

SECOND PARTY OPINION

on the sustainability of Housing Development Corporation Ltd's Sustainability Bond Framework

V.E is of the opinion that Housing Development Corporation Ltd's Framework is aligned with the four core components of the Green Bond Principles 2018 ("GBP") and the Social Bond Principles 2020 ("SBP").



Framework

Contribution to Sustainability:



○ Advanced ○ Limited

○ Robust ○ Weak

	Weak	Limited	Robust	Advanced
Expected impacts				
ESG risks management				

SDG Mapping



Characteristics of the Framework

Green and Social Project Categories	Green buildings; Renewable Energy; Energy Efficiency; Sustainable Water and Wastewater Management; Affordable Housing; Affordable Basic Infrastructure; Socioeconomic Advancement and Employment Generation
Project locations	Hulhumalé and Thilafushi in Maldives
Target population (social categories)	People eligible for affordable housing; whole population of Hulhumalé and Thilafushi; small-scale food producers
Existence of framework	Yes
Share of refinancing	31% for the first issuance; commit to communicate for future issuances
Look back period	48 months for Eligible Projects relating to housing; 36 months for all other Eligible Projects

Issuer

Controversial Activities

The Issuer does not appear to be involved in any of the 17 controversial activities screened under our methodology:

- | | | |
|--|---|---|
| <input type="checkbox"/> Alcohol | <input type="checkbox"/> Coal | <input type="checkbox"/> Nuclear power |
| <input type="checkbox"/> Animal welfare | <input type="checkbox"/> Gambling | <input type="checkbox"/> Pornography |
| <input type="checkbox"/> Cannabis | <input type="checkbox"/> Genetic engineering | <input type="checkbox"/> Reproductive medicine |
| <input type="checkbox"/> Chemicals of concern | <input type="checkbox"/> High interest rate lending | <input type="checkbox"/> Unconventional oil and gas |
| <input type="checkbox"/> Civilian firearms | <input type="checkbox"/> Human embryonic stem cells | <input type="checkbox"/> Tobacco |
| <input type="checkbox"/> Fossil fuels industry | <input type="checkbox"/> Military | |

ESG Controversies

Number of controversies	None
Frequency	NA
Severity	NA
Responsiveness	NA

Coherence

Coherent
Partially coherent
Not coherent

We are of the opinion that the Framework is coherent with Housing Development Corporation Ltd's strategic sustainability priorities and sector issues as well as sustainability challenges faced by Maldives and it contributes to achieving the Issuer's sustainability commitments.

Key findings

V.E is of the opinion that Housing Development Corporation Ltd.'s Framework is aligned with the four core components of the GBP and SBP.

Use of Proceeds - aligned with GBP and SBP

- Eligible Categories are clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria and location of all Eligible Categories, as well as the target populations for Social Categories.
- The Environmental and Social Objectives are clearly defined and relevant for all of the Eligible Projects/Assets and set in coherence with sustainability objectives defined in international standards.
- The Expected Environmental and Social Benefits are clear, which are considered relevant, measurable for a majority of the Eligible Projects/Assets and will be quantified for a majority of the Eligible Projects/Assets in the reporting.
- The estimated share of refinancing for the first issuance is 31%, and the Issuer has committed to provide the estimated share of refinancing to investors for each Sustainability Bond issued in relation to this framework at issuance. The Issuer has committed to a look-back period of 48 months for refinanced housing-related Eligible Projects/Assets and 36 months for all other Eligible Projects/Assets.

Evaluation and Selection - aligned with GBP and SBP

- The Process for Project Evaluation and Selection has been clearly defined by the Issuer and is considered structured. The roles and responsibilities clear and include relevant internal expertise. The Process will be publicly disclosed in the Framework and in the SPO.
- Eligibility criteria (selection) for project/asset selection have been clearly defined by the Issuer for all of the Eligible Projects/Assets.
- The process applied to identify and manage potentially material E&S risks associated with the Eligible Projects/Assets is publicly disclosed in the herewith SPO. The Process is considered limited: the Issuer has shown commitments and newly established internal policies related to the management of some of the material E&S risks, however there is limited evidence on the monitoring, control and corrective measures that cover a majority of categories (see detailed analysis on pages 20 - 22).

Management of Proceeds - aligned with GBP and SBP

- The Process for the Management and Allocation of Proceeds is clearly defined and is publicly available in the Framework.
- The allocation period will be 12 months or less.
- Net proceeds of the Bond will be tracked by the Issuer in an appropriate manner and attested in a formal internal process.
- Information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed.
- The Issuer has committed that as long as the Bond is outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to Eligible Projects/Assets made during that period.
- The Issuer has provided information on the procedure that will be applied in case of project/asset divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the bond framework.

Reporting - aligned with GBP and SBP

- The Issuer has committed to report on the Use of Proceeds annually, until full allocation and on a timely basis in case of material developments. The report and the external verification of funds allocation will be publicly available.
- The reporting will cover relevant information related to the allocation of Bond proceeds and to the expected sustainable benefits of the Eligible Projects/Assets.
- The reporting methodology and assumptions used to report on environmental and social benefits of the Eligible Projects/Assets will be publicly disclosed.
- An external auditor will verify the tracking and allocation of funds to Eligible Projects/Assets until full allocation and in case of material changes. The issuer also commits to an external verification of indicators used to report on environmental and social benefits of the Eligible Projects/Assets.

Contact

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SCOPE

V.E was commissioned to provide an independent opinion (thereafter “Second Party Opinion” or “SPO”) on the sustainability credentials and management of the Sustainability Bonds¹ (“Bonds”) to be issued by Housing Development Corporation Ltd (“HDC” or the “Issuer”) in compliance with its Sustainability Bond Framework (the “Framework”) created to govern their issuance.

Our opinion is established according to V.E’s Environmental, Social and Governance (ESG) exclusive assessment methodology and to the latest version of the voluntary guidelines of ICMA’s Green Bond Principles (GBP) - edited in June 2018 - and Social Bond Principles (SBP) – edited in June 2020.

Our opinion is built on the review of the following components:

- Framework: we assessed the Framework, including the coherence between the Framework and the Issuer’s sustainability commitments, the Bonds’ potential contribution to sustainability and its alignment with the four core components of the GBP 2018 & SBP 2020.
- Issuer²: we assessed the Issuer’s management of potential stakeholder-related ESG controversies and its involvement in controversial activities³.

Our sources of information are multichannel, combining data (i) gathered from public sources, press content providers and stakeholders, (ii) from V.E’s exclusive ESG rating database, and (iii) information provided from the Issuer, through documents and interviews conducted with the Issuer’s managers and stakeholders involved in the Bonds issuance, held via a telecommunications system.

We carried out our due diligence assessment from February 24th to April 21st, 2021. We consider that we were provided with access to all the appropriate documents and interviewees we solicited. Reasonable efforts have been made to verify data accuracy.

