



## **SECOND PARTY OPINION**

**ON GREEN BOND FRAMEWORK  
OF DAMU ENTREPRENEURSHIP  
DEVELOPMENT FUND JSC**

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#### Evaluation Summary

AIFC GFC Ltd (“GFC”) is of the opinion that the Green Bond Framework (“Framework”) of Damu Entrepreneurship Development Fund JSC (the “Issuer” or the “Damu Fund”) is aligned with the four core components of the ICMA’s Green Bond Principles 2018 (“GBP”). This assessment is based on the following:

#### Use of Proceeds

The eligible categories for the use of proceeds are aligned with those recognised by the GBP. GFC considers that the renewable energy, energy efficiency, pollution prevention and control, environmentally sustainable management of living natural resources and land use, terrestrial and aquatic biodiversity conservation, clean transportation, sustainable water and wastewater management, climate change adaptation, eco-efficient and/or circular economy adapted products, production technologies and processes, green buildings assets and activities to be financed by the issuance will lead to positive environmental impacts and advance several Sustainable Development Goals (“SDGs”).

#### Process for Project Evaluation and Selection

Damu Fund’s internal process in evaluating and selecting projects is aligned with market practice. An internal Working Group on Green Bonds will be created, comprising members of the Damu Fund’s structural units responsible for raising and allocating funds along with the involvement of other structural units and external experts in case of necessity. Working Group will be responsible for consideration of incoming projects on compliance with the Framework, Unified Programs and Product Passport.

#### Management of Proceeds

Damu Fund’s processes for management of proceeds is aligned with market practice. The Damu Fund plans to designate a special account to which the net proceeds from the issuance of Green Bonds will be allocated. The Damu Fund has also clearly disclosed that the unallocated funds will be temporarily managed in accordance with the existing Rules on allocation of temporarily free funds.

## **Reporting**

The Damu Fund is planning to report both on the use of proceeds and on the expected impact of projects. The reporting is planned to be published annually on Damu Fund's corporate website until full allocation of Green Bond proceeds and on a timely basis in case of material developments. In GFC's view, reporting on these metrics is in line with market practice.

*This Opinion is based on the review of the Framework and information provided by the Issuer, according to our assessment methodology and to the GBP voluntary guideline (June 2018).*

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## 1. Terms and methodology

This note provides GFC's second opinion ("Opinion") of the Issuer's Framework dated June 2020. This Opinion remains relevant to all Green Bonds and/or loans issued under this Framework for the duration of three years from publication of this Opinion, if the Framework remains unchanged. Any amendments or updates to the Framework require a revised Opinion. GFC encourages the Issuer to make this Opinion publicly available. If any part of the Opinion is quoted, the full report must be made available.

The Opinion is based on a review of the Framework and documentation of the Issuer's policies and processes, as well as information gathered during meetings, teleconferences, and email correspondence.

An assessment of compliance with the four core components of GBP, namely: Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds and Reporting is made in preparing the Opinion, by applying a weighted grade to the criteria measured as per methodology.

Particularly, the Opinion is formed under the following two-step process based on the assessment criteria:

1. Opinion on compliance / non-compliance of the Issuer's Framework with the GBP. In this context, it is expected that the minimum threshold levels are met for all assessment criteria to verify that Issuer's Framework complies with the GBP.
2. Opinion on the level of greenness ranging from "Excellent" (High) to "Poor" (Low) is provided in accordance with the "Grading scale for the level of greenness". In this context, an assessment is made by measuring a weighted grade for the criteria considering their significance. Therefore, any level of greenness, except for "Poor", should be considered as consistent with the GBP.

Table 1. Grading scale for the level of greenness

<b>Grade</b>	<b>Interpretation</b>	<b>Description</b>
> 4.5	Excellent	The Issuer demonstrates an excellent level of proceeds management and allocation, eligible project selection, of quality of proceeds administration, as well as of reporting and disclosure on ongoing green projects
3.5 – 4.5	Good	The Issuer demonstrates a good level of proceeds management and allocation, eligible project selection, of quality of proceeds administration, as well as of reporting and disclosure on ongoing green projects

3 – 3.5	Satisfactory	The Issuer demonstrates a satisfactory level of proceeds management and allocation, eligible project selection, of quality of proceeds administration, as well as of reporting and disclosure on ongoing green projects
< 3	Poor	The Issuer demonstrates a poor level of proceeds management and allocation, eligible project selection, of quality of proceeds administration, as well as of reporting and disclosure on ongoing green projects

For more information on the GFC's Methodology on Preparation of an External Review (Second Party Opinion) (the "Methodology") please visit <https://gfc.aifc.kz/>.

