

Second-Party Opinion

Nan Fung Group Sustainable Finance Framework



Evaluation Summary

Sustainalytics is of the opinion that the Nan Fung Group Sustainable Finance Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2021 and Green Loan Principles 2021. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds - Green Buildings, Energy Efficiency, Renewable Energy, Pollution Prevention & Control, Sustainable Water and Wastewater Management, Clean Transportation, Affordable Housing, Access to Essential Services, and Socioeconomic Advancement and Empowerment – are aligned with those recognized by the Green Bond Principles, Social Bond Principles and Green Loan Principles. Sustainalytics considers that investments in the eligible categories will reduce the environmental footprint of the company’s operation and provide social benefits in China and Hong Kong and advance the UN Sustainable Development Goals, specifically SDG 3, 4, 6, 7, 8, 9, 10, 11 and 12.



PROJECT EVALUATION / SELECTION Nan Fung Group has established a working group which is responsible for evaluating and selecting projects in line with the eligibility criteria. Nan Fung undertakes assessment of environmental and social risk of eligible project through its overall risk management system which is applicable for all projects financed under this Framework. Sustainalytics considers these risk management systems to be adequate and the project selection process to be in line with market practice



MANAGEMENT OF PROCEEDS Nan Fung Group’s process for management of proceeds is overseen by its treasury team. The net proceeds will be tracked through an internal project register. Pending allocation, unallocated proceeds will be held temporarily as investment in short term time deposits or used to repay existing borrowings of the Group which are not related to carbon-intensive activities. This is in line with market practice.



REPORTING Nan Fung Group intends to report on allocation and impact of proceeds on its website on an annual basis until full allocation, whereby only investors will gain access to reporting. Allocation reporting will include the amounts allocated to eligible projects, unallocated amounts and their temporary allocation, share of financing and refinancing, and examples of eligible projects. In addition, Nan Fung Group is committed to reporting on relevant impact metrics. Sustainalytics views Nan Fung Group’s allocation and impact reporting as aligned with market practice.

Evaluation Date	December 24, 2021
Issuer Location	Hong Kong, China

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Introduction

Nan Fung International Holdings Limited (“Nan Fung”, or the “Group”) headquartered in Hong Kong, is a privately owned conglomerate, with core operations in property development, management and investment and operations in Greater China, the US and the UK.

Nan Fung has developed the Nan Fung Group Sustainable Finance Framework (the “Framework”) under which it intends to issue sustainability bonds, loans and perpetual bonds,¹ and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that will reduce the environmental footprint of the company’s operation and provide social benefits in China and Hong Kong.

The Framework defines green eligibility criteria in six areas:

1. Green Buildings
2. Energy Efficiency
3. Renewable Energy
4. Pollution Prevention & Control
5. Sustainable Water and Wastewater Management
6. Clean Transportation

The Framework defines social eligibility in three key areas:

7. Affordable Housing
8. Access to Essential Services
9. Socioeconomic Advancement and Empowerment

Nan Fung engaged Sustainalytics to review the Nan Fung Group Sustainable Finance Framework, dated December 2021, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), Social Bond Principles 2021 (SBP)² and Green Loan Principles 2021 (GLP)³This Framework has been published in a separate document.⁴

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁵ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

The Framework’s alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021, as administered by ICMA, and the Green Loan Principles 2021, as administered by LMA, APLMA, and LSTA;

The credibility and anticipated positive impacts of the use of proceeds; and

The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.11, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

¹ The Group has confirmed to Sustainalytics that it will commit to match eligible green assets equal to or more than the net proceeds of the bonds, until the bond exists until being repurchased or called back by Nan Fung at some point in the future.

² The Sustainability Bond Guidelines, Green Bond Principles, and Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

³ The Green Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications and Trading Association and is available at: https://www.lma.eu.com/application/files/9716/1304/3740/Green_Loan_Principles_Feb2021_V04.pdf

⁴ The Nan Fung Group Sustainable Finance Framework is available on Nan Fung Group’s website at: <https://www.nanfung.com>

⁵ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

As part of this engagement, Sustainalytics held conversations with various members of Nan Fung management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Nan Fung representatives have confirmed (1) they understand it is the sole responsibility of Nan Fung to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Nan Fung.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. The Second-Party Opinion is valid for issuances aligned with the respective Framework for which the Second-Party Opinion was written for a period of twenty-four (24) months from the evaluation date stated herein.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Nan Fung has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Nan Fung Group Sustainable Finance Framework

