

REPORT REVIEW

The Co-operative Bank Plc Green Bond Report

Green Bond Allocation & Impact Report The Co-operative Bank Plc

2 March 2023

VERIFICATION PARAMETERS

Type(s) of reporting	<ul style="list-style-type: none">Green Bond Allocation & Impact
Relevant standard(s)	<ul style="list-style-type: none">Harmonised Framework for Impact Reporting (HFIR), administered by International Capital Market Association (ICMA) (as of June, 2022)
Scope of verification	<ul style="list-style-type: none">The Co-operative Bank's Green Bond Allocation & Impact Report (as of March 2, 2023)The Co-operative Bank's Green, Social and Sustainability Financing Framework (as of February 23, 2022)Bond identification: XS2464403877 / April 6, 2027 (£250m)
Lifecycle	<ul style="list-style-type: none">Post-issuance verification
Validity	<ul style="list-style-type: none">As long as no changes are undertaken by the Issuer to its Co-operative Bank's Green Bond Allocation & Impact Report as of March 2, 2023

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SCOPE OF WORK

The Co-operative Bank Plc (“the Issuer” or “Co-operative Bank”) commissioned ISS Corporate Solutions (ICS) to provide an External Review¹ on its Green Bond Allocation & Impact Report by assessing:

1. The alignment of the Co-operative Bank’s Green Bond Allocation & Impact Report with the commitments set forth in Co-operative Bank Green, Social and Sustainability Financing Framework (as of February 23, 2022)².
2. Co-operative Bank’s Green Bond Allocation & Impact Report - benchmarked against Harmonised Framework for Impact Reporting (HFIR), administered by International Capital Market Association (ICMA) updated as of June, 2022.
3. The disclosure of proceeds allocation and soundness of reporting indicators – whether the impact metrics align with best market practices and are relevant to the Green Bonds issued.

¹ A limited or reasonable assurance is not provided on the information presented in Co-operative Bank’s Green Bond Allocation & Impact Report. A review of the use of proceeds’ allocation and impact reporting is solely conducted against ICMA’s Standards (Green Bond Principles) core principles and recommendations where applicable, and the criteria outlined in the underlying Framework. The assessment is solely based on the information provided in the allocation and impact reporting. The Issuer [or The Co-operative Bank] is responsible for the preparation of the report including the application of methods and internal control procedures designed to ensure that the subject matter information is free from material misstatement.

² The Framework was assessed as aligned with the ICMA’s Green Bond, Social Bond and Sustainability Bond Principles as of March 2, 2022.

ASSESSMENT SUMMARY

REVIEW SECTION	SUMMARY	EVALUATION
<p>Part 1</p> <p>Alignment with the Issuer's commitments set forth in the Framework</p>	<p>The Co-operative Bank's Green Bond Allocation & Impact Report meets the Issuer's commitments set forth in the Green, Social and Sustainability Financing Framework. The proceeds have been used to finance Green Buildings in accordance with the eligibility criteria defined in the Framework.</p>	<p>Aligned</p>
<p>Part 2</p> <p>Alignment with the Harmonised Framework for Impact Reporting (HFIR)</p>	<p>The Green Bond Allocation & Impact Report is in line with ICMA's Harmonised Framework for Impact Reporting (HFIR). The Issuer follows core principles and where applicable key recommendations.</p> <p>The Issuer provides transparency on the frequency of expected reporting, aligned with best market practices. Co-op Bank has reported within the next fiscal year after the issuance of the Green Bonds, illustrated the environmental impacts or outcomes, provided transparency on ESG risk management, and transparency on the currency used.</p>	<p>Aligned</p>
<p>Part 3</p> <p>Disclosure of proceeds allocation and soundness of reporting indicators</p>	<p>The allocation of the bond's proceeds has been disclosed, with a detailed breakdown across different eligible project categories as proposed in the Framework³.</p> <p>The Co-operative Bank's Green, Social and Sustainability Financing Framework has adopted an appropriate methodology to report the impact generated by providing comprehensive disclosure on data sourcing, calculations methodologies and granularity reflecting best market practices.</p>	<p>Positive</p>

³ The assessment is based on the information provided in the allocation reporting. The Issuer is responsible for the preparation of the report including the application of methods and procedures designed to ensure that the subject matter information is free from material misstatement.

REPORT REVIEW ASSESSMENT

PART I: ALIGNMENT WITH COMMITMENTS SET FORTH IN THE GREEN, SOCIAL AND SUSTAINABILITY FINANCING FRAMEWORK⁴

The following table evaluates the Green Bond Allocation & Impact Report against the commitments set forth in Co-operative Bank's Framework, which are based on the core requirements of the Green Bond Principles, Social Bond Principals and Sustainability Bond Guidelines as well as best market practices.

