



MATERIALITY ASSESSMENT

2022



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ABBREVIATIONS

ESG	Environmental, Social and Governance
GRI	Global Reporting Initiative
HFC	Housing Finance Company
JSC	Joint Stock Company
LLC	Limited Liability Company
MIK	Mongolian Mortgage Corporation
MSFA	Mongolian Sustainable Finance Association
NBFI	Nonbank Financial Institution
SASB	Sustainability Accounting Standards Board
SDG	Sustainable Development Goals



OVERVIEW

In 2022, MIK HFC LLC, a subsidiary of MIK Holding LLC, conducted a comprehensive materiality assessment to evaluate the impact of environmental, social, and governance aspects on its operations and stakeholders. This assessment involved identifying, refining, and assessing numerous potential issues, condensing them into a shortlist of topics to inform the company's strategy, targets, and reporting. By shortlisting the most relevant topics, MIK HFC LLC aims to prioritize its efforts and address key areas that align with its commitment to sustainable practices and responsible business conduct.

The concept of materiality and the key findings from related research are as follows:

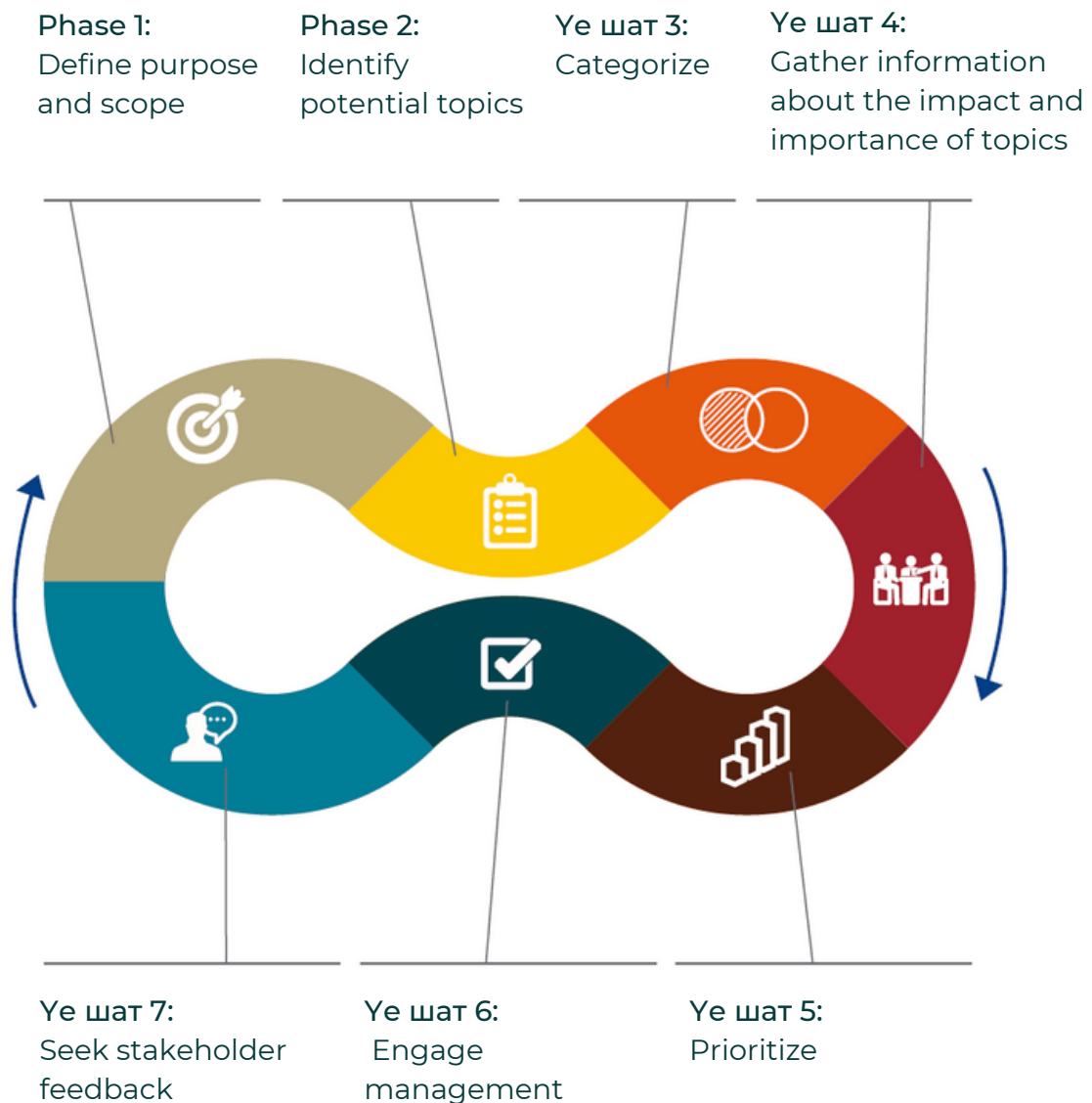
- Lack of transparency in the process of identifying material topics undermines the acceptability and credibility of sustainability reporting.
- The lack of a process to identify the material topics results in incomplete and inadequate sustainability performance.
- Identifying and disclosing material issues of sustainable development improves financial performance in the medium and long term.