Sustainalytics is of the opinion that the Nan Fung Group Sustainable Finance Framework is credible, impactful and aligns with the four core components of the SBG, GBP, SBP, and SLP. Sustainalytics highlights the following elements of Nan Fung 's Sustainability Finance Framework:

- Use of Proceeds:
 - The eligible categories – Green Buildings, Energy Efficiency, Renewable Energy, Pollution Prevention & Control, Sustainable Water and Wastewater Management, Clean Transportation, Affordable Housing, Access to Essential Services, Socioeconomic Advancement and Empowerment – are aligned with those recognized by the GBP, SBP, GLP, and SLP. Sustainalytics notes that investments in the eligible categories can be expected to reduce the environmental footprint of the company's operations and provides social benefits in China and Hong Kong.
 - Nan Fung has defined a look-back period of three years for refinancing activities. Sustainalytics considers this to be in line with market practice.
 - Under the Green Buildings category, the Group intends to finance or refinance the acquisition, construction and renovation of new and existing commercial and residential buildings that have received or are expected to receive one of the following green buildings certifications: Chinese Green Building Evaluation Label (2 star or above), Hong Kong BEAM Plus (Gold or above), LEED (Gold or above), Singapore BCA Green Mark Rating (Gold or above), and BREEAM (Excellent and above). Sustainalytics views these certifications as credible, and the levels selected as impactful. See Appendix 1 for an overview of the certification schemes. In addition, Nan Fung has confirmed to Sustainalytics that it will only finance renovation activities that achieve a minimum improvement in energy performance of 20% over the baseline.

- Within the Energy Efficiency category, Nan Fung intends to finance or refinance investments related to installation, upgrades or modification of equipment, systems and technology for optimizing energy efficiency that provide at least 10% energy efficiency improvements. Expenditures include HVAC systems, energy efficient lighting, high solar reflectance paving and roof finishes and smart power strips. Sustainalytics notes that all the equipment, systems and technologies financed under this category will be electrically powered and will not rely upon fossil fuel for power generation. These activities align with market practice.
- In the Renewable Energy category, the Group may finance or refinance the installation, maintenance, construction and design of systems to generate energy from solar, wind and other form of kinetic energy including solar PV panels and solar power systems like concentrated solar power and solar thermal projects and step power generator. Additionally, the Company intends to finance rechargeable gensets⁶, as battery energy storage systems providing diesel-free power for construction projects. Nan Fung has confirmed to Sustainalytics that batteries disposed from rechargeable gensets are recycled by a licensed recycler to ensure proper end of life treatment. In case of solar thermal/CSP projects, Nan Fung commits to source more than 85% of the electricity generated from solar sources only. Sustainalytics considers these investments to be in line with market practice.
- Under the Pollution Prevention and Control, the Group intends to invest in the installation and adoption of equipment and technologies such as recycling facilities, automatic refuse collection systems, food waste decomposer, and Waste Electrical and Electronic Equipment (WEEE) Recycling Program. Nan Fung has confirmed to Sustainalytics the following:
 - Recycling of waste includes waste segregation and sorting at the source. Chemical recycling of plastic is also excluded.
 - Nan Fung aligns with the regulatory requirement for e-waste recycling in Hong Kong,⁷ whereby all e-waste is collected at the facilities are treated and recycled through a licensed recycler and additionally, equipment in working condition is donated to charities for reuse. Nan Fung has confirmed that investment towards WEEE recycling program will be through CAPEX. Sustainalytics notes that Government of Hong Kong has put in place a robust law to ensure that e-waste collected are properly handled, including management of environment and social risk from toxic materials that are released while recycling and therefore considers the system put in place to manage the e-waste as robust and in line with market practice. For more details refer to section 2.
 - The financing of equipment for air pollution control during construction does not rely on fossil fuel nor create a fossil fuel lock-in, as well as goes beyond the statutory requirement and creates a positive impact.
- Under the Sustainable Water and Wastewater Management category, Nan Fung intends to finance or refinance the installation of water collection and wastewater management systems and equipment that reduce water consumption and waste-water management. Project examples include rainwater recycling, stormwater management system, bio-filtration, low flow water fitment and flushing. The Group has confirmed to Sustainalytics that the equipment under this category will not be powered through fossil fuels. Sustainalytics considers this to be aligned with market practice.
- Within the Clean Transportation category, Nan Fung intends to finance the acquisition of electric vehicles and the development and maintenance of associated infrastructure. Potential infrastructure projects could include electric vehicle charging stations and systems and installation, maintenance, and operation of automatic bicycle parking systems. Sustainalytics notes that the Group does not intend to finance parking facilities for other vehicles under this category. Sustainalytics considers these investments to be aligned to market practice.
- Under Affordable Housing, the Group intends to finance the provision of affordable housing for vulnerable groups and populations eligible for affordable housing as defined by the local authority. Nan Fung has defined eligible populations as following i) vulnerable groups including physically, mentally, or socially disadvantaged persons who are unable to meet their basic needs

