



# KOREA HOUSING FINANCE CORPORATION SUSTAINABLE FINANCING FRAMEWORK



**Document title:** Second Party Opinion on Korea Housing Finance Corporation Sustainable Financing Framework

**Prepared by:** DNV Business Assurance Korea Ltd.

**Location:** Seoul, Republic of Korea

**Date:** 04 October 2023

**Ref. Nr.:** PRJN-611513

This statement is valid until the Framework provided in October 2023 remains unchanged.

## Table of Contents

Table of Contents.....	2
DNV’S INDEPENDENT ASSESSMENT .....	3
Scope and Objectives .....	3
Responsibilities of KHFC and DNV .....	3
Basis of DNV’s opinion.....	3
Work Undertaken .....	4
Findings and DNV’s Opinion .....	4
Schedule 1. Description of Categories to be financed or refinanced through KHFC’s Sustainability finance Framework	6
1. Green Categories	7
2. Social Categories	7
Schedule 2. Contributions to UN SDGs	7
Schedule 3. Eligibility Assessment Protocol	11
1. Use of Proceeds	11
2. Process for Project Selection and Evaluation	13
3. Management of Proceeds	14
4. Reporting	15
Schedule 4. Sustainability finance Framework External Review Form	17

### Disclaimer

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

### Statement of Competence and Independence

DNV applies its own management standards and compliance policies for quality control, in accordance with ISO/IEC 17021:2015 - Conformity Assessment Requirements for bodies providing audit and certification of management systems, and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We have complied with the DNV Code of Conduct<sup>1</sup> during the assessment and maintain independence where required by relevant ethical requirements. This engagement work was carried out by an independent team of sustainability assurance professionals. DNV was not involved in the preparation of statements or data included in the Framework except for this Statement. DNV maintains complete impartiality toward stakeholders interviewed during the assessment process.

<sup>1</sup> DNV Code of Conduct is available from DNV website ([www.dnv.com](http://www.dnv.com))

## DNV'S INDEPENDENT ASSESSMENT

### Scope and Objectives

Korea Housing Finance Corporation (“KHFC”) is a government entity established in 2004 under the Korea Housing Finance Corporation Act, with a purpose of implementing the Korean Government’s housing welfare policy. KHFC provides long-term fixed rate amortized mortgage loans, housing finance credit guarantees, and reverse mortgage guarantees to enhance public welfare and national economic development through long-term and stable supply of housing finances. From 2004 to 2022, KHFC has supported more than 3.4 million households to purchase their homes by providing over KRW 392 trillion in mortgage loans through its diverse mortgage products.

Under its overarching ESG strategy, KHFC established its Social Covered Bond Framework and Social Financing Framework in 2018 and 2019, respectively, and has issued a series of Social Covered Bonds including the first Euro Social Covered Bond issued in Asia in 2018 and the first COVID-19 Linked Social Covered Bond outside Europe in 2020 each amounting to EUR 500mm, and the first CHF Social Covered Bond out of Asia amounting to CHF 300mm in 2022. To expand its ESG financing, KHFC has added the ‘green affordable housing’ category in its 2019 Social Financing Framework and turned it into 2022 Sustainable Financing Framework (the “Framework”) and updated the Framework in 2023 to expand its green and social eligible projects. Under the Framework, KHFC intends to issue Green, Social, Sustainability Bonds (“GSS Bonds”) to finance or refinance new and existing environmental and social projects including green buildings, energy efficiency and affordable housing, with an ultimate goal to contribute to the UN SDGs as well as the Paris Agreement.

DNV Business Assurance Korea Ltd. (“DNV”)<sup>2</sup> has been commissioned by KHFC to review the Framework to provide a Second Party Opinion on the Framework’s alignment with the Green Bond Principles 2021 (GBP)<sup>3</sup>, Social Bond Principle 2023 (SBP)<sup>4</sup> and Sustainability Bond Guidelines 2021 (SBG)<sup>5</sup>.

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

### Responsibilities of KHFC and DNV

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

### Basis of DNV’s opinion

We have adapted our assessment methodology to create the KHFC-specific Eligibility Assessment Protocol (henceforth referred to as “Protocol”). Our Protocol includes a set of suitable criteria that can be used to underpin DNV’s opinion.

As per our Protocol, the criteria against which the Framework has been reviewed are grouped under the four core components:

<sup>2</sup> <https://www.dnv.co.kr/>

<sup>3</sup> [https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Green-Bond-Principles\\_June-2022-280622.pdf](https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Green-Bond-Principles_June-2022-280622.pdf)

<sup>4</sup> <https://www.icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Social-Bond-Principles-SBP-June-2023-220623.pdf>

<sup>5</sup> <https://www.icmagroup.org/assets/GreenSocialSustainabilityDb/The-GBP-Guidance-Handbook-January-2022.pdf>

### 1. Use of Proceeds

The Use of Proceeds criteria are guided by the requirement that an issuer of a bond/a loan must use the funds raised to finance eligible activities. The eligible activities should produce clear environmental and social benefits.

### 2. Process for Project Evaluation and Selection

The Project Evaluation and Selection criteria are guided by the requirements that an issuer of a bond/a loan should outline the process it follows when determining eligibility of an investment using green and social bond/loan proceeds and outline any impact objectives it will consider.

### 3. Management of Proceeds

The Management of Proceeds criteria are guided by the requirements that a bond/a loan should be tracked within the organization, that separate portfolios should be created when necessary and that a declaration of how unallocated funds will be handled.

### 4. Reporting

The Reporting criteria are guided by the recommendation that at least annual reporting should be made of the use of proceeds and that quantitative and/or qualitative performance indicators should be used, where feasible.

## Work Undertaken

Our work constituted a high-level review of the available information, based on the understanding that this information was provided to us by KHFC in good faith. We have not performed an audit or other tests to check the veracity of the information provided to us. The work undertaken to form our opinion included:

- Creation of a Protocol, adapted to the purpose of the Framework, as described above and in Schedule 3 to this Assessment;
- Assessment of documentary evidence provided by KHFC on the Framework and supplemented by a high-level desktop research. These checks refer to current assessment best practices and standards methodology;
- Review of published materials by KHFC and its website;
- Discussions with KHFC and review of relevant documentation and evidence related to the criteria of the Protocol; and
- Documentation of findings against each element of the criteria. Our opinion as detailed below is a summary of these findings.

## Findings and DNV's Opinion

DNV's findings are listed below:

### 1. Use of Proceeds

KHFC intends to use the proceeds from the Sustainability Financing Instruments issued under the Framework to finance or refinance eligible green and social assets as identified by the Principles.