Type of External Reviews supporting this Framework

<input checked="" type="checkbox"/>	Pre-issuance Second Party Opinion	<input type="checkbox"/>	Independent verification of impact reporting
<input checked="" type="checkbox"/>	Independent verification of funds allocation	<input type="checkbox"/>	Climate Bond Initiative Certification

¹ The “Sustainability Bond” is to be considered as a bond to be potentially issued, subject to the discretion of the Issuer. The name “Sustainability Bond” has been decided by the Issuer: it does not imply any opinion from V.E.

² HDC is not part of V.E rating universe. In agreement with the Issuer, this Second Party Opinion does not include the assessment of its ESG Strategy.

³ The 17 controversial activities screened by V.E are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Fossil Fuels industry, Unconventional oil and gas, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

COHERENCE

Coherent
Partially coherent
Not coherent

We are of the opinion that the Framework is coherent with HDC's strategic sustainability priorities and sector issues as well as the sustainability challenges faced by Maldives and it contributes to achieving the Issuer's sustainability commitments.

According to the United Nations, the real estate sector accounts for 40% of global energy consumption and 33% of greenhouse gas emissions. As a result, this sector can play a leading role in how CO₂ emissions are valued and integrated into the development, design and management of real estate. Real estate players are expected to integrate environmental considerations into their investment and management decisions and should rely on international certifications that frame the environmental performance of buildings (including LEED and BREEAM). As existing buildings will last for decades to come, improving energy efficiency is a priority to fight climate change. The cooperation with tenants is also an essential element to improve the environmental performance of buildings.

The real estate sector is also expected to play a crucial role in the promotion of social and economic development through, for instance, the re-development of marginalized urban areas and the promotion of employability in local communities. The social accessibility of properties is an increasingly significant factor for real estate companies, both in terms of proximity and connectivity of buildings and economic affordability of properties in the residential segment.

Climate change represents a major threat to ways of life on Maldives' islands. The country has experienced consistently warming trends, with increases of 0.8°C between 1978 and 2018. Its low-lying atoll islands face a very significant threat from rising sea-levels. The economic and human impacts of wave flooding are likely to grow in significance and threaten the viability of livelihoods on many islands. The dependence of the Maldives' economy on tourism represents a major vulnerability. The natural ecosystems of Maldives, and most notably its coral reefs, are at great risk from climate change, calling for adaptation and conservation efforts.⁴ The Government of Maldives' Strategic Action Plan (SAP) 2019-2023 aims to leverage at least USD10 million new private investments for low emission and adaptation measures.⁵

In terms of its energy mix, fossil fuels generate 94% of the Maldives' carbon emissions and are a major source of pollution. Investing in renewable energy can reduce air pollution and help the Maldives meet its Nationally Determined Contributions under the Paris Accord of reducing carbon emissions by 10%-24%.⁶ The SAP 2019-2023 has identified five key policies on clean energy, include two to 1) "expand and develop the renewable energy sector" and 2) "promote energy conservation and efficiency".

An ABD study found that buildings and households in Maldives account for a large share of the total energy end use, where most buildings suffer large energy losses, and inefficient lighting and household appliances are additional factors for the low levels of energy efficiency in buildings.⁷ Affordable and adequate housing is a recognised issue in Maldives with an estimated national housing deficit of 20,000 for a total resident population of around 530,000 (including expatriates).⁸ The SAP 2019-2023 has set targets to sanction at least 1 billion MVR under the national affordable housing loan scheme by 2023.

Maldives also has very limited freshwater resources (mainly in small lakes, groundwater and through rainwater collection) and it is especially difficult to obtain suitable drinkable water.⁹ Approximately 76% of the total households in Malé use bottled water as their drinking water source while 10% of the households in the outer atolls has the same preference.

Moreover, in terms of public infrastructure, according to the World Bank, lack of enforcement of building regulations and inadequate fire hydrants compound the fire risks in Maldives.¹⁰

Finally, supporting small-scale food producers is also part of the national policies. The SAP 2019-2023 includes policy interventions such as strengthening agricultural value chains and productive capacity of farmers, increasing the role of agriculture in achieving food safety and food security, and mainstreaming sustainable agricultural practices.

HDC appears to acknowledge its role in managing its properties' impacts to support society's transition to a low- carbon economy and to promote social and economic development.

⁴ <https://reliefweb.int/report/maldives/climate-risk-country-profile-maldives>

⁵ <https://storage.googleapis.com/presidency.gov.mv/Documents/SAP2019-2023.pdf>

⁶ <http://documents1.worldbank.org/curated/en/336011591808041663/pdf/Maldives-Development-Update-In-Stormy-Seas.pdf>

⁷ <https://www.adb.org/sites/default/files/publication/654021/renewables-roadmap-energy-sector-maldives.pdf>

⁸ https://mpf.gov.mv/wp-content/uploads/2019/06/Enhancing-Social-Outcomes_Policy-Note-8.pdf

⁹ <http://www.fao.org/3/ca0398en/CA0398EN.pdf>

¹⁰ <http://documents1.worldbank.org/curated/en/753601583118045862/pdf/Maldives-Urban-Development-Resilience-Project.pdf>

As a 100% state owned enterprise, HDC holds the responsibilities to undertake and manage the overall planning and building of the reclaimed city of Hulhumalé – the Maldives’ biggest urban development project. It has set the aim to turn Hulhumalé to the nation’s first sustainable city.¹¹

HDC has identified 5 fundamental pillars to guide its operations, particularly in promoting sustainable developments in the Maldives:

- Economic drivers and creation of catalyst projects
- Regulatory body promoting institutional frameworks
- Establishing catalyst for hard and soft infrastructure
- Development of a consonant community and socio-economic equity
- Green initiative

HDC is in the process of integrating Building Research Establishment Environmental Assessment Methodology (“BREEAM”) standards and incorporating green components into its planning and developmental guidelines. It also aims to implement smart initiatives to ensure the environmental sustainability of Hulhumalé, including energy efficient designs, rainwater harvesting systems, smart waste management solutions and related data collection mechanisms.

By creating a Framework to issue Instruments to finance or refinance, in full or in part, eligible projects/assets related to Green Buildings, Renewable Energy, Energy Efficiency, Sustainable Water and Wastewater Management, Affordable Housing, Affordable Basic Infrastructure, and Socioeconomic Advancement and Employment Generation, the Issuer coherently aligns with its sustainability strategy and commitments and addresses the main issues of the sector as well as the country in terms of sustainable development.

¹¹ <https://hdc.com.mv/about/>

FRAMEWORK

The Issuer has described the main characteristics of the Bonds within a formalised Sustainability Bond Framework which covers the four core components of the GBP 2018 and SBP 2020 (the last updated version was provided to V.E on March 30th, 2021). The Issuer has committed to make this document publicly accessible on HDC's website¹², in line with good market practices.

Alignment with the Green Bond Principles and the Social Bond Principles

Use of Proceeds



The net proceeds of the Bonds will exclusively finance or refinance, in part or in full, projects/assets falling under seven Green and Social Project Categories ("Eligible Categories"), as indicated in Table 1.