⁶ Rechargeable gensets are heavy battery powered generators or Battery Energy Storage System (BESS) that can be used for construction activities

⁷ Environmental protection department, Producer Responsibility Schemes, at:

https://www.epd.gov.hk/epd/english/environmentinhk/waste/pro_responsibility/index.html

and therefore require specific assistance, and/or ii) individuals/household's whose gross income⁸ is below 50% of the national median income. Nan Fung has confirmed that affordability of these houses will be ensured by providing houses at affordable rent through rent caps or rent control or by operating the housing through scheme designated NGOs or by the Government of Hong Kong. Project examples for affordable housing include Land Sharing Pilot Scheme (LSPS),⁹ whereby the Government of Hong Kong facilitates infrastructural improvements on private land and, in return, at least 70% of the gross floor area is allocated to public housing for the Government. Nan Fung has confirmed that proceeds will be used to finance of the provision of affordable housing only through LSPS. Given this context, and that the housing market in Hong Kong is among the most expensive in the world, Sustainalytics is of the opinion that affordable housing activities in this category will provide a positive social impact in the context of Hong Kong.

- In the Access to Essential services category, Nan Fung intends to finance charitable donations to projects that expand access to education, healthcare, improve health outcomes, skills development, education initiatives, and development of health care facilities. The target population defined for the category includes vulnerable youth and physically, mentally or socially disadvantaged persons or other underserved populations such as families with sick children. Nan Fung has confirmed to Sustainalytics that all services under this category will be available to all regardless of the population's ability to pay and that these donations will account for less than 10% of allocation. Based on a well-defined target population and accessibility to all regardless of their ability to pay, Sustainalytics considers the following project examples to align with market practice.
 - "Construction of Ronald McDonald House", situated near Hong Kong's Children Hospital to help financially struggling families having sick children by providing free temporary accommodation and amenities.¹⁰
 - "In Time of" programme Nan Fung intends to finance programmes such as workshops on capacity building, career development opportunities, upskill trainings among others, in partnership with NGOs, social enterprises and community designers, aimed at supporting local communities in sustainable development, social well-being and inclusive growth.
 - "Home of Nan Fung", which is a multi-purpose facility that offers both office and community spaces to local population. Workshops and events related to healthcare, leisure, sports and recreation purposes are open for public registration with refundable deposits without any conditions.
 - Other partnerships include the "Library Project", which promotes literacy among children in need, and "HeepHong Society and Direction Association", which aims to provide rehabilitation and training to the handicapped.
- Under the Socio-Economic Advancement and Empowerment category, Nan Fung may invest in employment generation projects that aims to increase employment opportunities for underserved and vulnerable groups, including single parents, women, physically, mentally, or socially disadvantaged persons and other underprivileged individuals¹¹ such as youths who are vulnerable in terms of material, emotional or social aspects. These projects may include community-centric hiring initiatives at Nan Fung's project sites to engage with target population where they will be providing clothes alteration services for office tenants or visitors. Nan Fung has confirmed that expenses under this category will be limited to the development of programmes and initiatives including training and upskilling that will help in improving employability and hiring of the target population. Sustainalytics considers this to be in line with market practice.

⁸ The income is calculated based on monthly income and total net asset, with stepped caps depending on household size. More details on income and asset limits are provided at: <https://www.housingauthority.gov.hk/en/flat-application/income-and-asset-limits/index.html>

⁹ Government of Hong Kong, "Land Sharing Pilot Scheme", at: https://www.devb.gov.hk/filemanager/en/content_1152/LSPS_GN_e.pdf

¹⁰ Xinhuanet, "Shanghai's first Ronald McDonald House to shelter poor child patients" at: http://www.xinhuanet.com/english/2020-12/16/c_139594929.htm

¹¹ Underprivileged youths could also include vulnerable youths with family problems or in troubled families (incarcerated / deceased parents), youths living under the poverty line, youths in marginalized communities, undereducated youths etc.

