



BAUHINIA ILBS 2 LIMITED

SECOND PARTY OPINION ON

SUSTAINABILITY NOTES

Final Eligibility Assessment Dated 11 September 2024

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Disclaimer

Our assessment relies on the premise that the data and information provided by the client to us as part of our review procedures have been provided in good faith. Because of the selected nature (sampling) and other inherent limitation of both procedures and systems of internal control, there remains the unavoidable risk that errors or irregularities, possibly significant, may not have been detected. Limited depth of evidence gathering including inquiry and analytical procedures and limited sampling at lower levels in the organisation were applied as per scope of work. DNV expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Statement.

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DNV applies its own management standards and compliance policies for quality control, in accordance with ISO IEC 17029:2019 - Conformity Assessment - General principles and requirements for validation and verification bodies, and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We have complied with the DNV Code of Conduct¹ during the assessment and maintain independence where required by relevant ethical requirements. This engagement work was carried out by an independent team of sustainability assurance professionals. DNV was not involved in the preparation of statements or data included in the Framework except for this Statement. DNV maintains complete impartiality toward stakeholders interviewed during the assessment process.

¹ DNV Code of Conduct is available from DNV website (www.dnv.com)

DNV's Independent Assessment

Scope and Objectives

Bauhinia ILBS 2 Limited ("Issuer") is a Hong Kong-incorporated Special Purpose Vehicle ("SPV") that expects to issue notes to fund the acquisition of a loan portfolio from The Hong Kong Mortgage Corporation Limited ("HKMC" or "Sponsor") and/or commercial banks through a securitisation transaction where ING Bank N.V., Singapore Branch is mandated as the Sustainable Finance Adviser.

The Issuer is proposing to issue, amongst other classes of notes, Class A1-SU Notes (henceforth referred to as "Sustainability Notes") as Secured Sustainable Standard Bond². The Sustainability Notes is in alignment with the stated Standards and Principles (collectively the "Principles & Standards"):

- Green Bond Principles ("GBP") issued by the International Capital Markets Association ("ICMA") in June 2021 and appendix 1 updated by ICMA in June 2022
- Social Bond Principles ("SBP") issued by the ICMA in June 2021 and appendix 1 updated by ICMA in June 2022
- Sustainability Bond Guidelines ("SBG") issued by the ICMA in June 2021

The Issuer has developed the Sustainability Notes with the aim to finance and refinance project and infrastructure loans falling under the Green Eligible category of Renewable Energy and the Social Eligible categories of Access to Essential Services and Access to Affordable Basic Infrastructure and Services.

HKMC will also be the collateral manager of the Issuer, performing administrative and advisory functions on behalf of the Issuer, including monitoring the continued eligibility of the green and social assets of the loan portfolio.

DNV Business Assurance Singapore Pte Ltd ("DNV") has been commissioned by the HKMC to provide a Second Party Opinion on the Sustainability Notes, based on the Principles & Standards. Our methodology to achieve this is described under 'Work Undertaken' below. We were not commissioned to provide independent assurance or other audit activities.

No assurance is provided regarding the financial performance of the Sustainability Notes, the value of any investments, or the long-term environmental benefits of the transaction. Our objective has been to provide an assessment that Sustainability Notes has met the criteria established on the basis set out below.

Responsibilities of the Management of the Customer and DNV

The management of HKMC has provided the information and data used by DNV during the delivery of this review. Our statement represents an independent opinion and is intended to inform HKMC management and other interested stakeholders in the Sustainability Notes as to whether the Sustainability Notes is aligned with the Principles & Standards. In our work we have relied on the information and the facts presented to us by HKMC. DNV is not responsible for any aspect of the nominated assets referred to in this opinion and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, DNV shall not be held liable if any of the information or data provided by HKMC's management and used as a basis for this assessment were not correct or complete.

