



## EXTERNAL REVIEW IN THE FORMAT OF SECOND PARTY OPINION

ON COMPLIANCE OF THE SOCIAL BOND FRAMEWORK  
OF THE **INDUSTRIAL DEVELOPMENT FUND** JSC  
WITH THE SOCIAL BOND PRINCIPLES OF THE INTERNATIONAL  
CAPITAL MARKET ASSOCIATION

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2024



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### ON COMPLIANCE OF THE SOCIAL BOND FRAMEWORK OF THE INDUSTRIAL DEVELOPMENT FUND JSC WITH THE SOCIAL BOND PRINCIPLES OF THE INTERNATIONAL CAPITAL MARKET ASSOCIATION

29 April, 2024

#### EXECUTIVE SUMMARY

##### Opinion on compliance / non-compliance of the Issuer's Social Bond Framework with the SBP<sup>1</sup>

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We believe that that the Social Bond Framework of the Industrial Development Fund JSC hereinafter IDF) complies with the Social Bond Principles of the International Capital Market Association.

##### Opinion on assigning a degree of alignment with the SBP ranging from “Excellent” (High) to “Poor” (Low)

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In accordance with the results of the assessment, as well as in accordance with the Grading Scale for the Level of Alignment with the SBP we assigned the degree of compliance “Excellent” meaning that Industrial Development Fund JSC 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 projects of social significance.

#### Scope of External Review

This assessment is intended to evaluate alignment of the Industrial Development Fund JSC's Social Bond Framework (hereinafter referred to as SBF) with SBP along with providing a general review of the potential use of proceeds from the Fund's first social bond issue tentatively scheduled for April/May, 2024. This external review by GFC in the form of Second Party Opinion contains an evaluation of the Fund's Social Bond Framework approved on April 26th, 2024, by Management Board.

The preparation of the Second Party Opinion includes the study of the Issuer's relevant documentation and inputs provided through direct interaction with the Issuer as per Annex, as well as other publicly available information that may provide a description, details on and confirmation of compliance of processes involved in the implementation of the Fund's policies for Social Bonds.

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AIFC Green Finance Centre Ltd. (GFC) confirmed with the Fund, through document review and interviews held, that the proceeds from social bonds will be used to finance and/or refinance, in part on in full, eligible social projects that correspond to the SBP and contribute to social objectives. The project evaluation and selection process and the management of proceeds also correspond to the core components of the SBP. Reporting and disclosure of information on the use of proceeds and on the expected impact of the implemented projects will be provided on an annual basis and published on the official website of the Fund for public access.

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**Evaluation Date:** April 29 2024

**Issuer Location:** Astana, Kazakhstan

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<sup>1</sup> See Methodology section below for clarification

**USE OF PROCEEDS.** GFC considers that investments in the eligible social projects as defined in the Use of Proceeds section of the SBF are aligned with the SBP and can have positive social impacts.

The projects being considered by the Issuer for possible inclusion in the Eligible projects pool to be financed through the prospective social bond issuance under the Social Bond Framework, based on GFC's review of the preliminary list of potential projects, such as the purchase of 250 ambulance vehicles in Akmola region and Kyzylorda region to renew the sanitary vehicle fleet and facilitate the overall objectives of improved care coordination, are potentially aligned with SBP categories for access to essential services (e.g. health.). IDF shall ensure compliance with its own criteria established in the SBF.

**For Inquiries Contact the  
GFC external review team:**

**Aigul Kussaliyeva**, Head of  
External review unit,  
Advisor, GFC

[A.kussaliyeva@aifc.kz](mailto:A.kussaliyeva@aifc.kz)

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**PROJECT EVALUATION AND SELECTION.** IDF has established a process for social project selection and evaluation carried out in accordance with the Fund's internal regulations on review, financing, monitoring and implementation of investment projects, and its Social Bond Framework, with responsible structural units submitting to the Credit Committee materials on the compliance or non-compliance of an investment project with social project categories and criteria. GFC considers that the project selection process is aligned with SBP in terms of establishing, documenting, and maintaining a decision-making process to determine the eligibility of projects and assets.

**Milana Takhanova**, Senior  
Economist, GFC

[M.Takhanova@aifc.kz](mailto:M.Takhanova@aifc.kz)

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**MANAGEMENT OF PROCEEDS.** Allocation of IDF's Social Bonds proceeds is accounted for through a separate bank account and for the purpose of additional accounting and control of the intended use of raised funds, the Fund will maintain a corresponding list of social projects and related assets. The Fund has identified structural units responsible for organizing, ensuring, and implementing an effective Social Bonds management process. GFC considers that the management of proceeds is aligned with the SBP in terms of tracking of proceeds, managing unallocated proceeds, earmarking funds to eligible projects and assets, as well as documenting and disclosing the related processes to the reviewers.

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**REPORTING.** The Issuer adopted a Social Bond Framework and made it available prior to issuance. According to Social Finance Instruments disclosure requirements in the Framework, the Fund intends to provide and keep publicly available annual updated reports on issued bonds, from the date of issue until full allocation and in case of any significant changes, covering the report on the allocation of proceeds and on the social impact of each project. GFC considers that the reporting processes are aligned with the SBP in terms of disclosing projects and assets invested in, the intended approach to providing update reports to reaffirm conformance with the Framework, as well as external review aspects.