- Eligible Categories are clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria and location of all Eligible Categories, as well as the target populations for Social Categories
- The Environmental and Social Objectives are clearly defined and relevant for all of the Eligible Projects/Assets and set in coherence with sustainability objectives defined in international standards.
- The Expected Environmental and Social Benefits are clear, which are considered relevant, measurable and will be quantified for a majority of the Eligible Projects/Assets in the reporting.
- The estimated share of refinancing for the first issuance is 31%, and the Issuer has committed to provide the estimated share of refinancing to investors for each Sustainability Bond issued in relation to this framework at issuance. The Issuer has committed to a look-back period of 48 months for refinanced housing-related Eligible Projects/Assets and 36 months for all other Eligible Projects/Assets.

BEST PRACTICES

⇒ The Issuer has committed to transparently communicate the estimated share of refinancing for each bond issuance at issuance.

¹² <https://hdc.com.mv>

Table 1. V.E' analysis of Eligible Categories, Sustainability Objectives and Expected Benefits as presented in the Issuer's Framework

- Nature of expenditures: development and construction, procurement, installation and maintenance of Eligible Projects/Assets.
- Location of Eligible Projects/Assets: Hulhumalé and Thilafushi in Maldives

ELIGIBLE CATEGORIES	ELIGIBLE GREEN PROJECTS/ASSETS	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Green Buildings	The development and construction of office, commercial or residential buildings meeting the below criteria: - BREEAM "very good" certification or above	<u>Promotion of green buildings</u> -- Reduction of GHG emissions	The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Projects/Assets. The intended environmental objective is clearly defined and set in coherence with sustainability objectives defined in international standards. The expected environmental benefit is clear. It is considered relevant, measurable, and will be quantified in the reporting.
Renewable Energy	Measures to increase the usage of renewable energy sources, including: - The installation and maintenance of solar charging stations in parking areas for battery bikes/cycles	<u>Climate change mitigation</u> -- Avoidance of GHG emissions	The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Projects/Assets. The intended environmental objective is clearly defined and set in coherence with sustainability objectives defined in international standards. The expected environmental benefit is clear. It is considered relevant, measurable, and will be quantified in the reporting.
Energy Efficiency	Measures to increase the efficiency of energy used throughout Hulhumalé, including: - The installation and maintenance of energy efficient lighting in residential buildings, institutional buildings, and open spaces, achieving a saving in energy consumption of at least 50%; - Infrastructure, equipment, technology and processes related to the implementation of energy efficient deep water source district cooling systems.	<u>Energy efficiency improvement</u> -- Energy savings <u>Climate change mitigation</u> -- Reduction of GHG emissions	The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Projects/Assets. An area for improvement consists in specifying the efficiency criteria for district cooling systems. The intended environmental objectives are clearly defined and set in coherence with sustainability objectives defined in international standards. The expected environmental benefits are clear. They are considered relevant, measurable, and will be quantified in the reporting.

ELIGIBLE CATEGORIES	ELIGIBLE GREEN PROJECTS/ASSETS	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Sustainable Water and Wastewater Management	Expenditures related to rainwater harvesting projects, i.e. capture and storage of rain and storm water, to improve the overall usage and efficiency of water use in Hulhumalé. Desalination plants are explicitly excluded from the Eligible Green Project Category.	<u>Sustainable Water and Wastewater Management</u> -- Alternative freshwater source	<p>The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Projects/Assets.</p> <ul style="list-style-type: none"> For "Storm water management", the Issuer has provided information about one project in Hulhumalé, with a total catchment area of 1,116.7m² and average catchment volume of 203.68m³ for two phases, including both roads and open area. The two main purposes are to maintain a healthy salinity levels of the existing groundwater system and also to recharge during droughts. In addition, the Phase II of the project is also expected to help maintain the water bodies in Farukohufushi and maintain the natural flora and fauna of the area. <p>The intended environmental objective is clearly defined and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected environmental benefit is clear. It is considered relevant, measurable, and will be quantified in the reporting.</p>









ELIGIBLE CATEGORIES	ELIGIBLE SOCIAL PROJECTS/ASSETS	TARGET POPULATION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Affordable Housing	Construction of social housing projects for the population of the Maldives, with eligible persons for specific projects determined by a committee formed under the Ministry of National Planning, Housing and Infrastructure. ¹³	Eligible persons for specific projects determined by a committee formed under the Ministry of National Planning, Housing and Infrastructure	<u>Increasing access to affordable housing</u> -- Increase of the number of affordable home units	<p>The Eligible Category is clearly defined and detailed. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Projects/Assets.</p> <p>The target population has been clearly identified.</p> <p>The intended social objective is clearly defined and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected social benefit is clear. It is considered relevant, measurable, and will be quantified in the reporting.</p>

¹³ The committee evaluating the public housing schemes publishes their evaluation of eligibility after a physical verification process for assessing the current living conditions of applicants through a points-based system. Eligible population categories for assessment for public housing include (1) Doctors and nurses; (2) Teachers; (3) Single parents; (4) Married people aged 18-40; (5) Male' residents; (6) Citizens in Male' Municipality Registry; (7) Persons with disabilities and family; and (8) Civil servants.

ELIGIBLE CATEGORIES	ELIGIBLE SOCIAL PROJECTS/ASSETS	TARGET POPULATION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Affordable Basic Infrastructure	<p>Construction, installation and maintenance of affordable infrastructure including:</p> <ul style="list-style-type: none"> - Fire hydrant systems across public spaces for the population of Hulhumalé and Thilafushi; - Public road and bridge infrastructure connecting Hulhumalé and Thilafushi with surrounding islands including Malé, Hulhulé, Villigili and Gulhifalhu to support commercial, industrial and socioeconomic development; - Rollout of Open Access Gigabit Passive Optical Network (GPON) for the population of Hulhumalé 	The whole population of Hulhumalé and Thilafushi	<p><u>Improving infrastructure, including fire hydrant systems and broadband networks</u></p> <p>--</p> <p>Increase of the coverage of fire hydrant systems and the broadband networks</p>	<p>The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Expenditures.</p> <p>The target population is clearly identified.</p> <p>The intended social objective is clearly defined and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected social benefit is clear. It is considered relevant, measurable, and will be quantified in the reporting.</p>
Socioeconomic Advancement and Employment Generation	<p>Projects to support socioeconomic advancement and increase employment for the population of Hulhumalé, including:</p> <ul style="list-style-type: none"> - Development of commercial buildings to support local employment generation and industrial development in Hulhumalé, including museums, exhibition centres, retail locations and warehouse shells; - Vertical farming opportunities on social housing projects to provide solutions for small-scale food producers, increase agricultural productivity, and reduce urban heat effects. 	The whole population of Hulhumalé; small-scale food producers	<p><u>Generating employment opportunities and driving socioeconomic advancement</u></p> <p>--</p> <p>Support socioeconomic advancement and increase employment</p>	<p>The Eligible Category is clearly defined. The Issuer has clearly communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Expenditures.</p> <p>The target population has been clearly identified.</p> <p>The intended social objective is relevant for the Eligible Projects/Assets.</p> <p>The expected social benefit is clear. It is considered relevant, measurable, and will be quantified in the reporting.</p>