GBP	OPINION	ALIGNMENT WITH COMMITMENT
1. Use of Proceeds	<p>The Co-operative Bank confirms to follow the Use of Proceeds' description provided by Co-operative Bank's Green, Social and Sustainability Financing Framework. The report is in line with the initial commitments set in the Co-operative Bank's Green, Social and Sustainability Financing Framework: to (re)finance Green Buildings.</p> <p>The Issuer's green categories align with the ICMA's Green Bond Principles and are in accordance with the eligibility criteria set in the Co-operative Bank's Green, Social and Sustainability Financing Framework. Environmental benefits at category level are described and quantified.</p> <p>The Issuer is transparent that 25% of the green portfolio is composed of new financings while 75% is composed of refinanced assets. Also, the financed projects align with the exclusion criteria defined in the framework; with no project found to be associated with the exclusion criteria through this assessment.</p>	✓
2. Process for Project Evaluation and Selection	<p>The Co-operative Bank confirms to follow the Process for Project Evaluation and Selection description provided by Co-operative Bank's Green, Social and Sustainability Financing Framework. The report is in line with the initial commitments set in the Co-operative Bank's Green, Social and Sustainability Financing Framework: to engage the Co-operative Bank's Value, Ethics and Sustainability Executive Committee ("VESECo Committee") during the project evaluation and selection process.</p>	✓

⁴ The Co-operative Bank's Green, Social and Sustainability Financing Framework was assessed as aligned with the ICMA's Green Bond, Social Bond and Sustainability Bond Principles as of February, 2022.

	<p>The projects selected are defined and structured in a congruous manner. The Issuer ensures compliance with the Eligibility Criteria. ESG risks associated with the project categories are identified and managed through an appropriate process.</p> <p>The VESECo Committee verified the alignment of selected assets to the eligible asset criteria, including compliance with the exclusion list and ethical policy referenced in the Framework.</p>	
<p>3. Management of Proceeds</p>	<p>The Co-operative Bank confirms to follow the Process for Management of Proceeds description provided by Co-operative Bank's Green, Social and Sustainability Financing Framework. The report is in line with the initial commitments set in the Co-operative Bank's Green, Social and Sustainability Financing Framework: to set up an internal information system enabling the recording and tracking of the Eligible Assets, ensuring the net proceeds of the green, social and sustainability debt instruments will be allocated accordingly until the relevant instruments mature.</p> <p>The proceeds collected are equal to 100% of the amount allocated to eligible projects, with no exceptions. The proceeds are tracked in an appropriate manner and attested in a formal internal process.</p> <p>The Co-operative Bank VESECo Committee ensured that a 24-months look-back period was respected.</p>	<p>✓</p>
<p>4. Reporting</p>	<p>The Co-operative Bank Impact Report is coherent with the Reporting description provided by Co-operative Bank's Green, Social and Sustainability Financing Framework. The report is in line with the initial commitments set in the Co-operative Bank's Green, Social and Sustainability Financing Framework: to publish an annual report including both the allocation of the net proceeds and impact information on green, social and sustainability debt instruments issued.</p> <p>The sections "Allocation reporting" and "Impact Reporting" of the Green Bond Allocation & Impact Report comply with the pre-issuance commitment expressed in the framework. It includes the summary terms of the Green, Social and Sustainability Financing Debt Instruments issued during the reporting period. The percentage of new and existing assets (i.e. share of financing vs. refinancing) in the Eligible Asset Portfolio, the gross lending to each borrower segment with a mapping to the relevant SDGs and confirmation that all</p>	<p>✓</p>

	<p>proceeds were allocated. The report is intended to be publicly available.</p> <p><i>Further analysis of this section is available in Part III of this report.</i></p>	
5. Verification	<p>ICS has provided A Second Party Opinion (SPO) on the Co-operative Bank's Green, Social and Sustainability Financing Framework.</p>	

PART II: ASSESSMENT AGAINST THE ICMA HARMONISED FRAMEWORK FOR IMPACT REPORTING

Reporting is a core component of the GBP and transparency is of particular value in communicating the expected and/or achieved impact of projects in the form of an annual reporting. Green bond Issuers are required to report on both the use of green bond proceeds, as well as the environmental impacts at least on an annual basis until full allocation or maturity of the bond. ICMA Harmonised Framework for Impact Reporting (HFIR) has been chosen as benchmark for this analysis as it represents the most widely adopted standard.

