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Second Party Opinion

Golomt Bank Sustainability Financing Framework

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Primary contact

Joyee Lam
Hong Kong
+852-2912-3057
joyee.lam
@spglobal.com

Location: Mongolia **Sector:** Diversified Bank

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Sustainability Bond Guidelines ICMA, 2021

See Alignment Assessment for more detail.

Strengths

Golomt Bank supports financial inclusion and economic empowerment in Mongolia. For example, it provides subsidized loans to women entrepreneurs and underserved populations and supports educational activities through student scholarship programs.

Weaknesses

Proceeds may be used to finance facilities, equipment, and assets that involve the use of fossil fuels throughout the value chain. For example, the construction of waste treatment facilities, vehicles, as well as buildings' heating sources.

Social projects are broadly defined and have limited safeguards to contain associated environmental risks. Similarly, some social impact indicators could be based on outputs rather than outcomes, with reference to the Harmonized Framework for Impact Reporting for Social Bonds.

Areas to watch

The framework does not specify thresholds for some green eligible projects, such as those addressing waste, wastewater, and land-use. Although this is common for frameworks with extensive lists of projects, it limits insights on potential benefits.

Golomt Bank is yet to systematically assess and report its portfolio's exposure to physical climate risks. The bank stated that it is working to integrate climate-related risks into its risk assessment and management system. It identifies large-scale borrowers and requires their submission of an environmental impact assessment, which partially mitigates the risk.

Golomt Bank's nonfinancial disclosures are developing, and it is yet to develop a net zero roadmap. Golomt Bank stated that it will rely on decarbonization targets set by the Mongolian government moving forward.

Eligible Green Projects Assessment Summary

Eligible projects under issuer's sustainability financing framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

Renewable Energy – Energy Generation	**Medium green**
Acquisition, construction, development, operation, manufacturing, and maintenance of renewable energy projects (i.e. solar, wind, hydropower, geothermal, bioenergy, waste-to-energy, green hydrogen, and green ammonia)	
Renewable Energy – Energy Storage Technology	**Medium green**
Energy storage technologies/equipment relating to renewable projects (e.g. wind turbines, solar panels, battery storage, and tidal generators)	
Renewable Energy – Transmission and Distribution	**Medium green**
Development, enhancement, maintenance, and expansion of electrical grids to support renewable energy transmission	
Energy Efficiency	**Light green**
Development of energy efficiency technologies/projects (e.g. energy generation and waste heat recovery)	
Application of Internet of Things and Artificial Intelligence of Things for efficient energy management	
Development, manufacture, installation of technologies/components that enable more efficient transmission and distribution and/or end-user demand management	
Telecommunication hardware upgrades (e.g. telecom towers)	
Mobile network upgrades to latest technologies	
Installation of energy efficiency technologies/products. (e.g. LED lightning; heating, ventilation, and air conditioning (HVAC) systems)	
Financing energy service providers/companies that provide efficient technologies and service	
Green Buildings	**Light green**
Acquisition, construction, or retrofit of commercial, public, industrial, and residential buildings as well as in green landscaping and area development that meet recognized green building certifications.	
Buildings that fall within the top 15% energy-performing buildings in the relevant area based on emissions intensity performance or primary energy demand (PED).	
Refurbishment/retrofit of building to achieve a 20% improvement in energy efficiency, emissions savings, or PED over initial performance	

Green building material such as organic wool insulation and recycled materials; equipment and products such as eco-bricks and windows	
Green data centers with a power usage effectiveness (PUE) of under 1.5	
Pollution Prevention and Control	**Light green**
Expenditure in air and soil pollution infrastructure facilities on activities with capital expenditures to reduce air emissions, mitigate greenhouse gas emissions, and facilitate soil remediation	
Sustainable Use of Waste, Water, and Wastewater Management	**Medium to Light green**
Development, expansion, upgrade, or maintenance of waste management facilities related to waste collection, processing, and recycling	
Development, expansion, upgrade, or maintenance of waste management facilities related to water and wastewater treatment, supply, and management infrastructure	
Environmentally Sustainable Management of Living Natural Resources and Land Use	**Light green**
Expenditure in agricultural production and sustainable textile and/or the purchase of sustainably produced agricultural products, with local and international certification	
Expenditure on integrated cropland-livestock forestry and agroforestry systems targeted at small-scale herders/farmers	
Forestry management and expenditure in sustainable forestry (reforestation/afforestation/rehabilitation/conservation) with certifications	
Expenditure in research and development (R&D) on agriculture systems, programs, and products or equipment that encourage sustainable land use and sustainable agriculture	
Clean Transportation	**Medium to Light green**

Expenditure in low energy consuming or low-emission transportation:

- Infrastructure and transportation of fully electric or zero-direct emissions vehicles, trains, urban subway/metro, trams, scooters, and motorbikes
- Technology and infrastructure for electric vehicles (EVs), car sharing schemes, road charging systems, better utilization of public transport, and other such systems
- Infrastructure and products for active mobility
- Construction, development, and production of EV manufacturing facilities; upgrading and retrofitting of existing facilities for the purpose of expanding production

See Analysis Of Eligible Projects for more detail.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Golomt Bank JSC is headquartered in Ulaanbaatar, Mongolia, and was established in 1995. The bank serves retail and corporate customers through 99 branches and servicing points. It has 2,300 employees. The bank's services include providing current accounts, savings accounts, digital banking, loan products, bancassurance, trade finance, and international payments.

Golomt Bank had interest income of Mongolian Tugrik (MNT) 841 billion (US$ 246 million) with total assets of MNT 11.6 trillion (US$3.4 billion) in 2023. Golomt Bank is 77.2% owned by Golomt Financial Group LLC, followed by Swiss-MO Investment AG (5.21%), Bodi International LCC (3.42%), and Golomt Investment Ltd. (2.57%).

Golomt Financial Group LLC is a financial holding company with interests in insurance and brokerage. It is solely owned by Mr. Bayasgalan Danzandorj, who is one of the founders, former CEO, and former Chairman of Golomt Bank.

Material Sustainability Factors

Climate Transition Risk

Banks are highly exposed to climate transition risk through their financing of economic activities, which impact the environment. Banks' direct environmental impact is small compared to financed emissions and stems mainly from power consumption (e.g. data centers). Policies and rules to reduce emissions could raise credit, legal, and reputational risks for banks with large exposures to high-emitting sectors, such as oil and gas, metals and mining, real estate or transportation. These medium- to long-term risks are significant and will be proportional to the impact of climate change on the economy. Positively, financing the climate transition offers a growth avenue for banks through lending, debt structuring, and other capital markets activities. By 2030, Mongolia aims to reduce its national greenhouse gas emissions by 22.7% (2010 baseline). The country is yet to set the target year to reach net zero, according to its nationally determined contribution plan.

Physical Climate Risk

Physical climate risks will affect many economic activities as climate change will increase the frequency and severity of extreme weather events. Banks finance a wide array of business sectors that are exposed to physical climate risks, exposing banks to through their financing activities. However, while climate change is a global issue, weather-related events are typically localized, so the magnitude of banks' exposure is linked to the geographical location of the activities and assets they finance. Similarly, banks' physical footprint (e.g. branches or ATMs) may also be exposed to physical risks, which may disrupt their ability to service clients in the event of a natural catastrophe, amplifying the impact on communities. Banks may contribute to mitigate the effects of physical climate risks by financing adaptation projects and climate-resilient infrastructure, as well as by investing in solutions that support business continuity in exposed geographies. Mongolia has faced far higher rates of warming than the global average. Changes in climate conditions are likely to pressure agricultural yields, according to "Climate Risk Country Profile: Mongolia," published by Asian Development Bank.

Access and Affordability

Banks' large impact on society and the economy stems from their role in enabling access to financial services to individuals and businesses, and in ensuring the correct functioning of payments systems, which are cornerstones of economic development and stability. In most countries, unbanked and underserved population segments are still meaningful, although the access gap is

most acute in emerging economies. Market imperfections such as low competition, incomplete information, and lack of financial literacy, often result in costly alternatives for small businesses and low-income people, so ensuring affordable access to financial services, especially to the most vulnerable population, remains a challenge for the banking industry. New technologies will, however, increasingly enable banks to close this gap through cost efficiencies and product innovation. While structural issues such as poverty, informality and lack of financial literacy partly limit access to financial services, banks have large opportunities to support economic development through financial inclusion. The Mongolian market is relatively mature, with 14 commercial banks, 188 nonbank financial institutions, and about 207 savings and credit cooperatives, according to Mongolbank, and a penetration rate of 100% and 3.3 million banking accounts, according to Statistica.