The Framework defines the following Green and Social Eligible Project Categories:

#### *Eligible Green Project Categories*

- Green Buildings
- Energy Efficiency
- Renewable Energy

#### *Eligible Social Project Categories*

- Affordable Housing

DNV undertook an analysis of the associated project type to determine the eligibility as "Green" and "Social" in line with the Principles. KHFC has provided tables mapping its Eligible Green Categories and Eligible Social Categories

with the United Nations Sustainable Development Goals (“UN SDGs”). The outlined types of projects within each category and associated selection criteria are provided in the Framework in order to determine eligibility, followed by the exclusion criteria additionally included by KHFC. Furthermore, a look-back period of no longer than two years (24 months) for refinancing OPEX (Operating Expenses) has been set.

DNV concludes that the eligible categories outlined in the Framework are consistent with the categories outlined in the Principles.

## 2. Process for Project Evaluation and Selection

KHFC establishes detailed eligibility guidelines for mortgage loans or projects reflecting the Korean Government’s policies (e.g., housing welfare policies), market situations, and discussions with relevant public agencies. Based on the guidelines, KHFC’s Bond Team in the International Finance Department evaluates and selects the eligible projects, which will be reviewed and approved by KHFC’s Risk Management Committee by assessing the projects’ potential environmental and social risks. Moreover, to further address potential social risks of mortgage loans, KHFC pre-screens the majority of the mortgage applications to ensure their eligibility. KHFC’s GSS Bonds Work Group, comprised of cross-departmental members, holds quarterly meetings to review issued GSS Bonds, GSS Covered Bond’s cover pools, MBS’ MBS pool and KHFC’s annual reports.

DNV concludes that the project evaluation and selection process described in the Framework is appropriate and aligned with market practice.

## 3. Management of Proceeds

Under the KHFC Act, KHFC is required to (i) physically separate the purchased mortgage loans from KHFC’s other assets, and (ii) separately manage the mortgage loans according to a securitization place. KHFC will clearly identify and record the proceeds for Cover Pool or MBS Pool as required under each GSS Bond’s Bond Administration Agreement. Meanwhile, the proceeds for other projects will be placed in the general account and earmarked. KHFC’s Securitization Working Group will maintain a register to keep track of the use of proceeds for each bond by using its internal accounting system.

DNV can confirm that the proceeds arising from the future issuances will be appropriately managed.

## 4. Reporting

Within a year following the issuance of the sustainability finance instruments, KHFC will report on the allocation and impact of the net proceeds used to finance the eligible green and social projects and report on an annual basis thereafter until full allocation. The reports will be available on KHFC’s website and will include the following:

### *Allocation reporting:*

- Total amount of eligible assets and allocation amount for each Eligible Project Category
- List of GSS bonds and their balance of unallocated proceeds
- Share of new financing and refinancing
- Where feasible, case studies of projects financed (subject to confidentiality constraints)

### *Impact reporting:*

KHFC intends to provide information on relevant environmental and social impact metrics for each eligible project category.

DNV concludes that KHFC’s reporting is aligned with the relevant principles.

On the basis of the information provided by KHFC and the work undertaken, it is DNV’s opinion that the KHFC’s Sustainable Financing Framework meets the criteria established in the Protocol and are aligned with the Principles. Please refer to Schedule 4. Sustainable Financing Framework External Review Form for detailed information.

for DNV Business Assurance Korea Ltd.  
Seoul, Republic of Korea, 04 October 2023



---

Jae Hee Kim  
Senior Auditor



---

Chang Rok Yun  
Senior Auditor



---

Thomas Leonard  
Head of Section, Sustainability  
Services, Supply Chain & Product  
Assurance

**Project Team**  
DNV Business Assurance Korea

## Schedule 1. Description of Categories to be financed or refinanced through KHFC’s Sustainable Financing Framework

### 1. Green Categories

Eligible Green Project Categories	Eligible Criteria and Description	DNV Findings
Green Building	<p>Mortgage loans or projects related to the acquisition, new construction, renovation, maintenance, and operation of new or existing buildings that have or will receive, any one of the following certification systems:</p> <ul style="list-style-type: none"> <li>• U.S. Leadership in Energy and Environmental Design (LEED)<sup>6</sup> – minimum certification of Gold; or</li> <li>• Building Research Establishment Environmental Assessment Method (BREEAM)<sup>7</sup> – minimum certification level of Excellent; or</li> <li>• Green Standard for Energy and Environmental Design of Korea (G-SEED)<sup>8</sup> – minimum certification level of Grade 2</li> </ul> <p>Mortgage loans or projects provided to Green Remodeling of houses that have been certified by Korea Authority of Land &amp; Infrastructure Safety</p>	<p>The building sector is one of the largest energy consumers in many countries including the Republic of Korea (hereinafter Korea), accounting for approx. 25% of the total energy consumption in the country.<sup>9</sup> Hence, green buildings, which refer to both a structure and the application of processes that are environmentally responsible and resource-efficient throughout a building’s life-cycle, play a critical role in achieving a low-carbon economy.</p> <p>In this regard, KHFC contributes to the decarbonization of building sector by providing mortgage loans to finance green buildings which meet the green eligibility criteria of globally and nationally recognized certification standards such as LEED (US), BREEAM (UK) and G-SEED (Korea). Based on DNV’s internal evaluation of the certifications (Appendix 1), it is of DNV’s opinion that the green buildings certified by the listed schemes will lead to positive environmental impacts.</p> <p>Also, KHFC intends to provide mortgage loans to green remodeling houses that have been certified by KALIS, to promote low-carbon and eco-friendly construction and green remodeling of private housing, which is in line with the Korean Government’s Green New Deal Policy to facilitate green urban transition. Generally, the energy efficiency performance improvement obtained through green remodeling is reported to be approx. 20%~30%.<sup>10</sup> DNV also views positively that KHFC will only select projects that are certified by Korea Authority of Land &amp; Infrastructure Safety. Based on these findings, it is of DNV’s opinion the mortgage loans or projects will lead to positive environmental impacts.</p>
Energy Efficiency	<p>Mortgage loans or projects provided to investments related to:</p> <ul style="list-style-type: none"> <li>• Reducing energy consumption and/or water consumption of buildings</li> </ul> <p>Examples of building technologies to improve energy efficiency of buildings:</p>	<p>To support the implementation of the Korean Government’s green environment policies, KHFC intends to finance building technologies that contribute to efficient energy and water consumption. Considering that sustainable architecture minimizes the use and waste of energy and water the use of energy- and water-saving products and the integration of efficient, modern technologies, it is of DNV’s opinion that the examples of building technologies which KHFC intends to finance will lead to positive environmental impacts.</p>