² Under the Sponsor's Social, Green and Sustainability Financing Framework, Secured Sustainable Standard Bond refers to secured bond where the net proceeds will be exclusively applied to finance or refinance the green and/or social project(s) of the issuer, originator or sponsor, where such projects may or may not be securing the specific bond, in whole or in part. A Secured Sustainable Standard Bond may be a specific class or tranche of a larger transaction.

Basis of DNV's Opinion

We have adapted our assessment methodology to create the Issuer-specific Eligibility Assessment Protocol (henceforth referred to as "Protocol"). Our Protocol includes a set of suitable criteria that can be used to underpin DNV's opinion. The overarching principle behind the criteria is that an offering of Sustainability Notes should "enable capital-raising and investment for new and existing projects with environmental and social benefits".

Work Undertaken

Our work constituted a high-level review of the available information, based on the understanding that this information was provided to us by HKMC in good faith. We have not performed an audit or other tests to check the veracity of the information provided to us. DNV notes that a detailed assessment of alignment has been included in the Social, Green and Sustainability Financing Framework ("Framework") Second Party Opinion ("SPO") provided to HKMC, by another services provider. This Second Party Opinion has been prepared to specifically focus on the Use of Proceeds aspects of the Sustainability Notes. The work undertaken to form our opinion included:

- Creation of an issuer-specific Protocol, adapted to the purpose of the Sustainability Notes, as described above and in Schedule 1 and 2 to this Assessment;
- Evaluation of the green and social eligibility of projects against the Use of Proceeds section of the Framework;
- Assessment of documentary evidence provided by HKMC on the Sustainability Notes and supplemented by a high-level desktop research. These checks refer to current assessment best practices and standards methodology;
- Review of published materials by HKMC and HKMC's website;
- Discussions with HKMC's management, and review of relevant documentation and evidence related to the criteria of the Protocol; and
- Documentation of findings against each element of the criteria.

Our opinion as detailed below is a summary of these findings.

Findings and DNV's Opinion

DNV's findings on the alignment with Principles & Standards are listed below:

1. Use of Proceeds

The Issuer intends to use the net proceeds of the Sustainability Notes to finance and refinance new and/or existing eligible projects.

The Sustainability Notes defines the following eligible Green project category:

- Renewable Energy

The Sustainability Notes defines the following eligible Social project categories:

- Access to Essential Services
- Access to Affordable Basic Infrastructure and Services

DNV undertook an analysis of the associated project type to determine the eligibility as Green and Social and in line with the Principles & Standards. DNV concludes that the Eligible Green and Social Projects for the issuance of the Sustainability Notes meet the eligibility criteria specified in the Framework.

2. Process for Project Evaluation and Selection

The raised proceeds will be allocated to finance and refinance the assets as set out under Use of Proceeds. DNV has reviewed evidence that demonstrates that HKMC regularly assesses opportunities for improvement and devises action plans and initiatives to mitigate negative environmental and social impacts from its operations.

3. Management of Proceeds

The HKMC as the collateral manager of the Issuer, shall establish an independent allocation register to record and track the allocation of the proceeds from the issuance of Sustainability Notes. The full amount of the proceeds will be deposited in the accounts of the Issuer, and not be commingled with general accounts of HKMC, and an amount equal to the net proceeds will be earmarked for allocation to the eligible loan portfolio. HKMC will review the outstanding balance of the Sustainability Notes as part of its allocation reporting at least on an annual basis.

4. Reporting

HKMC has confirmed that it will report on its website the following:

- i) The total amount of proceeds allocated to Eligible Loans;
- ii) Description of selected allocated Eligible Loans;
- iii) The balance of unallocated proceeds (if any);
- iv) The amount or the percentage of new financing and refinancing;
- v) Impact reporting to a range of metrics as available and as selected.

On the basis of the information provided by HKMC and the work undertaken, it is DNV's opinion that the Sustainability Notes meets the criteria established in the Protocol and that it is aligned with the stated definition of Sustainable Financing Instruments within the Principles & Standards.

