for projects eligible for Green Bond proceeds	Yes
Documented process to identify and manage potential ESG risks associated with the project	Yes
Summary criteria for project evaluation and selection publicly available	Yes
Other	n.a.
Evaluation & Selection/Responsibility & Accountability	
Evaluation/selection criteria subject to external advice or verification	No
In-house assessment	Yes
Other	n.a.

3) Management of Proceeds	
Tracking of Proceeds	
Green bond proceeds segregated or tracked by the issuer in an appropriate manner	Yes
Disclosure of intended types of temporary investment instruments for unallocated proceeds	Yes
Other	n.a.

Appendix C: Principles and Guidelines

ICMA Labelled: Green Bond

Additional Disclosure	
Allocations to future investments only	No
Allocations to both existing and future investments	Yes
Allocation to individual disbursements	No
Allocation to a portfolio of disbursements	Yes
Disclosure of portfolio balance of unallocated proceeds	Yes
Other	n.a.

4) Reporting	
UoP Reporting	
Project-by-project	No
On a project portfolio basis	Yes
Linkage to individual bond(s)	No
Other	n.a.
UoP Reporting/Information Reported	
Allocated amounts	Yes
Green bond-financed share of total investment	No
Other	n.a.
UoP Reporting/Frequency	
Annual	Yes
Semi-annual	No
Other	n.a.
Impact Reporting	
Project-by-project	No
On a project portfolio basis	Yes
Linkage to individual bond(s)	No
Other	n.a.
Impact Reporting/Information Reported (exp. ex-post)	
GHG emissions/savings	Yes
Energy savings	Yes
Decrease in water use	Yes
Other ESG indicators	Renewable energy generation (MWh), installed renewable energy capacity (MW), water efficiency, annual volume of water preserved or treated (m^3), certifications (e.g. Sustainable Fibre Alliance, Responsible Nomads ,Good Agricultural Practice)
Impact Reporting/Frequency	
Annual	Yes
Semi-annual	No
Other	n.a.
Means of Disclosure	
Information published in financial report	No
Information published in ad hoc documents	Yes
Information published in sustainability report	No
Reporting reviewed	Yes
Other	n.a.

Note: n.a. – not applicable.
Source: Sustainable Fitch, ICMA