<sup>6</sup> <http://leed.usgbc.org/leed.html>

<sup>7</sup> <https://www.breeam.com/discover/how-breeam-certification-works/>

<sup>8</sup> <http://gseed.or.kr/siteMain.do>

<sup>9</sup> <https://greentogether.go.kr/gpi/Green-Together-Intro.do>

<sup>10</sup> <https://www.greenremodeling.or.kr/report/boardView.asp?bid=report&nSeq=3077>

Eligible Green Project Categories	Eligible Criteria and Description	DNV Findings
	<ul style="list-style-type: none"> <li>• LED lighting</li> <li>• Air conditioning</li> <li>• Waste heat recovery</li> <li>• District cooling</li> <li>• Smart meter</li> </ul>	
Renewable Energy	<p>Mortgage loans or projects provided to investments related to:</p> <ul style="list-style-type: none"> <li>• Supporting the generation of renewable energy sources of the buildings</li> </ul> <p>Examples of renewable energy projects include, but not limited to, solar, wind and geothermal</p> <ul style="list-style-type: none"> <li>- Geothermal: life cycle GHG emissions are &lt;100g CO<sub>2</sub>e/kWh</li> </ul>	<p>Wind and solar renewables are considered key drivers in building a clean grid while geothermal renewable power and heat can significantly contribute to the energy mix since it is local and constantly available. DNV concludes that the renewable energy projects listed will contribute to decarbonizing the energy sector and also view positively that KHFC refers to relevant technical screening criteria of the EU Taxonomy.</p>

## 2. Social Categories

Eligible Social Project Categories	Eligible Criteria and Description	DNV Findings
Affordable Housing	<p>Enabling people to own their residential house with an affordable mortgage loan by providing long-term fixed rate amortized mortgage loans which help households manage their mortgage payment burden through stable debt payment.</p> <p>Examples of housing finance products are (products can be updated/ revised based on Korean government’s housing welfare policy and</p>	<p>The high increase in housing prices and household debts in the Republic of Korea (hereinafter Korea) have been considered risks with potentially significant impacts to the nation’s financial stability.<sup>15</sup> Household debt has steadily increased since the early 2000s with the borrowers in low- and middle-income areas standing at 10.8%<sup>16</sup> and 25.6%<sup>17</sup> in 2021, respectively. Meanwhile, the household debt-to-disposable income ratio in Korea is at 166.1% (as of third quarter of 2022)<sup>18</sup>, which indicates the households have more debt to pay off than their income. Moreover, a large portion of the household debt is reported to be loans, primarily home mortgage loans, followed by other types of liabilities such as consumer credit.<sup>19</sup> Also, the</p>

<sup>15</sup> <https://www.koreaherald.com/view.php?ud=20211223000363>

<sup>16</sup> <https://www.statista.com/statistics/1257069/south-korea-share-of-household-loans-by-low-income-borrowers/>

<sup>17</sup> <https://www.statista.com/statistics/1257066/south-korea-share-of-household-loans-by-middle-income-borrowers/>

<sup>18</sup> <https://www.statista.com/statistics/1254503/south-korea-quarterly-ratio-of-household-debt-to-disposable-income/#:~:text=The%20ratio%20of%20household%20debt,to%20slightly%20decrease%20in%202022.>

<sup>19</sup> <https://www.statista.com/statistics/1113047/south-korea-household-debt-ratio/>

Eligible Social Project Categories	Eligible Criteria and Description	DNV Findings
	<p>the detailed information will be updated in KHFC's website):</p> <ul style="list-style-type: none"> <li>• Didimdol Loan</li> <li>• Bogeumjari Loan</li> <li>• Special Bogeumjari Loan</li> <li>• Conforming Loan</li> </ul> <p>The aforementioned project categories/criteria may provide benefit(s) to one or more of the following target populations:</p> <ul style="list-style-type: none"> <li>• Low-income<sup>11</sup> and moderate-income population</li> <li>• Newlyweds<sup>12</sup></li> <li>• Multi-child families<sup>13</sup></li> <li>• Single-parent households</li> <li>• Households with the disabled<sup>14</sup></li> </ul>	<p>increasing market interest rate has led to increases in floating interest rates of mortgage loans,<sup>20</sup> which adds to households' repayment burden.</p> <p>In response, the Korean Government has steadily introduced various affordable and stable housing financing measures including long-term, low-interest, fixed-rate mortgage loans with an aim to improve the housing welfare in the country. To this end, as a government entity established to support the implementation of national housing welfare policies, KHFC provides various long-term mortgage loans for low-, middle- income households and non-speculative homebuyers at an affordable, fixed interest rate, with concessionary rates provided for target groups identified as those in need of social care, including, but not limited to, newlyweds, households with 3 children or more, or with disabled family members. Further detail of the loan products is described in Appendix 2.</p> <ul style="list-style-type: none"> <li>• Bogeumjari Loan (2004) and Didimdol Loan (2014) target low- and middle-income households and consists of eligibility criteria for household income defined by the Korean Government</li> <li>• Conforming Loan (2012) aims to increase the share of long-term, fixed rate amortized mortgage loans in Korea; does not have eligibility criteria for household income</li> <li>• Launched in response to the steep increase in market interest rates, the Special Bogeumjari Loan (2023) is available for approx. one year, to support low-income households and non-speculative homebuyers by expanding the availability of government-sponsored long-term mortgage loans with fixed interest rate; does not have eligibility criteria for household income<sup>21</sup></li> </ul> <p>Although the Conforming Loan and Special Bogeumjari Loan do not define its target groups based on household incomes, DNV recognizes that, according to the Korean Government, the policy objective is to foster the availability of long-term fixed rate mortgage loans, to ultimately improve the qualitative structure of household debt by making them less sensitive to fluctuating interest rates. Also, DNV considers positively that both programs provide concessionary interest rates for target groups identified by the government as those 'in need of social care'.</p> <p>Regarding Special Bogeumjari Loan, as of June 2023, it's reported that 53.4% of the loans were used to purchase new homes, 39.6% to replace existing loans, and 7% to return lease</p>

<sup>11</sup> Low-income populations are determined by the Korean Ministry of Health and Welfare (MOHW) and Ministry of Education (MOE)'s classification, which is based on household income.

<sup>12</sup> Newlyweds without homeownership whose combined annual income below KRW 85million and purchase unit is smaller than 85m<sup>2</sup>, which is the nation's standard housing size.

<sup>13</sup> Multi-child households (more than 2) without homeownership whose annual income falls below KRW 100million.

<sup>14</sup> Additional preferential interest rate offered to single-parent households and households with the disabled whose property value does not exceed KRW 600million, annual income falls below KRW60million, and purchase unit is smaller than 85m<sup>2</sup>, which is the nation's standard housing size.

