ORDER OF CHIEF EXECUTIVE OFFICER

2019.01.14 **Number A-19/010**

On approving the updated version of "Trade and Development Bank's Environmental and Social Responsibility Policy"

Based on the Article 83.1 of Company law of Mongolia, Article 9.10.8 of "Rules of Trade and Development Bank", and Article 7.1.2 of "Internal policy, and procedure approval procedure of Trade and Development and Bank", it is hereby ORDERED:

1. That the updated version of "Trade and Development Bank's Environmental and Social Responsibility Policy" as attached in the Appendix 1 of this order is put into effect.

2. That all departments, units, branches shall follow this order starting 14^{th} of January, 2019.

3. That the Risk Management Department (Delgermaa D.) is directed to make changes to the Trade and Development Bank's electronic policy and procedure compilation;

4. That the Chief Executive Officer's previous order dating to 17^{th} of August, 2012 numbered 12/1425 is no longer effective.

5. That Internal Audit Department (Enkh-Amgalan G.) is directed to oversee and monitor the implementation of the order.

CHIEF EXECUTIVE OFFICER ORKHON O.

UNOFFICIAL TRANSLATION

Appendix 1 of CEO order
A-19/010 of 2019

TRADE AND DEVELOPMENT BANK'S ENVIRONMENTAL AND SOCIAL RESPONSIBILITY POLICY
(Updated version)

Content

UNOFFICIAL TRANSLATION

TRADE AND DEVELOPMENT BANK'S ENVIRONMENTAL AND SOCIAL RESPONSIBILITY POLICY (Updated version)

Chapter I. General rules

1.1. The purpose of The Environmental and Social Responsibility Policy (hereafter referred to as the Policy) of Trade and Development Bank (hereafter referred to as the Bank) lies in identifying clients' environmental and social (hereafter referred to as the E&S) risk in accordance with the best international practices and reduce the negative E&S impact of their business activities through assessing and mitigating their E&S risks, as well as taking the E&S risks into consideration when making a financial decision.

1.2. The Policy will be the main document for the bank's operation regarding E&S principles, management, and supervision framework. The implementation of this policy will be specified in the Bank's E&S Policy Implementation Procedure.

1.3. The Bank will have a complex system of environmental and social risk management consisting of the E&S policy, E&S policy implementation procedure, financing policies for sectors with high environmental and social risks, handbook, training, assessment methods of E&S responsibility, risk categories, monitoring and reporting.

Chapter II. Principles under the E&S responsibility policy

2.1. The Bank will make it a priority to finance clients who practice integrity in managing the environment, and protecting the rights of people as well as their rights to be provided with proper working conditions, and will effectively mitigate the E&S risks of its clients whose operation possess medium to high risk through partnership with clients.

2.2. The Bank, as well as following the national Law of Environmental Protection and other relevant laws and regulations, will conduct its operation in adherence to international convention, and protocols specified in Appendix 1. These include:

2.2.1. UN Global Compact;

2.2.2. UNEP Finance Initiative: Statement by financial institutions on the environment and sustainable development;

2.2.3. ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy;

2.2.4. 8 Performance Standards of International Financial Cooperation (hereafter referred to as IFC).

2.2.5. 8 Principles of Sustainable Finance (ToC);

2.2.6. Green Investment Principles for the Belt and Road Initiative.

(Articles 2.2.5 and 2.2.6 were added by the CEO order A-19/600 of 2019-11-05)

2.3. The Bank shall devise financing policies for sectors that might possess high E&S risks. These include:

2.3.1. “Financing policy for the mining sector”;

2.3.2. “Financing policy for the construction sector”;

2.3.3. “Financing policy for the sector of Supplying, processing and manufacturing raw material of livestock”.

2.4. The Bank will support disbursement of “green loans” which are loans that have positive impact on the environment. Green loan refers to:

2.4.1. Renewable energy - including production, transmission, appliances and products

2.4.2. Energy efficiency – such as in new and refurbished buildings, appliances and products;

2.4.3. Pollution prevention and control – soil remediation, waste reduction, waste recycling and energy/emission-efficient waste to energy;

2.4.4. Environmentally sustainable management of living natural resources and land use – including environmentally sustainable agriculture,

2.4.5. Terrestrial and aquatic biodiversity conservation

2.4.6. Clean transportation and supporting infrastructure;

2.4.7. Sustainable water and waste water management;

2.4.8. Climate change adaptation – including information support systems;

2.4.9. Eco-efficient products, production technologies and processes;

2.4.10. Green buildings which meet national or internationally recognised standards or certifications;

2.4.11. Other products, and activities that are environmentally friendly.

2.5. The Bank is committed to being environment-friendly in its loan operation along and implementing its social responsibility and will ensure that the borrowers' business activities that are financed with the bank loan are not harmful to the society, stakeholders and the environment. In this regard, the bank refuses to finance any activities, products and sectors that are listed in the Exclusion list specified in Appendix 2 of this Policy.