Privacy Protection

Banks rely heavily on IT systems, using digitization (or computer processing of information) extensively. Growing use of client data collection, data mining, and artificial intelligence (AI) have brought significant efficiency gains and facilitated financial access. However, this has increased banks' exposure to the risk of IT infrastructure failures, cyberattacks, and other quickly evolving risks. The resulting disruptions (such as client data leakage, data theft, or AI-related unintended or biased use of private personal data) could subject banks to higher and unpredictable risks given their large number of customers and business partners. In addition, stolen data may be used by criminals to commit various types of frauds. We see privacy protection risks rising and evolving as cyber hackers become more sophisticated, but most banks have strong risk governance and controls in place to prepare for these risks. On Dec. 17, 2021, the State Great Khural of Mongolia (the parliament) adopted the Law of Mongolia on Protection of Personal Data, which entered into effect on May 1, 2022. It applies to matters related to personal privacy and relations in connection with the collecting, processing, using, and security of personal information.

Biodiversity and Resource Use

Banks contribute to significant resource use and biodiversity impact through the activities they fund or invest in. For example, the construction sector—which is a major recipient of bank financing—is a large consumer of raw materials such as steel and cement. Similarly, bank-financed agricultural activities can have material biodiversity impacts. This is especially relevant in Mongolia, given the country's reliance on natural resources. In 2022, its top exports were coal (US$6.5 billion), copper ore (US$2.7 billion), gold (US$2.1 billion), animal hair (US$430 million), and iron ore (US$389 million), as per the Observatory of Economic Complexity.

Issuer And Context Analysis

Green categories aim to address climate transition and physical climate risks, and social projects contribute to access and affordability, which are material sustainability factors for the bank. They could contribute to accelerate the deployment of the company's sustainability strategy, which has not been established long. The bank adopted some policies for environmental and social risk assessments in 2022, with some procedures to identify high environmental and social risks, and sustainability assessment models for 400 economic sub-sectors. It also created a sustainable finance department.

In the same year, Golomt Bank issued 667 business loans, of which 71% were assessed for environmental and social risks. Green loans (57% buildings, 21% agriculture, 21% water and waste) accounted for MNT 95.9 billion in 2022, or 2.6% of the total loan book. The financing of infrastructure assets exposes the bank to physical climate risks. Golomt Bank can help support social and financial inclusion. Qualifying social activities are targeting improvements to make food supply more sustainable.

Golomt Bank 's developing sustainability strategy follows the recommendations of the United Nations Environmental Program's (UNEP) Principles of Responsible Banking. It includes four pillars: sustainable governance, environmental and social risk assessment, sustainable finance, and cooperation and commitments. Golomt Bank stated that its sustainability reporting follows the ESG Disclosure and Sustainability Reporting Guidance for Mongolian Companies. It is still early in its sustainability journey, building internal capacity, with 112,588 internal training hours in 2022. This equates to 35 hours on average per employee. Golomt Bank stated that its 2023

sustainable development report will reference the Global Reporting Initiative (GRI) standards, as required by the Mongolian Stock Exchange rules.

Golomt Bank has emission reduction targets, but no net-zero roadmap. In 2022, it started monitoring part of its scope 3 emission inventory for carbon intensive industries (624,541 tons of carbon dioxide equivalent), with freight transport (48%) and gold mining (45%) accounting for the majority of its loan portfolio's financed emissions. Heat production (7%), coal mining (<0.5%), and agriculture (<0.5%) accounted for the remainder. Golomt Bank shared that it has joined the Joint Impact Model Foundation and will report its decarbonization efforts contributing to the Paris Agreement and the United Nations Sustainable Development Goals. By 2030, the bank aims to reduce the carbon footprint of its carbon intensive loan portfolios by 30%, and by 2050, to reduce its scope 3 emissions by 50%. This lags the typical decarbonization commitments by other banks. There is limited detail at this stage on the bank's strategy to achieve these targets. For example, the proportion of the reduction that would result from changes in client's own emissions, shifts in exposure mix, and the possible use of offsets is unclear. Moving forward, it will adhere to the decarbonization target set by the Government of Mongolia.

Golomt Bank is developing more comprehensive mitigation plans for the risks identified in the climate impact analysis conducted on its loan's portfolio in 2021. Environmental and social risk assessment are integrated into the bank's decision-making processes. For example, it requires all borrowers with loans above MNT 100 million to submit an environmental and social impact assessment report for each project and reviews their management plans at least once a year. Given diversified lending activities, Golomt Bank identified six high-risk sectors, namely mining, manufacturing, infrastructure, construction, wholesale, and transportation and storage. The bank is working to integrate physical and transition climate risks into its risk assessment and management system, which includes a scenario analysis. It expects to finalize this by 2024, which will reference International Financial Reporting Standards (IFRS) S1 and S2.

Golomt Bank endeavors to empower local communities through digitalization, allowing these stakeholders to get equitable and effective access to its services. This is important given the structure of the Mongolian society, where about a third of population still has a traditional (semi) nomadic lifestyle. However, the acceleration of bank's digital offerings exposes the bank to data protection and privacy risks. The bank explained that its data privacy management policy requires employees to undergo related trainings and assessments biannually.

While the bank has identified the most sensitive sector exposures, including from a biodiversity perspective, it is yet to formulate a policy on biodiversity. The framework includes eligible projects in relation to biodiversity restoration, rehabilitation, and conservation. Some large infrastructure projects, such as new hydropower stations, and industrial air and soil pollution remediation facilities require an environmental impact assessment to identify, manage, and mitigate land use and biodiversity risks.

Alignment Assessment

This section provides an analysis of the framework's alignment to the Social and Green Bond/Loan principles and the Sustainability Bond Guidelines.

Alignment With Principles

Aligned = ✓ Conceptually aligned = O Not aligned = ✕

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2023
- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
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✓ Use of proceeds

All the framework's green project categories are shaded in green and all social project categories are considered aligned, all addressing U.N.'s Sustainable Development Goals (SDGs). The bank commits to allocate the net proceeds issued under the framework exclusively to eligible green and social projects. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the environmental and social benefits of the expected use of proceeds. There is three-year lookback period in the framework.

✓ Process for project evaluation and selection

Golomt Bank's framework articulates a process by which the company will review, select, and approve eligible green and social projects, depending on their feasibility and consistency with the framework's objectives. The relationship managers have been receiving training to help source projects. The bank's sustainable finance department will conduct a first screening. Then the credit committee and sustainable finance department (together referenced as the working group), will approve the approve the projects. The bank's sustainable development committee, comprising the CEO, deputy CEO, and division heads will supervise the screening process. Screening relies on internal policies (credit environmental and social assessment policies) to identify and manage social and environmental risks associated with eligible projects.

✓ Management of proceeds

The net proceeds will be placed into the general account of Golomt Bank, with a register to track their allocation. If a project is no longer eligible, Golomt Bank will replace it as soon as practicable. Pending allocation, net proceeds will be kept in cash or cash equivalents, according to local liquidity management guidelines and internal asset and liability management policy, and in line with the framework's exclusion list.

✓ Reporting

Golomt Bank commits to disclosing annually (and in case of any material changes) the allocation of proceeds and impact of the financed projects in ad hoc sustainable financing reports or as part of its annual reports, until full allocation of the net proceeds. The allocation reporting will include the list of invested projects and aggregated amounts by category along with brief descriptions of the projects, the proportion of net proceeds used for financing versus refinancing, and the balance of unallocated proceeds. The bank will endeavor to align its disclosures with ICMA's Harmonized Framework for Impact Reporting.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the "Analytical Approach: Shades Of Green Assessments," as well as our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

Over the three years following issuance of the financing, Golomt Bank expects to allocate around 60% of proceeds to eligible green projects and the remaining 40% to social projects. From the issuance, 80% will be used for new financing and 20% refinancing. The bank has not provided an expected allocation of proceeds across the list of green and social activities listed in the framework.