For DNV Business Assurance Singapore Pte Ltd
Singapore / 11 September 2024

Vigilia Ang

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Schedule 1. Description of Nominated Project and Asset Pool

Green Use of Proceeds	GBP Asset Category	USD (million)
Solar Energy Projects	Renewable Energy	21.41
Wind Energy Projects	Renewable Energy	15.68
Hybrid (Wind + Solar) Energy Projects	Renewable Energy	16.50

Social Use of Proceeds	SBP Asset Category	Social Benefit	Target Population	USD (million)
University Education Assets	Access to Essential Services	Access to education	Women in the UAE	39.24
Telecommunication Tower Assets	Access to Affordable Basic Infrastructure and Services	Access to digital communication	Unconnected or underserved communities in India and Indonesia	39.13

Exclusion Criteria

HKMC's financing proceeds shall not be utilised towards the following activities:

- Nuclear energy generation related assets and projects
- Fossil fuel dedicated assets and projects
- Weapons, gambling and casinos
- Business activities which are prohibited by laws and regulations in HKSAR

and those as stated in their Infrastructure Financing and Securitisation Division ("IFS") Environmental and Social Exclusion List, accessible via the website of the HKMC IFS.

The HKMC will not knowingly finance nor invest in the activities below:

- Production or activities involving forced labour³ or harmful or exploitative forms of child labour⁴
- Production of or trade in any product or any activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international phase-outs or bans, such as:
 - Pharmaceuticals⁵
 - Polychlorinated Biphenyls (PCBs), pesticides/herbicides and other hazardous chemicals⁶
 - Ozone depleting substances⁷
 - Wildlife or products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)⁸
 - Transboundary movements of hazardous wastes or other wastes in violation of the Basel Convention⁹

³ Forced labour means all work or service not voluntarily performed, that is, extracted from an individual under threat of force or penalty.

⁴ Child labour means the employment of children whose age is below the host country's statutory minimum age of employment or employment of children in contravention of International Labour Organization Minimum Age Convention, 1973 (No. 138) (www.ilo.org). For the purposes of this list, harmful or exploitative forms of child labour means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or harmful to the child's health, or has a negative impact on the child's physical, mental, spiritual, moral, or social development.

⁵ Information of pharmaceutical products subject to phase-outs or bans is available at www.who.int.

⁶ A list of PCBs, pesticides/herbicides or other hazardous chemicals subject to phase-outs or bans is stipulated in the Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade (www.pic.int), the United Nations Consolidated List of Products whose Consumption and/or Sale have been Banned, Withdrawn, Severely Restricted or Not Approved by Governments, and/or the Stockholm Convention on Persistent Organic Pollutants (www.pops.int).

⁷ A list of ozone depletion substances, together with target reduction and phase-out dates, is stipulated under The Montreal Protocol on Substances that Deplete the Ozone Layer.

⁸ A list of concerned species is available at www.cites.org.

⁹ Information of the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal is available at www.basel.int.

- Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritages¹⁰
- Production of or trade in or use of radioactive materials¹¹
- Production of, trade in, or use of asbestos Fibers, whether or not bonded¹²
- Activities that directly affect primary tropical moist forests or old-growth forests or critical habitats, where significant degradation or conversion is involved¹³
- Shipment of oil or other hazardous substances in tankers which do not comply with the requirements stipulated by the International Maritime Organization¹⁴
- Nuclear projects where the host country has not ratified the relevant convention and treaty¹⁵ or the operations are inconsistent with the International Atomic Energy Agency (IAEA) Safety Standards¹⁶
- Large dams inconsistent with the World Commission on Dams framework¹⁷
- Mining of or trade in rough diamonds unless it is Kimberley Process certified¹⁸
- Production of or trade in or distribution of tobacco products violating the Framework Convention on Tobacco Control by the World Health Organization
- Production of or trade in weapons and munitions, including paramilitary materials
- Stand-alone gambling establishments or casinos or equivalent premises
- Thermal coal mining, coal-fired power and heating plants or Projects that are functionally related to coal¹⁹
- Production of, or trade in, alcoholic beverages, excluding beer and wine²⁰
- Production or trade in wood or other forestry products other than from sustainably managed forests
- Marine and coastal fishing practices, such as large-scale pelagic drift net fishing and fine mesh net fishing, harmful to vulnerable and protected species in large numbers and damaging to marine biodiversity and habitats