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## 1. METHODOLOGY OF THE AIFC GREEN FINANCE CENTRE LTD. ON PREPARATION OF AN EXTERNAL REVIEW

To assess the compliance of companies' sustainable finance frameworks and the corresponding business processes with the international Green, Social Bond Principles, Sustainability Bond Guidelines and Green, Social Loan Principles, AIFC Green Finance Centre Ltd. (hereinafter referred to as GFC) applies a number of approved methodologies as part of its External Review activity.

Specifically, GFC's Methodology in relation to sustainable bond issues (i.e. green, social and sustainability bonds) is employed for the preparation of External Reviews (Second Party Opinions) for compliance of a Green/Social/Sustainability Bond and other sustainability debt issues, including the Issuer's Green/Social/Sustainability Financing Framework, with the Green Bond Principles (hereinafter referred to as GBP, or Principles), Social Bond Principles ((hereinafter referred to as SBP, or Principles) and Sustainability Bond Guidelines (hereinafter referred to as SBG, or Guidelines). The Principles are formulated by the International Capital Market Association (hereinafter referred to as ICMA).

With regard to green and social loans, a separate methodology is employed by GFC to express an independent opinion (Second Party Opinion) on the compliance of loans, including borrowers' sustainability finance frameworks to raise funds in the form of green/social loans, to the Green Loan Principles and Social Loan Principles (hereinafter referred to as GLP and SLP, respectively). The Principles were formulated by the Loan Market Association (Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association).

Given the full harmonization between the Green/Social Bond Principles and the Green/Social Loan Principles established by the above international standards setters, GFC's external review (Second Party Opinion) methodologies for sustainability bonds and sustainability loans are also aligned to a significant degree. Accordingly, in order to streamline the process of evaluating a company's sustainable finance framework that covers both bonds and loans, GFC applies to these sustainable finance instruments its Methodology on preparation of an external review for compliance of a sustainable bond issue to the green/social bond principles or sustainability bond guidelines, due to said Methodology setting more stringent requirements for compliance with international standards in relation to the issuance of bonds, while the criterial analysis required by the Methodology will be applied equally to possible loan instruments.

The preparation of a report in the form of a Second Party Opinion includes the study of the Issuer's relevant documentation, regulatory documents, reports, and presentations, if any, as well as other publicly available information that may provide a description, details on and confirmation of compliance of processes involved in the implementation of the company's policies for sustainability bonds, sustainability loans and sustainable financing in general. The information used for these purposes is obtained through direct interaction with the Issuer and/or from any open sources that the GFC considers reliable.



In the External Review GFC expresses its opinion according to criteria-based assessments in the following order:

1. Opinion on compliance/non-compliance of the Company's Sustainability Finance Framework with the GBP, SBP, SBG. *Minimum threshold levels for all assessment criteria need to be met all at once for us to confirm that the Issuer's Sustainability Finance Framework is in line with the GBP, SBP, SBG.*
2. Opinion on assigning a degree of alignment with the GBP, SBP, SBG ranging from "Excellent" (High) to "Poor" (Low). *Here, the assessment is carried out by calculating a weighted criterial grade depending on the significance of criteria. This opinion serves as additional information and is aimed at establishing a degree of alignment with the GBP, SBP, SBG. According to this methodology, any degree of alignment other than "Poor" (Low) should be considered consistent with the GBP, SBP, SBG.*

In preparing the External Review, four criteria are assessed:

1. Use of Proceeds;
2. Process for Project Evaluation and Selection;
3. Management of Proceeds;
4. Reporting.

Each criterion is graded on a scale of "1" to "5". For each criterion, there is a number of indicators (subfactors). Each indicator (subfactor) that is assessed as fulfilled is assigned either a "1" score (for an important indicator that corresponds to a core principle in the GBP or SBP), a "0.5" score, or a "0.25" score (for less significant indicators that correspond to recommendations or encouraged practices in the GBP or SBP), depending on the criterion scoring scale. The final score for each criterion is calculated as a sum of scores assigned to the indicators (subfactors). The tables for criterion scoring, as well as the tables matching a sum of scores to a grade are provided in GFC's Methodology for each criterion.

For a positive opinion to be provided regarding the compliance of the Company's Sustainable Finance Framework with the GBP, SBP, SBG, this methodology establishes a grade threshold for each assessed criterion at "3" at the least. If these requirements are met, in our opinion, the Issuer's Sustainable Finance Framework will comply with the GBP, SBP, SBG. If these conditions are not met, we shall conclude that the Issuer's Sustainable Finance Framework does not comply with the GBP, SBP, SBG and issue a respective opinion.

To express an opinion on the degree of alignment with GBP, SBP, SBG ranging from "Excellent" (High) to "Poor" (Low), the following algorithm for calculating criteria grades shall be used. A weighted criterial grade is calculated by multiplying a criterion grade by its weight (significance). We established that the significance of each criterion corresponds to the following weight in the overall grade:

<i>Criterion</i>	<i>Weight (significance) in the cumulative assessment:</i>
<i>Use of Proceeds</i>	45%
<i>Process of Project Evaluation and Selection</i>	20%