2.6. The Bank will identify, assess, and mitigate its clients' E&S risks and will make its financial decision based on the client's E&S risk assessment under the principles of sustainable finance.

Chapter III. Implementation of E&S policy

3.1. The Risk Management Committee is responsible for approving the Financing Policies for sectors with high E&S risks.

3.2. The Credit Committees shall make financing decision in accordance with the Financing policies for sectors with high E&S risks, E&S Policy and Procedure, taking the loan's E&S risk assessment and conclusion into account.

3.3. Risk Management Department shall train account managers, and risk analysts on the Bank's Policy on E&S management and provide them with relevant information.

3.4. The Law Department, by the request of E&S responsibility monitoring officer (hereafter referred to as E&S officer), will provide the E&S officer with the relevant information and guidance about the laws and regulations on the environment.

3.5. The Bank, to implement this policy effectively, will use effective assessment models devised based on the international best practices and will conduct high-level screening and due diligence on loan requests.

3.6. The purpose of initial high-level screening is to evaluate the E&S risks of the client's main business operation and loan transaction in the first instance and decide the next actions to be taken.

3.7. Due diligence will be conducted for loans that are classified as yellow or red according to the initial high-level screening. Client and/or Transaction due diligence will be conducted as stated in the E&S policy implementation procedure.

3.8. Client due diligence:

 3.8.1. The purpose of Client due diligence is to effectively evaluate the client's competence and attitude towards managing E&S risks.

 3.8.2. The Client due diligence of E&S risk assessment model is used to assess the following aspects of the client's operation;

3.8.2.1. Responsibility: Whether the client has thoroughly realized its responsibility, and role to commit to reducing their operation's E&S risk;

3.8.2.2. Competence: Whether the client has competence to manage its ESMS, and make improvements to the way they handle their E&S related responsibilities.

3.8.2.3. Client's history: Whether the client has caused E&S related issues such as breaching the relevant laws, having major accidents etc. If that has been the case, how the client has dealt with issues will be taken into account.

3.8.3. Client due diligence methodology assesses the activities of clients using international standards and depending on the client's E&S performance and the answers to the questions, the client's operation is classified as below:

3.8.3.1. "Above industry standards" implies that the client's business operation is exemplatory in their field. For example: Maintaining good relationships with the community, engaging the stakeholders, or leading in the relevant field's sustainability best practices etc.

3.8.3.2. "Industry standards" implies that the borrower's business activitiy meets international standards and is in compliance with legal requirements of state organization or generally accepted standards.

3.8.3.3. "Below industry standards" indicates that the client has no or insufficient framework of policy and procedure to effectively reduce E&S risk.

3.8.3.4. "Deficient" indicates that the client does not aspire to reduce their E&S risk, nor acknowledges it. It is typical of these kind of companies to have no or little information on E&S risks and issues.

3.9. Transaction due diligence:

3.9.1. The purpose of the Transaction due diligence is to assess the possible impact of the borrower's loan transaction regardless of their main business operation implying that the result of the assessment will solely be dependent on the loan transaction's E&S risk and impact. In other words, it is defined as environmental and social risk and negative impact which might results from the project and activity financed with the loan.

3.9.2. Transaction due diligence will assess the loan's risk based on the two differents risks as below.

3.9.2.1. Environmental risk: The factors that may result from the loan transaction including environmental issues such as animal habitat, biodiversity, land use, pollutions, environmental legislation and procedures.

3.9.2.2. Social risk: The social issues that might arise due to the loan transaction regarding human right, labor, workplace condition, public health and safety, land acquisition, involuntary resettlement, indigenous people and cultural heritage.

3.9.3. For sectors with high risk, including construction, mining, processing raw material of animal, the level of risk will be determined through specifically designed transaction due diligence model.

3.9.4. By using the due diligence of E&S risk assessment model, the client loan transaction risks are classified into three caterogies; category A (high risk), category B (medium risk), category C (low risk) in accordance with the IFC's 8 Performance Standards.

3.9.4.1. Category A: Loan transactions with significant negative impact on many different levels that are not restorable and have previously never happened.