Green project categories

Renewable energy – Energy Generation

Assessment	Description

Medium green	Acquisition, construction, development, operation, manufacturing, and maintenance of renewable energy projects, including facilities, equipment & storage, systems, and technologies, applications:
	• Solar (Centralized and distributed: Photovoltaics (PV)/Concentrated Solar Power (CSP)
	• Wind
	• Hydropower
	  o Facilities that operate after 2020: Lifecycle carbon intensity ≤50gCO_2/kWh or power density ≥10W/m_2
	  o Facilities that operate before 2019: Lifecycle carbon intensity ≤100gCO_2/kWh or power density ≥5W/m_2
	• Geothermal (subject to a direct emission threshold of <100gCO_2e/kWh)
	• Bioenergy
	  o Electricity production (subject to a direct emission threshold of <100gCO_2e/kWh)
	  o Biofuel (Installations after 2021 with lifecycle emissions at least 65% less than the baseline of fossil fuels)
	  o Waste biomass using certified feedstock including forestry and agriculture sustainable crops/residue
	• Waste-to-energy
	  o Municipal solid waste (where majority of recyclables are segregated before converted to energy)
	  o Waste biomass feedstock
	  o Electricity production (subject to a direct emission threshold of <100gCO_2e/kWh)
	• Green hydrogen/Green ammonia

Analytical considerations

- Renewable energy addresses the environmental objective of climate change mitigation by enabling systemic decarbonization. However, this will happen only if life-cycle carbon emissions and other environmental considerations, including biodiversity and land use change risks, are carefully managed. This is especially so in waste-to-energy related projects, and the possibility to use a broad range of biomass from certified feedstock.
- Golomt Bank references thresholds for life-cycle emissions, where possible, specifically for geothermal and hydropower energy generation, which is a strength. For solar projects, the bank commits that at least 85% of the electricity generated from the concentrated solar power facility will be derived from renewable energy sources. Golomt Bank stated that the remaining 15% of may include sourcing of fossil fuels in back-up generation, or hybrid electricity generation, which will not be included in the green financing.
- Alternative fuels can replace fossil fuels in transportation and other applications. However, there is uncertainty toward the climate and environmental impacts. For example, bioenergy feedstock, such as waste streams and crops, is exposed to sustainable sourcing and life-cycle emissions risks. These risks include risk of direct and indirect land use change, including deforestation and loss of biodiversity, transportation emissions, and impacts on water and soil. Sourcing waste-based inputs is preferable, as these risks are higher for non-waste biomass. The sustainability risks associated with biomass sourcing could be mitigated by the use of certifications.
- Golomt Bank has stated direct emission thresholds of less than 100gCO2e/kWh for bioenergy-generated and waste-to-energy electricity. It has also specified thresholds on the reduction of life-cycle emissions for biofuel production compared to baselines. We view the consideration of quantitative reduction targets in life-cycle emissions as eligibility criteria to be positive. It considers biofuel produced by agricultural residues (e.g. sugar cane pulp or bagasse, corn stover, oats and barley straw, crop stalks, leaves, roots, fruit peels and seeds, and nut shells) from certified feedstock, such as SB, ISCC Plus, Bonsucro (for sugarcane), RTRS (for soy) to be eligible. The bank has excluded non-waste biomass as eligible feedstock, though has not explicitly note any mitigation measures to assess and guarantee minimal indirect land-use change risks.
- Waste-to-energy projects include usage of municipal solid waste from household, industry, and commercial, where the majority of the recyclables will be segregated before energy conversion. Golomt Bank stated recyclables could be, for instance, paper, cartons, recycled glass, metal, and plastic waste. While this may be preferable to landfilling, it is equally important to consider life-cycle emissions to maximize climate mitigative effects. Waste-to-energy projects are also energy intensive and will likely involve fossil fuel use throughout the value chain (i.e. transportation of waste over long distances). There is also a risk from local pollution from by-products like dioxins, which could be challenging to address given Golomt Bank's position as the borrowers' source of funding, limiting the shade to Light green on waste-to-energy projects.
- Similarly, waste-to-energy projects from waste biomass could contain significant risks of indirect land use change and biodiversity risks if not managed properly, despite the potential benefits of end products. There is limited visibility on the source of waste feedstock used in waste-to-energy projects. For example, it does not require the use of waste biomass from certified feedstock. There are also limited considerations to the indirect land use risks from the sourcing activities.
- Production of green hydrogen and ammonia are often energy intensive. While Golomt Bank will only finance hydrogen and ammonia produced from electrolysis using renewable energy, there is still uncertainty around the climate and environmental impacts of the risks of leakages. Life-cycle emissions of alternative fuels should also be carefully managed given the complexity of the value chain.
- Golomt Bank has stated that all new hydropower projects will require an environmental and social impact assessment by a credible third-party with no significant risk or negative impact, which may cover some considerations to physical risks. For other projects, considerations of physical climate risks are less explicit. Golomt Bank communicated that it is working to integrate climate change related risks into the bank’s risk management system, which will cover physical climate risks as part of its business activities. The framework is expected to be finalize by 2024, and will reference IFRS S1 and S2

Renewable Energy – Energy Storage Technologies/ Equipment support the above

Assessment	Description
Medium green	Expenditure in energy storage technologies/equipment relating to renewables projects: • Wind turbines, solar panels, battery storage, tidal generators

Analytical considerations

- Production of technologies and equipment that support renewable energy generation projects indirectly contribute to climate change mitigation. The development and manufacture of these technologies and equipment help facilitate renewable energy integration.
- Construction of these equipment or components using fossil fueled energy are not excluded. The manufacture and development of these components may also be exposed to supply chain related risks. Similarly, material sourcing for batteries used for energy storage may contain significant emissions and result in negative environmental impacts.
- The construction, maintenance, operation, and decommissioning of renewable energy equipment (e.g. solar or wind components) may be energy intensive. Golomt Bank has not defined emissions thresholds for these projects involving the manufacturing of energy storage technologies and/or equipment.

Renewable Energy – Transmission and Distribution

Assessment	Description
Medium green	Development, enhancement, maintenance, and expansion of electrical grids that are dedicated to connecting renewables to the power grid (integrate at least 90% renewable electricity; or if renewables are less than 90% but is expected to increase, a pro-rata approach will be used)

Analytical considerations

- Transmission and distribution networks solely dedicated to renewable energy addresses climate change mitigation. Such infrastructure supports the deployment of renewable energy in national grids, reducing carbon emissions. Other environmental and social considerations, such as biodiversity risks and displacement of local population due to siting of projects, should be carefully managed.
- Golomt Bank will include transmission and distribution infrastructure that are connected to 90% of renewable sources or apply a pro-rata approach on the allocation if the renewable sources are less than 90%. The framework's exclusion list rules out any activities that support the expansion of fossil-fuel power technologies. It also confirmed that eligible projects will not be dedicated to connecting fossil fuel power plants. According to Golomt Bank, small-scale transmission and distribution projects located on the remote area without connection to the centralized grid will require a minimum 20% of renewable electricity, whereas large-scale projects will require at least 50% renewable energy. Though the bank has not provided a clear definition of small versus large scale capacity, having a pro-rata approach coupled with minimum amounts of renewable electricity should ensure the invested projects contribute to greening the national grid.
- The bank's activities are only in Mongolia. National grids in the country are still dependent on fossil fuel power--91% of Mongolia's electricity is generated by coal, according to "Distribution of electricity generation in Mongolia in 2022 by source," published by Statista. That said, the country is working to decarbonize the country to fill the gap with an NDC action plan for 2021-25. The government of Mongolia aims for a renewable energy share of 30% by 2030. Investments in transmission and distribution infrastructure dedicated to renewable energy will be critical for the country to meet the country's nationally determined contributions. The country ambitions partially mitigate risks of grids being connected to heavy-emitting or energy-intensive assets.
- These transmission and distribution assets are highly exposed to physical climate risks. Golomt Bank stated that it will require an environmental impact assessment for all infrastructure projects, which partially mitigate the risks.