<i>Management of Proceeds</i>	15%
<i>Reporting and Disclosure</i>	20%

### Grading Scale for the Level of Alignment with the GBP, SBP, SBG according to GFC's Methodology

<i>Threshold Grade</i>	<i>Degree</i>	<i>Definition</i>
High > 4.5	Excellent	Proceeds from the issuance of Green/Social/Sustainability bonds are most likely to be used for the implementation of Green/Social/Sustainability projects, respectively. The Green/Social/Sustainability bond 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 projects of environmental and/or social significance
Average 3,5 – 4,5	Good	Proceeds from the issuance of Green/Social/Sustainability bonds are very likely to be used for the implementation of Green/Social/Sustainability projects, respectively. The Green/Social/Sustainability bond 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 projects of environmental and/or social significance
Satisfactory 3 – 3,5	Satisfactory	The likelihood that proceeds from the issuance of Green/Social/Sustainability bonds will be directed to the implementation of Green/Social/Sustainability projects, respectively, is at an average level. The Green/Social/Sustainability bond 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 projects of environmental and/or social significance.
Low < 3	Poor	The likelihood that proceeds from the issuance of Green/Social/Sustainability bonds will be directed to the implementation of Green/Social/Sustainability projects, respectively, is at a low level. The Green/Social/Sustainability bond 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 projects of environmental and/or social significance.

The prepared External Review is submitted to the Issuer, after which it is to be publicly disclosed. Public disclosure is carried out through the publication of the External Review on



GFC's website - <https://gfc.aifc.kz/>, and can also be communicated through a press release via news services and/or relevant web sources.

## 2. DESCRIPTION OF THE FUND'S SOCIAL BOND FRAMEWORK AND OTHER SUSTAINABILITY-RELATED STRATEGIC DOCUMENTS

### BUSINESS OVERVIEW AND SUSTAINABILITY POLICIES

Industrial Development Fund JSC (hereinafter "IDF", or "Fund") is a subsidiary of the Development Bank of Kazakhstan JSC and is part of the Baiterek National Management Holding JSC group. The IDF was created on instruction of the Head of State Kassym-Jomart Tokayev dated May 11, 2020 with the aim of developing the industrial potential of the national economy, stipulated by Government Decree dated August 18, 2020 No. 521 "On the creation of the Industrial Development Fund JSC." On December 27, 2021, a Law of the Republic of Kazakhstan "On Industrial Policy" (No. 86-VII ZRK) was adopted, which set forth the goals, objectives and mandate of the Fund (Article 15).

The Fund's mission is to finance import substitution projects and export-oriented production in the manufacturing industry and infrastructure, in order to increase competitiveness and develop the industrial potential of the national economy.

Previously, the Fund operated as DBK-Leasing JSC, created on September 6, 2005, in order to expand the instruments for financing investment projects provided by Development Bank of Kazakhstan JSC. On September 21, 2020, the Board of Directors of Development Bank of Kazakhstan JSC decided to change the corporate name of DBK-Leasing JSC to the Industrial Development Fund JSC.

As per IDF's Social Bond Framework the Fund places significant emphasis on sustainable development issues. As outlined in the Development Strategy for 2024-2033, ratified by the Fund's Board of Directors on December 22, 2023 (Minutes No. 243), "Sustainable Development" stands as one of its pivotal strategic directions. Accordingly, the Fund is committed to upholding international treaties and standards concerning sustainable development. The adoption and integration of ESG principles (Environmental, Social, and Governance) represent a cornerstone of the Fund's efforts. Consequently, a primary objective is to ensure alignment between its operations and those of its borrowers with sustainable development principles. The Fund's corporate social responsibility framework is anchored in prominent global standards and practices. It routinely releases non-financial reports conforming to the Global Reporting Initiative's international standard and meets KASE requirements for information disclosure in listed companies' annual reports. Underpinning its third strategic direction, the Fund will persist in adhering to ESG principles across its activities.

By a decision of the Fund's Board of Directors dated April 29, 2022 (Minutes No. 206) the Fund adopted a Sustainable Development Policy with the following objectives:

- Determine the principles and directions of the Fund's sustainability activities, including in terms of creating an effective and transparent system of interaction with stakeholders;



- Consolidate the roles, competencies and responsibilities of each body and all employees of the Fund for the implementation of the sustainability principles;
- Determine the relationship between sustainable development and key processes of the Fund.

The Fund, in its activities, is guided by the following principles of sustainable development, enshrined in its Corporate Governance Code: openness, accountability, transparency, ethical behavior, respect for the interests of stakeholders, legality, respect for human rights, intolerance to corruption, inadmissibility of conflicts of interest.

IDF also declares its commitment to the principles of the UN Global Compact as follows:

- In the field of human right protection:  
The Fund ensures and respects the protection of human rights proclaimed at the international level;  
The Fund ensures non-involvement in human rights violations.
- In the field of labor relations:  
The Fund supports and recognizes the right to conclude collective agreements;  
The Fund contributes to the eradication of forced and child labor, discrimination in labor and employment.
- In the field of environmental protection:  
The Fund supports a precautionary approach to environmental issues;  
The Fund is taking initiatives aimed at increasing responsibility for the state of environment;  
The Fund promotes the development and dissemination of environmentally friendly technologies.
- In the field of anti-corruption:  
The Fund declares intolerance to all forms of corruption and other illegal activities, including extortion and bribery.

As per IDF's Development Strategy for 2024-2033 (approved in December 2023) the Fund intends to carry out an action plan to implement ESG principles in IDF's activities, including when borrowing and financing projects. In this regard, IDF obtained an ESG maturity assessment, as well as project portfolio assessment for compliance with eligible green and social project categories, provided by independent reviewers, in December 2023.

IDF finances projects of social significance, including projects in health care, such as the acquisition of ambulance transport and emergency services. On December 20, 2023, a Sustainability Methodology was approved that set out the criteria for identifying and assessing projects in accordance with sustainability (ESG) principles.