Out of the 250 largest companies in the world (by revenue) that define material topics in their sustainability report, 41 percent fail to provide an explanation of the assessment process. Additionally, more than half of these companies (55 percent) do not clearly articulate how they incorporate stakeholder input to identify material topics.

Source: GRI, KPMG

MATERIALITY PROCESS

MIK evaluated its materiality following the guidelines of KPMG and conducted the assessment accordingly, following the outlined steps.



KPMG International Sustainable Insight. (n.d.). <https://assets.kpmg.com/content/dam/kpmg/pdf/2014/10/materiality-assessment.pdf>

DEFINING PURPOSE AND SCOPE

The materiality assessment aims to identify and prioritize the ESG and sustainability issues that are most significant to our company and stakeholders. This assessment helps us understand the potential impact of these issues on our business and stakeholders, allowing us to allocate our resources and efforts effectively. By identifying these material issues, we strive to enhance our ESG performance, improve reporting, mitigate risks, and meet stakeholders' expectations. We define materiality as follows:

"Materiality encompasses the issues that hold the utmost relevance to our business and stakeholders. It also includes the issues that, if left unaddressed, could potentially impact our ability to create value and sustain our competitiveness in the short, medium, or long term."

Definition of Materiality in some sources

KPMG

Materiality is the principle of defining the social and environmental topics that matter most to your business and your stakeholders.

Deloitte

Materiality is about identifying and addressing what matters most to you and to your most important stakeholders; what you have the most impact on; and what impacts you the most. In other words, 'materiality' means 'priority'.

GRI

The GRI's 2021 Sustainability Reporting Standards suggest that a sustainability topic is material when it represents the organization's most significant impacts on the economy, environment, and the people, including impacts on their human rights.

When assessing materiality, we took into account the concept of Double Materiality. Double Materiality recognizes that companies not only have an impact on the environment and society but are also influenced by external environmental and social factors. This approach gave us a more comprehensive and holistic understanding of the company's sustainability performance and potential risks and opportunities.



Guidelines on Non-financial Reporting: Supplement on Reporting Climate-related Information published in June 2019, European Commission

IDENTIFYING POTENTIAL TOPICS

We utilized a wide range of relevant internal and external sources to generate a comprehensive list of material topics. External sources included ESG, sustainability reporting guidance, sustainability reporting frameworks and standards such as GRI and SASB, sector heatmaps, Moody's ESG scoring, and benchmarking other organizations' reports. Internally, we analyzed previous annual reports and our group strategy plan to assess our company's position. Furthermore, we took into consideration previous publications that either featured our organization or offered valuable insights into our operations and business practices. The collective input from these sources contributed to our robust and well-informed materiality assessment process, resulting in the identification of 47 sub-topics. For a detailed list of these sub-topics, please refer to Appendix 1.

External sources:

- ESG, Sustainability Reporting Guidance for Mongolian Companies 2022.
- Sustainability Reporting Frameworks and Standards, such as
 - GRI (Global Reporting Initiative)
 - SASB (Sustainability Accounting Standards Board)
- Moody's ESG scoring, offering insights into the company's ESG performance.
- Benchmarking other organizations' ESG and sustainability reports to gain industry insights and best practices.

Internal sources:

- Annual Reports of Previous Years
- MIK Group Company Strategy Plan
- MIK Process Map
- Newspaper or Publication Articles: Reviewing relevant newspaper articles or publications helped us stay informed about industry trends, emerging issues, and stakeholder concerns.
 - Forbes 15 Special Edition/ Interviews with Stakeholders: Gaining insights from interviews with stakeholders, as published in Forbes' 15 Special Edition, allowed us to understand their perspectives, expectations regarding our operations and business activities.