- Sustainalytics notes that Nan Fung excludes financing of activities within certain sectors such as fossil fuel, weapons and ammunition, alcoholic beverages, mining, gambling, and nuclear related assets. Sustainalytics considers these exclusions to strengthen the Framework.
- Project Evaluation and Selection:
 - Nan Fung has established a working group comprised of representatives from Treasury, Finance & Accounts, Business Innovation and Shared Value teams. The working group will be responsible for evaluating and selecting eligible expenditures and the final list of eligible projects will be reviewed and approved by the senior management of the Nan Fung Group.
 - Nan Fung has in place a process to assess environmental and social risk as part of the Group's overall risk management process which are applicable to all allocation decisions made under the Framework. Sustainalytics considers this risk assessment and mitigation process to be adequate and to be aligned with market expectation. For additional detail see Section 2 of this document.
 - Based on the establishment of the working group and the identification of relevant policies to mitigate project-related risks, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - Nan Fung's treasury team will oversee the management of proceeds using an internal project register. The internal register will include a name and description of eligible projects, summary of expenditures, the amount of allocation and balance of unallocated proceeds.
 - Nan Fung intends to allocate all proceeds within 36 months of issuance. Pending allocation, unallocated proceeds will be held temporarily in short term time deposits or used to repay existing borrowings of the Group in accordance with Nan Fung's internal liquidity guidelines. Nan Fung has confirmed to Sustainalytics that it will not use proceeds to repay any debt related to carbon-intensive activities.
 - Based on the use of an internal tracking system and disclosure of temporary use of proceeds, Sustainalytics views this process to be aligned to market practice.
- Reporting:
 - Nan Fung intends to report on the allocation and impact of proceeds on its website to be available for its investors on an annual basis until full allocation. Allocation reporting will include the amounts allocated to eligible projects, unallocated amounts and their temporary allocation, share of financing and refinancing, and examples of eligible projects.
 - Nan Fung will report on relevant impact indicators including number and level of certification achieved in green buildings, annual energy consumption and reduction, greenhouse gas emissions avoided and electricity from clean and renewable energy. For a full list of impact metrics, please refer to Appendix 2: Sustainability Bond Programme External Review Form. Based on the commitment to both allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the Nan Fung Group Sustainable Finance Framework aligns with the four core components of the GBP, SBP, GLP, and SLP. For detailed information please refer to Appendix 2: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Strategy of Nan Fung

Contribution of Framework to Nan Fung Group's sustainability strategy

Sustainalytics is of the opinion that Nan Fung demonstrates efforts towards sustainability through investments in four key environmental and social areas: (i) development of green buildings, (ii) energy efficiency, (iii) affordable housing and (iv) access to essential services. In alignment with Hong Kong's Climate Action Plan 2030+ and driven by Nan Fung's ambition to become carbon neutral by 2050, the Group aims to reduce energy consumptions of its existing buildings and reduce total energy consumption by 21%. Nan Fung's energy consumption reduction efforts within operations include green building certifications, installation of PV panels, CO₂ reducing design features and energy efficiency installations. Fourteen projects

by Nan Fung have received BEAM Plus Gold or Platinum since 2013.¹² Nan Fung's Kai Tak development, for instance, received first place for the BEAM Plus Final Platinum Certificate in Hong Kong with annual energy savings of over 23%, compared to the baseline and above 60% water savings.¹³ Additionally, the Group has waste management initiatives in more than 70 properties, which consists of the Waste Electrical and Electronic Equipment (WEEE) Recycling Programme with voluntary collection and recycling programmes with the proper treatment of WEEE.¹²

In terms of its social initiatives, Nan Fung has put efforts to develop affordable housing for vulnerable groups who are eligible for social housing as defined by the Hong Kong Housing Authority. Nan Fung's community initiative "In Time Of" aims to expand access to education and skills development for all regardless of ability to pay through capacity-building workshops, career development opportunities, and upskill trainings.¹⁴ Nan Fung also invests in projects that expand access to healthcare by supporting healthcare facilities with the construction of Ronald McDonald House situated near Hong Kong Children's Hospital aimed at helping families with hospitalized children who have a severe illness.¹⁵

Nan Fung has disclosed its sustainability strategy in their Sustainable Finance Framework and intends to make it publicly available on the Group's website. Sustainalytics notes the importance of the above-mentioned environmental and social initiatives and encourages Nan Fung Group to disclose and report on its sustainability strategy, targets and objectives to ensure transparency. Sustainalytics is of the opinion that the Nan Fung Group Sustainable Finance Framework is aligned with the Group's overall sustainability initiatives and will further the Group's action on its key environmental and social priorities.