In April 2024 the Fund approved its Social Bond Framework, which sets out the general provisions, directions, basic principles, goals, and objectives of the Fund in carrying out activities in terms of use of proceeds from social bonds. SBF is designed to ensure transparency of the Fund's raising of investments through social financing instruments in line with the International Capital Market Association's Social Bond Principles, 2023.

As per 2022 Annual Report, IDF's leasing and loan portfolios amounted to 0,8 trillion tenge; 215 leasing transactions were approved for financing, of which 200 leasing transactions were financed in the amount of 0,2 trillion tenge. Thus, in 2022, the following funded projects were phased in operation (list is not exhaustive):

- Setting up manufacturing of passenger buses, quarry, construction and road equipment in Saran city, Karaganda region based, applicant: «QazTehna» LLP;
- Setting up a new production facility for bottling soft drinks in cans, applicant: "Smart Drinks" LLP;
- Technological equipment acquisition for the manufacturing of paper bags and corrugated packaging, applicant: "Kazpolygraph" LLP (2nd transaction);
- Purchase of production mixing equipment for the production of ice cream and storage of dry ingredients in Bayserk, Almaty region», applicant: ShinLine "LLP" (2 transaction);
- Setting up a localization center for the production of agricultural machinery in Kostanay, applicant: "Agromashholding KZ" JSC;
- Equipment acquisition for milk production and packaging to expand the branch capacity of "MasloDel" LLP and the purchase of insulated cars and railway tanks, applicant: "Maslo-Del" LLP (5th transaction);
- Equipment acquisition as part of the existing production capacity expansion of "Bayan Sulu" JSC (3rd transaction).

And the following vehicles were purchased: 698 buses, 234 agricultural vehicles, 85 service vehicles, 327 ambulance vehicles, 47 special vehicles, 95 special services cars, 67 passenger wagons.

As of December 31, 2023, the volume of Fund's leasing and loan portfolios amounted to 1 trillion tenge, 163 transactions were financed in 2023, and the Fund holds 1,6 trillion tenge in assets.

## DESCRIPTION OF THE FUND'S SOCIAL BOND FRAMEWORK

As mentioned above, the Fund established a Social Bond Framework in April 2024 to ensure the transparency of social bond issuance procedures. SBF was developed taking into account the recommendations specified in the SBP and is consistent with the regulatory legal acts of the Republic of Kazakhstan, the Fund's Sustainable Development Policy, Corporate Governance Code and other internal acts of the Fund.

The SBF is based on the four core components of the SBP:

1. Use of Proceeds;
2. Process for Project Evaluation and Selection;
3. Management of Proceeds;
4. Reporting.



## USE OF PROCEEDS

According to the SBF, the proceeds from the social bonds in the amount of 100% will be used exclusively for financing and/or refinancing (partially or fully) social projects that meet the criteria specified in Chapter 3 of the SBF and in accordance with other internal acts of the Fund.

Proceeds from the Fund's social bonds may be combined with other borrowed funds or the Fund's authorised capital in order to increase the volume of financing of social projects and/or to reduce the remuneration rate for applicants for social projects, in accordance with the internal regulations of the Fund.

The evaluation and selection of social projects is carried out for compliance with the categories according to the SBP and is aimed at achieving, among other things, the following goals:

**Table 1: Eligible Social Projects**

Social Project Category in accordance with SBP	Description and Criteria	Examples of impact indicators (including but not limited to)	UN SDGs
1. Affordable basic infrastructure	Support for projects related to providing the population with clean drinking water, wastewater treatment, improving sanitation, transport, electricity and others	<ul style="list-style-type: none"> <li>Number of residents of settlements using public transport (e.g. buses, trolleybuses, trams, trains, airplanes, etc.) and (or) in which qualitatively new linear transport facilities have appeared (for example, paved roads, railway tracks, etc.);</li> <li>Number of people obtaining access to drinking water that meets higher quality standards</li> <li>Number of households connected to centralized electricity / gas / water / heat supply networks</li> </ul>	3, 6, 7, 9, 11
2. Access to essential services	Support for projects in the areas of healthcare, transport of emergency services, such as ambulance, police, fire, rescue services, education, vocational training, financing and financial services	<ul style="list-style-type: none"> <li>Number of people who have access to financial services</li> <li>Number of low-income people who have access to low-cost microcredit</li> <li>Increasing the number of ambulance transport</li> <li>Increasing the number of emergency vehicles</li> <li>Improved care coordination</li> </ul>	1, 3, 4, 5, 8, 10
3. Employment generation and programmes designed to prevent and/or alleviate unemployment stemming from socioeconomic crises	Providing financing for small and medium enterprises and microfinance	<ul style="list-style-type: none"> <li>Number of loans issued to small and/or micro enterprises</li> <li>Number of loans / lease agreements provided to small and/or micro-enterprises in low-income areas or during periods of socio-economic decline</li> <li>Number of low-income people accessing low-cost microcredit / microfinance</li> <li>Number / share of employed people with disabilities</li> <li>Number of SMEs that have appeared in the region</li> <li>Number of jobs created as a result of support for SMEs</li> </ul>	1, 5, 8, 10, 16

4. Food security and sustainable food systems	Financing projects that contribute to the provision of physical, social and economic access to safe food in sufficient quantities that meet nutritional needs	<ul style="list-style-type: none"> <li>• Number of people with access to affordable, safe, nutritious and sufficient food</li> <li>• Number of people benefiting from agricultural projects using improved technology</li> </ul>	1, 2, 3, 12, 13, 16
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Examples of target populations include, but are not limited to:

- Living below the poverty line;
- Excluded and/or marginalized populations and/or communities;
- People with disabilities;
- Migrants and/or displaced persons;
- Undereducated;
- Underserved, owing to a lack of quality access to essential goods and services;
- Unemployed and/or workers affected by climate transition;
- Women and/or sexual and gender minorities;
- Aging populations and vulnerable youth;
- Other vulnerable groups, including as a result of natural disasters, climate change, and/or climate transition projects that cause or exacerbate socioeconomic inequity.