SDG Contribution

The Eligible Categories are likely to contribute to eight of the United Nations' Sustainable Development Goals ("SDGs"), namely:

ELIGIBLE CATEGORY	SDG	SDG TARGETS
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
Renewable Energy	 7 Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Energy Efficiency		7.3 By 2030, double the global rate of improvement in energy efficiency
Socioeconomic Advancement and Employment Generation	 8 Decent Work and Economic Growth	8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors
Affordable Basic Infrastructure	 9 Industry, Innovation and Infrastructure	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all
Affordable Housing	 10 Reduced Inequalities	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status
Affordable Housing	 11 Industry, Innovation and Infrastructure	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Energy Efficiency		11.3 By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries
Green Buildings		11.a Support positive economic, social and environmental links between urban, peri-urban and rural areas by strengthening national and regional development planning
Socioeconomic Advancement and Employment Generation	 12 Responsible Production and Consumption	12.2 By 2030, achieve the sustainable management and efficient use of natural resources
Sustainable Water and Wastewater Management		
Renewable Energy	 13 Climate Action	<i>Take urgent action to combat climate change and its impacts</i>
Sustainable Water and Wastewater Management		13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

Evaluation and Selection of Eligible Projects



- The Process for Project Evaluation and Selection has been clearly defined and detailed by the Issuer, it is considered well-structured in all the evaluation and selection steps. The roles and responsibilities clear and include relevant internal expertise. The Process will be publicly disclosed in the Framework and in the SPO.
- Eligibility criteria (selection) for project/asset selection have been clearly defined by the Issuer for all of the Eligible Projects/Assets.
- The process applied to identify and manage potentially material E&S risks associated with the Eligible Projects/Assets is publicly disclosed in the herewith SPO. The Process is considered limited: the Issuer has shown commitments and newly established internal policies related to the management of some of the material E&S risks, however there is limited evidence on the monitoring, control and corrective measures that cover a majority of categories (see detailed analysis on pages 20 - 22).

Process for Project Evaluation and Selection

- Eligible Projects/Assets will be based on the land use plans and the development plans of Hulhumalé.
- Either an internal Bid Evaluation Committee or Proposal Evaluation Committee will conduct the initial evaluation of any planned projects and proposals. Both of these committees is comprised of senior representatives from different internal departments at HDC (including Finance, Planning, Estate, and Legal).
- The HDC Management Board, comprised of the HOD of each internal department as well as the Managing Director and Deputy Managing Director, will conduct analysis and evaluation of prospective projects.
- HDC's Board of Directors will make the final decision on the Eligible Projects/Assets, based on the evaluation of potential projects by the HDC Management Board.
- A Committee comprising senior staff from internal departments at HDC including Finance, Business Development, Legal, Projects, Strategic Business Unit, Planning as well as the Estate Department ("the Committee") will be responsible for:
 - ensuring the compliance of the selected Projects/Assets with the Sustainability Bond Framework;
 - managing any future updates to the Sustainability Bond Framework, including any expansion of the use of proceeds requirements.
- The traceability and verification of the selection and evaluation of the projects/Assets is ensured throughout the process:
 - The Issuer has committed to monitor the continued compliance of the Eligible Projects/Assets annually throughout the life of any Sustainability Bond issued in relation to this Framework.
 - The Committee will be responsible for monitoring any environmental and social controversies related to the Eligible Projects/Assets throughout the life of any Sustainability Bond issued in relation to this Framework.
 - Traceability of the decision-making process will be documented in meeting minutes.

Eligibility Criteria

The process relies on explicit selection criteria, relevant to the environmental objectives defined for the Eligible Categories.

- The selection criteria are based on definitions in Eligible Categories defined Table 1 in the Use of Proceeds section.
- There are no exclusion criteria identified.

BEST PRACTICES

- ⇒ The Issuer reports that it will monitor compliance of selected projects/assets with eligibility criteria specified in the Framework throughout the life of the instrument and has provided details on content/frequency/duration and on procedure adopted in case of non-compliance

Management of Proceeds



- The Process for the Management and Allocation of Proceeds is clearly defined and is publicly available in the Framework.
- The allocation period will be 12 months or less.
- Net proceeds of the Bond will be tracked by the Issuer in an appropriate manner and attested in a formal internal process.
- Information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed.
- The Issuer has committed that as long as the Bond is outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to Eligible Projects/Assets made during that period.
- The Issuer has provided information on the procedure that will be applied in case of project/asset divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the bond framework.

Management Process

- The net proceeds will be credited to and tracked through a sub-account dedicated to the Eligible Projects. The Issuer will monitor the allocation to Eligible Projects/Assets and track the net proceeds through its internal accounting system. All relevant information on Eligible Projects/Assets will be monitored and kept in the Issuer's reporting systems.
- If any, unallocated proceeds may temporarily be invested in accordance with HDC's investment guidelines in cash, deposits and money market instruments.
- During the life of the issued Sustainability Bond, if the Eligible Projects/Assets are sold or cease to fulfil the Eligibility Criteria, the net proceeds will be re-allocated to new Eligible Projects/Assets that comply with the Eligibility Criteria, as soon as reasonably practicable.

BEST PRACTICES

- ⇒ The allocation period is 24 months or less.
- ⇒ The Issuer has provided information on the procedure that will be applied in case of project/asset divestment or postponement and it has committed to reallocate divested proceeds to projects/Assets that are compliant with the bond framework.

Monitoring & Reporting



- The Issuer has committed to report on the Use of Proceeds annually, until full allocation and on a timely basis in case of material developments. The report and the external verification of funds allocation will be publicly available.
- The reporting will cover relevant information related to the allocation of Bond proceeds and to the expected sustainable benefits of the Eligible Projects/Assets.
- The reporting methodology and assumptions used to report on environmental and social benefits of the Eligible Projects/Assets will be publicly disclosed.
- An external auditor will verify the tracking and allocation of funds to Eligible Projects/Assets until full allocation and in case of material changes. The issuer also commits to an external verification of indicators used to report on environmental and social benefits of the Eligible Projects/Assets.

Indicators

The Issuer has committed to transparently communicate at Eligible Project/Asset level, on:

- Allocation of proceeds: The indicators selected by the Issuer to report on the allocation of proceeds are clear and relevant.

REPORTING INDICATORS
<ul style="list-style-type: none"> ⇒ A list of eligible assets and projects financed or refinanced; ⇒ The amount allocated to Eligible Projects as defined in this Framework; ⇒ The proportion of proceeds used for financing versus refinancing; ⇒ The % of co-financing for Eligible Projects ⇒ The balance of any unallocated proceeds at the reporting end-period (if any); and, ⇒ The types of placements and uses for temporary unallocated funds

- Environmental/social benefits: The indicators selected by the Issuer to report on the environmental and social benefits are clearly defined and relevant.