<sup>20</sup> <https://www.fsc.go.kr/no010101/79046>

<sup>21</sup> <https://www.fsc.go.kr/eng/pr010101/79261>

Eligible Social Project Categories	Eligible Criteria and Description	DNV Findings
		<p>deposits<sup>22</sup>, while, as of July 2023, the average combined household income of the applicants stands at KRW 67M, similar to the national average of KRW 64M (as of Dec 2022)<sup>23</sup>, and the average house value at KRW 470M<sup>24</sup>, which is lower than the national average house prices of KRW 499M (between Feb to July 2023).<sup>25</sup> In this regard, DNV also recognizes that according to the National Assembly Budget Office of Korea, ordinary and middle class population is defined as household incomes equal to or less than 72M. Also, it's reported that approximately 85% of the houses financed is equal or less than 85m<sup>2</sup>, which is equivalent to size of public rental housing in Korea.<sup>26</sup></p> <p>In conclusion, considering the high house prices, steep increase in interest rates, and the skewed composition of household debts towards house-mortgage loans, it is of DNV's opinion that the affordable long-term, fixed rate mortgage loans provided (or to be provided) by KHFC in line with the Korean Government's housing welfare policies, contribute to reducing the repayment burden of the target groups and improving the structure of the mortgage loan market, thereby leading to positive social impacts. Meanwhile, DNV encourages the use of the proceeds to be focused on low- and middle-income groups, and considers positively that as of September 2023, the Korean Government has announced its plans to tighten the eligibility criteria of the Special Bogeumjari Loan based on household incomes, to focus the remaining funds on low-income households and non-speculative homebuyers.<sup>27</sup></p>

<sup>22</sup> <https://www.asiatoday.co.kr/view.php?key=20230707010004108>

<sup>23</sup> 2022 Household Finance Welfare Survey by National Statistical Office, Financial Supervisory Service, Bank of Korea

<sup>24</sup> [https://www.hf.go.kr/ko/sub05/sub05\\_04\\_05.do?mode=view&articleNo=594502](https://www.hf.go.kr/ko/sub05/sub05_04_05.do?mode=view&articleNo=594502)

<sup>25</sup> The scope of national house prices, based on data retrieved from Korea Statistical Information Service, are apartments below the size of 85m<sup>2</sup> considering that about 85% of the houses financed by Special Bogeumjari Loan is equal or less than 85m<sup>2</sup>.

<sup>26</sup> Retrieved from KHFC's internal data.

<sup>27</sup> FSC announced in January 2023 that while Special Bogeumjari Loan will become available, adjustment will be made, when it becomes necessary, depending on the status of market interest rate, funding availability of Korea Housing Finance Corporation, etc.

## Schedule 2. Contributions to UN SDGs

Eligible Green Project Categories	UN SDGs	DNV Findings
Green Buildings	<p><b>SDG 9 Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation</b></p> <ul style="list-style-type: none"> <li>Target 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</li> </ul> <p><b>SDG 11 Sustainable Cities and Communities</b></p> <ul style="list-style-type: none"> <li>Target 11.6: By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management</li> </ul> <p><b>SDG 13 Take urgent action to combat climate change and its impacts</b></p> <ul style="list-style-type: none"> <li>Target 13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.</li> </ul>	DNV is of the opinion that eligible categories outlined in the Framework contribute to the achievement of the UN SDGs.
Energy Efficiency	<p><b>SDG 7 Affordable and Clean Energy</b></p> <ul style="list-style-type: none"> <li>Target 7.3: By 2030, double the global rate of improvement in energy efficiency</li> </ul>	
Renewable Energy	<p><b>SDG 7 Affordable and Clean Energy</b></p> <ul style="list-style-type: none"> <li>Target 7.2: By 2030, increase substantially the share of renewable energy in the global energy mix</li> </ul>	
Eligible Social Project Categories	UN SDGs	DNV Findings
Affordable Housing	<p><b>SDG 10 Reduced Inequalities</b></p> <ul style="list-style-type: none"> <li>Target 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.</li> </ul> <p><b>SDG 11 Sustainable Cities and Communities</b></p> <ul style="list-style-type: none"> <li>Target 11.1: By 2030, ensure access for all to adequate, safe, and affordable housing and basic services and upgrade slums</li> </ul>	DNV is of the opinion that eligible categories outlined in the Framework contribute to the achievement of the UN SDGs.

## Schedule 3. Eligibility Assessment Protocol

### 1. Use of Proceeds

Ref.	Criteria	Requirements	DNV Findings
1a	Type of bond / loan	<p>The Bond and Loan must fall in one of the following categories, as defined by the Green/Social Bond and Loan Principles:</p> <ul style="list-style-type: none"> <li>Green/Social Use of Proceeds Bond</li> </ul>	<p>The Framework clearly states KHFC's intentions to issue Green, Social, Sustainability Bonds (GSS Bonds) and that the Framework is established based on the four core components of the GBP 2021, SBP 2023, and SBG 2021.</p> <ul style="list-style-type: none"> <li>According to the Framework, GSS Bonds may be in the form of Covered Bonds, Mortgage-Backed Securities (MBS) and Senior Unsecured Bonds.</li> </ul>

Ref.	Criteria	Requirements	DNV Findings
		<ul style="list-style-type: none"> <li>• Green/Social Use of Proceeds Revenue Bond</li> <li>• Green/Social Project Bond</li> <li>• Green/Social Securitized Bond</li> <li>• Loan instrument made available for Green/Social project (Green/Social use of loan proceeds)</li> </ul>	
1b	Sustainable Project Categories	The cornerstones of Green/Social/Sustainability Bond/Loan are the utilization of the proceeds of the bond and the loan which should be appropriately described in the legal documentation for the security.	<p>DNV confirms that KHFC intends to use the net proceeds of the GSS Bonds to finance or refinance the eligible green and social projects listed in Schedule 1.</p> <p>DNV views positively that KHFC has included the following exclusion criteria to further strengthen the projects' eligibility.</p> <p><b>From the Framework</b></p> <ul style="list-style-type: none"> <li>• <i>Large-scale hydropower projects (&gt;25 MW capacity)</i></li> <li>• <i>Electricity transmission infrastructure / systems where 25 per cent or more of electricity transmitted to the grid is generated using fossil fuels</i></li> <li>• <i>Extraction, refining or transportation of fossil fuels</i></li> <li>• <i>Nuclear energy</i></li> <li>• <i>Agricultural or afforestation operations on land designated as primary forest, high conservation value areas, or legally preserved areas</i></li> <li>• <i>Production and refining of palm oil</i></li> <li>• <i>Payday loans and predatory lending activities</i></li> <li>• <i>Adult entertainment</i></li> <li>• <i>Alcohol / alcoholic beverages</i></li> <li>• <i>Tobacco products</i></li> <li>• <i>Gambling</i></li> <li>• <i>Weapons and small arms</i></li> </ul>
1c	Environmental/Social benefits	All designated Green/Social Project categories should provide clear environmentally sustainable/social benefits, which, where feasible, will be quantified or assessed by the Issuer.	DNV recognizes that all the KHFC mortgage loans are designed to address specific environmental and social agendas of the Korean Government with clear eligibility criteria. Furthermore, DNV has reviewed evidence, including documents regarding Korea's housing welfare policies and impact report indicators listed in the Framework, and concludes that the eligible green and social projects listed in Schedule 1 will lead to clear environmental and social benefits.
1d	Refinancing Share	In the event that a proportion of the proceeds may be used for refinancing, it is recommended that issuers provide an estimate of the share of financing vs. re-	<p>In the Framework, KHFC indicates that the proceeds could be used for refinancing OPEX (Operating Expenses) with a two-year (24 months) look-back period. KHFC commits to disclosing the share of financing and refinancing in its annual impact reporting.</p> <ul style="list-style-type: none"> <li>• Eligible Projects may include new projects, projects under construction or projects already in KHFC's portfolio.</li> </ul>