## PROCESS FOR PROJECT EVALUATION AND SELECTION

The process of selection and evaluation of social projects is performed in accordance with the SBF and other internal acts of the Fund.

For projects that may be eligible for financing through the issuance of social bonds or social loans, there's an additional procedure for evaluation and selection of projects. At the stage of preliminary project analysis, a structural unit responsible for organising leasing transactions, borrowing operations, and investment projects conducts a preliminary screening of projects for compliance with the categories of social projects in accordance with the SBP and with the Fund's Sustainability methodology for ESG criteria-based project identification, as well as provides information about this compliance in the materials submitted to the Credit Committee on the respective matter. The business plan/feasibility study of a project under consideration must contain social and environmental sections to facilitate such assessments.

The final decision on inclusion of projects in the list of social projects is made by the Credit Committee. In order for the Credit Committee to make a positive decision on including projects in the list of social projects for financing as part of the issuance of social bonds, the project must satisfy the following conditions:

- The project does not belong to a socially hazardous activity and the category of projects that have a negative impact on the environment;
- The project complies with one or more SBP categories, as well as the criteria for social projects defined within the framework of this SBF;
- If necessary, external consultants may be involved to conduct the assessment.



IDF does not finance projects in the following industries:

- Weapons
- Production of alcoholic beverages
- Production of narcotic drugs and psychotropic substances
- Production of tobacco.

With regard to financing social projects, the Fund's Risk Management System will be applied, ensuring the identification, assessment and management of risks affecting society. The Fund's Risk Management Policy was developed taking into account international standards and in accordance with the current legislative acts of the Republic of Kazakhstan in this area.

Also, in the process of evaluation and selection of projects that meet selection criteria, the principle of no significant negative impact on the social environment must be observed. If projects require a social impact assessment in accordance with national legislation and regulatory requirements, the Fund undertakes to conduct such an assessment. Consideration and assessment of social environmental factors when considering projects includes ensuring that the projects does not include activities that could lead to a significant deterioration in the working conditions and social status of the population that are classified as illegal under national laws, regulations or international conventions and treaties.

If a positive decision is received from the Credit Committee on including projects in the list of social projects, the social project may be submitted to the authorised body of the Fund in accordance with IDF's regulations for a decision on whether to be financed and/or refinanced from social bond proceeds, subject to all requirements and procedures of the Fund in accordance with internal regulations.

## MANAGEMENT OF PROCEEDS

As long as social bonds are in circulation, social bond proceeds, as well as repayments of principal debt for social projects financed from bond proceeds, are placed exclusively in a separate bank account of the Fund. Also, for the purposes of additional accounting and control of the intended use of social bond proceeds, the Fund will maintain a corresponding list of social projects and related assets (loans, leases, etc.), to which social bond proceeds are allocated. At the same time, temporarily free unallocated social bond proceeds will not be placed in any other financial instruments and will be kept in the special account until they are fully distributed to eligible social projects.

In the case of combined funding, as per clause 14 of the SBF (see 'Use of Proceeds' section above about combining social bond proceeds with other funding sources for the purposes of social project financing), repayments of the principal debt on financed social projects are placed in the Fund's separate bank account mentioned above, in proportion to the share of social bonds in the total funding amount allocated to the social project. The special account shall be reserved for social bond proceeds, while other funds used for mixing are placed in other bank accounts of the Fund.

The Fund's treasury operations unit, together with the structural unit responsible for leasing transactions, borrowing operations, and investment projects, monitors quarterly the account balance and the list of funded social projects via a dedicated template to be filled-in

(template is attached to the SBF). The Fund will ensure that the level of allocation for the Eligible Social Projects matches or exceeds the balance of net proceeds from its outstanding social financing. After the monitoring exercise, the structural unit responsible for the strategy and planning submits the monitoring findings to the authorized body for consideration along with a report on the execution of the budget or development plan of the Fund.

## REPORTING AND DISCLOSURE

The Fund annually and in case of significant changes shall report on the use of proceeds from social bonds in accordance with the recommendations of ICMA. When determining the expected impact of projects, the Fund will strive to use qualitative performance indicators, and where possible, quantitative performance indicators, as indicated in Table 1 above, and also disclose the key assumptions used in the quantitative determination. Where applicable, the Fund will refer to and use the guidance and impact reporting templates provided in the Harmonised Framework for Impact Reporting for Social Bonds (June 2023).

Reports are to be published on the official website of the Fund in the manner specified in the Disclosure Rules of the Fund.

Reporting will include, but is not limited to, the following information:

1. Use of Proceeds Report:
2. Impact Report.

The Use of Proceeds Report must contain the following information, which is not exhaustive:

- nominal value of the placed bonds, indicating their key characteristics (date, currency, interest rate, maturity of placement / attraction, etc.)
- amount of allocated net bond proceeds;
- amount of unallocated bond proceeds;
- list of social projects financed and/or refinanced through placed social bonds.