Energy Efficiency	
Assessment	**Description**
Light green	Expenditures in projects and technologies that are designed to enable energy and emissions reductions/increasing energy efficiency such as (exclusion of activities relating to fossil fuel related activities) • Development of energy efficiency technologies/projects - energy generation and waste heat recovery projects • Facilities/factories relating to aspects industries, utility, public services, and energy such as: - Internet of Things (IoT) and Artificial Intelligence of Things (AIoT) - Transmission and distribution systems, technologies or components: e.g. Smart grids using innovative technologies and practices (smart meters, energy management or monitoring and control automation system/devices) - Modernization of fiber optics/Upgrades of telecom towers - Mobile network upgrades to latest technologies (5G and 4G technology migration from 3G or lower) • Energy equipment, technologies, and software: Increase energy efficiency like energy efficient appliances and products (e.g. LEDs, improved chillers, high efficiency windows, cooling solutions, farming solutions, energy-efficient HVAC systems, boilers) • Expenditure and financing for energy efficiency services - Energy conservation-focused services (energy service companies ("ESCOs"))

Analytical considerations

- Waste heat recovery is positive from a climate emissions and energy perspective. Nevertheless, improved efficiency could drive more energy usage, which could introduce carbon lock-in risks. Similarly, while eligible projects exclude the connections to any fossil fuel related activities, such as the improvement of heat efficiency of fossil-fuel power utilities or power plants, they could include provision to diverse industries, which have their own value chain sustainability challenges.
- Smart energy grids are critical in accelerating decarbonization pathways, in particular increasing the share of renewables in the energy supply mix. Smart meters and monitoring and control systems help improve energy efficiency and reduce the consumption of fossil fuel. Given the bank's presence in Mongolia, the country grids are still greatly reliant on fossil fuel for power. Projects relating to end-user demand management contribute to systemic decarbonization because they aim to control consumers' electricity consumption, which reduces overall energy use. Golomt Bank will also exclude transmission lines that are directly connected to fossil fuel power.
- Energy efficiency projects are expected to reduce the amount of energy use, and the associated emissions. Eligible projects include energy efficient technologies and/or products that are not powered by fossil fuels such as IoT and AIoT, LEDs, chillers, energy efficient windows, farming solutions, HVAC systems, and boilers. Golomt Bank stated that targeted IoT and AIoT projects will include machine learning algorithms, autopilot systems, and AI-driven energy management systems to drive energy reduction. Similar to farming solutions, which intends to enhance energy efficiency in growing crops using energy monitoring equipment. It has confirmed the boilers will not be powered by fossil fuel. Nevertheless, the extent of climate benefits from digitalization is difficult to quantify, particularly give the potential increase in more intensive energy uses, highlighting rebound effects.
- Mobile network upgrades are expected to enable energy efficiency savings as a result of network upgrades from existing less efficient networks. Nevertheless, improved efficiency of end-user clients' activities might have rebound effects. For example, 4G/5G solutions offer improved bandwidth capacity which could drive higher traffic, and increased energy usage and absolute emissions. Similarly, although investments to fiber optics and telecommunication towers will only be limited to upgrades (such as cooling systems, insulation, and reflective paints), and not include expansion of new towers, improved efficiency could drive more energy usage, leading to carbon lock-in risks.

- According to Golomt Bank, eligible energy efficiency services include the provision of technology and services, such as financing, design, implementation, and management of energy efficiency projects. Services that facilitate the adoption of technologies that contribute to reducing energy use and associated emissions are enablers of climate change mitigation.
- Golomt Bank has stated that eligible projects are expected to achieve 20% energy savings. We view having quantitative performance thresholds as positive. However, there are limited considerations to the development and manufacturing required for the supply chain, limiting the visibility of the lifecycle benefits to these projects.
- There are less explicit environmental considerations to potential risks associated with such projects, such as lifecycle emissions and biodiversity impacts from direct and indirect land use change. Similarly, energy efficient projects in physical assets present some physical climate risks. Golomt Bank stated that it will require an environmental impact assessment for all infrastructure projects, which partially mitigate such risks.

Green building

Assessment	Description
Light green	Expenditure in acquisition, construction, retrofit of commercial, public, industrial, and residential buildings as well as in green landscaping and area development that at least receive one of the following building certification schemes: • Buildings in the top 15% of the national or regional building stock in terms of PED • Refurbishment or retrofitting of building to achieve a 20% increase over baseline in PED, energy efficiency or emissions savings • Obtain certifications like: o Building Research Establishment Environmental Assessment Methodology (BREEAM) – Excellent o Leadership in Energy and Environmental Design (LEED) – Gold o Building Environmental Assessment Method (BEAM) Plus – Gold o Green Mark – Gold Plus o EDGE – certified o Green Star – 5 stars o China 'Three Star System' – Two star o National Energy Efficiency certifications (building passport) • Green building material such as organic wool insulation materials, and recycled materials; equipment and products like eco-bricks and windows • Green data centers with a PUE of under 1.5

Analytical considerations

- Green buildings support climate change mitigation by alleviating greenhouse gas emissions. They also have other benefits such as increasing energy efficiency, reducing water consumption and ensuring waste management. However, construction activities introduce other issues like the energy performance and emissions associated with building materials. Physical climate risks are material considerations for buildings, and new construction may raise biodiversity issues. The project's eligibility criteria do not consider downstream emissions, e.g. from fossil fuel heating.
- Golomt Bank considers commercial, public, industrial, and residential buildings that have obtained international or national green certificates to be eligible. For industrial buildings, the bank stated that it will only include manufacturing, processing, and R&D uses. The framework's exclusion list rules out any activities that relate to fossil fuel power generation

or support the expansion of fossil-fuel technologies. The bank has not provided an indicative split between new builds and existing buildings for upcoming financings.

- The list of eligible green building certifications is extensive, and requirements could vary significantly. There is a lack of established energy efficiency building regulations in the context of Mongolia. For example, both the National Energy Efficiency Action Program of Mongolia and the Energy Conservation Law of Mongolia do not require any energy performance improvements or specific efficiency measures in the construction of new buildings. Golomt Bank confirmed that all eligible certified new buildings will require an energy efficiency performance improvement of at least 10%, exceeding local standards. Therefore, we consider the inclusion of new buildings to support energy efficiency objectives.
- Golomt Bank confirmed that it will only consider renovation or acquisition of existing buildings for the criteria of "buildings that fall within the top 15% of the national or regional building stock in terms of primary energy demand" and will not include new buildings. Similarly, it will only consider existing green data centers powered by renewables, with a PUE of below 1.5 as eligible. It will require documentary evidence, including an energy audit report from clients to assess and determine the eligibility. We view the application of this criteria to be more meaningful for existing buildings since new builds are often more energy efficient than the existing built stock.
- It is positive that Golomt Bank has a 20% quantitative performance floor on PED, energy efficiency, or emissions savings for buildings refurbishment and retrofit.
- Embodied emissions could be addressed according to which green certification is used and what level a given building achieves. Given these green building certifications are assessed using a points-based system, they would not necessarily result in a reduction in embodied emissions.
- Golomt Bank considers green building materials such as organic wool insulation, recycled materials, and eco-bricks and windows as eligible. The bank stated that it will ask its clients to ensure that materials are checked with the tool developed by the European Bank for Reconstruction and Development (EBRD). While including criterion to address environmental impacts related to building materials is positive, there is limited information on the lifecycle emissions thresholds, which limits the environmental benefits and comparability of these green activities.
- There are no specific criteria to mitigate the physical climate risks these eligible buildings could be exposed to. Increased frequency in extreme weather events such as droughts, dust storms, and wildfires are key risks in the Mongolian context.

Pollution prevention and control

Assessment	Description
Light green	Expenditure in infrastructure facilities for air and soil pollution facilities on activities with capital expenditures which achieve the following on reduction in air emissions, mitigate greenhouse gas emissions and soil remediation: • Industrial (large scale) air reduction and treatment technologies and soil remediation facilities • Production, purchase, deployment and resale of clean heating appliances and filters (e.g. stove filters) or purifiers for exhaust emissions (for households and micro, small and medium enterprises (MSMEs)) • Facilities, products, and devices dedicated to carbon capture and storage (CCS) (exclusion of fossil fuels activities) • Self-contained and eco-sanitation infrastructure (Eco-toilet), remediation works for soil pollution (public home)

Analytical considerations

- Removal of air pollutants and greenhouse gas emissions from the atmosphere plays a key role in facilitating a low-carbon climate-resilient future. While Golomt Bank excludes the eligibility of fossil-fuel and coal-related sectors in the financing of

the projects, the powering of some of these infrastructure and facilities could be associated with the usage of fossil-fuel, which creates carbon lock-in risks and limits the full benefits of the projects.