ELIGIBLE PROJECT CATEGORIES	ENVIRONMENTAL AND SOCIAL BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS
Green Buildings	Building certifications (scheme and rating achieved)	
Renewable Energy	The number of solar charging stations installed	Annual CO2 emissions reduction
Energy Efficiency	Energy consumption (kWh) and/or intensity (kWh/m ²)	Reduced energy consumption (in kWh or %)

Sustainable Water and Wastewater Management	Water consumption (m3) and/or intensity (m ³ /m2) Volume of rainwater harvested (m ³)	Reduced water consumption (in m ³ or %)
Affordable Housing	The number of social housing projects completed	Number of people who benefitted from provision of affordable housing
Affordable Basic Infrastructure	The number of fire hydrant systems installed	The increase in Open Access GPON coverage by number of households reached
Socioeconomic Advancement and Employment Generation	The number of people provided with new job opportunities or self-sufficiency for the agricultural harvest	The number of people who benefitted from the Eligible Projects

BEST PRACTICES

- ⇒ The issuer report will be publicly available
- ⇒ The Issuer will report on allocation of proceeds and on environmental/social benefits at project level
- ⇒ The reporting methodology and assumptions used to report on environmental/social benefits of the Eligible Projects/Assets will be disclosed publicly

Contribution to sustainability

Expected Impacts

The potential positive Impact of the eligible projects/assets on environmental and social objectives is considered to be robust.

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Green Buildings	ROBUST	<p>Energy consumption in buildings and households accounts for a large share of the total consumption of energy in Maldives, although up to date data is not available. Financing construction of efficient buildings with certification are a major stake in the Maldives although renovation could be considered more relevant due to the high level of soil artificialisation in the area.</p> <p>In the past, the construction of buildings in Maldives mostly relied on coral reefs extraction¹⁴ which had led to important degradation of the surroundings¹⁵ and marine environment in the past¹⁶. Since late 1990s, coral mining has been regulated.¹⁷ In 2000, the government also introduced the Act on Coral and Sand Mining. The Issuer reports that construction materials are sourced from nearby countries (mainly India and Bangladesh) and no mining of the corals for construction is practiced locally, although explicit exclusion of materials from coral reefs mining is not included in the definition of the Eligible Category. Moreover, construction of efficient buildings is considered to have less of a positive impact than renovation: construction has an absolute effect on energy consumption and land use.</p>
Renewable Energy	ROBUST	<p>Electricity production mostly rely on oil in the Maldives, the contribution from renewable power sources is estimated to be below 1%.¹⁸ Developing renewable energy is a key need in the context of the country.¹⁹ Transportation in the Maldives relies on water transport between islands and both on motorized and non-motorized traffic inlands. Transport accounts for around 20 to 25% of the Maldives total GHG emissions.²⁰ The need for establishing public transport in the Maldives as well as decarbonising and optimising water passenger transport are key challenges in the country²¹. Considering that 83% of motorised vehicles are motorcycles, the installation of solar charging stations in parking areas for battery bikes/cycles is relevant although tackling only a part of the transportation issue in the Maldives.</p>
Energy Efficiency	ROBUST	<p>Electricity production mostly rely on oil in the Maldives, the contribution from renewable power sources is estimated to be below 1%. Reducing energy demand by implementing energy efficiency measures is a crucial need in the country. Lightning is estimated to be one key energy consumption driver²² for buildings after heating, accounting for around 20% of the total electricity consumption of offices.</p> <p>Regarding district cooling using deep seawater, a 2016 feasibility study (led by UNDP; not related to the proposed project) estimated that by replacing the existing HCFC/HFC based air-conditioners in Malé and Hulhumalé, Maldives, with district cooling technology, up to 142,000 tons CO₂ emission could be avoided per year. for the development areas of Hulhumalé.²³ However, V.E lacks information on the energy efficiency criteria for district cooling systems.</p>
Sustainable Water and Wastewater Management	ROBUST	<p>Currently around 80% to 90%²⁴ of the atoll households now use rainwater as the principal source of drinking water. Access to water is ensured throughout the country although water security is key challenge for the country²⁵. Water sanitation is a major issue in the Maldives: 57% of total population has access to sewerage networks²⁶. Within the outer atolls, the major type of sanitation system in place includes toilets</p>

¹⁴ [The Environmental Impact of Coral Mining on Coral Reefs in the Maldives](#)

¹⁵ [Le poids des contraintes physiques dans le développement des atolls : l'exemple de l'archipel des Maldives](#)

¹⁶ [State of the environment 2016, Ministry of Environment and Energy Republic of Maldives](#)

¹⁷ https://www.researchgate.net/publication/238676369_Coral_mining_in_the_Maldives

¹⁸ <https://ourworldindata.org/energy/country/maldives?country=~MDV>

¹⁹ <https://unfccc.int/files/adaptation/application/pdf/maldivesneeds.pdf>

²⁰ Maldives first biennial update report to the UNFCCC ministry of environment (2014)

²¹ A multi-modal public transport solution for Male, Maldives, Kumarage and Jayaratne (2009)

²² <https://www.iea.org/reports/the-critical-role-of-buildings>

²³ <https://www.ccacoalition.org/en/resources/feasibility-study-male-and-hulhumale-district-cooling>

²⁴ [State of the environment 2016, Ministry of Environment and Energy Republic of Maldives \(page 125\)](#)

²⁵ National Economic Environment Development Studies, Ministry of Housing and Environment.

²⁶ [State of the environment 2016, Ministry of Environment and Energy Republic of Maldives \(page 128\)](#)