## 2. Brief description of Damu Fund's Green Bond Framework and Related Policies

The Damu Entrepreneurship Development Fund JSC is a national development establishment whose goal is to promote first-class development of entrepreneurship in Kazakhstan by providing financial support. The Fund provides a wide range of products and services for entrepreneurs such as lending through second-tier banks, microfinance companies, leasing companies, subsidized interest rates, loan guarantees, consulting, providing information and analytical materials. The Fund operates in all the regions of Kazakhstan. The regional network consists of 16 branches in all regional centers as well as in the cities of Nur-Sultan and Almaty. In addition, the entrepreneur support infrastructure includes 18 Entrepreneur Service Centers and 14 Mobile business support centers. In accordance with the Decree of the President of the Republic of Kazakhstan No. 571 of May 22, 2013, "On measures for optimizing administration of system development institutions, financial institutions and development of the national economy," 100% of shares of Damu Fund were transferred to Baiterek National Managing Holding JSC.

### Environmental Strategies and Policies

The Damu Fund is aware of the importance of its impact on the economy, the environment and society to ensure sustainable development in the long term while respecting the balance of interests of stakeholders. So, in 2013 the Damu Fund adopted the "Corporate Social Responsibility Policy" ("CSR Policy") with the purpose of ensuring that activities of the Damu Fund are in accordance with the corporate social responsibility principles and to strengthen trustful relationships with all stakeholders. Recognising the principles of the UN Global Impact, observing the rule of law, the Damu Fund is guided by the following CSR principles in environmental protection:

- support for the approach to environmental issues, based on the principles of precaution and prevention of negative impacts on the environment;
- adoption of initiatives aimed at increasing responsibility for the environment;
- promoting the development and diffusion of environmentally sound technologies;
- supporting initiatives in the use of alternative energy sources, reduced energy consumption and improved energy efficiency.

As part of the implementation of this CSR Policy, the Damu Fund in 2018 approved its "Environmental Policy", an environmental management system designed to prevent and reduce excessive damage to the environment during the implementation of the main activities of the Damu Fund for the development of small and medium-sized businesses in the Republic of Kazakhstan. Therefore, the Damu Fund seeks, by informing involved financial institutions and presenting

environmental requirements to them, to facilitate the adoption by involved financial institutions of timely measures to prevent negative environmental impacts during the implementation of programs. According to “Action Plan Implementation Report to Strengthen Corporate Social Responsibility for 2018”, the Damu Fund planned to use energy-saving technologies and to reduce the level of electricity consumption by 10% compared to 2017, to reduce paper consumption by business processes automatization.

In the “Corporate Governance Code” (“Code”) of Damu Fund the principles of sustainable development is defined, which are openness, accountability, transparency, ethical conduct, safeguarding the interests of the parties concerned, the rule of law, respect for human rights, intolerance to corruption and inadmissibility of conflicts of interest. The environmental component contributes to minimizing the impact on biological and physical natural systems, optimal use of limited resources, application of environmentally friendly, energy and material-saving technologies. The Board of Directors and the Management Board ensure that an appropriate sustainable development system is established and implemented. All employees and officials at all levels contribute to sustainable development. The Damu Fund is developing a sustainable development plan. Sustainable development is recommended to be integrated into:

- 1) management system;
- 2) development strategy;
- 3) key processes, including risk management, planning (long-term (strategy), medium-term (5-year development plan) and short-term (annual budget) periods), reporting, risk management, management of human resources, investments, operating activities and others, and also in decision-making processes at all levels from bodies (the Sole Shareholder, the Board of Directors, the Management Board), to ordinary employees.