- For air emission control and soil remediation projects, Golomt Bank will require an environmental impact assessment for sectors in mining and heavy-emitting industry, food, agriculture (e.g. water pools, irrigation, farming, green park areas, forestation), infrastructure (e.g. power plant with 1 megawatt and above capacity, power distribution with 35 kilowatts and above capacity, hydropower, railroad construction, airport construction, IT cable and road construction, and oil storage), service (hospitality), other (wastewater management, national security), biodiversity, and operations in protected areas.
- While there are no emissions reduction thresholds required for air pollution remediation projects, Golomt Bank stated that it is currently including non-CO_2 gases such as methane in the company's financed emission reporting. Nevertheless, it has not translated into minimum requirements for the projects' eligibility criteria, which limits our understanding to the environmental benefits and comparability of these green activities.
- CCS projects exclude projects in relation to hydrocarbons, including enhanced oil recovery, or hard-to-abate industrial sectors that are inherently carbon intensive. They do not seem to include direct air capture facilities use a chemical and mechanical process to remove CO_2 from ambient air and geologically store it. This technology requires a significant amount of energy to operate, such as the compression and chilling of the CO_2, maintenance of high pressure and low temperatures, as well as to transport to storage facilities. Therefore, such projects should involve thorough planning and selection of technology, as well as measures to mitigate lock-in risks.
- According to Golomt Bank, there is currently no clear regulation in the context of Mongolia with regards to the environmental safeguards in the application of CCS projects. Related guidance is currently under review and approval stage by the Government of Mongolia. CCS contains material environmental hazards if not managed properly, including potential leakage of CO_2 to the atmosphere or seepage into the groundwater, and vulnerability to physical climate risks and natural disasters. While there are no clear thresholds to the projects, Golomt Bank will require borrowers to comply with their internal safeguards, such as no potential leakages of CO_2 during operation and post closure phase-out.
- Golomt Bank stated that eco-sanitation infrastructure (eco-toilets) will include residential, tourism, and some industrial applications (such as manufacturing, and remote areas without connection to the central sewage system). It stated that fossil-fuel related, or oil and gas sectors will be excluded in the financing eligibility, and the projects will not be connected to the reuse of excreta in agriculture. Soil remediation projects meant to mitigate negative environmental impacts from borrowers' own activities will also not be eligible--a positive. This could help limit borrowers' access to financing and the activities that may result in further negative environmental impacts.

Sustainable use of waste, water, and wastewater management

Assessment	Description

Medium to Light green	Expenditure in development, expansion, upgrade or maintenance of water and wastewater treatment and management infrastructure and waste management facilities related to waste collection, processing, and recycling, including:
	• Waste management facilities relating to collection, recycling, transportation, sorting and storage/composting and processing of waste:
	  o Industrial, commercial, and household waste (hazardous/non-hazardous/municipal solid waste)
	  o Electronic-Waste
	  o Mining waste (exclusion of fossil fuels related activities)
	  o Organic waste from slaughterhouses and meat processing plant
	  o Medical waste
	  o Recycling of decommissioned vehicles parts (exclude burning tire derived fuels)

- Water and wastewater treatment/management facilities, systems or technologies that improve water quality and increase water-use efficiency:
- Water supply, water recycling and reuse, storage and distribution technologies and systems, drainage and sewage facilities or any water infrastructure facilities (recycling, collection, etc.)

Analytical considerations

- The bank confirmed all the projects will strictly abide by the waste management hierarchy (prevention, reduction, reuse, recycling) to minimize the volumes of waste incinerated, and that none will be landfilled. Diverting waste from landfill avoid risks of soil contamination and methane emission. According to Mongolia's "Solid Waste Account", 71% or 2 million tons waste generated in 2019 was landfilled, and less than 10% was reprocessed. This compares to the country's Sustainable Development agenda to increase the amount of recycled waste to 20% of total waste by 2030. And the amount of waste has been growing steadily (+20% in Ulaanbaatar between 2013 and 2021 for instance, according to UNFCC. Issues are scavengers (informal sector) playing a substantial role in collection of recyclables, and limited technological and financial capacity of the domestic recycling industry.
- There is a trend of hydrological decline, with glacier surface area falling 30% over the period 1940–2011.
- Accordingly, there are Light to Medium Green benefits in all the projects covering waste and water. On the one hand there are some limitations on the projects' coverage of important sustainability considerations beyond waste and water, on the other there is a clear shortage of water in Mongolia that these projects will help address.
- The Asian Development Bank stresses Mongolia has a robust legal framework for medical waste management, which it strengthened during the pandemic. There are also laws covering toxic waste, to end a situation where hazardous waste is stored at the sources, because there was no hazardous waste treatment facility available in the country until recently. There are both health and environmental benefits (avoiding contamination of land and water) in the orderly treatment of such waste, coming from mining, electronics, or slaughterhouses.
- Golombt Bank stated that mining waste will include ore mining waste (low substances), hydrometallurgical/ pyrometallurgical and chemical related waste. These activities will comply with the Law on Hazardous Waste Management. The bank will require an environmental and social impact assessment from its borrower to manage the associated environmental and social impacts. Similarly, organic waste facilities have to comply with the Best Available Techniques (BAT) reference documents (BREF) in the management process of waste treatment and by-products. Beyond these, there are limited considerations to emissions throughout the value chain, such as construction of facilities, equipment operations, and use of chemicals.
- Wastewater treatment in undeveloped areas has meaningful environmental significance, as untreated sewage contributes to excess nutrients in water streams, which, in turn, can result in the loss of biodiversity and have detrimental effects on an ecosystem. In general, 27% of the residents of the provincial center are connected to a centralized sewage treatment plant and 61% use pit latrines, showing the need for investments in sewage networks.
- While there is a positive sectorial exclusion, whereby projects will not touch on waste and wastewaters from fossil fuels operations, equipment necessary to the eligible projects are likely to run on fossil fuels. Likewise, there is no specific focus on the projects' energy performance and carbon footprint.
- Projects are not required to include a systematic physical climate risk identification or use of climate scenarios to inform adaptation plans. This is a vulnerability. For instance, as per the Mongolia's Third National Communication to the UNFCCC, river flow volume in 2000–2015 remained well below the long-term average for much of the period. This resulted in a reduction in the national surface area of lake cover of around 7% and the drying up of approximately 600 lakes, according to ADB's Climate Risk Country Profile.
- Improving water efficiency and demand management can reduce emissions, enhance resilience in a context of growing climate physical risks, and limit negative local environmental impacts from water overuse.

Environmentally sustainable management of living natural resources and land use

Assessment	Description
Light green	Expenditure in agricultural production and sustainable textile and/or the purchase of sustainably produced agricultural products, certified under one of the following schemes: • Rainforest Alliance • Global Good Agricultural Practices (G.A.P) • China National Organic Standard • Better Cotton Initiative • Fairtrade International • Certified organic agriculture, including United States Department of Agriculture (USDA) Organic • The Organization for Economic Cooperation and Development (OECD) Seed Schemes • Global Organic Textile Standard (GOTS) • OEKO-TEX Standards • Global Recycled Standard (GRS) • Sustainable Cashmere of Mongolia Protected Geographic Indication (PGI) – EU Certification (in line with Mongol Togtvortoi Nooluur's PGI Book of Specification) • Khaan Shirhegt • Standard for Sustainable Textile Production MNS 6926:2021 • Sustainable Textile Manufacturer Certification by the Mongolian Wool and Cashmere Association • Sustainable Fiber Alliance (SFA) Aware Certification Expenditure on integrated cropland-livestock-forestry systems and agroforestry systems (exclusion of industrial production) with sustainable forestry management plan targeted at small-scale herders/farmers Forestry management and expenditure in sustainable forestry (reforestation/afforestation/ rehabilitation /conservation) with the following certifications: • Forest Stewardship Council (FSC) • Program for the Endorsement of Forest Certification (PEFC) • China Forest Certification Scheme Expenditure in sustainable biodiversity activities (Restoration/rehabilitation/ conservation), Organization for Biodiversity Certificates (OBC) Expenditure in R&D on agriculture systems, programs and product or equipment that encourage sustainable land use and sustainable agriculture • Climate-smart agriculture - Smart irrigation system, irrigated crop farming technology, hydroponic greenhouse and vertical farming, green organic fertilizers

Analytical considerations

- In Mongolia, the Land Use, Land Use Change and Forestry (LULUCF) sector is the major source of greenhouse gas emissions and removals. Significant investments in sustainable agriculture and forest management practices are needed to decarbonize the sector and to increase forests' carbon sink capacity. This project category has a role in supporting the

issuer's decarbonization strategy and conserving valuable terrestrial resources. However, investments in integrated cropland-livestock-forestry systems may increase climate risks associated with increased livestock, which limits the shade to Light green.