		<p>connected to septic tanks. According to the World Health Organisation²⁷, water sanitation remains an important challenge in the atolls.</p> <p>The Issuer reports that at this stage the only Eligible Projects would be storm water management projects. As assessed in the UoP section (p.9), V.E has been provided with documents related to one Eligible Project in Hulhumalé, which could achieve a total catchment area of 1,116.7m² and average catchment volume of 203.68m³ for two phases. V.E considers the specific Project could bring positive impacts in addressing local water challenges, however the definition and criteria of this category remain general. In addition, desalination plants are clearly excluded.</p>
Affordable Housing	ROBUST	<p>The population growth rate is above 2% with 38% of the population residing in the city of Male, access to affordable housing remains a challenge in the Maldives. Based on documents provided by the Issuer, one Eligible Project is to construct 7,000 units out of the total 15,000 social housing units in Hulhumalé phase II, which will provide housing to between 21,000 and 28,000 persons at 3 to 4 persons per apartment. The target population has been detailed, it follows the national regulation in terms of social housing²⁸ which is although not very specific.</p>
Affordable Basic Infrastructure	ROBUST	<p>According to the World Bank, inadequate fire hydrants, together with lack of enforcement of building regulations, poses fire risks in Maldives.²⁹ Broadening access to telecom infrastructures remains a challenge for Maldives. The target population is broadly defined as the whole population of Hulhumalé and Thilafushi.</p> <p>For <u>fire hydrant systems</u>, the Issuer reports that for Eligible Projects targeting Hulhumalé phase I, Old Thilafushi and New Thilafushi are estimated to cover a total service area of 453ha with the fire hydrant radius being 150m between every 2 fire hydrants, which could result in an estimated total of 220-250 fire hydrants.</p> <p>For <u>public road and bridge infrastructure</u>, one completed Eligible Project is the construction of the link road that connects Hulhulé and Hulhumalé with a total length of 1.86km. The Issuer reports that the link road, together with a bridge constructed by another company, helps ease the travel and transportation of goods between Malé, Hulhulé and Hulhumalé, where sea transport (small boats and speed boats) used to be the main method of transportation. According to the EIA report of the project, the road would be constructed on the east side of the existing land mass of Hulhulé airport by reclaiming a small area further west of the existing island, and the main environmental impacts was identified as the coral reef damage caused by reclamation of additional land. Mitigation measures were identified in the EIA including sedimentation control methods and the use of bund walls in the fill areas. The EIA also concludes that the project "has far greater socio-economic benefits than these limited environmental impacts".³⁰ V.E recognises the socio-economic contributions of such projects in the context of Maldives, however also considers environmental impacts (especially marine ecosystem) being equally important and should be properly monitored and mitigated.</p> <p>For <u>GPON</u>, the Issuer reports that the complete network will cover 244 hectares in Hulhumalé phase II and it is estimated to provide broadband connectivity to a population of over 200,000 residents, businesses and other stakeholders operating in the area. It is also first of its kind in the Maldives. As of February 2021, Maldives's average fixed broadband speed was ranked 120th in the world.³¹ GPON has the advantage of being able to support multiple users with a single optical fiber.³² The Eligible Project could improve the internet access and speed for the local population, and also potentially enable other future ICT solutions needed for the city (e.g. transport, power system, etc.).</p>
Socioeconomic Advancement and Employment Generation	ROBUST	<p>According to the United Nations, economic development remains an issue in the Maldives. The target population for the first sub-category has been set broadly as the whole population of Hulhumalé, while that of the second sub-category has been set precisely as small-scale food producers.</p> <p>The Issuer reports that at this stage, Eligible Projects are mainly related to the second sub-category, i.e. vertical farming opportunities on social housing projects to provide solutions for small-scale food producers. Since Hulhumalé is reclaimed and its land is not suitable for certain crops due to the high salt concentration in the soil, vertical farming could provide an alternative option for local small-scale food producers. The</p>

²⁷ https://www.who.int/water_sanitation_health/monitoring/investments/maldives-10-nov.pdf?ua=1.

²⁸ Defined as : (1) Doctors and nurses; (2) Teachers; (3) Single parents; (4) Married people aged 18-40; (5) Male' residents; (6) Citizens in Male' Municipality Registry; (7) Persons with disabilities and family; and (8) Civil servants.

²⁹ <http://documents1.worldbank.org/curated/en/753601583118045862/pdf/Maldives-Urban-Development-Resilience-Project.pdf>

³⁰ <http://saruna.mnu.edu.mv/jspui/handle/123456789/5138>

³¹ <https://www.speedtest.net/global-index/maldives> [last accessed on 30 March, 2021]

³² <http://www.gpon.com/why-gpon>

		<p>Issuer also reports that at least 16 facade in an existing social housing project could be repurposed for this project.</p> <p>V.E recognise the positive impacts that this specific project could bring, however still considers the definition and criteria of this first sub-category is broad and general. Some features mentioned under the first sub-category such as museums and exhibition centres could have clear social benefits; while for retail locations and warehouse shells, their social benefits would be less clear and direct and also rely on other stakeholders operating and utilising the commercial buildings.</p>
OVERALL ASSESSMENT	ROBUST	

ESG Risks Identification and Management systems in place at project level

The identification and management of potentially material environmental and social risks associated with the Eligible Projects/Assets is considered limited.

The Issuer has newly created a set of internal policies for the management of some of the material E&S risks such as environmental management, energy use and climate risks, health and safety, and land use. The Issuer's internal Committee will be responsible for monitoring any environmental and social controversies related to the Eligible Projects/Assets throughout the life of any bond issued in relation to this Framework. The environmental impact assessment (EIA) required for the Eligible Projects would help identify at least some of the material environmental risks associated with the projects and propose necessary mitigation measures to minimise potential negative impacts. The Issuer has presented EIA-related documents for one Eligible Project under the "Affordable Housing" Category, including compliance with IFC Performance Standards (PS) 1 to 4. However, for a majority of Eligible Categories, except for EIA and the newly created internal policies, there is limited evidence on internal system and/or measures in place to identify, monitor, control, mitigate and correct potentially material environmental and social risks.

Environmental management system and environmental impact assessment

The Issuer has newly created its internal "Environment & Energy Policy" and "Design and Development Policy" to provide guidelines on environmental aspects of the Eligible Projects/Assets. The Environment & Energy Policy sets out the commitment to implement and resource a formal environmental and energy management system in all developments. According to the Design and Development Policy, EIAs are conducted for all large-scale projects independent of mandatory requirements from guidelines from the Maldives' Environmental Protection Agency.

Specifically, housing projects are managed under an Environmental and Social Management Plan. According to the Regulation on the Preparation of Environmental Impact Assessment Report (2012/R-27) issued by Maldives' Ministry of Housing and Environment, an EIA or Initial Environmental Examination shall cover factors such as: fauna and flora, and living components of the environment; soil, water, air, climate, the landscape, and the non-living components of the environment; material assets and cultural heritage; and impacts on the project from the environment, etc.³³

Related to one Eligible Project under the "Affordable Housing" Category, Environmental and Social Management Plan (ESMP) and the Environmental and Social Management System (ESMS) were prepared, which include management plans to be implemented by HDC during the construction and operational phase of the project. A Compliance Report was also prepared by HDC in response to the findings of the ESMP and ESMS, which confirms the compliance with IFC's PS1 "Assessment and management of environmental and social risks and impacts".

However, for the other Eligible Categories/Projects, there is limited evidence of a system or measures in place. An area for improvement is to establish the formal environmental and energy management system as soon as possible, and to obtain ISO 14001 or other similar certification for the operations.

Eco-design and end-of-life impacts

No eco-design nor decommissioning plans have been set for the Eligible Projects/Assets financed/refinanced under the Framework (Table 1). An area for improvement consists in incorporating the eco-design approach and/or set decommissioning requirement for all projects/assets, especially for the building projects.

Protection of biodiversity

The Issuer reports that minimum impacts on biodiversity are ensured for all projects under the Environmental Impact Assessments, as part of the regulatory approval requirements. At the national level, the Maldives' Environmental Protection Agency has established Protected Area Regulation (2018/R-78) and Protected Species Regulation (2021/R-25).³⁴ The Issuer has committed in its Environment & Energy Policy to minimise the potential of developments/activities which cause harm to the natural environment by measures such as integrating biodiversity consideration into the development/plan-making process and engaging with local communities and NGOs. The Issuer's Urban Planning & Land Use Management policy also includes the suggestion to consider the impact on natural environment and biodiversity at the planning stage, although the development plans could consider other environmental factor(s) instead to meet the minimum requirement (at least one factor from the Environmental objective).