The table below evaluates The Co-operative Bank Plc's Green Bond Allocation & Impact Report against ICMA Harmonised Framework for Impact Reporting (HFIR).

CORE PRINCIPLES		
ICMA HFIR	GREEN BOND ALLOCATION & IMPACT REPORT	ASSESSMENT
Reporting on an annual basis	The Co-operative Bank Plc has reported within one year from issuance and all the proceeds have been fully allocated. The report will be available on The Co-operative Bank Plc's website.	✓
Illustrating the environmental impacts or outcomes	The assessment and measurement of the impacts generated by The Co-operative Bank Plc Green Bond(s) covered the following areas: <ul style="list-style-type: none"> a. Environmental classification for Green Residential Buildings⁵ b. LTV-weighted CO₂ emissions intensity (kgCO₂/ m²/y) c. % of energy use reduced/avoided vs local baseline/building code d. Annual GHG emissions reduced/avoided in tons of CO₂e vs local baseline 	✓
ESG Risk Management	All potential Eligible Assets are subject to the Co-operative Bank's regular credit processes, including KYC / customer acceptance standards and credit risk assessments. Additionally, all eligible assets comply with applicable UK and international environmental and social standards and regulations, as well as The Co-operative Bank's own standards and policies, which can be found on The Co-operative Bank's website. These policies include The Co-operative Bank's ethical policy, Code of Conduct Policy, Sustainable Procurement Supplier Policy, and Anti-Money Laundering (AML), Counter Terrorist	✓

⁵ The certifications obtained for all projects were EPC A (1.9%) and EPC B (98.1%)

	Financing (CTF) and Financial Sanctions (FS) policies, amongst others. Sustainability is an inherent part of this assessment process within the Ethical Policy.	
Allocation of proceeds - Transparency on the currency	The Issuer reports the cash flows related to the Green Bond and the allocations to the projects in GBP (£).	✓

RECOMMENDATIONS

ICMA HFIR	GREEN BOND ALLOCATION & IMPACT REPORT	ASSESSMENT
Define and disclose period and process for Project Evaluation and Selection	<p>The entirety of proceeds has been allocated to Green Assets. No modification (removal or additional projects) of the portfolio is planned.</p> <p>The Issuer followed a transparent process for selection and evaluation of Eligible Green Projects. Projects financed and/or refinanced through the Green Bonds issued under Green, Social and Sustainability Financing Framework were evaluated and selected based on compliance with the Eligibility Criteria as laid out in the Framework.</p>	✓
Disclose total amount of proceeds allocated to eligible disbursements	A total of GBP 250m has been raised through the Issuer's Green Bond and GBP 250m (100%) of the proceeds have been allocated to Green Assets.	✓
Formal internal process for the allocation of proceeds and to report on the allocation of proceeds	The Issuer followed a transparent process for the allocation of proceeds as committed to in the framework.	✓
Report at project or portfolio level	The Green Bond Allocation & Impact Report includes the total amount of proceeds allocated on an aggregated basis (portfolio level).	✓
Describe the approach to impact reporting	The Issuer identifies the specific eligible projects and clearly defines, for each project, the total proceeds allocated to each project.	✓
Report the estimated lifetime results and/or	The Issuer reports on the average portfolio remaining lifetime (25.7 years) for the eligible project category.	✓

project economic life (in years)		
Ex-post verification of specific projects	The Issuer samples ex-post verification of specific projects and includes relevant results in the reporting	N/A
Report on at least a limited number of sector specific core indicators	<p>The Co-operative Bank Plc reports on certification standards (EPCs) that is a core indicator for the Green Building sector.</p> <p>A description of core environmental impacts for each target area is available in the report:</p> <ul style="list-style-type: none"> ▪ EPC certification level ▪ LTV-weighted CO₂ emissions intensity (kgCO₂/m²/y) ▪ % of energy use reduced/avoided vs local baseline/building code ▪ Annual GHG emissions reduced/avoided in tons of CO₂e vs local baseline 	✓
If there is no single commonly-used standard, Issuers may follow and disclose their own calculation methodologies	To calculate performance data per loan, The Co-operative Bank based the impact calculations on the calculation of Avoided CO ₂ equivalent emissions. Actual energy performance data for the properties within the Eligible Asset Portfolio is unavailable, therefore the CO ₂ emissions data available through the individual EPCs has been used as a proxy for the impact calculations. To provide an approximate indication of the energy efficiency impact of the EPC A and B rated mortgage portfolio over the period 6th April 2020 to 31st December 2022 (the "Period"), they used floor area and CO ₂ emissions data available from the available EPC certificate. This data, alongside the indexed LTV and outstanding mortgage balance, was used to calculate the estimated CO ₂ emissions avoided p.a. on the EPC A or B rated properties originated over the Period.	✓
Disclosure on the conversion approach (if applicable)	The Issuer elects to convert units reported for individual projects based on a standard conversion factor (Estimated CO ₂ emissions avoided p.a. (kgCO ₂ /y) on EPC A/B properties / £m invested) and includes appropriate disclosure of the conversion approach in the report.	✓
Projects with partial eligibility	All projects are 100% eligible for financing.	N/A
When the expected impacts of different project components	The issuer reported the impacts separately.	N/A