Ref.	Criteria	Requirements	DNV Findings
		financing, and where appropriate, also clarify which investments or project portfolios may be refinanced.	While DNV recognizes the potential risks of long-term refinancing, DNV also recognizes the absence of long-term social financing instruments in the market to address the maturity mismatch between KHFC's long-term mortgage loan products and short maturity of their liabilities.

## 2. Process for Project Selection and Evaluation

Ref.	Criteria	Requirements	DNV Findings
<b>2a</b>	Investment-decision process	<p>The Issuer of a Green/Social/Sustainability Bond and Loan should outline the decision-making process it follows to determine the eligibility of projects using Green/Social/Sustainability Bond and Loan proceeds. This includes, without limitation:</p> <ul style="list-style-type: none"> <li>• A process to determine how the projects fit within the eligible Green/Social Projects categories identified in the Green/Social Bond/Loan Principles;</li> <li>• The criteria making the projects eligible for using the Green/Social/Sustainability Bond/ Loan proceeds;</li> <li>• The environmental sustainability/social objectives</li> <li>• Complementary information on process by which the issuer identifies and manages perceived environmental/social risks associated with the relevant project</li> </ul>	<p>KHFC mortgage loans or projects reflect the environmental and social agenda of the Korean Government and have clearly defined eligibility criteria of borrowers and residential properties.</p> <p>KHFC establishes detailed eligibility guidelines based on the Korean Government's policies (e.g., housing welfare policies) and market situations, and discussions with relevant public agencies. Based on the guidelines, KHFC's Bond Team in the International Finance Department evaluates and selects the eligible projects, which will be reviewed and approved by KHFC's Risk Management Committee by assessing any potential environmental and social risks. KHFC's GSS Bonds Work Group, comprised of cross-departmental members, holds quarterly meetings to review issued GSS Bonds, GSS Covered Bond's cover pools, MBS' MBS pool and KHFC's annual reports.</p> <p>Moreover, KHFC has in place a robust screening process to further address potential social risks and ensure the eligibility of mortgage loans.</p> <ul style="list-style-type: none"> <li>• Pre-screens the majority of the mortgage applications.</li> <li>• Partner banks review each loan application by strictly following KHFC's product guidelines. If it's found that a borrower did not meet any one of the eligibility requirements, the associated partner bank will be required to immediately buy back the mortgage loan.</li> <li>• When issuing Covered Bonds and Mortgage-Back Securities, KHFC conducts a third-party due diligence on all the mortgage loans to be purchased to test partner banks' compliance with the required underwriting standards.</li> </ul> <p>Based on this, DNV concludes that KHFC has in place a robust assessment and screening process to ensure that the proceeds are allocated to projects that meet the eligibility criteria, and that the project evaluation and selection process described in the Framework is in line with market practice.</p>
<b>2b</b>	Issuer/borrower's environmental and social and governance framework	In addition to information disclosed by an issuer on its Green/Social/Sustainability Bond/Loan process, criteria and assurances, Green/Social/Sustainability Bond/Loan investors may also take into consideration the quality of the issuer's overall framework and	<p>Integrity and ethical management are key aspects of KHFC's commitment towards sustainability.</p> <ul style="list-style-type: none"> <li>• In 2018, KHFC proclaimed the Declaration of Human Rights in compliance with the UN Global Compact principles.</li> <li>• In 2021, KHFC established its ESG management strategy and roadmap with a mission to supply sustainable housing finance based on green and socially responsible management and transparent governance.</li> </ul> <p>KHFC's overarching ESG management strategy consists of the following three-fold approach: (e) expand eco-friendly</p>

Ref.	Criteria	Requirements	DNV Findings
		performance regarding environmental and social sustainability.	<p>infrastructure; (s) advance socially responsible management; (g) establish transparent governance. In line with this approach, KHFC plans to further expand its ESG business and funding activities.</p> <p>KHFC has published its 2022 Sustainability Report based on the GRI standard, while reflecting the 17 UN SDGs, UNGC principles and major agendas of ISO 26000, K-ESG and TCFD (Task Force on Climate-related Financial Disclosure) and plans to publish the Report on an annual basis.</p>

### 3. Management of Proceeds

Ref.	Criteria	Requirements	DNV Findings
<b>3a</b>	Tracking procedure	The net proceeds of Green/Social/Sustainability Bond/Loan should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the Issuer in an appropriate manner and attested to by a formal internal process that will be linked to the Issuer's lending and investment operations for Green/Social Projects.	<p>KHFC will manage the purchased mortgage loans according to Article 30 of the KHFC Act. KHFC is required to:</p> <ul style="list-style-type: none"> <li>• (a) physically separate the purchased mortgage loans from KHFC's other assets; and</li> <li>• (b) separately manage the mortgage loans according to a securitization plan, hence, manage the purchased mortgage loans in each Cover Pool or MBS Pool separately from other mortgage loans according to the requirements of the KHFC Act</li> <li>• clearly identify and record the proceeds for Cover Pool or MBS Pool as required under each GSS Bond's Bond Administration Agreement</li> </ul> <p>Also, Under the terms and conditions of each GSS Covered Bond issuance, KHFC is required to maintain a minimum amount of committed over-collateralization of mortgage loans over the life of the issuance.</p> <ul style="list-style-type: none"> <li>• A breach of the Asset Coverage Test for more than two months will result in an issuer event of default under the GSS Bonds Agreement.</li> </ul> <p>As for the proceeds for other projects, they will be placed in the general account and earmarked.</p> <p>Based on these findings, DNV concludes that KHFC has in place a robust tracking procedure to ensure clear and transparent management of the proceeds that is in line with market practice.</p>
<b>3b</b>	Tracking procedure	So long as the Green/Social/Sustainability Bond/Loan is outstanding, the balance of the tracked proceeds should be periodically reduced by amounts matching eligible green investments or loan disbursements made during that period.	<p>KHFC's Securitization Working Group will maintain a register to keep track of the use of proceeds for each bond. KHFC will monitor and track the allocation of proceeds to eligible projects through its internal accounting system. KHFC is committed to allocating all proceeds from the bonds issued to Eligible Project on a best effort basis within two years of the bond issuance.</p> <p>If the selected projects cease to fulfil the Eligibility Criteria during the lifetime of the bonds, the net proceeds will be re-allocated to replacement Projects that comply with the Eligibility Criteria, as soon as reasonably practicable.</p>