¹⁰ Relevant treaties in force and applicable to HKSAR include: Convention on the Conservation of Migratory Species of Wild Animals (www.cms.int); Convention on Wetlands of International Importance especially as Waterfowl Habitat (www.ramsar.org); Convention on Biological Diversity and Cartagena Protocol on Biosafety (www.cbd.int); International Convention for the Regulation of Whaling (www.iwc.int); Plant Protection Agreement for the Asia and Pacific Region (www.fao.org); and Convention Concerning the Protection of the World Cultural and Natural Heritage (whc.unesco.org/en/convention).

¹¹ This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any equipment for which IFS considers the radioactive source to be trivial and adequately shielded.

¹² In special circumstances, if necessary to enable the borrower to transition from the use of bonded asbestos to alternative materials, the IFS Division may agree with the borrower on a reasonable transition period, provided that the asbestos content of the materials being used is less than 20 percent. Projects involving disposal of asbestos are not prohibited, provided a suitable asbestos management plan is adopted for such disposal.

¹³ Critical habitat includes areas with high conservation value that meet the criteria of the International Union for Conservation of Nature (IUCN), including habitat required for the survival of critically endangered or endangered species as defined by the IUCN Red List of Threatened Species (www.iucnredlist.org) or as defined in the host country's laws and regulations.

¹⁴ This includes: tankers which do not have all required International Convention for the Prevention of Pollution from Ships (MARPOL) and International Convention for the Safety of Life at Sea (SOLAS) certificates (including, without limitation, International Safety Management (ISM) Code compliance), tankers blacklisted by the European Union or banned by the Paris Memorandum of Understanding on Port State Control and tankers due for phase out under MARPOL regulation 13G.

¹⁵ For example the Convention on Nuclear Safety (www-ns.iaea.org/conventions/nuclear-safety.asp) and the Treaty on the Non-Proliferation of Nuclear Weapons (www.un.org/disarmament/wmd/nuclear/npt/).

¹⁶ Further information on the IAEA Safety Standards is available at www-ns.iaea.org/standards/.

¹⁷ The International Commission on Large Dams (www.icold-cigb.net) defined a large dam is a dam with a height of 15 metres or greater from lowest foundation to crest or a dam between 5 metres and 15 metres impounding more than 3 million cubic metres.

¹⁸ Information regarding Kimberley Process is available at www.kimberleyprocess.com.

¹⁹ Projects functionally related to coal means associated facilities that are dedicated to enable the mining and use of coal or projects that would not be carried out without dedicated coal-based power supply. In order to assist reduction of coal use, we may support Projects that aim at early retirement of coal plants, replacement of coal with lower-carbon fuel sources, or Projects for decommissioning, remediation, and redevelopment of affected coal facility sites and communities.

²⁰ This does not apply to Clients who are not substantially involved in these activities. Not substantially involved means that the activity concerned is ancillary to the entity's primary operations.

