

## SECOND PARTY OPINION (SPO)

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Sustainability Quality of the Issuer and Green, Social and Sustainability Bond Framework

Credito Emiliano S.p.A.

9 May 2024<sup>1</sup>

### VERIFICATION PARAMETERS

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Type(s) of instruments contemplated

- Green, Social and Sustainability Bonds

Relevant standards

- Green Bond Principles and Social Bond Principles, as administered by the ICMA (as of June 2021 with June 2022 Appendix 1)
- Sustainability Bond Guidelines, as administered by the ICMA (as of June 2021)

Scope of verification

- Credem Green, Social and Sustainability Bond Framework (as of 8 May 2024)<sup>2</sup>
- Credem Selection Criteria (as of May 10, 2023)

<sup>1</sup> Credem initially published its Green, Social and Sustainability Bond Framework in May 2023. A new version of the Framework has been published in May 2024, substituting the previous one. No modification occurred with regard to the core elements of the Framework (use of proceeds, processes for project evaluation and selection, management of proceeds, reporting) based on which ISS-Corporate performed its analysis in May 2023. It is noted that the Issuer has provided additional information related to its ESG risks management (Part IIB) and its sustainability strategy (Part III).

<sup>2</sup> Ibid.

## SECOND PARTY OPINION

Sustainability Quality of the Issuer  
and Green, Social and Sustainability Bond Framework

ISS-CORPORATE 

- Lifecycle
  - 1<sup>st</sup> Update of [SPO delivered on May 10, 2023](#)
- Validity
  - Valid as long as the cited Framework remains unchanged

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## SCOPE OF WORK

Credito Emiliano S.p.A. ("the Issuer" or "Credem"<sup>3</sup>) commissioned ISS Corporate Solutions (ISS-Corporate) to assist with its Green, Social and Sustainability Bonds by assessing three core elements to determine the sustainability quality of the instruments:

1. Credem's Green, Social and Sustainability Bond Framework (as of May 8, 2024) – benchmarked against the International Capital Market Association's (ICMA) Green Bond Principles (GBP).
2. The Eligibility Criteria – whether the project categories contribute positively to the United Nations Sustainable Development Goals (UN SDGs) and how they perform against proprietary issuance-specific key performance indicators (KPIs) (See Annex 1).
3. Consistency of Green, Social and Sustainability Bonds with Credem's Sustainability Strategy – drawing on the key sustainability objectives and priorities defined by the Issuer.

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<sup>3</sup> The term Credem refers to Credito Emiliano Banking Group and Credemholding, as issuing entities under the framework.

## CREDEM OVERVIEW

Credito Emiliano SpA provides banking and financial services. It operates through the following business segments: Commercial Banking, Asset Management, Bancassurance, Finance, Treasury, and Corporate Center and Other. The Commercial Banking segment encompasses the corresponding segment of Credito Emiliano, as well as the financial statements of Credemleasing, Credemfactor, Credem Euromobiliare Private Banking, and Avvera. The Asset Management segment incorporates the financial statements of Euromobiliare Asset Management SGR, Credem Private Equity SGR, Credemtel, Euromobiliare Fiduciaria and Euromobiliare Advisory Sim. The Bancassurance segment is represented by Credemvita and Credemassicurazioni. The Finance segment is represented by Credito Emiliano, which includes management of the interest rate and exchange rate risk of the banking book, and investment portfolio e-trading activity. The Treasury segment includes the corresponding segment of Credito Emiliano, which was merged and includes Treasury activity. The Corporate Centre and Other segment includes, in relation to Credito Emiliano, all the centres where they carry out support activity for the Commercial Banking and Finance segments. The company was founded in 1910 and is headquartered in Reggio Emilia, Italy.

Credem, operating parent company of Credito Emiliano Banking Group (the "Credem Group" or the "Group"), is controlled by Credito Emiliano Holding S.p.A, "Credemholding", a non-operating financial holding company, with a 79.47% stake in Credem. The proceeds of each green, social or sustainability bond issued from Credemholding will be allocated to the eligible assets booked on the balance sheet of any of the entities of the Credem Group, as the case may be. Credemholding currently acts as the Group's Issuer for subordinated issuances only. In case of an issuance, Credemholding will on-lend the proceeds of the notes to Credem under a subordinated bond, which will have the same characteristics of the bond issued by Credemholding and is intended to qualify on a standalone and consolidated basis of Credem.