may not be reported separately, Issuers may use (and disclose) the attribution approach		
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OPINION

The Co-operative Bank follows ICMA Harmonised Framework for Impact Reporting (HFIR)'s core principles and key recommendations. The Issuer provides transparency on the frequency of expected reporting, aligned with best practices. Co-op Bank has reported within the next fiscal year after the issuance of the Green Bond, illustrated the environmental impacts or outcomes, provided transparency on ESG risk management, and transparency on the currency used.

PART III: DISCLOSURE OF PROCEEDS ALLOCATION AND SOUNDNESS OF THE IMPACT REPORTING INDICATORS

Use of Proceeds Allocation

Use of Proceeds allocation reporting is key to put the impacts into perspective with the number of investments allocated to the respective Use of Proceeds' categories.

The Use of Proceeds allocation reporting occurred within one year from the issuance, after full allocation of the proceeds.

Proceeds allocated to eligible projects/assets

The proceeds' allocation is broken down at the project category level, by EPC rating and by country. The Co-operative Bank issued £250m notional of Green Bonds in April 2022. 100% of the proceeds have been allocated to UK residential mortgages which had an Energy Performance Certificate (EPC) rating of A or B. The Issuer has provided details about the type of projects included in the portfolio.

The allocation report section of the Green Bond Allocation & Impact Report of the Co-operative Bank aligns with best-market practices by providing information on:

- The total amount of proceeds in GBP
- Number of A and B EPC-rated properties financed
- The breakdown of the Eligible Asset Portfolio, by EPC, by country and by mortgage completion year
- The breakdown of financing and refinancing
- Description of the energy performance ranking (top 11.8% as at 31 December 2022) in UK for A and B EPC-rated residential properties


Impact Reporting Indicators

The table below presents an independent assessment of the Issuer's report and disclosure on the output, outcome, and/or impact of projects/assets using impact indicators.

ELEMENT	ASSESSMENT
Relevance	<p>The impact indicators chosen by the Issuer for this bond are the following:</p> <ul style="list-style-type: none"> a) Number of EPC A or B properties b) Gross Floor Area for EPC A or B properties (in m²) c) LTV-weighted absolute estimated CO₂ emissions and emissions intensity from EPC A or B properties (in t CO₂/y and kg CO₂/m²/y) d) Percentage of energy efficiency improvement of EPC A or B vs total properties with a valid EPC financed in the Period e) Estimated CO₂ emissions and emissions intensity avoided (in kg CO₂/y and kg CO₂/m²/y) f) Estimated CO₂ emissions avoided per /£m invested (in kg CO₂/y/£m) <p>These indicators are qualitative and material to the Use of Proceeds categories financed through this bond and in line with the Suggested Impact Reporting metrics for Green Building Projects by the ICMA Harmonized Framework for Impact Report for Environmental and Social Bonds. This aligns with best market practices.</p>
Data sourcing and methodologies of quantitative assessment	<p>For its impact indicators, the Issuer uses Energy Performance Certificates (EPCs) and avoided CO₂ equivalent emissions, in line with the core indicator proposed by the ICMA Harmonized Framework for Impact Reporting. As actual energy performance data for the Eligible Asset Portfolio is unavailable, the Issuer uses the Gross Floor Area and CO₂ emissions data from the available EPC certificate as a proxy, alongside the indexed LTV and outstanding mortgage balance to calculate the estimated CO₂ emissions avoided. The impact data has not been verified.</p>
Baseline selection	<p>The impact data used are regional, national, or internationally recognized standards, EPCs, which the green building projects can be benchmarked. Moreover, the Issuer compares the impact data with the average of the total mortgage portfolio originated over a similar Period. In this sense, the report is in line with the suggestion of the ICMA Harmonized Framework for Impact Reporting.</p>
Scale and granularity	<p>The impact data is presented at the Use of Proceed category level for the indicators.</p>

High-level mapping of the impact indicators with the UN Sustainable Development Goals

Based on the project categories financed and refinanced by the bonds as disclosed in the Issuer’s Green Bond Allocation & Impact Report, the impact indicator(s) adopted by the Co-operative Bank for its Green Bond can be mapped to the following SDGs, according to the ICMA “A High -Level Mapping to the Sustainable Development Goals”⁶.