Schedule 2. Eligibility Assessment Protocol

1. Use of Proceeds

Ref.	Criteria	Requirements	DNV Findings
1a	Type of Bond	<p>The Sustainability Notes must fall in one of the following categories, as defined by the Principles & Standards:</p> <ul style="list-style-type: none"> • Green/Social/Sustainability Use of Proceeds Bond • Green/Social/Sustainability Use of Proceeds Revenue Bond • Green/Social/Sustainability Project Bond • Secured Green/Social/Sustainability Bond <ul style="list-style-type: none"> ➤ Secured Green/Social/Sustainability Collateral Bond ➤ Secured Green/Social/Sustainability Standard Bond 	<p>The reviewed evidence confirms that the Sustainability Notes would fall in the category: Secured Sustainability Bond (Secured Sustainability Standard Bond), as the Eligible Loans are not securing the Sustainability Notes alone, but rather the entire securitisation issuance. The Sustainability Notes form only one tranche out of the Issuer's securitisation transaction.</p>
1b	Green/Social Project Categories	<p>The cornerstones of Sustainability Notes are the utilisation of the proceeds of the bonds or the loans which should be appropriately described in the legal documentation for the security.</p>	<p>As defined by the Framework, the purpose of the Sustainability Notes is to use the proceeds to finance and refinance Eligible Green and Social Projects.</p> <p>Specifically, the use of proceeds for the proposed Sustainability Notes are summarised in Schedule 1 above.</p> <p>DNV's assessment concluded that eligible projects funded by the Sustainability Notes would present significant Environmental and Social benefits and qualify for inclusion under the Sustainability Bond Guidelines within the Renewable Energy, Access to Essential Services and Access to Affordable Basic Infrastructure and Services categories.</p>
1c	Environmental and Social Benefits	<p>All designated Green and Social Project categories should provide clear environmentally sustainable benefits, which, where feasible, will be quantified or assessed by the Issuer.</p>	<p>DNV confirms that the proposed use of proceeds of the Sustainability Notes will be expected to deliver meaningful environmental and social benefits.</p>

		<p>Green Project Category: Renewable Energy</p> <p>DNV confirms that Renewable Energy assets including solar and wind energy are considered to be green for the purpose of the GBP.</p> <p>Social Project Category: Access to Essential Services</p> <p>The education project assets are confirmed by DNV to provide access to essential services, specifically education services.</p> <p>The projects are located in Abu Dhabi, and provide access to education for women (target population) in the city, focused on supporting students whose financial conditions may prevent them from continuing their bachelors and higher education. These range from scholarships and monthly stipends to financial aid for bachelor programmes and purchasing educational devices, thus assisting with ensuring affordability.</p> <p>DNV considers the social benefit derived from delivering essential services to be well aligned with the SBP.</p> <p>Social Project Category: Access to Affordable Basic Infrastructure and Services</p> <p>The telecommunication projects are confirmed by DNV to provide access to basic infrastructure, specifically access to digital communication.</p> <p>The telecommunication projects are located in India and Indonesia, which are generally under-developed with low internet penetration rates. Digital inclusion is considered as a key indicator of development of an information society. In particular, internet connection provides people with access to important information as well as offering necessary means to facilitate their daily life such as working remotely, making online appointments, and providing</p>
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			<p>access to online services. The outbreak of coronavirus and subsequent lockdowns have deepened the society's reliance on digital technology. The assets are confirmed by DNV to provide access to basic infrastructure to the under connected or underserved communities in India and Indonesia. The infrastructures are noted by DNV to be crucial in providing digital connectivity to the residents in the area.</p> <p>DNV considers the social benefit derived from delivering access to basic infrastructure to be well aligned with the SBP.</p> <p>DNV confirms that the Use of Proceeds associated with the Sustainability Notes are considered to deliver tangible green and social benefits and is well-aligned with the purpose and function of GBP and SBP.</p>
1d	Refinancing Share	In the event that a proportion of the proceeds may be used for refinancing, it is recommended that issuers provide an estimate of the share of financing vs. re-financing, and where appropriate, also clarify which investments or project portfolios may be refinanced.	At the time of issuance, 100% of the Eligible Loans backing the Sustainability Notes will be acquired.



About DNV

Driven by our purpose of safeguarding life, property and the environment, DNV enables organisations to advance the safety and sustainability of their business. Combining leading technical and operational expertise, risk methodology and in-depth industry knowledge, we empower our customers' decisions and actions with trust and confidence. We continuously invest in research and collaborative innovation to provide customers and society with operational and technological foresight. With our origins stretching back to 1864, our reach today is global. Operating in more than 100 countries, our 16,000 professionals are dedicated to helping customers make the world safer, smarter and greener group. All rights reserved.