³³ [https://chm.cbd.int/api/v2013/documents/2B4E126F-519C-BE1A-E19F-A09E75F61FE4/attachments/EIA_Regulation_2012-\(Unofficial%20translation-Eng\).pdf](https://chm.cbd.int/api/v2013/documents/2B4E126F-519C-BE1A-E19F-A09E75F61FE4/attachments/EIA_Regulation_2012-(Unofficial%20translation-Eng).pdf)

³⁴ <https://en.epa.gov.mv/regulations>

An area for improvement consists in further specifying exclusion criteria for relevant categories (e.g. protected areas, high carbon stock land, high biodiversity value areas, exclusion of coral reefs mining for building projects, etc.).

Energy use and associated GHG emissions

The Issuer has committed in its Environment and Energy Policy, as well as the Urban Planning & Land Use Management policy, to consider energy efficiency and minimisation of GHG emissions in the development of plans/master plans. The Issuer reports that for building projects, energy use and energy efficiency are taken into consideration as required by green building certification such as BREEAM.

Related to one Eligible Project under the “Affordable Housing” Category, evidence presented by the Issuer shows that external consultants were hired to conduct periodic reports on GHG emissions and energy efficiency. The ESMP & ESMS compliance report provided by the Issuer confirms that the project is compliant with IFC's PS3 "Resource efficiency and pollution prevention".

For the other categories, except for EIA, there is no visible evidence on measures in place yet to monitor and control the GHG emissions from the projects/assets. An area for improvement consists in setting up monitoring tools and measures to track GHG emissions for all projects/assets.

Impacts of climate change

In its Environment and Energy Policy and Urban Planning & Land Use Management policy, the Issuer has identified climate change as a material risk for its projects and committed to prevent disaster, minimise the vulnerability of the community and improve resilience.

Sea level rise is expected to have an important impact in the Maldives which is recognized as one of the most vulnerable countries in the context of climate change and sea level rise³⁵. The Issuer has ensured that buildings are designed following the safe island concept to ensure its resilience towards climate change: for instance, Hulhumalé has been reclaimed 2 Meters above the mean sea level. However, there is insufficient information on specific measures in place (including identification, monitoring and mitigation) at the project/asset level in terms of climate change adaptation.

Pollution prevention and control (including incidences and inconveniences)

The Issuer has committed in its Environment and Energy Policy to minimise the risk of pollution and contamination.

According to the Issuer, all the buildings under construction are required to have a net to prevent the spreading of dust to nearby surroundings, all the construction waste/debris are required to be removed from the site and transported to a separate island designed for the disposal and recycling and reuse.

Related to one Eligible Project under the “Affordable Housing” Category, evidence presented by the Issuer shows that external consultants were hired to conduct periodic reports on air emissions monitoring, noise and vibration, solid waste management, and ground water quality. The ESMP & ESMS compliance report provided by the Issuer confirms that the project is compliant with IFC's PS3 "Resource efficiency and pollution prevention".

An area for improvement consists in setting pollution prevention and control identification, monitoring and mitigation measures for all projects/assets.

Fundamental human and labour rights

The Company has established a Human Rights Policy with commitment to adhere to all applicable local laws and regulations and respect the UN Universal Declaration of Human Rights and the ILO's Declaration on Fundamental Principles and Rights at Work. This Policy has also set out its general principles on equality treatment of all employees, the right to safe working conditions, and reasonable working hours, etc.

Related to one Eligible Project under the “Affordable Housing” Category, evidence presented by the Issuer shows that external consultants were hired to provide periodic monitoring and audit reports for IFC Performance Standard (PS) 2 labour and working conditions (2 years duration).

For the other categories, except for the commitments in the Human Rights Policy, V.E lacks sufficient information or evidence on the measures in place (including identification, monitoring and mitigation) to ensure the respect by the Issuer of fundamental human and labour rights in all Eligible Projects.

³⁵ <https://unfccc.int/files/adaptation/application/pdf/maldivesneeds.pdf>

Health and safety of workers and local stakeholders

For its workers, the Issuer has created an Occupational Health & Safety (OHS) Policy which applies to all employees as well as subcontractors. At the company level, a Safety Officer will be in charge of job safety analysis to identify hazard in the workplace, conduct and document OHS Workplace Inspection on a quarterly basis, and ensure that the proper hazard control mechanism is established. The Policy also provides more details on Hazard Identification, Inspection and Control, Emergency procedures as well as data monitoring and reporting conducted for these matter, including internal reporting templates. In addition, according to the Issuer, contractors are required to provide relevant insurance for their workers and this will be reflected in the contract agreement.

For local stakeholders, the Issuer has indicated in the Design & Development Policy its commitment of mitigating negative social impacts, as well as consulting and informing its department or client of site conditions and potential conflicts and challenges. However, there is no detailed evidence of grievances mechanisms in place for stakeholders to report on the Health and Safety issues.

Related to one Eligible Project under the “Affordable Housing” Category, the ESMP & ESMS compliance report provided by the Issuer confirms that the project is compliant with IFC's PS2 "Labour and working conditions" and PS4 "Community health, safety and security". Specifically, for the rainwater harvesting sub-category, the Maldives' Environmental Protection Agency has created a *National Rain Water Harvesting Guideline*, which provides guidance and recommendations in ensuring quality of harvested rainwater and avoiding contamination.³⁶

However, except for commitments in relevant policies, overall V.E lacks sufficient evidence on measures in place (including identification, monitoring and mitigation) to ensure the health and safety of workers and/or local stakeholders.

Integration of environmental and social factors in supply chain

V.E lacks sufficient information on the measures in place (including identification, monitoring and mitigation) to include environmental and social factors in the supply chain.

In addition, in terms of promoting local development and employment, the Issuer reports that some projects announced may focused on local developers and local investments, however there's no formalised policy or commitment.

Business ethics

The Issuer has ensured following the anti-corruption legislation in the Maldives. However, no explicit company-level policies have been set in this regard.

³⁶ <https://en.epa.gov.mv/regulations>

ISSUER

HDC is a 100% state owned enterprise established in 2001 that undertakes and manages the overall planning and building of the reclaimed city of Hulhumalé in Maldives.

Management of ESG Controversies

As of today, the review conducted by V.E did not reveal any ESG controversy against Housing Development Corporation Ltd.'s over the last four years.

Involvement in Controversial Activities

The Issuer does not appear to be involved in any of the 17 controversial activities screened under our methodology, namely: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Fossil Fuels industry, Unconventional oil and gas, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

The controversial activities research provides screening of companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from V.E.

METHODOLOGY

In V.E's view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organisation, activity or transaction. In this sense, V.E provides an opinion on the Issuer's ESG performance as an organisation, and on the processes and commitments applicable to the intended issuance.