Approach to managing environmental and social risks associated with the projects

While Sustainalytics recognizes that the use of proceeds from the Framework will be directed towards eligible projects that are expected to have positive environmental and social impact, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible projects could include occupational health and safety, land use and biodiversity issues associated with large-scale infrastructure development, as well as emissions, effluents, and waste generated in construction and during operation.

Sustainalytics is of the opinion that Nan Fung Group is able to manage and/or mitigate potential environmental and social risks associated with the use of proceed through implementation of the following policies, processes, and regulations:

- Nan Fung's construction arm, Bordon Construction, has policies on occupational health and safety (OH&S) to evaluate and mitigate project level occupational health risks. The internal occupational health policies follow the Hong Kong Occupational Safety and Health Ordinance legislation and are accredited with the ISO 45001:2018. ISO 45001:2018 specifies requirements for an OH&S management system to enable organizations to provide safe and healthy workplaces by preventing work-related injury and ill health, as well as by proactively improving its OH&S performance.¹⁶
- To address impact on land use change and biodiversity, the Hong Kong Environmental Impact Assessment Ordinance sets guidelines and rules to manage and minimize the ESG risks of projects that may have an adverse impact on the environment. Under the Ordinance, airports, railways, roads, and other large infrastructure projects are required to undertake a thorough environmental impact assessment study followed by a study approval, before obtaining environmental permits for construction and operations.¹⁷
- Nan Fung adopts and installs equipment and technologies to reduce environmental pollution during construction and/or building operations in line with the Air Pollution Control (Construction Dust) Regulation, Water Pollution Control Ordinance and Waste Disposal Ordinance for construction related emissions, effluents and wastes in Hong Kong.¹⁸
- To address the e-waste management risks, Nan Fung follows Hong Kong's Producer Responsibility Scheme on Waste from Electrical and Electronic Equipment (WPRS) for safely managing e-waste. Under the WPRS, relevant waste electrical and electronic equipment must be directed to licensed

¹² Nan Fung Group, Social Commitment, at: <https://www.nanfung.com/en/about-us/social-commitment/>

¹³HK BEAM Plus Online Exhibition, at: <https://greenbuilding.hkgbc.org.hk/projects/view/216>

¹⁴ Nan Fung Group, In Time Of, at: <https://www.intimeof.com/en>

¹⁵ Ronald McDonald House Charities Hong Kong, at: <https://www.rmhc.org.hk/en/about-us/>

¹⁶ ISO 45001:2018 Occupational health and safety management systems, at: <https://www.iso.org/standard/63787.html>

¹⁷ Environment Protection Department, "A Guide to the EIA Ordinance", at: <https://www.epd.gov.hk/eia/english/guid/ordinance/guide1-3.html>

¹⁸Government of Hong Kong, "Environmental Laws & Regulations", at: <https://www.gov.hk/en/residents/environment/compliance/laws.htm>

recycling facilities for proper treatment and recycling.¹⁹As per the scheme, Nan Fung collects e-waste from each of its facilities and buildings through a dedicated e-waste collection system and then directs the e-waste to licensed, local recycling facilities for proper treatment or recycling. The Hong Kong government has also established detailed social and environmental requirements for e-waste recyclers to obtain a waste disposal license, including environmental assessment, procedures for separating toxic and nontoxic materials and adopting safe disposal systems accordingly.

Based on these policies, standards, and assessments, Sustainalytics is of the opinion that Nan Fung has implemented adequate measures and is well positioned to manage or mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All nine use of proceeds categories are aligned with those recognized by GBP, SBP, GLP or SLP. Sustainalytics has focused the below where the impact is specifically relevant in the local context.

Importance of green buildings in Hong Kong for achieving carbon neutrality

In the transition to a low-carbon economy, buildings play a dominant role as the largest sources of GHG emissions, due to their high energy consumption.²⁰ The buildings sector is a significant contributor to carbon emissions in China, accounting for 20% of China's emissions in 2018.²¹ In Hong Kong, buildings account for 90% of the total electricity consumption and contribute to 60% of the total CO₂ emissions each year, highlighting the critical need to reduce energy consumption in buildings.²² The Civic Exchange, estimates that 60-80% of the buildings in Hong Kong that will exist in 2050 have already been constructed, thereby highlighting the importance of making existing buildings green along with ensuring all new building are made green from design stage itself.