Moreover, annually Damu Fund prepares a “Report on Compliance / non-Compliance with the Principles Enshrined in the Corporate Governance Code” (“Compliance Report”). According to this Compliance Report 2019, in April 2019 “Policy in the Field of Sustainable Development” (the “Sustainable Policy”) had been developed and approved (protocol No. 03/2019). The purpose of the Sustainable Policy is to determine the fundamental norms, principles, rules, and approaches that the Damu Fund must adhere to in building a management system in the field of sustainable development. In accordance with the requirements of the Sustainable Policy:

- 1) the Management Board approves the “Action Plan in the Field of Sustainable Development” (Protocol of the Management Board of the Fund dated December 10, 2019, No. 150/2019) and on an annual basis an “Action Plan Implementation Report” is produced;
- 2) the structural units of the Damu Fund implement activities in areas of sustainable development.



Sustainable development activities are also included in the “Action Plan Implementation Report for 2019-2021 on Development Strategy for 2014-2023”.

In addition, as part of strategic integration, it is planned to update the Fund's Development Strategy by considering the goals and objectives of the Fund in the field of sustainable development.

Damu Fund established cooperation with the UNDP Kazakhstan (“UNDP”) to engage micro, small and medium-sized enterprises (“MSMEs”) in the implementation of Green Projects. Thus, a financial support program was developed for entrepreneurs engaged in investment projects related to energy-saving technologies under the project “Sustainable Cities for Low-Carbon Development” implemented by the UNDP jointly with the Government of the Republic of Kazakhstan and with the financial support of the Global Environment Facility (GEF). The details of this programs are described in the Framework.

Additionally, Damu Fund together with the UNDP on 24<sup>th</sup> of February 2020 signed the General Agreement with the Responsible Party between UNDP Kazakhstan and Damu Entrepreneurship Development Fund JSC within the UNDP-GEF project “Derisking Renewable Energy Investment” (“Agreement”), aimed at stimulating and assisting in the development of renewable energy projects. Under this Agreement, MSMEs will be provided with financial support for the implementation of renewable energy projects by applying one of the following financial mechanisms:

- 1) Subsidising of the interest rate on the loan up to 10%;
- 2) Subsidising of a portion of the main loan up to 30%;
- 3) The issuance of Green Bonds by the Damu Fund to finance renewable energy projects. Under the Agreement, the initial reduction in the coupon rate on the Green Bonds of the Damu Fund is expected, which will entail a reduction in the cost of attracted resources, respectively, a reduction in the interest rate on MSMEs loans.

In accordance with this cooperation mechanism between the Damu Fund and the UNDP, the Damu Fund intends to finance Green Projects through the conditional allocation of funds in second-tier banks (“STBs”) and microfinance institutions (“MFIs”).

Corresponding rules are:

- 1) Rules on provision of financial support for business under the Project of UNDP-GEF and the Government of the Republic of Kazakhstan “Sustainable cities for low carbon development”;
- 2) Rules on the provision of financial support for the implementation of the risk mitigation mechanism for investing in small renewable energy projects.

**We consider that all policies of the Damu Fund reflect their strong commitment to the principles of environmental sustainability.**

The Damu Fund has developed the Framework under which it is considering issuing Green Bonds. **The Framework describes:**

## Use of Proceeds

The Damu Fund will allocate proceeds raised under the issuance of Green Bonds to finance and refinance, in whole or in part, existing and future eligible Green Projects, falling under following eligible categories (“Eligible Green Assets”): renewable energy, energy efficiency, pollution prevention and control, environmentally sustainable management of living natural resources and land use, terrestrial and aquatic biodiversity conservation, clean transportation, sustainable water and wastewater management, climate change adaptation, eco-efficient and/or circular economy adapted products, production technologies and processes, green buildings. Therefore, Damu Fund expects that more than 90% proceeds will go to finance new eligible Green Projects. The Eligible Green Assets are intended to contribute to five main sustainability objectives: climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control, and to seven of the United Nation’s Sustainable Development Goals (“SDG”): SDG 6. Clean Water and Sanitation; SDG 7. Affordable and Clean Energy; SDG 9. Industry, Innovation and Infrastructure. SDG 11. Sustainable Cities and Communities; SDG 12. Responsible Consumption and Production; SDG 13. Climate Action; SDG 15. Life on Land.