### *ESG risks associated with the Issuer Industry*

Credem is classified in the Commercial Banks & Capital Markets, as per ISS ESG's sector classification. Key sustainability issues faced by companies<sup>4</sup> in this industry are: business ethics, labour standards and working conditions, sustainable investment criteria, customer and product responsibility, and sustainability impacts of lending and other financial services/products.

This report focuses on the sustainability credentials of the issuance. Part III. of this report assesses the consistency between the issuance and the Issuer's overall sustainability strategy.



<sup>4</sup> Please note, that this is not a company specific assessment but areas that are of particular relevance for companies within that industry.

## ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION <sup>5</sup>
<p><b>Part I:</b></p> <p><b>Alignment with GBP/SBP/SBG</b></p>	<p>The Issuer has defined a formal concept for its Green, Social and Sustainability Bonds regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the ICMA Green and Social Bond Principles, and the Sustainability Bond Guidelines.</p> <p><i>* The following category (Non-Profit Organizations - companies partly State-owned) is assessed as providing no clear environmental and/or social benefits according to our methodology (cf. part II of this report). However, as there are currently several national and international initiatives and that the definition of green and/or social might vary depending on sector and geography, it is recognized that those categories might be considered as eligible green or social categories by investors.</i></p>	<p><b>Aligned*</b></p>
<p><b>Part II:</b></p> <p><b>Sustainability quality of the Selection Criteria</b></p>	<p>The Green, Social and Sustainability Bonds will (re)finance eligible project categories which include:</p> <p>Green categories: Pollution Prevention and Control, Renewable Energy, Clean Transportation, Green Buildings, Sustainable Management of Living Natural Resources and Land Use, Green Assets Backed by a State Mechanism,</p> <p>Social categories: Small Medium Enterprises Financing, Healthcare System, Non-profit Organizations, Social Housing.</p> <p>Product and/or service-related use of proceeds categories<sup>6</sup> individually contribute to one or more of the following SDGs:</p>	<p><b>Positive</b></p>

<sup>5</sup> The evaluation is based on Credem’s Green, Social and Sustainability Bond Framework (May 8, 2024 version), and on the analysed Selection Criteria as received on May 10, 2023.

<sup>6</sup> Pollution Prevention and Control, Renewable Energy, Clean Transportation, Green Buildings, Energy Efficiency, Sustainable Management of Living Natural Resources and Land Use, Green Assets Backed by a State Mechanism, Socioeconomic Advancement and Empowerment, Healthcare System, Non-profit Organizations, Social Housing.

	 <p>Other use of proceed categories improve the operational impacts of CREDEM’s borrowers and mitigate potential externalities of their sectors on one or more of the following SDGs:</p>  <p>For the partly state-owned companies of Non-profit Organizations<sup>7</sup> there is no evidence of a social contribution.</p> <p>The environmental and social risks associated with those use of proceeds categories and the financial institution are managed.</p>	
<p><b>Part III:</b></p> <p><b>Consistency of Green, Social and Sustainability Bonds with Credem’s Sustainability Strategy</b></p>	<p>The key sustainability objectives and the rationale for issuing Green, Social and Sustainability Bonds are clearly described by the Issuer. The majority of the project categories considered are in line with the sustainability objectives of the Issuer.</p> <p>At the date of publication of the report and leveraging ISS ESG Research, no severe controversies have been identified.</p>	<p><b>Consistent with Issuer’s sustainability strategy</b></p>

<sup>7</sup> Non-profit organizations: Loans to finance companies partly State-owned dedicated to financing projects aiming at having a positive social impact in the following sectors: Healthcare; Environmental protection; Schools; Art and recreational activities.