The Government of Hong Kong announced an updated Climate Action Plan 2050 in October 2021, under a vision entitled Zero-carbon Emissions Liveable City Sustainable Development. The plan, which updates Hong Kong's Climate Action plan 2030+ of 2017, focuses on four major decarbonization strategies aiming to make Hong Kong carbon neutral by 2050: net-zero electricity generation, energy saving and green buildings, green transport and waste reduction. Under energy savings and green buildings, a specific goal relates to reducing electricity consumption of commercial buildings by 30% to 40% and residential buildings by 20% to 30% by 2050 from 2015 levels, with an interim goal of achieving half of the targets by 2035.²³ In 2018, Hong Kong had 42,000 private buildings and 8,000 government-owned buildings,²⁴ having 3,000 buildings BEAM certified since 1996, indicating progress in local green building certifications.²⁵ Reducing the emissions intensity of its building sector and the energy consumption in new and existing buildings, Hong Kong can achieve higher carbon emission reductions.

Based on the above context, Sustainalytics is of the opinion that Nan Fung's investments in green buildings are expected to enhance energy and resource efficiency in Hong Kong's building sector and contribute to Hong Kong's transition to carbon neutrality.

Importance of Affordable Housing in Hong Kong

Hong Kong has been consistently ranked as the world's least affordable housing market in the last decade.²⁶ Median income households spend approximately 20 years of their earnings to buy a 60 square metre flat at an average cost of USD 1.24 mn, as per a study by East Asia Forum in 2020. Renting is an equally expensive

¹⁹ Environmental protection department, Producer Responsibility Schemes, at:

https://www.epd.gov.hk/epd/english/environmentinhk/waste/pro_responsibility/index.html

²⁰ UNEP, "Building sector emissions hit record high, but low-carbon pandemic recovery can help transform sector – UN report" (2020) at: <https://www.unep.org/news-and-stories/press-release/building-sector-emissions-hit-record-high-low-carbon-pandemic>

²¹ THUBERC, "2020 Annual Report on China Building Energy Efficiency, China Architecture & Building Press, Beijing (Chinese)" (2020), at: <https://www.sciencedirect.com/science/article/pii/S1674927821000939#bib33>

²² AHK, "Building Energy Efficiency: The Key to a Green City", at: <https://hongkong.ahk.de/news/news-details/building-energy-efficiency-the-key-to-a-green-city>

²³ Hong Kong Environmental Protection Department, "Hong Kong's CLIMATE ACTION PLAN 2050", at: https://www.climate-ready.gov.hk/files/pdf/CAP2050_booklet_en.pdf

²⁴ HongKong2050, "Decarbonising Hong Kong Buildings Policy Recommendations and Next Steps" at: <https://www.hkgreenfinance.org/wp-content/uploads/2020/12/Decarbonising-Hong-Kong-Buildings-Policy-Recommendations-and-Next-Steps.pdf>

²⁵ HKGBC, "Hong Kong: Green Buildings in Action", at: <https://uat-stg.hkgbc.org.hk/eng/resources/file/Green-Building-in-Action-18-EN-A4-Spread.pdf>

²⁶ Urban Reform Institute and Frontier Centre for Public Policy, "DEMOGRAPHIA INTERNATIONAL HOUSING AFFORDABILITY (2021 Edition)", at: <https://fcpp.org/wp-content/uploads/Demographia-International-Housing-Affordability-2021.pdf>

option, resulting in high demand for subdivided units (SDUs) within a converted flat, even though SDUs offer cramped and unhealthy living conditions. ²⁷

As of 2016, nearly 200,000 people resided in SDUs, subject to exploitation in the absence of rent control and tenancy security protection. Additionally, many flats are being illegally converted into SDUs in spite of not complying with hygiene and fire safety codes which has resulted in many deadly fire incidents. ²⁷ From 2002 to 2018, Hong Kong's homeless population increased from about 400 to nearly 1200 people, as many cannot afford the cheapest SDUs in the market. To address the chronic shortage in affordable housing, the Hong Kong Housing Authority developed a public housing system which provided 832,000 units rented to low- and middle-income households, accommodating 29% of the city's population. ²⁸

Sustainalytics is of the opinion that affordable housing projects financed under the Framework are impactful and could help increase the number of affordable housing units available to low-income populations and contribute to tackling the problem of affordable housing in Hong Kong.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bond(s) issued under the Nan Fung Group Sustainable Finance Framework advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Green Buildings	9. Industry Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Energy Efficiency	7. Affordable and clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Renewable Energy	7. Affordable and clean energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Pollution Prevention & Control	12. Ensure sustainable consumption and production patterns	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity
Clean Transportation	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Affordable Housing	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums

²⁷ EastAsiaForum, "Solving Hong Kong's housing affordability problem" (2020) at: <https://www.eastasiaforum.org/2020/05/01/solving-hong-kongs-housing-affordability-problem/>

²⁸ CAN, "Commentary: Too many Hong Kong residents want affordable housing but there are too few flats", at: <https://www.channelnewsasia.com/commentary/hong-kong-affordable-housing-lantau-vision-tomorrow-carrie-lam-935566>

Appendices






Appendix 1: Summary of Referenced Green Building Certification Schemes

	BREEAM²⁹	LEED³⁰	Chinese Green Building Evaluation Label (China Three Star)	Singapore BCA Green Mark Certification³¹	BEAM Plus
Background	BREEAM (Building Research Establishment Environmental Assessment Method) was first published by the Building Research Establishment (BRE) in 1990. Based in the UK. Used for new, refurbished and extension of existing buildings.	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC).	The Chinese Green Building Evaluation Label is a Certification System used in China for residential and public buildings (including commercial, hotel and government-owned) that was introduced in 2006 by MOHURD (Ministry of Housing and Urban-Rural Development).	The BCA Green Mark Scheme provides real estate certifications in Singapore to promote sustainability in the built environment (during project conceptualization and design, as well as during construction.)	BEAM Society Limited (BSL), owner of the Building Environmental Assessment Method (BEAM), is a public body established in 2010. It owns BEAM Plus - a green building assessment tool tailor-made for the high-rise, high density-built environment of sub-tropical climate in Hong Kong.
Certification levels	Pass Good Very Good Excellent Outstanding	Certified Silver Gold Platinum	1-Star 2-Star 3-Star	Certified Gold Gold Plus Platinum	Bronze Silver Gold Platinum
Areas of Assessment	<ul style="list-style-type: none"> Energy Land Use and Ecology Pollution Transport Materials Water Waste Health and Wellbeing Innovation 	<ul style="list-style-type: none"> Energy and atmosphere Sustainable Sites Location and Transportation Materials and resources Water efficiency Indoor environmental quality Innovation in Design Regional Priority 	<ul style="list-style-type: none"> Land savings and outdoor environment; Energy savings and utilisation; Water savings and utilisation; Material savings and utilisation; Indoor environment; Operations and management. 	<ul style="list-style-type: none"> Climate Responsive Design Building Energy Performance Resource Stewardship Smart and Healthy Buildings Advanced Green Efforts 	<ul style="list-style-type: none"> Site Aspects (location and design of building, emissions from the site, site management) Materials Aspects (selection of materials, efficient use of materials, waste disposal and recycling) Energy Use (annual CO2 emissions or energy use, energy efficient systems and equipment, energy management) Water Use (water quality, water conservation, effluent discharges) Indoor Environmental Quality (IEQ)
Requirements	Prerequisites depending on the levels of certification and credits with associated points This number of points is then weighted by item ¹⁸ and gives a	Prerequisites independent of level of certification, and credits with associated points. These points are then added together to obtain	Prerequisites: The system functions on a checklist basis, with 1-Star buildings meeting 26 criteria, 2-Star an additional 43 items, and 3-Star on a further 14 items.	Prerequisites for each performance area (to demonstrate minimum criteria met) + numerical scores achieved in accordance with the criteria in each performance area.	Prerequisites for each performance area + Credits with associated points Detailed compliance with legal requirements is a

²⁹ BREEAM, Building Research Establishment LTD, at: <https://breeam.com/>

³⁰ USGBC, LEED, at: www.usgbc.org/LEED

³¹ Singapore Building and Construction Authority, BCA Green Mark Scheme: https://www.bca.gov.sg/greenmark/green_mark_buildings.html

	<p>BREEAM level of certification, which is based on the overall score obtained (expressed as a percentage). Majority of BREEAM issues are flexible, meaning that the client can choose which to comply with to build their BREEAM performance score.</p> <p>BREAAAM has two stages/ audit reports: a 'BREEAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.</p>	<p>the LEED level of certification</p> <p>There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).</p>	<p>Criteria and weighting differ for public and residential buildings. In public buildings, more weight is given to energy and material savings, while the standard for residential buildings places greater importance on urban land saving and outdoor environments.</p>	<p>Performance Areas have different weights.³²</p> <p>Depending on the level of building performance and numerical score achieved in performance area, building's level of certification is determined.</p> <p>Assessment of compliance with Green Mark criteria is done by the Singapore Building and Construction Authority (BCA).</p>	<p>prerequisite for the award of credits.</p> <p>For every performance area BEAM prescribes different prerequisites. Every applicable prerequisite in every BEAM category must be achieved for the project to be assessed.</p> <p>Credits are allocated for each performance area, and every area is weighted as per international consensus.³³ The Overall Assessment Grade is determined by the percentage (%) of the applicable credits gained under each performance category and its weighting factor.</p> <p>Verification of compliance with BEAM criteria is done by an independent BEAM Assessor.</p>
<p>Performance display</p>					