3.9.4.2. Category B: Loan transactions with limited negative impact on the environment and the society the risk level of which can be lowered through mitigation;

3.9.4.3. Category C: Loan transations with low or no impact on the environment and the society.

3.10. The E&S officer will set E&S covenants on loans based on the client and transaction due diligence. The covenants set by the E&S officer shall be included in the loan agreement and the implementation of the covenants shall be reviewed by the account manager.

3.11. The Bank will set different standards for different sectors according to their E&S risk level, and will make financial decisions in adherence to these standards.

3.12. In certain situations, the Bank could make its decisions based on the most recent and relevant news available.

3.13. The Bank shall put an end to its partnership with client or refuse to provide financing to clients who have repeatedly caused major E&S issues or have not fulfilled the E&S covenants set by the Bank repeatedly.

3.14. E&S officer will archive and keep the borrower's files attained during the E&S assessment upon loan request.

Chapter IV. Supervision

4.1. When conducting analysis of a loan request, Account managers of Corporate banking department and branches will complete the high-level screening of the clients' businesses and will also do the review of the loan and monitor the loan's E&S risks.

4.2. The risk analyst and E&S officer will revise the Account Manager's E&S risk conclusion and write their own conclusion. The E&S officer and the risk analyst will monitor the implementation of the E&S policy in the loan issuance process of the Bank.

Chapter V. Reporting

5.1. Risk Management Department's E&S officer is responsible for reporting the Bank's ESMS performance to the Credit Committee monthly and, as required, to the Bank's leadership, national and international banking, and financial organizations.

5.2. E&S officer is responsible for informing and raising awareness among the Bank's employees about the Policy, the Procedure and other relevant national and international laws, and regulations through the Bank's internal news on the internal web.

Annex 1: International standards

1. **UN Global compact:**

The United Nations (UN) Global Compact is a leadership platform, endorsed by Chief Executive Officers, and offering a strategic platform for participants to advance their commitments to sustainability and corporate citizenship.

Structured as a public-private initiative, the Global Compact is policy framework for the development, implementation, and disclosure of sustainability principles and practices. With over 12000 corporate participants and stakeholders from over 160 countries, Global Compact stands as the largest corporate citizenship and sustainability initiative in the world.

Signatories are committed to aligning their operations and strategies with ten universally accepted principles of sustainability.

The 10 principles are:

Human rights:
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2: make sure that they are not complicit in human rights abuses.

Labour:
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labour;
Principle 5: the effective abolition of child labour; and
Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment:
Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: undertake initiatives to promote greater environmental responsibility; and
Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption:
Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

The full document is available on the UN Global Compact website: http://www.unglobalcompact.org/

2. **UN Environment Programme Financial Initiative:**

The United Nations Environment Programme Finance Initiative (UNEP FI) is a global partnership between the United Nations Environment Programme (UNEP) and the financial sector.

More than 230 financial institutions, including banks, insurers, and investors, work with UN Environment to understand today's environmental, social and governance challenges, why they matter to finance, and how to actively participate in addressing them.

Through regional activities, a comprehensive work programme, training programmes and research, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

All financial institutions wishing to join the UNEP Finance Initiative must adhere to the Statement.

- UNEP Statement of Commitment by Financial Institutions on Sustainable Development

Signatories to the Statements commit to the integration of environmental considerations into all aspects of their operations.

Full documents are available on the UNEP FI website: http://www.unepfi.org/about/unep-fi-statement/

3. ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy

The International Labour Organisation (ILO) Tripartite declaration of principles concerning multinational enterprises and social policy promotes the voluntary adoption of principles for multinational enterprises (MNEs) to make positive contributions to economic and social progress, and to minimize and resolve the difficulties to which their various operations may give rise.

Based primarily on the ILO Conventions and Recommendations, these principles serve as guidelines for employment, training, conditions of work and life, and industrial relations.

The Tripartite Declaration is meant specifically to address issues of work relations, including: employment promotion, employment security, vocational training and guidance strategies, and consultation between all parties as to matters of mutual concern, industrial dispute settlement, and grievances.

It focuses on employment and work conditions and provides detailed provisions in these areas, rather than very broad principles across a variety of subjects.