CATEGORIZING

We have condensed the list of 47 sub-topics identified during the materiality assessment into 15 major topics. These topics offer a more concise and focused representation of the material issues identified, presented below in alphabetical order.

Environmental	Social	Governance
Climate change	Access and affordability	Business ethics
Environmental footprint	Demographic and societal trends	Enterprise risk management
	Economic contribution	Political stability
	Equal opportunity	Privacy and data protection
	Financial literacy and education	Regulatory compliance
	Human capital development	Transparency
	Stakeholder engagement	

ASSESS THE IMPACT AND IMPORTANCE OF TOPICS

When evaluating the importance of topics, we utilized a scoring methodology based on the following 4 criteria shown in Table 1, and the evaluation results were combined into the materiality matrix (page 10). Embracing the concept of double materiality, our assessment encompassed both the (i) *inward impact*, examining external issues that can influence MIK's value, (ii) *outward impact* considering the effects of our company's operations and supply chain on the environment, society, and economy. This comprehensive approach ensures a holistic understanding of the material issues that are significant to our business and stakeholders.



Table 1: Scoring criteria

Criteria	Description	Scoring Scale
Scope	The extent of the sustainability issue's impact on the environment, society, and stakeholders.	1-4
Severity	The severity of the sustainability issue's impact on the environment, society, and stakeholders.	1-4
Likelihood	The likelihood of the sustainability issue occurring or becoming more significant in the future.	1-4
Leverage	The ability of the business to influence or control the sustainability issue through its operations or value chain.	1-4

The double-materiality concept - global reporting initiative. (n.d.). Retrieved December 19, 2022, from <https://www.globalreporting.org/media/jrbntbyv/griwhitepaper-publications.pdf>

PRIORITIZING

Outward Impact Evaluation Results

- Economic contribution
- Access and affordability

- Climate change
- Business ethics
- Financial literacy and education
- Privacy and data protection
- Environmental footprint

- Enterprise risk management
- Political stability
- Stakeholder engagement

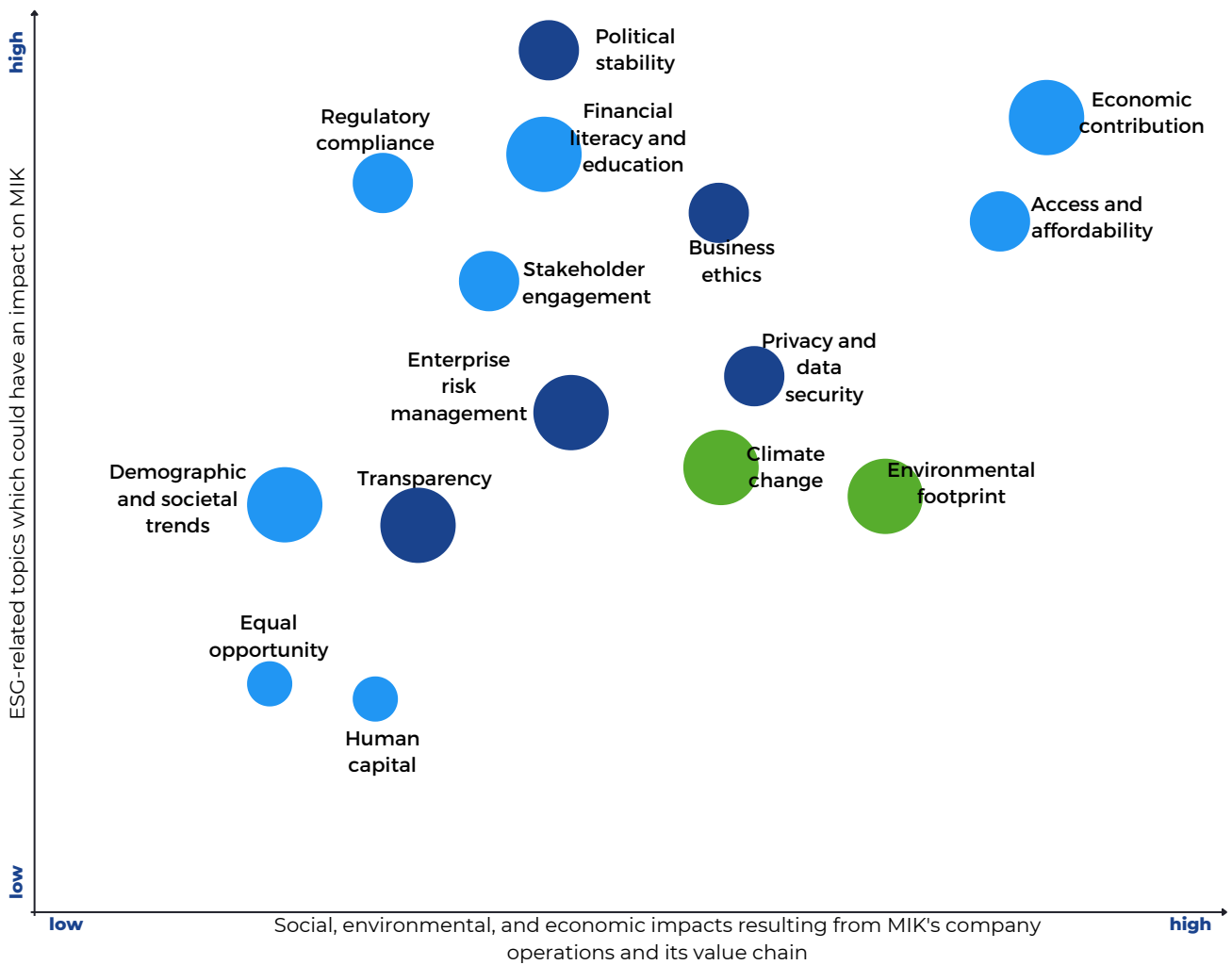
- Transparency
- Regulatory compliance
- Human capital development
- Equal opportunity