Ref.	Criteria	Requirements	DNV Findings
3c	Temporary holdings	Pending such investments or disbursements to eligible Green/Social Projects, the Issuer should make known to investors the intended types of temporary investment instruments for the balance of unallocated proceeds.	Pending allocation, the net proceeds from the bonds issued may be invested in cash or cash equivalents, or other liquid marketable instruments with KHFC's treasury and in accordance with its liquidity policies.

#### 4. Reporting

Ref.	Criteria	Requirements	DNV Findings
4a	Periodical reporting	In addition to reporting on the use of proceeds and the temporary investment of unallocated proceeds, issuers should provide at least annually a list of projects to which Green/Social/Sustainability Bond/Loan proceeds have been allocated including - when possible with regards to confidentiality and/or competitive considerations - a brief description of the projects and the amounts disbursed, as well as the expected environmentally and social sustainable impact.	<p>KHFC commits to report on the allocation and impact of the proceeds on its website within approximately one year after the issuance and on an annual basis until the full allocation of the proceeds.</p> <p>The Framework provides relevant impact metrics for each category of Eligible Projects, which will be included in the annual Impact Reporting.</p> <p>DNV concludes that the level of transparency of the relevant information KHFC commits to report in its impact reporting is in line with market practice.</p>

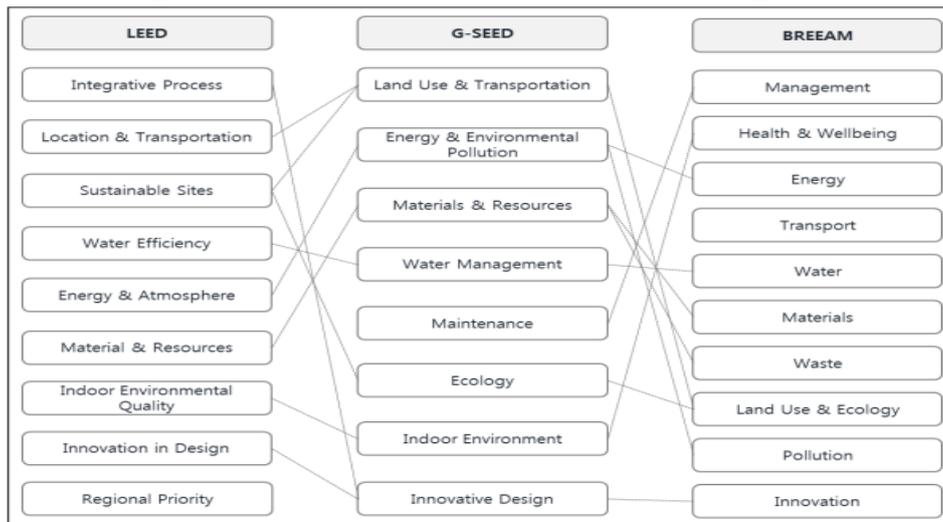
## Appendix 1. Comparison of Green Building Certifications

Key comparison of Leadership in Energy and Environmental Design (LEED), BREEAM, and Green Standard for Energy and Environmental Design (G-SEED) certification schemes are as follows:

	LEED <sup>28</sup>	BREEAM <sup>29</sup>	G-SEED <sup>30</sup>
<b>Country/ Agency</b>	US/ US Green Buildings Council (private org.)	UK/ Building Research Establishment (private org.)	ROK/ Ministry of Land, Infrastructure & Transport and Ministry of Environment
<b>Year introduced</b>	2000	1990 (world's first)	2002 (amended in 2016)
<b>Legal Basis</b>	None	None	Green Building Act 2006
<b>Objective</b>	Reduce the use of resources; actively pursue the reuse of material, etc.	Mitigate the life cycle impacts of buildings on the environment; recognize buildings according to their environmental benefits, etc.	Comprehensively assess buildings' environmental friendliness
<b>Scope</b>	New buildings	New constructions, in use buildings, and refurbishments, etc.	New buildings Existing buildings Green remodelling (Mandatory for publicly funded buildings exceeding 3,000m <sup>2</sup> )
<b>Assessment Categories (Fig. 1)</b>	9	10	8
<b>Level of Certification</b>	Platinum (80+ points) Gold (60-79 points) Silver (50-59 points) Certified (40-49 points)	Outstanding Excellent Very Good Good Pass	Grade 1 (above 80 points) Grade 2 (above 70 points) Grade 3 (above 60 points) Grade 4 (above 50 points)
<b>Other considerations</b>	Internationally recognized	Used in more than 70 countries	Widely used in Republic of Korea

In all three schemes, the energy and environmental pollution category constitute the largest portion of the assessment.<sup>31</sup>

Figure 1: G-SEED, LEED and BREEAM Assessment Categories<sup>32</sup>



<sup>28</sup> <https://www.usgbc.org/>

<sup>29</sup> <https://bregroup.com/products/breeam/>

<sup>30</sup> [gbc.re.kr/app/info/outline.do](http://gbc.re.kr/app/info/outline.do)

<sup>31</sup> [https://www.kieae.kr/\\_common/do.php?a=full&b=12&bidx=156&aidx=1803](https://www.kieae.kr/_common/do.php?a=full&b=12&bidx=156&aidx=1803)

<sup>32</sup> [https://www.researchgate.net/publication/323455761\\_Analysis\\_of\\_Green\\_Building\\_Certification\\_System\\_for\\_Developing\\_G-SEED](https://www.researchgate.net/publication/323455761_Analysis_of_Green_Building_Certification_System_for_Developing_G-SEED)

## Appendix 2. Summary of KHFC Housing Financing Loan Products

As of September 2023, a summary of KHFC housing financing loan products and their eligibility criteria are as follows:

	Didimdol <sup>33</sup>	Bogeumjari <sup>34</sup>	Special Bogeumjari <sup>35</sup>	Conforming <sup>36</sup>
<b>Background</b>	Integration of KHFC's Prime Rate Bogeumjari Loan, National Housing Fund's Working-Class Housing Loan, and the First Home Buyer Loan	Introduced in 2004, as the first and only long-term fixed rated instalment mortgage loan in Korea	Introduced in Jan. 2023 by the Korean Government in response to the interest rate hikes caused by global currency depreciation, which integrates the Relief Conversion Loan and Conforming Loan with existing Bogeumjari Loan and available for one year	In partnership with commercial banks, created to promote long-term amortizing fixed-rate mortgage loans <i>(Temporarily unavailable in 2023 due to Special Bogeumjari Loan)</i>
<b>Objective</b>	To support low-income households to purchase homes	To enable moderate- to low- income households to own their houses with an affordable mortgage loan through stable debt payment	To ease mortgage payment burden of lower-income households and non-speculative homebuyers from rising interest rates	To support households manage their mortgage payment burden; targets new borrowers or borrowers with short-term, floating rate loans
<b>Interest Rate Type</b>	Fixed			
<b>Application Conditions</b>	<ul style="list-style-type: none"> <li>Annual household income of ≤KRW 60M (≤KRW 70M for first-time homebuyers, newlyweds)</li> <li>Houses listed on the official registry, valued ≤KRW 500M (≤KRW 600M for newlyweds, households ≥2 children)</li> <li>No-homeowners</li> <li>Combined net asset value of ≤KRW 506M</li> </ul>	<ul style="list-style-type: none"> <li>Annual household income of ≤KRW 70M</li> <li>Houses listed on the official registry, valued ≤KRW 600M</li> </ul>	<ul style="list-style-type: none"> <li>No income thresholds</li> <li>Houses listed on the official registry, valued ≤KRW 900M</li> <li>No-homeowners for purchasing a house; up to one homeowner can apply for replacing existing loans or returning security deposits</li> </ul>	<ul style="list-style-type: none"> <li>No income thresholds</li> <li>Houses listed on the official registry, valued ≤KRW 900M</li> </ul>
<b>Credit Line</b>	Max 250M KRW (300M KRW for first-time homebuyers, 400M for newlyweds and households ≥2 children)	Max KRW 360M	Max KRW 500M	
<b>Loan Maturity (years)</b>	10, 15, 20, 30	10, 15, 20, 30, 40, 50 (40, 50 years apply for newlyweds or ages 34 to 39)		
<b>Concessionary Rate Conditions</b>	<ul style="list-style-type: none"> <li>Newlyweds, households with ≥3 children, multicultural families, households with disabled family member(s), first-time home buyers</li> <li>Annual household income of ≤KRW 70M for newlyweds, households with ≥3 children, or first-time homebuyers</li> </ul>	<ul style="list-style-type: none"> <li>Newlyweds, households with ≥3 children, multicultural families, families with disabled family member(s), single-parent families</li> <li>Annual household income of ≤KRW 60M (≤KRW 70M for newlyweds and households with ≥3 children)</li> <li>Houses priced KRW ≤600M and max. 85m<sup>2</sup> in size (100m<sup>2</sup> outside Seoul and metropolitan areas, size thresholds do not apply to households with ≥3 children)</li> </ul>	<ul style="list-style-type: none"> <li>Same conditions as Bogeumjari Loan apply, expect for one additional concessionary rate: 0.1%p prime rate for annual household income of ≤KRW 100M and houses priced KRW ≤600M</li> </ul>	N/A (Different rates apply based on maturity and electric registration)

<sup>33</sup> [https://www.hf.go.kr/ko/sub01/sub01\\_02\\_01.do](https://www.hf.go.kr/ko/sub01/sub01_02_01.do)

<sup>34</sup> [https://www.hf.go.kr/en/sub01/sub01\\_01\\_01.do](https://www.hf.go.kr/en/sub01/sub01_01_01.do)

<sup>35</sup> [https://www.hf.go.kr/ko/sub01/sub01\\_01\\_06.do](https://www.hf.go.kr/ko/sub01/sub01_01_06.do)

<sup>36</sup> [https://www.hf.go.kr/ko/sub01/sub01\\_03\\_01.do](https://www.hf.go.kr/ko/sub01/sub01_03_01.do)

## Schedule 4. Sustainable Financing Framework External Review Form

### Section 1. Basic Information

**Issuer name:**

Korea Housing Finance Corporation (KHFC)

**Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:**

Korea Housing Finance Corporation (KHFC) Sustainable Financing Framework 2023

**Independent External Review provider's name:**

DNV Business Assurance Korea Ltd.

**Completion date of this form:**

04 October 2023

**Publication date of review publication:**

04 October 2023

### Section 2.d Overview

#### SCOPE OF REVIEW

The review:

- assessed the 4 core components of the Principles (**complete review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*).
- assessed only some of them (**partial review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*); please indicate which ones:
  - Use of Proceeds
  - Management of Proceeds
  - Process for Project Evaluation and Selection
  - Reporting
- assessed the alignment with other regulations or standards (CBI, EU GBS, ASEAN Green Bond Standard, ISO 14030, etc.); please indicate which ones:

#### ROLE(S) OF INDEPENDENT REVIEW PROVIDER

- Second Party Opinion
- Verification
- Other (*please specify*):
- Certification
- Scoring/Rating

**Does the review include a sustainability quality score<sup>37</sup>?**

- Of the issuer
- Of the framework
- No scoring
- Of the project
- Other (*please specify*):

#### ASSESSMENT OF THE PROJECT(S)

**Does the review include:**

- The environmental and/or social features of the type of project(s) intended for the Use of Proceeds?

<sup>37</sup> The external review may indicate the provider's opinion of the overall sustainability quality of a bond or bond framework and assess whether it has a meaningful impact on advancing contribution to long-term sustainable development.

- The environmental and/or social benefits and impact targeted by the eligible Green and/or Social Project(s) financed by the Green, Social or Sustainability Bond/ Green Loan?
- The potentially material environmental and/or social risks associated with the project(s) (where relevant)?

## ISSUER'S OVERARCHING OBJECTIVES

### Does the review include:

- An assessment of the issuer's overarching sustainability objectives and strategy, and the policies and/or processes towards their delivery?
- An identification and assessment of environmental, social and governance related risks of adverse impact through the Issuer's [actions] and explanations on how they are managed and mitigated by the issuer?
- A reference to the issuer's relevant regulations, standards, or frameworks for sustainability-related disclosure and reporting?