At the first stage, it is planned to issue Green Bonds, which will be used to finance small-scale (small) renewable energy projects. At subsequent stages, subject to demand and conditions, the Damu Fund considers issuing bonds in other areas, such as:

- energy efficiency;
- large-scale renewable energy sources;
- other directions.

## Process for Project Evaluation and Selection

The STB / MFIs and UNDP are involved in searching for MSMEs planning or implementing renewable energy projects. The MSMEs apply to the STBs / MFIs for consideration of financing the renewable energy projects. After receiving a preliminary decision by the STBs / MFIs, the latter sends to the Damu Fund a package of documents on the renewable energy projects.

Within the established cooperation between the Damu Fund and the UNDP and the relevant Agreement, for projects evaluation and selection procedure in accordance with the Framework, Unified Program and developed Product Passports, Damu Fund created a Working Group on Green Bonds (“Working Group”), which includes the Damu Fund’s structural units responsible for raising and allocating funds (Funding and International Relations Department, Apex Department and Program Instruments Department), also involving, if necessary, other structural units and external experts.

After receiving the conclusion of the Working Group, the interested structural unit of the Damu Fund sends a confirmation of compliance of the project with the conditions of the Product Passport to the STBs / MFIs.

The project to be considered by the Working Group, the procedure for interaction with the STBs / MFIs and other issues are determined by the internal documents of the Damu Fund.

### **Management of Proceeds**

The Damu Fund plans to designate a special account to which the net proceeds from the issuance of Green Bonds will be allocated. The total amount of the net proceeds of the Green Bonds will be allocated to a separate account at the settlement date. The Issuer has put in place an internal accounting system to ensure the appropriate earmarking of the Green Portfolio and the tracking of proceeds until Green Bond's maturity date.

The Working Group on Green Bonds will quarterly verify that the net proceeds match the Green Portfolio until the Bond's maturity date.

In addition, an independent party will verify annually the allocation of funds once all Green Bond's proceeds will be allocated within the annual external auditing procedures performed by appointed independent audit company.

The Damu Fund has also clearly disclosed that the unallocated funds will be temporarily managed in accordance with Rules on allocation of temporarily free funds.

### **Reporting**

The Damu Fund is planning to report both on the use of proceeds and on the expected impact of projects. The Green Bond reporting is planned to be published annually on Damu Fund's corporate website until full allocation of Green Bond proceeds and on a timely basis in case of material developments. Use of proceeds reporting will include a list of the projects to which Green Bond proceeds have been allocated, as well as a brief description of the projects and the amounts allocated. Along with this, net proceeds raised from each Damu Fund's Green Bond, aggregate amounts of funds allocated to each eligible category and the balance of unallocated proceeds at the reporting period. Impact reporting will include in accordance with each eligible category qualitative performance indicators and, where feasible, quantitative performance measures (energy capacity, electricity generation, greenhouse gas emissions reduced/avoided, number of people provided with access to clean power, decrease in water use, reduction in the number of cars required, etc.). Disclosure of information related to the use of proceeds, impact reporting, and projects financed or refinanced will be made subject to Damu's confidentiality obligations and the availability of information.

### 3. Assessment of Damu Fund’s Green Bond Framework and Policies

In this section, we describe the evaluation of the Issuer’s Framework and other relevant documents for compliance with the GBP under the GFC’s Methodology.

#### Assessment by the criterion “Use of Proceeds”

The net proceeds of the Green Bonds will exclusively finance or refinance, in full or in part, new and/or existing projects falling under ten eligible categories (“Eligible Green Assets”), namely: renewable energy, energy efficiency, pollution prevention and control, environmentally sustainable management of living natural resources and land use, terrestrial and aquatic biodiversity conservation, clean transportation, sustainable water and wastewater management, climate change adaptation, eco-efficient and/or circular economy adapted products, production technologies and processes, green buildings. We consider the eligible categories are clearly defined. The Eligible Green Assets are intended to contribute to five main sustainability objectives: climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control. We consider the intended objectives are relevant and overall, clearly defined. The Eligible Green Assets are expected to provide clear environmental benefits. The Issuer has committed it will assess and, where feasible, quantify most of the expected environmental benefits of the Green Bonds in its annual Green Bond reports. Additionally, the Eligible Green Assets are likely to contribute to seven of the United Nation’s Sustainable Development Goals (“SDG”): SDG 6. Clean Water and Sanitation; SDG 7. Affordable and Clean Energy; SDG 9. Industry, Innovation and Infrastructure. SDG 11. Sustainable Cities and Communities; SDG 12. Responsible Consumption and Production; SDG 13. Climate Action; SDG 15. Life on Land.