## SPO ASSESSMENT

### PART I: ALIGNMENT WITH GBP, SBP, AND SBG<sup>8</sup>

This section evaluates the alignment of the Credem’s Green, Social and Sustainability Bonds Framework (as of May 8, 2024) with the Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines.

GBP, SPB, SBG	ALIGNMENT	OPINION
<p><b>1. Use of Proceeds</b></p>	<p>✓ *</p>	<p>The Use of Proceeds description provided by Credem’s Green, Social and Sustainability Bonds Framework is <b>aligned</b> with the Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines.</p> <p>The Issuer’s green and social categories align with the project categories as proposed by the Green Bond Principles, the Social Bond Principles, and the Sustainability Bond Guidelines. Criteria are defined in a clear and transparent manner. Disclosure of an allocation period and commitment to report by project category has been provided and environmental/social benefits are described.</p> <p>The Issuer defines exclusion criteria for harmful projects categories, in line with best market practice.</p> <p><i>* The category Non-Profit Organizations - companies partly State-owned<sup>9</sup> is assessed as providing no clear environmental and/or social benefits according to our methodology (cf. part II of this report). However, as there are currently several national and international initiatives and that the definition of green and/or social might vary depending on sector and geography, it is recognized that those categories might be considered as eligible green or social categories by investors.</i></p>

<sup>8</sup> The assessment remains unchanged and is based on the analysis that was delivered on May 10, 2023

<sup>9</sup> Non-Profit Organizations: Loans to finance companies partly State owned dedicated to financing projects aiming at having a positive social impact in the following sectors: Healthcare; Environmental protection; Schools; Art and recreational activities.



<p><b>2. Process for Project Evaluation and Selection</b></p>	<p>✓</p>	<p>The Process for Project Evaluation and Selection description provided by Credem’s Green, Social and Sustainability Bonds Framework is <b>aligned</b> with the Green Bond Principles, the Social Bond Principles, and the Sustainability Bond Guidelines.</p> <p>The project selection process is defined and structured in a congruous manner. Moreover, the projects selected show alignment with the sustainability strategy of the Issuer.</p> <p>The Issuer clearly defines responsibilities in the process for project evaluation and selection transparently, in line with best market practice. The Issuer identifies the alignment of their Green Bond framework and their green projects with official or market-wide taxonomies and references green standards or certifications used, in line with best market practice.</p>
<p><b>3. Management of Proceeds</b></p>	<p>✓</p>	<p>The Management of Proceeds provided by Credem’s Green, Social and Sustainability Bonds Framework is <b>aligned</b> with the Green Bond Principles, the Social Bond Principles, and the Sustainability Bond Guidelines.</p> <p>The net proceeds collected will be equal to the amount allocated to eligible projects, with no exceptions. The net proceeds are tracked in an appropriate manner and attested in a formal internal process. The net proceeds are managed on an aggregated basis for multiple Green, Social, and Sustainability Bonds (portfolio approach). Moreover, the Issuer discloses the temporary investment instruments for unallocated proceeds.</p> <p>The Issuer commits to track the proceeds collected by having an internal information system. The issuer discloses ESG criteria and the nature of temporary investments, in line with best market practice.</p>

<p><b>4. Reporting</b></p>	<p>✓</p>	<p>The allocation and impact reporting proposed by Credem’s Green, Social and Sustainability Bonds Framework is <b>aligned</b> with the Green Bond Principles, the Social Bond Principles, and the Sustainability Bond Guidelines.</p> <p>The Issuer commits to disclose the allocation of proceeds transparently and to report in an appropriate frequency. The reporting will be publicly available on the Issuer’s website. Credem explains the level of expected reporting and the type of information that will be reported. Moreover, the Issuer commits to report annually, until all the bonds mature.</p> <p>The Issuer is transparent on the level of impact reporting, the information reported, the frequency of the impact reporting, the scope, and the duration, in line with best market practice.</p>
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## PART II: SUSTAINABILITY QUALITY OF THE ELIGIBILITY CRITERIA

### A. CONTRIBUTION OF THE GREEN, SOCIAL AND SUSTAINABILITY BONDS TO THE UN SDGs<sup>1011</sup>

Companies can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible corporate actors, working to minimize negative externalities in their operations along the entire value chain.