- Some proceeds will be directed toward agroforestry and integrated cropland-livestock forestry systems. Positively, this activity will be targeted at small-scale herders, as opposed to industrial breeding, where we see the highest risks. While this system has a potential to increase yields to meet growing food demand and provide some environmental benefits, compared to specialized and intensive systems, there are significant climate risks associated with the increase in livestock. Animal-based food (livestock and dairy) tends to have a much higher carbon footprint than plant-based food. Among the main sources of greenhouse gas emissions in agriculture are land use change (esp. forests, wetlands) for cultivating new areas and methane emissions from cattle. In Mongolia, methane emissions alone are responsible for 33.82% of total greenhouse gas emissions, which mainly originates from enteric fermentation and manure management in agriculture sector.
- Proceeds will also be allocated to finance sustainable forest management practices, such as afforestation, reforestation, rehabilitation, and forest conservation measures. The area covered by forests in the country accounts for 12,552.9 thousand hectares, corresponding to 7.96% of the total area. In our view, investments in the above-mentioned activities are key to enable forests' absorption of CO_2. Future projections for 2030 and 2050 by UNFCCC, indicate that the carbon sink potential of the forests in Mongolia will increase by 14.0% and 31.0%, respectively. Additionally, these activities will support to halt the loss and degradation of forest ecosystems, which, in turn, can become the largest source of greenhouse gas emissions, in the absence of mitigation measures. We positively note that financing will only support projects with the international sustainable forest management certifications, such as Forest Stewardship Council (FSC), Program for the Endorsement of Forest Certification (PEFC), and the China Forest Certification Scheme.
- We think sustainability certifications for agricultural commodities and sustainable textiles cover many important environmental topics and can verify improved on-farm and textile production practices. At the same time, certification systems vary significantly in stringency, can contain loopholes and, in many cases, cannot adequately address larger systemic issues, such as direct and indirect land use change driven by agricultural expansion and associated climate emissions, or enforceability and traceability of impacts.
- We believe issuer's investments in sustainable biodiversity activities, such as restoration, rehabilitation, and conservation are critical for the low-carbon future. However, the absence of quantitative targets and thresholds in the framework's eligibility criteria limits visibility on the expected impact of financed projects.
- R&D on agriculture systems, programs and product or equipment that encourage sustainable land use and sustainable agriculture are key from a low carbon perspective. This is because most of the land in Mongolia, (72.9%) of the total area, is occupied by agricultural land classified as pasture, hay fields, land for arable farming land, among others. The C02e emissions stemming from the agricultural sector accounted for around 52% of total greenhouse gas emissions in 2020. Therefore, the role of R&D is vital to find more sustainable solutions for the sector's decarbonization. We positively note that R&D in livestock farming is excluded from financing.
- Some proceeds will be allocated to support climate-smart agriculture, such as smart irrigation system, irrigated crop farming technology, hydroponic greenhouse and vertical farming, and green organic fertilizers. Climate-smart agriculture is a promising approach for tackling both climate mitigation and adaption in global food production systems. However, it is a broad term which can easily be misrepresented and may or may not have material impacts depending on the approach and context. While some of the financed activities, such as smart irrigation systems, deliver environmental benefits, including water conservation, reduction of energy consumption, prevention of soil erosion, there are still some risks associated with hydroponic greenhouse and vertical farming, such as high energy use and increased water consumption. Golomt Bank stated that they will work to advise clients to source at least 20% renewables in the powering and heating.
- Physical climate risks are material for this project category, given the risks associated with forest fires and the impact of increased precipitation and flooding on agricultural crops. We would expect the issuer to have stronger considerations for physical climate risks in this regard.

Clean transportation

Assessment	Description

Medium to Light green	Expenditure in low energy consuming or low emission transportation, including:
	• Infrastructure and transportation of fully electric or zero-direct emissions vehicles, trains, urban subway/metro, trams, scooters, motorbikes
	• Manufacture and upgrade, purchase, and/or operation of
	  o Zero direct-emissions vehicles e.g. buses, cars, etc. (under 50g CO_2 /km up to 2025, and zero tailpipe emissions thereafter)
	  o Zero direct emission transport (e.g. hydrogen fueling stations)
	  o Freight and cargo transportation (below the threshold of 25g CO_2 /t-km respectively)
	• Technology and infrastructure for EVs, car sharing schemes, road charging systems, better utilization of public transport, and other such systems
	  o Electric charging stations, battery stations, hydrogen charging mixed stations
	  o Schemes that promote low-carbon initiatives
	  o EV batteries
	  o Modal transport system and/or program – Municipal program electrification buses (excluding activities relating to fossils fuels)
	• Infrastructure and product of active mobility: Bicycles, scooters, and other forms of self-propelled transportation; and walking and cycling infrastructure
	• Construction, development, and production of EVs manufacturing facilities; Upgrading and retrofitting of existing facilities for the purpose of expanding production exclusively for EV production

Analytical considerations

- The transport sector is one of the largest contributors of greenhouse gas emissions from fuel combustion in Mongolia, where most of the sector's emissions are linked to road and rail transportation. Major Investments in low-emission transport and supporting infrastructure are key to decarbonize the sector and meet the country's climate targets. We assign this project category an interval shade, Medium to light, given the role of electrified transportation and the supporting infrastructure in the low-carbon future. However, initiatives, such as expanding the use of hybrid vehicles and carpooling in the framework's eligibility criteria add a Light green element to the shading.
- Some Investments will be directed toward electrification of public transportation, such as buses, trains, and urban subways, as well as the enabling infrastructure for the EVs. We positively note that framework's eligibility criteria include emission thresholds for financed hybrid vehicles, which is in line with the EU's Clean Vehicles Directive. Specifically, the light-duty vehicles with a tailpipe emission intensity of max 50g CO_2 /km are eligible until 2025 and only zero-emission vehicles can qualify from January 2026 onward. We note that while hybrid vehicles are more climate-friendly than conventional fossil-based alternatives, we view them as a short-term solution. Eligibility criteria also include financing fully electric vehicles and hydrogen fueling stations. Fully electric vehicles are well-aligned with the low-carbon future and fueling stations only apply to green hydrogen (i.e., generated with renewable energy) that supports the green transition in the long-term.
- The issuer is also going to finance technology and infrastructure for EVs, such as road charging systems and car sharing schemes. We see supporting infrastructure for EVs, such as charging stations as well-aligned with a low carbon future. However, we note that charging stations will be connected to the national grid and, therefore, the actual emissions reduction the vehicles can provide is dependent on Mongolia's electricity grid profile. Currently, more than 84.4% of the electricity produced in Mongolia is based on coal, followed by wind (7.8%) and oil (4.6%).

- Proceeds will also finance schemes that promote low carbon alternative transport. This refers to carpooling/sharing solutions of cars. While such initiatives are beneficial to reduce emissions, rebound effects may occur, such as less use of public transportation.
- Investments in modal transport system or municipal program related to the development of electric buses may include both hybrid and fully electric buses. While we see hybrid cars as a short-term solution, fully electric cars are fully aligned with the low-carbon future.
- Proceeds will also finance infrastructure and active mobility products, including bicycles, scooter, walking and cycling infrastructure. These projects have low risk of emissions locked-in and are aligned with a low-carbon future.
- Some proceeds will support construction of new or upgrade of existing manufacturing facilities for the purpose of expanding production exclusively for EV vehicles. While these facilities are crucial to produce clean transport and decarbonize the sector, climate and other environmental risks can arise during the production process and are not expressly addressed in the criterion. Such risks, for instance, can arise from running facilities on fossil-fuel based energy, as well as biodiversity risks stemming from the increased demand for raw materials and their sourcing.
- The exposure to physical climate risk of the assets included in this project category is likely to be less material, as most of the assets in question are moveable. The facilities used for the manufacture of electric vehicles, could be exposed to physical climate risk due to their fixed nature. Nonetheless, there are limited considerations for physical climate risks in the scope of the financing. As mentioned previously, the adaptation measures will be part of the bank's ESG risk management.