Table 2. Indicator of the criterion “Use of Proceeds”

Indicator	Grade	Compliance with the GBP	Compliance with the threshold	Weighted grade
> 90% of raised funds are allocated to implementing and financing/refinancing of green projects that bring environmental benefits and are evaluated by the Issuer for compliance with the eligible project categories in line with the GBP with regard to their qualitative and/or quantitative characteristics	5	Yes	Yes	2.25

## Assessment by the criterion “Process for Project Evaluation and Selection”

**The governance and the process for the evaluation and selection of the Eligible Green Assets is clearly defined and formalised in the Framework. We consider it’s reasonably structured, transparent and relevant.**

The evaluation and selection of Eligible Green Assets is clearly defined and reasonably structured, based on relevant internal expertise, with well-defined roles and responsibilities. Thus, the STB / MFIs and UNDP are involved in searching for MSMEs planning or implementing renewable energy projects. The MSMEs apply to the STBs / MFIs for consideration of financing the renewable energy projects. After receiving a preliminary decision by the STBs / MFIs, the latter sends to the Damu Fund a package of documents on the renewable energy projects.

Thus, for evaluation and selection of projects as per stipulated eligibility criteria defined in the Framework, Unified Program and Product Passports, the Working Group is created consisting of the Damu Fund’s structural units responsible for raising and allocating funds and also involving, if necessary, other structural units and external experts.

**The selection and evaluation process relies on explicit eligibility criteria (selection and exclusion), overall relevant to the environmental objectives defined for the eligible categories of assets.**

The eligibility requirements are based on the definitions of the Eligible Green Assets defined in the Framework, Unified Program and Product Passports. The Issuer also explicitly defined exclusionary criteria.

Table 3. Indicators of the criterion “Process for Project Evaluation and Selection”

Indicator	Score
1. Disclosure by the issuer of information in the context of its goals, policies, strategies and processes related to sustainable development, as well as the Issuer's participation in various activities showcasing its commitment to the principles of sustainable development	1
2. An internal document in place that defines the selection criteria for environmentally beneficial projects and the procedure for their assessment, selection and approval by the Issuer's governing bodies	1
3. Disclosure of the main methodologies and assumptions used in determining the conformity of projects to categories of green projects, clear selection criteria, exclusion criteria or other procedures for identifying and managing significant environmental risks	1
4. The issuer's strategy contains specific goals for sustainable development in environmental aspects, for example, to reduce negative environmental impact	0.5
5. Engaging an independent qualified party to make a decision on the selection of projects corresponding to the categories of green projects	0.5

6. The Issuer has a policy for determining environmental risks set out either in project documentation or in a policy for determining environmental risks, which specifies qualification criteria for determining environmental risks associated with project implementation	0
7. The issuer has green certificates from leading international or independent Kazakhstani verifiers confirming the compliance of the projects with the required environmental standards, or the issuer has environmental reports prepared as part of the project documentation	0
<b>Threshold compliance</b>	<b>Yes</b>
<b>Weighted grade</b>	<b>1</b>

## Assessment by the criterion “Management of Proceeds”

**The procedures for management of proceeds are clearly defined. We consider that they would enable a transparent allocation process.**

The allocation and tracking processes are clearly specified. The total amount of the net proceeds of the Green Bonds will be allocated to a separate account at the settlement date. The Issuer has put in place an internal accounting system to ensure the appropriate earmarking of the Green Portfolio and the tracking of proceeds until Green Bond’s maturity date. The Damu Fund has also clearly disclosed that the unallocated funds will be temporarily managed in accordance with Rules on allocation of temporarily free funds.