The Impact Report discloses the intended and/or actual (where applicable) social impact of projects financed by the social bonds. When reporting impact indicators, the Fund will be guided by the indicative impact indicators specified in the table above, as well as the recommendations of the ICMA's Harmonised Framework for Impact Reporting for Social Bonds (June 2023).

## EXTERNAL REVIEW

The Fund may turn to any type of external review of social bond issuances both at the pre-issuance and post-issuance stage: second party opinion, verification, certification or rating for their compliance with the SBF and SBP.

Annual reports on the use and management of proceeds will be reviewed and signed by independent reviewers to confirm the social status of the bonds. This may be in the form



of a letter signed by an independent reviewer and may also include a statement from the financial auditor regarding the use of funds raised.

External reviews and annual reports on issued social bonds will be published on the official website of the Fund at the time of issue and until the maturity date of social bonds.

### 3. EVALUATION OF THE FUND'S SOCIAL BOND FRAMEWORK AND OTHER DOCUMENTS

In this section, we describe the assessment of the SBF and other relevant documents of the Fund for compliance with the SBP in accordance with GFC's Methodology for preparing an external assessment. The information used for these purposes was obtained by means of direct interaction with the Fund (see Annex).

#### GENERAL ASSESSMENT AND DETERMINATION OF THE DEGREE OF COMPLIANCE

GFC confirmed with the Fund, through document review and interviews held, that the proceeds from social bonds will be used to finance and/or refinance, in part or in full, eligible social projects. The categories and criteria for eligible social projects correspond to the SBP and contribute to social objectives. The project evaluation and selection process and the management of proceeds also correspond to the core components of the SBP. Reporting and disclosure of information on the use of proceeds and on the expected impact of the implemented projects will be provided on an annual basis and published on the official website of the Fund for public access.

1. **Opinion on compliance/non-compliance of the Issuer's Social Bond Framework with the SBP.** Based on the evaluation for meeting the minimum threshold levels for all assessment criteria, we are of the opinion that the Issuer's SBF meets the mandatory and partially additional values of the criteria, and, accordingly, **we are of the opinion that the Social Bond Framework of the Industrial Development Fund JSC complies with the Social Bond Principles of the International Capital Market Association.**
2. **Opinion on assigning a degree of alignment with the SBP ranging from "Excellent" (High) to "Poor" (Low).** In accordance with the results of the assessment, as well as in accordance with the Grading Scale for the Level of Alignment with the SBP **we assigned the degree of compliance "Excellent"** meaning that Industrial Development Fund JSC 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 projects of environmental and social significance.

#### Grading Scale for the Level of Alignment with the SBP

Threshold Grade	Degree	Definition
High > 4.5	Excellent	Proceeds from the issuance of social bonds are most likely to be used for the implementation of Social Projects. The Social Bonds 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 projects of environmental and social significance.
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## EVALUATION OF THE CRITERION – USE OF PROCEEDS

The indicators listed below reflect our assessment of the criterion “Use of Proceeds”.

<i>Indicator</i>	<i>Characteristic of the indicator (permissible, mandatory indicator, not recommended)*</i>	<i>Grade</i>
1. 100% of proceeds are allocated to implementing and financing/refinancing of Social Projects that bring social benefits and are evaluated by the Issuer for compliance with the eligible project categories in line with the SBP with regard to their qualitative and/or quantitative characteristics	Permissible	5
<b>WEIGHTED CRITERIAL GRADE</b>		<b>2,25</b>

As per the draft prospectus, the Fund intends to apply the net proceeds of the social bonds to finance and/or refinance eligible social projects which meet set eligibility criteria of certain eligible sustainable project categories in accordance with IDF’s SBF. With regard to this particular social bond issuance tentatively planned for May 2024, the Fund intends to direct the proceeds to financing (through its leasing and lending operations) 2 projects currently undergoing internal assessments for compliance with eligible project criteria, impact assessment and due diligence procedures. GFC obtained from IDF preliminary information on projects relating to the purchase of 250 ambulance vehicles:

- Purchasing 50 ambulance units in Akmola region; financial lease loan application submitted by State Administration of Akmola region;
- Purchasing 200 ambulance units in Kyzylorda region; financial lease loan application submitted by State Administration of Kyzylorda region.

The projects under consideration, based on a preliminary review of descriptions, are aligned with the International Capital Markets Association (ICMA) Social Bond Principles categories for access to essential services (e.g. health in this case), as well as IDF’s own criteria established in the SBF, with the respective output and outcome indicators being the number of medical equipment units purchased (i.e. number of ambulance transport) and related improved care coordination. Both purchases are aimed at improving the medical care of the local population.

Vehicle purchases are part of lessees’ (state administrations’) ongoing wider plans for modernizing medical equipment, improved care coordination and professional development of medical emergency staff, which is also aligned with the republican Road map for sanitary vehicle fleet renewal.

Under the government Roadmap for updating sanitary transport, 1,493 class B and C sanitary vehicles were renewed in Kazakhstan from 2019 to 2022, with IDF involved as



financial lease provider<sup>2</sup>. According to Autoreport agency, the Ministry of Health estimates the availability of special transport for emergency medical care at 99.73%, however, the depreciation of ambulance vehicles in 2022 stood at 33.7%. New vehicles comply with EURO 5 requirements and are to be furnished with modern equipment.