- Demographic and societal trends

low

high

MATERIALITY MATRIX



- Environmental
- Social
- Governance

- Scope /stakeholders + non-stakeholders/
- Scope /stakeholders/
- Scope /internal stakeholders/

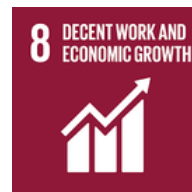
PRIORITY SDGS

The assessment process has enabled us to identify priority sustainable development goals (SDGs) that are linked to the material issues we have identified. This outcome allows us to align our policies and strategies towards sustainable financing, with a specific focus on the prioritized SDGs. By recognizing and measuring the positive and negative impacts on the environment and society, we can effectively evaluate our performance and progress and actively seek to reduce our negative footprint in the future, ensuring a more sustainable and responsible approach to our operations.

Priority SDGs



- Enables homeownership and fosters an inclusive, growing, and sustainable housing market in Mongolia.
- Supports urbanization as MIK encourages housing affordability, access to housing loans, and overall transition to formal housing.
- Increases housing financing by creating a self-sustaining cycle of financing with mortgage repayments.



- Increases liquidity in the banking sector.
- Drives economic growth via the development of a robust secondary mortgage market and through multiplier effects, while also supporting job creation in the construction and real estate industry and generating additional demand for materials and services.
- Leads to better economic opportunities by allowing households additional time for productive activities.

Secondary SDGs



- Supports sustainable and resilient cities through people-public-private partnerships.



- Strengthens resilience and adaptive capacity to climate-related disasters and extreme weather conditions.
- Advances climate goals through a transition to formal housing, reducing air and water contamination.

Through our main business activities, we positively impact the community, society and economy, enhancing urban planning, reducing poverty and social inequality, improving public health and safety, and supporting establishing an equitable and stable housing market. Our comprehensive approach to ensuring access to adequate housing, directly and indirectly, addresses various household problems, making a significant contribution to the 12 Sustainable Development Goals (SDGs). Click [here](#) for our detailed SDG report.

STAKEHOLDER ENGAGEMENT

To enhance the outcomes of our assessment, we proactively engaged stakeholders through a survey. A total of 41 internal and external stakeholders, representing a diverse range of entities, including regulatory agencies, banks/NBFIs, consumers/borrowers, suppliers, media, MSFA/sustainability experts, consulting service providers, as well as our staff and management teams, actively participated in the survey process. During the survey, participants were asked to rank the relevance of ESG topics to MIK's business operations and to share their suggestions. Their valuable insights and perspectives have been incorporated into our materiality matrix, providing a comprehensive understanding of the most important ESG topics. We are pleased to present the top five answers for each ranking in our survey results:

Outward impact: Economic, environmental, and social impacts caused by MIK activities, ranked by significance



Inward impact: Environmental and social topics relevant to MIK operations, ranked by significance



Governance topics significant to MIK operations, ranked by significance*



**The survey results were in line with our evaluation based on the four criteria. Following participant suggestions, we excluded Corporate Governance due to its overlap with other governance issues. However, considering the high relevance expressed by participants, we included topics related to political stability and decision-making in the materiality matrix.*