Our Second Party Opinions (SPOs) are subject to internal quality control at three levels (Analyst, Project Manager and Quality Reviewer). If necessary, this process is complemented by a final review and validation by the Expertise Committee and Supervisor. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team in contact with the company; then the Executive Director in charge of Methods, Innovation & Quality; and finally, V.E's Scientific Council. All employees are signatories of V.E's Code of Conduct, and all consultants have also signed its add-on covering financial rules of confidentiality.

COHERENCE

Scale of assessment: not coherent, partially coherent, coherent

This section analyses whether the activity to be financed through the selected instrument is coherent with the Issuer's sustainability priorities and strategy, and whether it responds to the main sustainability issues of the sector where the Issuer operates.

FRAMEWORK

Alignment with the Green and/or Social Bond Principles

Scale of assessment: Not aligned, Partially aligned, Aligned, Best Practices

The Framework has been evaluated by V.E according to the ICMA's Green Bond Principles - June 2018 ("GBP") and the Social Bond Principles - June 2020 ("SBP") and on our methodology based on international standards and sector guidelines applicable in terms of ESG management and assessment.

Use of proceeds

The definition of the Eligible Projects and their sustainable objectives and benefits are a core element of Green/Social/Sustainable Bonds standards. V.E evaluates the clarity of the definition of the Eligible Categories, as well as the definition and the relevance of the primary sustainability objectives. We evaluate the descriptions of the expected benefits in terms of relevance, measurability and quantification. In addition, we map the potential contribution of Eligible Projects to the United Nations Sustainable Development Goals' targets.

Process for evaluation and selection

The evaluation and selection process is assessed by V.E on its transparency, governance and relevance. The eligibility criteria are assessed on their clarity, relevance and coverage vs. the intended objectives of the Eligible Projects.

Management of proceeds

The process and rules for the management and the allocation of proceeds are assessed by V.E on their transparency, traceability and verification.

Reporting

The monitoring and reporting process and commitments defined by the Issuer are assessed by V.E on their transparency, exhaustiveness and relevance, covering the reporting of both proceeds' allocation and sustainable benefits (output, impact indicators).

Contribution to sustainability

Scale of assessment: Weak, Limited, Robust, Advanced

V.E's assessment of activities' contribution to sustainability encompasses both the evaluation of their expected positive impacts on environmental and/or social objectives, as well the management of the associated potential negative impacts and externalities.

Expected positive impact of the activities on environmental and/or social objectives

The expected positive impact of activities on environmental and/or social objectives to be financed by the Issuer or Borrower is assessed on the basis of:

- i) the relevance of the activity to respond to an important environmental objective for the sector of the activity; or to respond to an important social need at country level;³⁷
- ii) the scope of the impact: the extent to which the expected impacts are reaching relevant stakeholders (i.e. the issuer, its value chain, local and global stakeholders); or targeting those populations most in need;
- iii) the magnitude and durability of the potential impact of the proposed activity on the environmental and/or social objectives (capacity to not just reduce, but to prevent/avoid negative impact; or to provide a structural/long-term improvement);
- iv) only for environmental objectives, the extent to which the activity is adopting the best available option.

Activities' ESG risk management

The identification and management of the potential ESG risks associated with the eligible projects/activities are analysed on the basis of V.E's ESG assessment methodology, international standards and sector guidelines applicable in terms of ESG management and assessment.

ISSUER

Management of stakeholder-related ESG controversies

A controversy is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against an Issuer on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation based on unproven facts.

V.E reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources is considered as long as it is public, documented and traceable.

V.E provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- **Frequency:** reflects for each ESG challenge the number of controversies that the Issuer has faced. At corporate level, this factor reflects on the overall number of controversies that the Issuer has faced and the scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- **Severity:** the more a controversy is related to stakeholders' fundamental interests, proves actual corporate responsibility in its occurrence, and have caused adverse impacts for stakeholders and the company, the higher its severity is. Severity assigned at the corporate level will reflect the highest severity of all cases faced by the company (scale: Minor, Significant, High, Critical).
- **Responsiveness:** ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non- Communicative).

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, V.E's controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

Involvement in controversial activities

17 controversial activities have been analysed following 30 parameters to screen the company's involvement in any of them. The company's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The specific nature of the controversial products or services provided by the company.

³⁷ The importance of a specific social need at country level is assessed on the basis of the country performance on the priority SDG that the project is targeting using data from Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G., Woelm, F. 2020. The Sustainable Development Goals and COVID-19. Sustainable Development Report 2020. Cambridge: Cambridge University Press.

V.E'S ASSESSMENT SCALES

Scale of assessment of Issuer's ESG performance or strategy and financial instrument's Contribution to sustainability		Scale of assessment of financial instrument's alignment with Green and Social Bond Principles	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the sustainability objective. An advanced expected impact combined with an advanced to robust level of E&S risk management & using innovative methods to anticipate new risks.	Best Practices	The Instrument's practices go beyond the core practices of the ICMA's Green and Social Bond Principles by adopting recommended and best practices.
Robust	Convincing commitment; significant and consistent evidence of command over the issues. A robust expected impact combined with an advance to robust level of assurance of E&S risk management or an advanced expected impact combined with a limited level of assurance of E&S risk management.	Aligned	The Instrument has adopted all the core practices of the ICMA's Green and Social Bond Principles.
Limited	Commitment to the objective of sustainability has been initiated or partially achieved; fragmentary evidence of command over the issues. A limited expected impact combined with an advanced to limited level of assurance of E&S risk management; or a robust expected impact combined with a limited to weak level of assurance of E&S risk management; or an advanced expected impact combined with a weak level of assurance of E&S risk management.	Partially Aligned	The Instrument has adopted a majority of the core practices of the ICMA's Green and Social Bond Principles, but not all of them.
Weak	Commitment to social/environmental responsibility is non-tangible; no evidence of command over the issues. A weak expected impact combined with an advanced to weak level of assurance of E&S risk management or a limited expected impact with a weak level of assurance of E&S risk management.	Not Aligned	The Instrument has adopted only a minority of the core practices of the ICMA's Green and Social Bond Principles.

DISCLAIMER

Transparency on the relation between V.E and the Issuer/Borrower: V.E has not carried out any audit mission or consultancy activity for Housing Development Corporation Ltd. No established relation (financial or commercial) exists between V.E and the Issuer. V.E's conflict of interest policy is covered by its Code of Conduct, which can be found at <http://vigeo-eiris.com/wp-content/uploads/2018/07/Code-of-Conduct-Vigeo-Eiris-EN.pdf>.

This opinion aims at providing an independent opinion on the sustainability credentials and management of the Bond, based on the information which has been made available to V.E. V.E has neither interviewed stakeholders out of the Issuer/Borrower's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer/Borrower. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer/Borrower. The Issuer/Borrower is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by V.E neither focuses on the financial performance of the Bond, nor on the effective allocation of its proceeds. V.E is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction.

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