However, specifically, in the Akmola region the issue of transport shortage at emergency medical aid stations has been quite urgent. It is especially acute in the town of Kosshy. According to regulations, for every 10 thousand people one ambulance is required. But Kosshy has a much larger population than the officially registered one, so in reality there are not enough emergency teams and vehicles. The situation is aggravated by constant breakdowns of sanitary transport<sup>3</sup>.

In the Kyzylorda region, similarly, cases of outdated emergency vehicles and underserved populations have been reported<sup>4</sup>. According to the governor of the Kyzylorda region, 68.4 percent of vehicles (or 228 out of 319 ambulances), are worn out and need to be replaced<sup>5</sup>.

## EVALUATION OF THE CRITERION – PROCESS FOR PROJECT EVALUATION AND SELECTION

The objectives of eligible social projects are positioned within the context of the Issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability, which is in alignment with the SBP, and the Issuer established a decision-making process which it uses to determine the eligibility of projects and assets.

Specifically, the Fund identified responsible divisions for eligible social projects screening, evaluation and selection process which consist of members of corresponding structural units depending on the project needs. Responsible units prepare materials and recommendations that are subject to final approval by the authorized body of the Fund (Credit Committee).

Additionally, the eligible social projects planned for financing and/or refinancing will also undergo other internal evaluation, including social risk assessment, procedures established in the Fund.

The indicators listed below reflect our assessment of the criterion "Process for Project Evaluation and Selection".

Indicator (Subfactor)	Score
1. Disclosure by the Issuer of information in the context of its goals, policies, strategies and processes related to sustainable development in environmental and/or social aspects, including goals to achieve improvements in the ecological and/or social environment, as well as the issuer's participation in various activities and initiatives that indicate commitment to the principles of sustainable development and improvements in the ecological and/or social environment.	1

<sup>2</sup> According to Information and Analytics Agency *Autoreport* – see: <https://autoreport.kz/review/bolse-poloviny-masin-skoroj-pomosi-v-kazahstane-ne-starse-treh-let-minzdrav>

<sup>3</sup> <https://www.inform.kz/ru/50-mashin-skoroj-pomoshi-za-schet-lizinga-poluchit-akmolinskaya-oblast-0205dd>

<sup>4</sup> [https://tengrinews.kz/kazakhstan\\_news/kyzylordintsyi-pokazali-sostoyanie-mashinyi-skoroj-512170/](https://tengrinews.kz/kazakhstan_news/kyzylordintsyi-pokazali-sostoyanie-mashinyi-skoroj-512170/)

<sup>5</sup> <https://www.gov.kz/memleket/entities/kyzylorda-densaulyk/press/news/details/738556?lang=ru>



2. Disclosure by the issuer of the goals of issuing green/social bonds/projects and/or sustainability bonds/projects with directions and indicators of environmental/social effect.	1
3. The issuer has an internal document defining criteria for the selection of projects of environmental and/or social orientation and the procedure of their assessment, selection and coordination with the issuer's governing bodies.	1
4. Disclosure of complementary information on processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s)	1
5. Disclosure of clear qualification criteria used in determining the compliance of projects with the categories of environmental and/or social projects and their selection, including exclusion criteria	1
6. The issuer has quality certificates for ongoing environmental and / or social projects or conclusions from leading international or independent Kazakhstani verifiers confirming the compliance of projects with the required environmental / social standards, including conclusions on compliance with the current regulatory requirements for infrastructure facilities prepared within the framework of the project documentation. The leading verifiers are those who have certificates and licenses to conduct expertise or proven experience in assessing environmental / social projects, the quality of social services (for social projects) and / or compliance with investment requirements in the field of sustainable development	0
7. The Issuer has created a special subdivision, which, among other things, controls the selection and implementation of projects. The division's employees generally understand the tasks assigned to them, while some of them have experience in supporting green / social projects and / or projects in the field of sustainable development	0
8. Engaging an independent qualified party to make a decision on the selection of projects corresponding to the categories of environmental projects / social projects	0
9. The issuer has a policy for determining social and / or environmental risks either in the project documentation or in the policy for determining environmental and / or social risks, which discloses qualification criteria for determining social and / or environmental risks associated with the implementation of projects	0
<b>Sum of scores</b>	<b>5</b>
<b>Final Grade for Criterion</b>	<b>4</b>
<b>WEIGHTED GRADE FOR CRITERION</b>	<b>0.8</b>

## EVALUATION OF THE CRITERION – MANAGEMENT OF PROCEEDS

The Issuer's SBF provides that social bond proceeds, as well as repayments of the principal debt on social projects financed from these bond proceeds, are placed exclusively in a separate bank account of the Fund, and for the purposes of additional accounting and control of the intended use of social bond proceeds, the Fund will maintain a corresponding list of social projects and related assets (loans, leases, etc.), to which funds from the issuance of social bonds are directed.

Moreover, temporarily free unallocated bond proceeds will not be placed in any other financial instruments and will be kept in a special account until they are fully distributed to eligible social projects.



GFC considers that the management of proceeds is aligned with the SBP in terms of tracking of proceeds, managing unallocated proceeds, earmarking funds to eligible projects and assets, as well as documenting and disclosing the related processes to the reviewers.

The indicators listed below reflect our assessment of the “Management of Proceeds” criterion.