Full document is available on the ILO website: http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/normativeinstrument/kd00121.pdf

4. IFC's Performance Standards:

The International Finance Corporation (IFC) is the private sector arm of the World Bank Groups. The IFC applies to all the projects it finances environmental and social standards to minimize their impact on the environment and on affected communities. The IFC Performance Standards define their client's roles and responsibilities for managing their projects and the requirements for receiving and retaining IFC support. These Standards are:

1. Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts
2. Performance Standard 2: Labor and Working Conditions
3. Performance Standard 3: Resource Efficiency and Pollution Prevention
4. Performance Standard 4: Community Health, Safety, and Security
5. Performance Standard 5: Land Acquisition and Involuntary Resettlement
6. Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources
7. Performance Standard 7: Indigenous peoples
8. Performance Standard 8: Cultural heritage

For more information on these standards, follow the link to IFC's official website below: https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards

5. 8 Principles of Sustainable Finance (ToC):

The Sustainable Finance principles of Mongolia were elaborated to bring attention to sustainability in the Mongolian Banking sector and assist banks to become active players in the sustainable development of the country. By encouraging banks to assess, reduce, avoid and mitigate environmental and social risks and negative impact, these principles shall contribute to multifaceted development of Mongolia and Sustainable Finance through the growth of the green economy and financing of projects, products, and services that contribute to the sustainable development.

Principle 1: Protecting our natural environment

We will adopt an approach to protect and properly use soil, water, air, biodiversity and natural resources.

Principle 2: Respecting human rights

We will respect human rights and provide labor conditions that ensure human health, safety and equality.

Principle 3: Protecting our historic and cultural heritage

We will adopt an approach to protect our history, culture, traditions and, archaeological and paleontological heritage.

Principle 4: Promoting "green growth"

We will support and encourage renewable energy, energy-efficient solutions, clean production and any green initiatives.

Principle 5: Promoting financial inclusion

We will adopt an approach to develop and encourage products and services for social groups who have limited access to financial services including SMEs, female-headed families, elderly and disabled citizens.

Principle 6: Complying with a list of items prohibited to be financed

We will not finance a general list of businesses, products and services with environmental and social harm, or tolerate actions prohibited by international laws and the laws of Mongolia, and adopt an approach to promote best practices of ethics and company governance.

Principle 7: Promoting transparency and accountability

Within the laws of Mongolia, we will be responsible, open and transparent, and adopt an approach to support fair competition and not tolerate corruption.

Principle 8: Practice what we preach

We will implement these Sustainable Finance Principles in our own business operations and will seek to lead by example for the society, public, other business sectors and our clients.

6. **Green Investment Principles for the Belt and Road Initiative:**

In order to ensure that environmental friendliness, climate resilience, and social inclusiveness are built into new investment projects in the Belt and Road, so that the goals of the United Nations 2030 Agenda for Sustainable Development and the Paris Agreement are met, and all countries in the region build a shared future for common prosperity, the Green Finance Committee of China Society for Finance and Banking and the City of London Green Finance Initiative have jointly taken the lead to develop this set of green investment principles, with participation of other international organizations.

By becoming a signatory of these principles, Trade and Development Bank of Mongolia has committed to following these principles in their operation and investments.

Principle 1: Embedding sustainability into corporate governance

We will embed sustainability into our corporate strategy and organizational culture. Our boards and senior management will exercise oversight of sustainability-related risks and opportunities, set up robust systems, designate competent personnel, and maintain acute awareness of potential impacts of our investments and operations on climate, environment and society in the B&R region.

Principle 2: Understanding Environmental, Social and Governance Risks

We will strive to better understand the environmental laws, regulations, and standards of the business sectors in which we operate as well as the cultural and social norms of our host countries. We will incorporate environmental, social and governance (ESG) risk factors into our decision-making processes, conduct in-depth environmental and social due diligence, and develop risk mitigation and management plans, with the help of independent third-party service providers, when appropriate.

Principle 3: Disclosing environmental information

We will conduct analysis of the environmental impact of our investments and operations,

which should cover energy consumption, greenhouse gas (GHG) emissions, pollutants discharge, water use and deforestation, and explore ways to conduct environmental stress test of investment decisions. We will continually improve our environmental/ climate information disclosure and do our best to practice the recommendations of the Task Force on Climate-related Financial Disclosure.

Principle 4: Enhancing communication with stakeholders

We will institute stakeholder information sharing mechanism to improve communication with stakeholders, such as government departments, environmental protection organizations, the media, affected communities and civil society organizations, and set up conflict resolution mechanism to resolve disputes with communities, suppliers and clients in a timely and appropriate manner.

Principle 5: Utilizing green financial instruments

We will more actively utilize green financial instruments, such as green bonds, green asset backed securities (ABS), YieldCo, emission rights-based financing, and green investment funds, in financing green projects. We will also actively explore the utilization of green insurance, such as environmental liability insurance and catastrophe insurance, to mitigate environmental risks in our operations.