IMPACT INDICATORS	SUSTAINABLE DEVELOPMENT GOALS
<ul style="list-style-type: none"> ▪ Number of EPC A or B properties ▪ Gross Floor Area for EPC A or B properties (in m²) ▪ Percentage of energy efficiency improvement of EPC A or B vs average ▪ LTV-weighted absolute estimated CO₂ emissions and emissions intensity from EPC A or B properties (in t CO₂/y and kg CO₂/m²/y) ▪ Percentage of energy efficiency improvement of EPC A or B vs average ▪ Estimated CO₂ emissions and emissions intensity avoided (in kg CO₂/y and kg CO₂/m²/y) ▪ Estimated CO₂ emissions avoided per / £m invested (in kg CO₂/y/£m) 	

OPINION

The allocation of the bond’s proceeds has been disclosed, with a detailed breakdown across different eligible project categories as proposed in the Framework and the Co-operative Bank’s Green, Social and Sustainability Financing Framework has adopted an appropriate methodology to report the impact generated by providing comprehensive disclosure on data sourcing, calculations methodologies and granularity reflecting best market practices. Besides, the impact indicators used align with best market practices using ICMA’s recommended metrics, in the HFIR.

⁶ [ICMA’s Mapping-SDGs-to-Green-Social-and-Sustainability-Bonds](#)

DISCLAIMER

1. Validity of the External Review (“External Review”): Valid for the bond report issued on March 2, 2023.
2. ISS Corporate Solutions, Inc. (“ICS”), a wholly-owned subsidiary of Institutional Shareholder Services Inc. (“ISS”), sells/distributes External Reviews which are prepared and issued by ISS ESG, the responsible investment arm of ISS, on the basis of ISS ESG’s proprietary methodology. In doing so, ISS adheres to standardized procedures to ensure consistent quality of responsibility research worldwide. Information on ISS’s methodology is available upon request.
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ANNEX 1: Methodology

Review of the post-issuance Reports

The external review of post-issuance reports provides the Issuer with an independent opinion on the soundness of its post-issuance report and of its alignment with recognized market guidelines and it provides investors with independent information regarding the reliability of the report produced. On the basis of the information provided by the Issuer, the alignment of the report is assessed with recognized market guidelines, the metrics chosen by the Issuer and the soundness of process and methodology of reporting. The metrics are analyzed based on specific sets of indicators using proprietary method referring to common market guidelines.

High-level mapping to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method based on ICMA's Green, Social and Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals, the extent to the Issuers reporting and project categories contribute to related SDGs is identified.

ANNEX 2: Quality management processes

SCOPE

The Co-operative Bank commissioned ICS to compile an External Review on its Bond Report. The External Review process includes verifying whether the Bond Report aligns with the Issuer's Green, Social and Sustainability Bond Framework and the respective market standards, i.e. the Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines and to assess the robustness and completeness of the reporting methodologies.

CRITERIA

Relevant Standards for this Report Review:

- ICMA Green Bond Principles
- ICMA Harmonized Framework for Impact Reporting
- ICMA A High -Level Mapping to the Sustainable Development Goals

ISSUER'S RESPONSIBILITY

Issuer's responsibility was to provide information and documentation on:

- Green Bond Allocation & Impact Report
- Green, Social and Sustainability Financing Framework
- Proceeds Allocation
- Reporting Impact Indicators
- Methodologies, and assumptions for data gathering and calculation
- ESG Risk Management

ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

This independent External Review has been conducted by following the ICMA Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds External Reviews, and its methodology, considering, when relevant, the ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

The engagement with Issuer Name took place in February and March 2023.

ISS' BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About this External Review

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyzes companies and countries regarding their environmental and social performance.

We assess alignment with external principles (e.g. the ICMA Green / Green Bond Principles, Social Bond Principles and Sustainable Bond Guidelines), analyze the sustainability quality of the assets and review the sustainability performance of the Issuer themselves. Following these three steps, we draw up an independent External Review so that investors are as well informed as possible about the quality of the bond/loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

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