<i>Indicator (Subfactor)</i>	<i>Score</i>
1.The net proceeds from the issuance of Green/Social/Sustainability 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/Social/Sustainability bond proceeds is clearly defined in the Issuer's documentation	0,5
3.The issuer, while the Green/Social/Sustainability 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 intended types of instruments for temporary placement of unused Green/Social/Sustainability bond proceeds	1
5.Clear rules in place for investing temporarily unused Green/Social/Sustainability bond proceeds taking into account ESG-factors	0
6.Engaging an auditor or another third party to check the method for internal tracking of the intended use of Green/Social/Sustainability bond proceeds	0,5
<b>Sum of scores</b>	<b>4</b>
<b>Final Grade for Criterion</b>	<b>5</b>
<b>WEIGHTED GRADE FOR CRITERION</b>	<b>0.75</b>

## EVALUATION OF THE CRITERION – REPORTING AND DISCLOSURE

Adhering to its regulations, as well as in accordance with the SBF, the Issuer intends to provide and keep publicly available annual updated reports on use of proceeds and expected impact of projects until full allocation and in the case of any material developments. These reports will be published on the official website of the Fund <https://idfrk.kz/en/>.

Where feasible, the Fund will provide information on the list of social projects to which social bonds' proceeds will be allocated, as well as a brief description of the projects, the amounts allocated, and their expected impact.

GFC considers that the reporting processes are aligned with the SBP in terms of disclosing projects and assets invested in, the intended approach to providing update reports to reaffirm conformance with the Framework, as well as external review aspects.

The indicators listed below reflect our assessment of the “Reporting” criterion.

<i>Indicator (Subfactor)</i>	<i>Score</i>
1. The issuer provides a detailed report (with a list of projects) and disclosures after issuance in relation to the use of proceeds from the placement of Green/Social/Sustainability bond*	1
2. Reporting includes the disclosure of information on the nature of investments and the expected environmental and/or social 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 proceeds have been allocated, with a detailed breakdown by area (category), as well as on the environmental and/or social effect and implementation progress of individual projects	0,5
5. Methodologies in effect (or their drafts) and assumptions used to calculate environmental and/or social performance indicators are available	0
6. The issuer undertakes to engage independent qualified parties to evaluate its reporting on the implementation of the Green Bonds/ Social bonds and Sustainability Bonds Framework	0,5
<b>Sum of scores</b>	<b>4</b>
<b>Final Grade for Criterion</b>	<b>5</b>
<b>WEIGHTED GRADE FOR CRITERION</b>	<b>1</b>

\* Where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available, the information may be presented by the Issuer in generic terms or on an aggregated portfolio basis.

### FINAL WEIGHTED CRITERIAL GRADE

Criterion	Weighted Grade:
<i>Use of Proceeds</i>	2,25
<i>Process of Project Evaluation and Selection</i>	0.8
<i>Management of Proceeds</i>	0.75
<i>Reporting and Disclosure</i>	1
<b>FINAL WEIGHTED GRADE FOR CRITERION</b>	<b>4.8</b>

### DISCLOSURE AND LIMITATIONS

An External Review (Second Party Opinion) reflects our opinion on the expected results from the issuance of Social Bonds and on the compliance of the Issuer's Social Bond Framework with the SBP administered by International Capital Market Association. There is a likelihood of an inaccuracy in the final conclusion due to unforeseen changes in the economic environment and the financial market.

An External Review is an independent assessment carried out based on the information provided by the Issuer in line with the GFC's methodology, it does not disclose the Issuer's confidential information and is not an indication for any investment decisions.

We do not assume any responsibility for the use and implementation of an External Review in making investment decisions.

An External Review may be updated after publication, with the reasons for such an update disclosed.

Chairman of the Management Board  
AIFC Green Finance Centre Ltd



NUR-SULTAN SERIKBAY

April 29<sup>th</sup>, 2024



## ANNEX. List of Documents Reviewed and Interviews

### Review of Documentation

Documents provided by IDF that relate to the prospective Social Bonds under the Social Bond Framework are listed below. These have been used as direct sources of evidence for the SPO conclusions, and are also further checked, as considered appropriate, through interviews with key personnel.

1. Social Bond Framework
2. Draft Prospectus on the Bond Issue (draft Base Prospectus and Drawdown Prospectus in relation to the Medium Term Note Programme)
3. IDF's Criteria for assessing project applicants for compliance with environmental, social and corporate governance (ESG) principles as approved by Management Board in December 2023
4. Working spreadsheets on the tracking of IDF's social bond issues and allocation to social projects (excel file titled 'Dedicated off-system sub-account for accounting for allocation of Social Bond proceeds')
5. Preliminary list of potential projects to be financed by IDF through Social Bonds under the Social Bond Framework
6. Development strategy of JSC Industrial Development Fund for 2024-2033 (approved in Dec 2023)
7. Sustainable development policy of the JSC Industrial Development Fund, adopted in April 2022
8. "ESG maturity assessment, as well as project portfolio assessment of JSC "Industrial Development Fund" for compliance with eligible green and social project categories", provided by independent reviewers, in December 2023
9. Corporate Governance Code
10. Annual report of IDF for 2022
11. Risk management policy of IDF
12. Disclosure Rules of IDF
13. Organizational structure

### Interviews and Information Collected from IDF

GFC primarily communicated with IDF's team of Strategy and Funding Department to gather information about the Bond and collected information from the issuer.

The following key persons were involved in these communications:

1. Erniyaz Mukanov, Director of the Strategy and Planning Department, IDF
2. Askhat Fazylzhanov, Strategy and Planning Department, IDF
3. Nurbanat Eshimova, Strategy and Planning Department, IDF
4. With top management: Zhanar Ibrasheva, Deputy Chairman of the Management Board.