S&P Global Ratings' Shades of Green

Assessments	Dark green	Medium green	Light green	Yellow	Orange	Red
Description	Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects	Solar power plants	Energy efficient buildings	Hybrid road vehicles	Health care services	Conventional steel production	New oil exploration

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Social project categories

Affordable housing

Development and/or provision of affordable/social and low-income housing, social and low-income housing, shelters, halfway homes, community housing, student housing for low-income or marginalized communities according to local government definitions

Providing and improving access to subsidized mortgages for individuals according to local government definitions

Target population: Low-and-middle-income households and individuals, rural area/underdeveloped area and marginalized communities (including elderly and/or disabled people)

Analytical considerations

- The development of affordable projects helps improve housing conditions for low-income families, while the construction of student housing will benefit students from impoverished households.
- Nearly half of Mongolians live in Ulaanbaatar, which is 0.3% of the country's territory, translating into a density ratio that is more than 150 times greater than the national average. In 2020, half of Ulaanbaatar's 414,000 households lived in ger areas (those with traditional Mongolian dwellings). What is more, 88% of the soil in Ulaanbaatar is polluted, including in some ger areas, contaminated with disease-causing pathogens such as salmonella. This illustrates the pressing need for healthy and modern accommodation in the country and especially the capital.
- Low-income households either earn below the national median income or below national average income, as defined by the World Bank. Likewise, the lower middle income class poverty line is set at US$3.65 per day (US$110 per month) and that of the upper middle class is US$6.85/US$206. There is an absolute ceiling below the median monthly household income of MNT 870,600 (US$280); this is the 40th percentile of income in the country. Eligibility thresholds will vary slightly by region and therefore the bank will primarily adhere to regional jurisdiction definitions where available.
- Golomt Bank will prioritize rural or underdeveloped area in Ulaanbaatar's ger areas, that are characterized by unplanned settlement of low and medium-income households without access to urban infrastructure, such as water, sewerage, and heating, inadequate and unpaved road networks, and underdeveloped social and economic facilities.
- In addition to regularly placed mortgages, Golomt Bank provides subsidized housing loan rates to Mongolian citizens aged above 18 years old for the purchase of an apartment of up to 80 square meters, targeting inhabitants in ger areas. State-related company MIK Holding JSC supports these schemes by purchasing these government-subsidized mortgage loans from originating banks and securitizing them.
- The framework does not specifically consider environmental criterial for these housing units, exposing it to potential climate resilience or climate transition issues.

Access to essential services - Basic infrastructure

Development of roads, railways and other transportation systems in areas lack of connectivity or infrastructure in state road network sections to enhance local and regional connectivity.

Development of transmission and distribution infrastructure and facilities aimed at improving access to electricity (e.g. addressing access to electricity for all households, including in rural areas).

Target population: General population

Analytical considerations

- Affordable basic infrastructure includes road and railways construction to help improve connectivity in underdeveloped rural areas or where the road network is limited. The government pays particular attention to address logistic and connectivity issue, such as enhancing the fluidity of border crossings with roads and expanding local airports/freight terminals, in line with the goals and objectives of the first phase of Mongolia's "Vision 2050".

- The domestic network of roads has a total length of about 113,000 km, placing Mongolia 48th in the global ranking for availability of roads per capita, according to Worlddata. Given the low population density of two inhabitants per square kilometer, roads are critical to connect remote parts of the country. In general, road infrastructure in emerging countries is key to economic development, as it can improve access to services, allow more efficient transport of goods, and link producers to markets, thereby lifting populations out of poverty. The roads financed under the framework will be free to use, maximizing their impact. On the downside, rapid motorization and road expansion in the country will continue to exacerbate road safety problems and an increase tailpipe emissions.
- Until lower-emission transportation options are phased in, roads will convey mostly fossil-fuel powered vehicles with associated climate impacts and local pollution concerns. Roads can also cause ecosystem and biodiversity degradation from habitat fragmentation and direct or indirect land-use change driven by increased adjacent economic activities. Construction materials such as asphalt have links to fossil fuel inputs.
- With only 1,815km of railways, Mongolia is relatively less equipped than many other countries in Asia. Most exports travel through Zamiin–Uud to Tianjin port in China. However, the Zamiin–Uud hub is becoming saturated, highlighting the need for investments to increase the country's logistics capability.
- While access to electricity is already 100% in the country, Mongolia lacks electricity generation capacity, importing power from Russia and China. Besides large coal fired power plants, districts use separate small scale heating plants. Under its latest NDC targets, the government aims to increase the share of generation capacity from renewable energy sources to 20% by 2023 and 30% by 2030, and to build export-oriented power plants.
- Climate and environmental risks associated with social projects that require construction of infrastructure can stem from the use of materials with high embodied emissions such as steel and cement, or those with a direct link to fossil fuels such as asphalt. Projects imply local pollution, the use of fossil-fuel-powered equipment during construction, and land use change and biodiversity impacts from urban expansion. Long-lived infrastructure that is exposed to increasingly frequent extreme weather might call for climate-adaptation measures.

Access to essential services - Health

Construction and operation of health care infrastructure, equipment, and services that expand access to health care relating to:

- Public and private hospitals, clinics and health care centers for the provision of public/free/subsidized health services
- Provision for medical treatment and services that requires equipment and technology that is available at private hospitals
- Funding for health care facilities and services dedicating toward cancer or mental treatment
- Research and development, production, logistics and distribution of medical equipment and supplies (including masks, respirators, medicines, and vaccines) essential to emergency medical response, support for natural disaster (including pandemic)
- Provision of affordable/free/subsidized training for health care professionals in public health care services

Target population: General population, including the elderly and people with disabilities

Analytical considerations

- Health care projects contribute to ensuring access to essential services. The projects improve patient access to essential medical care, and could translate into greater efficacy of existing health care infrastructure.
- Mongolia faces health challenges including illnesses and liver cancer caused by chronic hepatitis, and growing occurrences of noncommunicable diseases. Fast urbanization brings its own challenges, such as air pollution (in winter, the daily average PM2.5 pollution level in Ulaanbaatar may reach 27 times the level World Health Organization recommends as safe, according to the UNICEF), and access to safe drinking-water and sanitation for communities on the outskirts of Ulaanbaatar.
- Mongolia's Sustainable Development Vision 2030 and the State Policy on Health (2017–2026) aim at reducing the prevalence of hepatitis and tuberculosis, and the risk of noncommunicable diseases. The country has been working with the World Health Organization on advancing quality and universal health coverage.

- The projects touch on affordability, through the provision of subsidized services. They serve accessibility, as not all services will be free/subsidized, and since financing private hospital helps bridge the gap with an insufficient coverage of public hospital is insufficient. In addition, the Ministry of Health validates each year a list of private hospitals which citizens can visit while being covered by the national health insurance coverage.
- There are resilience benefits in investing in R&D to eradicate endemic diseases and fortify disasters response capabilities.
- Targeting the entire population, with a focus on elderly and disabled people, is consistent with national policies.