Principle 6: Adopting green supply chain management

We will integrate ESG factors into supply chain management and utilize international best practices such as life cycle accounting on GHG emissions and water use, supplier whitelists, performance indices, information disclosure and data sharing, in our investment, procurement and operations.

Principle 7: Building capacity through collective action

We will allocate funds and designate personnel to proactively work with multilateral organizations, research institutions, and think tanks to develop our organizational capacity in policy implementation, system design, instruments development and other areas covered in these principles**.**

(Sections 5 and 6 were added to Annex 1 by the CEO order A-19/600 of 2019-11-05)

Annex 2: Exclusion List

In this Appendix, it is specified the activities that the Bank will not finance.

Loans disbursed to clients engaged in trade and production of cigarettes and alcoholic beverages will not exceed 10% of the total loan portfolio of TDB.

TDB will not finance any of the following activities:

1. Any activity prohibited by Mongolian legislation and international conventions relating to the protection of biodiversity resources and cultural heritage, including:

    - World Heritage Sites listed by UNESCO (whc.unesco.org);
    - Biosphere Reserve by UNESCO (portal.unesco.org/science); and
    - Ramsar sites (www.ramsar.org): Wetlands of International Importance especially as Waterfowl Habitat.

2. Production or trade in any product or activity deemed illegal under Mongolian laws or regulations or international conventions and agreements, or subject to international bans;
3. Production or trade in products containing PCBs (polychlorinated biphenyls [1]);
4. Production, distribution, sale and trade in pesticides, herbicides, pharmaceuticals and other hazardous substances subject to international phase-outs or bans[2];
5. Production, use or trade in chlorofluorocarbons (CFCs), halons, and other ozone depleting substances subject to international phase-out[3];
6. Trade in wildlife or wildlife products regulated under Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)
7. Production or trade in weapons and munitions;
8. Production or trade in alcoholic beverages (excluding beer and wine) [4];
9. Production or trade in tobacco [5]
10. Gambling, casinos and equivalent enterprises;
11. Any business linked to the sex indsutry and/or prostitution;
12. Production or trade in radioactive materials;
13. Production or trade in unbonded asbestos fibres and, or products containing asbestos;

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[1] PCBs: CBs: Polychlorinated biphenyls - a group of highly toxic chemicals. PCBs are likely to be found in oil filled electrical transformers, capacitors and switchgear dating from 1950-1985

[2] Subject to phase outs or bans included in both the Rotterdam Convention (www.pic.int) and the Stockholm Convention (www.pops.int).

[3] Ozone Depleting Substances (ODSs) are chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicized 'ozone holes'. The Montreal Protocol lists ODSs and their target reduction and phase out dates. The chemical compounds regulated by the Montreal Protocol includes aerosols, refrigerants, foam blowing agents, solvents, and fire protection agents. (www.unep.org/ozone/montreal.shtml).

[4] This does not apply to companies who are not substantially involved in these activities. "Substantial" means more than 10 % of their consolidated balance sheets or earnings. For financial institutions and investment funds, "substantial" means more than 10% of their underlying portfolio volumes.

[5] This does not apply to companies who are not substantially involved in these activities. "Substantial" means more than 10 % of their consolidated balance sheets or earnings. For financial institutions and investment funds, "substantial" means more than 10% of their underlying portfolio volumes.

14. Drift net fishing in the marine environment using nets in excess of 2.5 km. in length;
15. Production or activities involving harmful or exploitative forms of forced labour[6], / harmful child labour[7];
16. Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forest;
17. Production or trade in wood or other forestry products other than from sustainably managed forests;
18. Trade in goods without required export or import licenses or other evidence of authorization of transit from the relevant countries of export, import and, if applicable, transit;
19. Plantation of psychoactive plants, production, transport, trade of narcotics if not regulated by the law;
20. Profiting through multi-level marketing and pyramid scheme;
21. Activities located in international and nationally protected areas;
22. Transportation and disposal of internationally banned waste materials;
23. Shipment of oil or other hazardous substances in tankers which do not comply with IMO requirements. This includes: tankers which do not have all required MARPOL SOLAS certificates (including, without limitation, ISM Code compliance), tankers blacklisted by the European Union or banned by the Paris Memorandum of Understanding on Port State Control (Paris MOU) and tankers due for phase out under MARPOL regulation 13G. No single hull tanker over 25 years old should be used.

[6] Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

[7] Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, o¡ social development.