APPENDIX 1

ENVIRONMENTAL

Topic	Description	Sub-topic
Climate change	<p>This topic refers to our organization's policies and initiatives aimed at addressing the risks associated with climate change. These risks encompass both physical and transition risks resulting from climate change.</p>	<ul style="list-style-type: none"> • Climate policy • Climate risk management • Climate investment
Environmental footprint	<p>This topic focuses on assessing the impact of our business activities on the environment, including carbon emissions, water use, energy consumption, and waste.</p>	<ul style="list-style-type: none"> • Energy • GHG emissions • Water • Waste management • Biodiversity • Carbon offsetting

SOCIAL

Topic	Description	Sub-topic
Access and affordability	This topic focuses on ensuring broad access to our products and services, particularly in underserved markets and population groups.	<ul style="list-style-type: none"> • Target population • Affordable housing
Demographic and societal trends	This topic refers to the impact of societal and national demographics, population age, culture, and trends on our business operations. It considers how these factors influence or may influence the demand, supply, and pricing of our financial products and services.	<ul style="list-style-type: none"> • Population growth and age demographics • Public attitudes
Economic contribution	This topic focuses on the contribution of our business to the sustainability of the economic system, infrastructure, and society, as well as the impact it has on other sectors.	<ul style="list-style-type: none"> • Construction, Real estate sector • Banking sector • Capital market • GDP • Tax
Equal opportunity	This topic encompasses our organization's efforts to reduce inequality and exclusion, promoting equal participation and inclusion in employment and employment relations.	<ul style="list-style-type: none"> • Gender policy • Gender balance • Non-discrimination policy • Disability policy • Access to facilities

SOCIAL

Topic	Description	Sub-topic
Financial literacy and education	<p>This topic focuses on promoting financial education and understanding, particularly related to the housing finance system and mortgage loans.</p> <p>Furthermore, we recognize our role as a pioneer in the secondary mortgage market and acknowledge our contribution, expertise, and impact in market development and system advancement.</p>	<ul style="list-style-type: none"> Borrower education Development of the secondary market
Human capital development	<p>This topic focuses on our organization's human resources and development policies and practices, focused on enhancing the health, education, knowledge, and experience of our workforce.</p>	<ul style="list-style-type: none"> Training Employee benefits Corporate culture Employee recognition Occupational health and safety Employee turnover
Stakeholder engagement	<p>This topic pertains to the mechanisms we employ to receive and address complaints, as well as communicate with our stakeholders. Our aim is to understand their expectations, needs, and requirements, and to respect their interests. We value open and transparent dialogue with our stakeholders to foster mutual understanding and collaboration.</p>	<ul style="list-style-type: none"> Stakeholder engagement policy Stakeholder engagement plan Grievance policy Memberships Community investment

GOVERNANCE

Topic	Description	Sub-topic
Business ethics	This topic focuses on our company's approach to managing risks and opportunities related to business ethics.	<ul style="list-style-type: none"> • Code of conduct • Professional, industry and business ethics
Enterprise risk management	This topic encompasses the process of identifying, assessing, and mitigating potential threats and risks to the organization's current and target activities.	<ul style="list-style-type: none"> • Market risk • Credit risk • Operational risk • Counterparty risk
Privacy and data protection	This topic focuses on the systems and measures related to the collection, use, and protection of personal information and other customer data. It encompasses our company's strategies, policies, and practices pertaining to IT infrastructure, training, recordkeeping, and other mechanisms implemented to ensure the security and privacy of customer information.	<ul style="list-style-type: none"> • Information security • Cybersecurity
Political stability	This topic encompasses our response mechanisms such as engaging in proactive communication with regulatory bodies, providing information and recommending appropriate methods to effectively manage political risks arising from changes in policies, rules, regulations, and decision-making due to the instability and uncertainty of the political system.	

GOVERNANCE

Topic	Description	Sub-topic
Regulatory compliance	This topic revolves around our adherence to laws and regulations in the financial sector, including compliance with anti-money laundering and anti-terrorist financing regulations.	<ul style="list-style-type: none"> • Compliance policy • Compliance program
Transparency	This topic emphasizes the implementation of a proper reporting mechanism that ensures transparency, accuracy, and completeness in sharing information about our company's operations, profitability, risk, and performance with stakeholders and the general public.	<ul style="list-style-type: none"> • Disclosure practices