Access to essential services - Education

Construction of educational infrastructure and equipment or financing relating to primary, secondary, adult, and vocational education:

- Construction of public/free/subsidized schools (private schools and training centers), campuses, student housing
- Free or subsidized training for educational professionals
- Education loans and the provision of scholarships targeting students in Mongolia from low-income backgrounds
- Provision of affordable/free/subsidized training for health care professionals in public health care services

Target population: General public, all children and students in Mongolia and educational professional

Analytical considerations

- The financing of education projects and facilities aims to contribute to accessibility to essential services.
- Among children aged three to five, 20% do not have access to early education, especially those from families of rural herders, with disabilities, and with low incomes. A 2018 UNICEF survey found young children had 67% numeracy and literacy skills, which is lower than the international standards. The enrollment rate in school is high in Mongolia at 98%, but 5.1% of girls and 13.4% of boys are not studying in upper secondary school.
- The World Bank found 27.8% of Mongolians live below the national poverty line of MNT 184,747 (US$60) per person per month, highlighting the need to provide financial support (both for accommodation and tuition fees) to broaden the access to education.
- Among teachers, 75.2% have never received pedagogical guidelines on distance education and 20% lack the competency required to effectively operate digital equipment, underlining the need for training.
- Eligible projects have a wide range of target populations, which include general public and children. The country's Law on Education was revised with a specific section on inclusive education for children with specific needs, who had been overlooked previously. The target populations also include people with special needs and unemployed individuals, individuals undergoing retraining or pursuing advanced qualifications, as well as job seekers with limited education or qualifications.
- The framework does not specify terms for the student loans, which could therefore be expensive, leading to heavy debt loads and undermining the benefits of access to education.

Food security and sustainable food systems

Expenditure on activities relating to nomadic and semi nomadic herding - sustainable pastureland and livestock management and agricultural public services to research and development on such activities and food safety control systems

Expenditure on agroforestry, integrated cropland-livestock forestry systems, equipment and facilities targeted at farmers with small landholdings, family farmers and/or small-scale producers to prevent food loss and waste, improve productivity and increase assess to market

Target population: Farmers with small landholdings, small-scale producers, and indigenous peoples at the community level

Analytical considerations

- Projects supporting nomadic and semi nomadic herding--Mongolia's traditions--can provide resources to people who may not have full access to banking given their revenue nature and way of life.
- Given Mongolia's stage of economic development, agriculture remains an important sector, contributing 13% to GDP in 2022 (compared to well below 5% for more developed economies) and employing a third of the workforce. Funding and promoting more sophisticated agricultural practices among farmers with small landholdings should translate into crops yield gains and reduced loss in storage, while improving time to market through better logistics.
- These projects could include the massive use of fertilizers, which have their environmental shortcomings. Excessive amounts of fertilizer lead to the release of harmful greenhouse gas into the atmosphere and the eutrophication of waterways, in addition to reducing the organic matter and humus content in the soil. There are limited environmental safeguards in the use of fertilizers, pesticides, or chemicals for these projects.
- Forests cover 11% of Mongolia's territory, and grow slowly, due to the harsh climate. Protecting forest systems preserve their ability to provide sustainable and recurring income to farmers, while they maintain water conditions, prevent soil degradation, preserve permafrost, and contain greenhouse gases. Likewise, sustainable pastureland management improves grass health and keeps soil healthy. It could maintain a healthy ecosystem and help farmer to reduce production costs. Projects could include digitization and decision support tools, nutrients cycling, and organic farming.
- Given the emphasis on social outcomes, environmental considerations such as methane emissions in relation to cattle breeding are secondary.

Socioeconomic advancement and empowerment

Microfinancing and empowering support for women entrepreneurs, and/or social entrepreneurs, and/or enterprise through financing and mentorship programs

Target population: Female entrepreneurs and MSMEs, SMEs

Analytical considerations

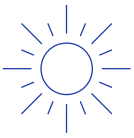
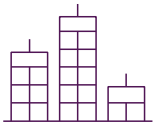
- Support enhances access to opportunities and/or fosters inclusion and diversity for underserved populations.
- The bank's definitions differ slightly to those in the 2019 SME Law. Microenterprise have less than 10 employees (in line) and up to MNT 250 million in annual revenue (300 in the law). Small businesses have up to 50 employees (in line) and MNT 3 billion (three times higher than the regulatory figure). Medium companies have up to 250 employees (versus 200 under the law) and MNT10 billion (US$3.2 million, four times higher than the figure under the law). Despite higher revenues ceilings, such definitions still cover comparatively small entities.
- Social entrepreneurs/enterprises refer to an individual/business whose activity is not-for-profit, or mission-oriented if it is for-profit. The scope of business can be both social and environmental, as long as there is a clear objective to create a sustainable impact.
- Mongolia established the SME Development Fund (SMEDF) in 2009 to address the challenge of access to finance by SMEs yet demand for funding has largely outsized the availability of resources, with about 15% of applications historically financed. In 2014, the IFC released a report unveiling that access to finance was still the country's SMEs' main stumbling block to growth, with women-owned SMEs facing particular difficulties. Based on the Asian Development Bank's 2020 MSME survey, gender-responsive capacity building, improving the financial literacy and access to funding of MSMEs are keys to unlocking growth potential.
- SMEs are more vulnerable to restrictive regulations and account for 75%+ of the firms in the country, according to the World Bank's Mongolia Business Environment and Competitiveness Assessment report. MSMEs play a vital role in job creation in Mongolia, as they account for 77% of the total registered active business entities, 70% of employment and 18% of GDP, according to the ADB.

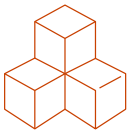
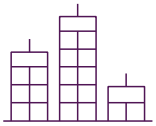
- Gender inequality still prevails in Mongolia, with for instance the country currently ranking 133rd in terms of women's representation in decision-making, with only 17.1% of parliamentary seats held by women, falling below the global average of 26.5%. The June 2023 UNDP Gender Social Norms Index report shows that 97% of Mongolians hold biases against women.
- These statistics suggest access to funding may be all the more challenging for female entrepreneurs, supporting the social benefits of helping them get finance for their businesses, all the more as SMEs account for 50% of employment, according to the ADB.
- The framework does not include safeguards on borrowing costs. The bank is transparent on its pricing, which is available on its website, but does not grant concessionary rates, with cost of funding directly mirroring the borrower's credit risk. Such risk is partially mitigated by the unsecured nature of the loans.
- All women are eligible. Including income thresholds would better ensure financing is channeled to the underserved segment of the population.

Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

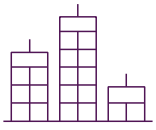
This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs	
Renewable Energy	 **7. Affordable and clean energy***	 **9. Industry, innovation and infrastructure***
Energy Efficiency	 **7. Affordable and clean energy***	
Green Building	 **7. Affordable and clean energy**	 **11. Sustainable cities and communities***
Pollution Prevention and Control	 **3. Good health and well-being***	 **7. Affordable and clean energy**

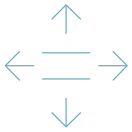
Sustainable Use of Waste and Wastewater Management	 **6. Clean water and sanitation***	 **12. Responsible consumption and production***
Environmentally Sustainable Management of Living Natural Resources and Land Use	 **13. Climate action**	 **15. Life on land***
Clean Transportation	 **9. Industry, innovation and infrastructure**	 **11. Sustainable cities and communities***
Affordable Housing	 **9. Industry, innovation and infrastructure**	 **11. Sustainable cities and communities***
Access To Essential Services - Basic Infrastructure, Health and Education	 **3. Good health and well-being***	 **4. Quality education***

5. Gender equality

8. Decent work and economic growth*



11. Sustainable cities and communities*

Food Security and Sustainable Food Systems	 **2. Zero hunger***
Socioeconomic Advancement and Empowerment	 **5. Gender equality***  **10. Reduced inequalities***

*The eligible project categories link to these SDGs in the ICMA mapping.

Related Research

- Lost GDP: Potential Impacts of Physical Climate Risks, Nov. 27, 2023
- ESG Materiality Map: Banks, July 20, 2022
- Analytical Approach: Second Party Opinions: Use of Proceeds, July 27, 2023
- FAQ: Applying Our Integrated Analytical Approach for Use-Of-Proceeds Second Party Opinions, July 27, 2023
- Analytical Approach: Shades of Green Assessments, July 27, 2023

Analytical Contacts

Primary contact

Joyee Lam
Hong Kong
+852-2912-3057
joyee.lam
@spglobal.com

Secondary contacts

Bertrand Jabouley
Singapore
+65-6239-6303
bertrand.jabouley
@spglobal.com

Elene Parulava
Frankfurt
+49 -175-581-2617
elene.parulava
@spglobal.com

Tim Axtmann
Oslo
+47-941-57-046
tim.axtmann
@spglobal.com

Catherine Rothacker
Oslo
+47-941-57-987
catherine.rothacker
@spglobal.com