Traceability and verification are ensured throughout the process. The Working Group on Green Bonds will quarterly verify that the net proceeds match the Green Portfolio until the Bond’s maturity date. In addition, an independent party will verify annually the allocation of funds once all Green Bond’s proceeds will be allocated within the annual external auditing procedures performed by appointed independent audit company.

Table 3. Indicators of the criterion “Management of Proceeds”

Indicator	Score
1. The net proceeds from the issuance of Green Bonds are credited to a sub-account or moved to a different portfolio or otherwise tracked by the issuer in an appropriate manner	1
2. The separate accounting method for the green bond proceeds is clearly defined in the Issuer’s documentation	0
3. The issuer, while the green bonds are outstanding, monitors the sub-account on an ongoing basis, and there is a procedure in place for excluding projects that become unfit from the portfolio	1
4. The issuer informs investors about the suggested instruments for temporary placement of unused green bond proceeds	0
5. Clear rules in place for investing temporarily unused funds from the issuance of green bonds	0.5
6. Engaging an auditor or another third party to check the method for internal tracking of the intended use of green bond proceeds	0.5
<b>Threshold compliance</b>	<b>Yes</b>
<b>Weighted grade</b>	<b>0.45</b>

## Assessment by the criterion “Reporting and Disclosure”

### The reporting process and commitments appear to be good overall.

The Issuer has committed to publish annual Green Bond reports until the maturity of the Green Bond and on a timely basis in case of material developments, to be made available on the Damu Fund’s website and publicly accessible. The Issuer has committed to transparently communicate on the allocation of proceeds and environmental benefits. Disclosure of information related to use of proceeds, impact reporting, and projects financed or refinanced will be made subject to Damu’s confidentiality obligations and the availability of information.

Table 3. Indicators of the criterion “Reporting and Disclosure”

Indicator	Score
1. The issuer provides a detailed report (with a list of projects) and disclosures after issuance in relation to the use of proceeds	1
2. Reporting includes the disclosure of information on the nature of investments and the expected environmental impact	1
3. The disclosed reports are to be issued at least once a year, and there is also a procedure for monitoring data accuracy	1
4. The Issuer discloses information on the projects to which funds have been allocated, with a detailed breakdown by area (category), as well as on the environmental effect and implementation progress of individual projects	0.5
5. Methodologies in effect (or their drafts) and assumptions used to calculate environmental performance indicators are available	0
6. The Issuer undertakes to engage independent qualified parties to evaluate its reporting on the implementation of the Green Bond Framework	0.5
<b>Threshold compliance</b>	<b>Yes</b>
<b>Weighted grade</b>	<b>1</b>



## 4. GFC's Opinion

1. We assess the Damu Fund's Green Bond Framework as complying with the Green Bond Principles 2018.
2. The estimation results (total weighted grade of 4.7) of the analysis suggest that in accordance with "Grading scale for the level of greenness" we determine the level of greenness as "Excellent", which indicates that the Damu Fund demonstrates an excellent level of management of eligible projects selection, of raised funds allocation, of quality of raised funds management, reporting and disclosing information on ongoing projects of environmental importance.

Table 1. Grading scale for the level of greenness

<b>Grade</b>	<b>Interpretation</b>	<b>Description</b>
> 4.5	Excellent	The Issuer demonstrates an excellent level of proceeds management and allocation, eligible project selection, of quality of proceeds administration, as well as of reporting and disclosure on ongoing green projects

## Disclaimer

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The Opinion was drawn up with the aim to explain why the analysed bond is considered sustainable and responsible. Consequently, this Opinion is for information purposes only and GFC will not accept any form of liability for the substance of the opinion and/or any liability for damage arising from the use of this Opinion and/or the information provided in it.

As the Opinion is based on information made available by the client, GFC does not warrant that the information presented in this Opinion is complete, accurate or up to date.

Nothing contained in this Opinion shall be construed as to make a representation or warranty, express or implied, regarding the advisability to invest in or include companies in investable universes and/or portfolios. Furthermore, this Opinion shall in no event be interpreted and construed as an assessment of the economic performance and credit worthiness of the bond, nor to have focused on the effective allocation of the funds' use of proceeds.

The client is fully responsible for certifying and ensuring its commitments' compliance, implementation and monitoring.

Manas Gizhduaniyev

Director of the Green Projects Department

06/08/2020