³² Singapore Building and Construction Authority, BCA Green Mark Criteria: https://www.bca.gov.sg/GreenMark/others/Green_Mark_NRB_2015_Criteria.pdf

³³ BEAM Plus New Buildings, at: <https://www.beamsociety.org.hk/files/download/download-20130724174420.pdf>.

Appendix 2: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Nan Fung Group
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	Nan Fung Group Sustainable Finance Framework
Review provider's name:	Sustainalytics
Completion date of this form:	December 24, 2021
Publication date of review publication:	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eligible categories for the use of proceeds - Green Buildings, Energy Efficiency, Renewable Energy, Pollution Prevention & Control, Sustainable Water and Wastewater Management, Clean Transportation, Affordable Housing, Access to Essential Services, and Socioeconomic Advancement and Empowerment – are aligned with those recognized by the Green Bond Principles, Social Bond Principles and Green Loan Principles. Sustainalytics considers that investments in the eligible categories will reduce the environmental footprint of the company's operation and provide social benefits in China and Hong Kong and advance the UN Sustainable Development Goals, specifically SDG 3,4,6,7,8,9,11 and 12.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Energy efficiency |
| <input checked="" type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input checked="" type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify): |

If applicable please specify the environmental taxonomy, if other than GBPs:

Use of proceeds categories as per SBP:

- | | |
|---|---|
| <input type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services |
| <input checked="" type="checkbox"/> Affordable housing | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify): |

If applicable please specify the social taxonomy, if other than SBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Nan Fung Group has established a working group which is responsible for evaluating and selecting projects in line with the eligibility criteria. Nan Fung undertakes assessment of environmental and social risk of eligible project through its overall risk management system which is applicable for all projects financed under this Framework. Sustainalytics considers these risk management systems to be adequate and the project selection process to be in line with market practice.

Evaluation and selection

- | | |
|---|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

Nan Fung Group's process for management of proceeds is overseen by its treasury team. The net proceeds will be tracked through an internal project register. Pending allocation, unallocated proceeds will be held temporarily as investment in short term time deposits or used to repay existing borrowings of the Group which are not related to carbon-intensive activities. This is in line with market practice.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify): |

Additional disclosure:

- | | |
|---|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
|---|---|

- | | |
|---|--|
| <input type="checkbox"/> Allocation to individual disbursements | <input checked="" type="checkbox"/> Allocation to a portfolio of disbursements |
| <input checked="" type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (please specify): |

4. REPORTING

Overall comment on section (if applicable):

Nan Fung Group intends to report on allocation and impact of proceeds on its website on an annual basis until full allocation, whereby only investors will gain access to reporting. Allocation reporting will include the amounts allocated to eligible projects, unallocated amounts and their temporary allocation, share of financing and refinancing, and examples of eligible projects. In addition, Nan Fung Group is committed to reporting on relevant impact metrics. Sustainalytics views Nan Fung Group's allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported:

- | | |
|---|---|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Sustainability Bond financed share of total investment |
| <input checked="" type="checkbox"/> Other (please specify): unallocated amounts and their temporary allocation, proportion between financing and refinancing, and examples of eligible projects | |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Impact reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported (expected or ex-post):

- | | |
|---|---|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Decrease in water use | <input checked="" type="checkbox"/> Number of beneficiaries |
| <input checked="" type="checkbox"/> Target populations | <input type="checkbox"/> Other ESG indicators (please specify): Number and level of certification achieved, |

building’s energy intensity, building’s energy consumption, number of solar and PV panels installed, number of waste recycling facilities installed, amount of waste reduced, amount of water recycled, number of electric vehicle charging stations installed, number of affordable housing units constructed.

Frequency:

- Annual Semi-annual
 Other (please specify):

Means of Disclosure

- Information published in financial report Information published in sustainability report
 Information published in ad hoc documents Other (please specify): Nan Fung’s website
 Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer’s documentation, etc.)

<https://www.nanfung.com>

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- Consultancy (incl. 2nd opinion) Certification
 Verification / Audit Rating
 Other (please specify):

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP

- i. Second-Party Opinion: An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer’s adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally

entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.

- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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