## CLIMATE TRANSITION STRATEGY<sup>38</sup>

### Does the review assess:

- The issuer's climate transition strategy & governance?
- The alignment of both the long-term and short/medium-term targets with the relevant regional, sector, or international climate scenario?
- The credibility of the issuer's climate transition strategy to reach its targets?
- The level/type of independent governance and oversight of the issuer's climate transition strategy (e.g. by independent members of the board, dedicated board sub-committees with relevant expertise, or via the submission of an issuer's climate transition strategy to shareholders' approval).
- If appropriate, the materiality of the planned transition trajectory in the context of the issuers overall business (including the relevant historical datapoints)?
- The alignment of the issuer's proposed strategy and targets with appropriate science-based targets and transition pathways<sup>39</sup> that are deemed necessary to limit climate change to targeted levels?
- The comprehensiveness of the issuer's disclosure to help investors assess its performance holistically<sup>40</sup>?

### Overall comment on this section:

DNV has referenced KHFC's Sustainability Reporting 2022 to review KHFC's overarching climate transition and governance. As a government entity established to implement the Korean Government's housing welfare policies, KHFC discloses relevant information on the overarching national policies and agendas.

## 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

#### Does the review assess:

<sup>38</sup> Where issuers wish to finance projects towards implementing a net zero emissions strategy aligned with the goals of the Paris Agreement, guidance on issuer level disclosures and climate transition strategies may be sought from the [Climate Transition Finance Handbook](#).

<sup>39</sup> GHG emissions reduction targets that are in line with the scale of reductions required to keep the average global temperature increase to ideally 1.5°C, or at the very least to well below 2°C above pre-industrial temperatures. Science Based Targets Initiative (SBTi) is a branded verification body for science-based targets and SBTi verification is one way for issuers to validate the alignment of their emission reduction trajectories with science-based reference trajectories. In addition, ICMA has published a [Methodologies Registry](#) which includes a list of tools to specifically help issuers, investors, or financial intermediaries validate their emission reduction trajectories..

<sup>40</sup> Including information such as the respective contribution (e.g.%) of the different measures to the overall reduction, the total expenses associated with the plan, or the issuer's climate policy engagement.

- the environmental/social benefits of the project(s)?
- whether those benefits are quantifiable and meaningful?
- for social projects, whether the target population is properly identified?

**Does the review assess if the issuer provides clear information on:**

- the estimated proceeds allocation per project category (in case of multiple projects)?
- the estimated share of financing vs. re-financing (and the related lookback period)?

**Overall comment on this section:**

KHFC intends to use the proceeds of Sustainability finance Instruments issued under the Framework to finance or refinance Eligible Projects that fall under the Eligible Green/Social Categories in the Framework. DNV concludes that the Eligible Projects are aligned with the GBP 2021, SBP 2023 and SBG 2021. DNV's analysis and findings on the environmental/social benefits of the projects can be found in Schedule 1.

KHFC will include in its annual reporting the total amount of proceeds allocated to each project category, balance of unallocated proceeds, and share of new financing and refinancing.

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

**Does the review assess:**

- whether the eligibility of the project(s) is aligned with official or market-based taxonomies or recognised international standards? Please specify which ones.<sup>41</sup> EU Taxonomy
- whether the eligible projects are aligned with the overall sustainability strategy of the issuer and/or if the eligible projects are aligned with material ESG-related objectives in the issuer's industry?
- the process and governance to set the eligibility criteria including, if applicable, exclusion criteria?
- the processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s)?
- any process in place to identify mitigants to known material risks of negative social and/or environmental impacts from the relevant project(s)?

**Overall comment on this section:**

KHFC establishes detailed eligibility guidelines for mortgage products or projects reflecting the Korean Government's policies (e.g., housing welfare policies), market situations, and discussions with relevant public agencies. Based on the guidelines, KHFC's Bond Team in the International Finance Department evaluates and selects the eligible projects, which will be reviewed and approved by KHFC's Risk Management Committee by assessing the projects' potential environmental and social risks. Moreover, to further address potential social risks of mortgage loans, KHFC pre-screens the majority of the mortgage applications to ensure their eligibility. KHFC's GSS Bonds Work Group, comprised of cross-departmental members, holds quarterly meetings to review issued GSS Bonds, GSS Covered Bond's cover pools, MBS' MBS pool and KHFC's annual reports.

## 3. MANAGEMENT OF PROCEEDS

**Does the review assess:**

- the issuer's policy for segregating or tracking the proceeds in an appropriate manner?
- the intended types of temporary investment instruments for unallocated proceeds?
- Whether an external auditor will verify the internal tracking of the proceeds and the allocation of the funds?

**Overall comment on this section:**

Under the KHFC Act, KHFC is required to (i) physically separate the purchased mortgage loans from KHFC's other assets, and (ii) separately manage the mortgage loans according to a securitization place. KHFC will clearly identify and record the proceeds for Cover Pool or MBS Pool as required under each GSS Bond's Bond Administration Agreement. Meanwhile, the proceeds for other projects will be placed in the general account and earmarked. KHFC's Securitization Working Group will maintain a register to keep track of the use of proceeds for each bond by using its

<sup>41</sup> The EU Taxonomy, CBI Taxonomy, UK Taxonomy, China catalogue, etc.

internal accounting system. DNV views that the proceeds arising from the future issuances will be appropriately managed.

#### 4. REPORTING

**Does the review assess:**

- the expected type of allocation and impact reporting (bond-by-bond or on a portfolio basis)?
- the frequency and the means of disclosure?
- the disclosure of the methodology of the expected or achieved impact of the financed project(s)?

**Overall comment on this section:**

Within a year following the issuance of the sustainability finance instruments, KHFC will report on the allocation and impact of the net proceeds allocated to the eligible green/social projects and report on an annual basis thereafter until full allocation. DNV concludes that KHFC's reporting is in line with market practice.

#### Section 4. Additional Information

**Useful links** (e.g., to the external review provider's methodology or credentials, to the full review, to issuer's documentation, etc.)

KHFC website: <https://www.hf.go.kr/en/index.do>  
Framework: <https://kmbs.hf.go.kr:7443/kmbseng/911/subview.do>  
SPO: <https://kmbs.hf.go.kr:7443/kmbseng/912/subview.do>  
Annual Reporting: <https://kmbs.hf.go.kr:7443/kmbseng/913/subview.do>

**Analysis of the contribution of the project(s) to the UN Sustainable Development Goals:**

DNV is of the opinion that eligible categories outlined in the Framework contribute to the achievement of the UN SDGs, specifically SDGs 7, 9, 10, 11 and 13.

**Additional assessment in relation to the issuer/bond framework/eligible project(s):**

**Review provider(s):**

DNV Business Assurance Korea Ltd.

**Date of publication:**

04 October 2023

## ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND GLP.

- 1. Second Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Green 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 Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- 2. Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally 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 Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- 3. Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green 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.
- 4. Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green 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 performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.



## About DNV

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

The trademarks DNV®, DNV® and Det Norske Veritas® are the properties of companies in the Det Norske Veritas group. All rights reserved.