The aim of this section is to assess the SDG impact of the UoP categories financed by the Issuer in two different ways, depending on whether the proceeds are used to (re)finance:

- specific products/services,
- improvements of operational performance.



#### 1. Products and services

The assessment of UoP categories for (re)financing products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an Issuer's products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the ICMA Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of UoP categories for (re)financing specific products and services is displayed on a 3-point scale:



Each of the Green, Social and Sustainability Bonds' Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p><b>Pollution prevention and control</b></p> <p><i>All separated collection and transport of non-hazardous waste if segregated at</i></p>	<p><b>Contribution</b></p>	 

<sup>10</sup> The impact of the UoP categories on UN Sustainable Development Goals is assessed with proprietary methodology and may therefore differ from the Issuer's description in the framework.

<sup>11</sup> The assessment remains unchanged and is based on the analysis that was delivered on May 10, 2023.

*source: always eligible if is collected for reuse or recycling*

**Pollution prevention and control**

*Landfill gas capture and energetic utilization: methane leakage is controlled and landfill permanently closed and has not been opened after 8 July 2020*

**Contribution**



**Renewable energy**

*Equipment, development, production, construction, operation, distribution of:*

- *wind, solar photovoltaic*
- *geothermal energy (source eligible if life cycle emission (LCE) threshold below 100gCO<sub>2e</sub>/kWh)*
- *concentrated solar power (facilities shall have no more than 15% of electricity generated from non-renewable sources)*
- *hydropower (Exempted from LCE requirements if power density above 5W/m<sub>2</sub> or if run of river plant without artificial reservoir (LCE requirement being an emission threshold below 100gCO<sub>2e</sub>/kWh). Only hydropower plants with a scale of power production below < 1000MW are eligible)*
- *energy storage capacity from wind, solar photovoltaic, concentrated solar power, geothermal, and hydropower*

**Contribution**



### Clean transportation

- *Passenger interurban rail transport, road passenger transport, and freight rail transport (trains and passenger coaches have zero direct (tailpipe) CO<sub>2</sub> emissions, and trains and wagons are not dedicated to the transport of fossil fuels)*
- *Motorbikes, passenger cars and light commercial vehicles (For vehicles of category M1 and N1, both falling under the scope of Regulation (EC) No 715/2007: specific emissions of CO<sub>2</sub>, as defined in Article 3(1), point (h), of Regulation (EU) 2019/631, are zero. For vehicles of category L, the tailpipe CO<sub>2</sub> emissions equal to 0g CO<sub>2</sub>e/km calculated in accordance with the emission test laid down in Regulation (EU) 168/2013)*
- *Infrastructure required for zero direct emissions transport*
- *Infrastructure dedicated to public passenger transport: train stations, rails and rail-related infrastructures, bus stops, infrastructures related to metro and tramway in urban or suburban areas*
- *Infrastructure and equipment for active mobility (walking and cycling)*

### Contribution



**Green buildings**

The acquisition of new or existing residential or commercial buildings:

- Built before 31 December 2020, the building has an Energy Performance Certificate (EPC) class A or above

or

- Built before 31 December 2020, the building is within the top 15% in Italy of the most carbon efficient buildings (kg CO<sub>2</sub>e/sqm)<sup>12</sup>
- Construction and/or acquisition of buildings built after 31 December 2020, the Primary Energy Demand (PED) is at least 10% lower than the threshold set for nearly zero-energy building (NZEB)

**Contribution**



**Green buildings<sup>13</sup>**

The acquisition of new or existing commercial buildings with the classifications:

- LEED "Gold" or above
- BREAM "Very Good" or above
- HQE "Excellent" or above

**Contribution**



**Energy efficiency**

Acquisition of fiscal incentives dedicated to the improvement of energy efficiency for buildings introduced by Italian or other EU governments<sup>14</sup>

**Contribution**



<sup>12</sup> Analysis provided by CRIF to the real estate in Italy of the top 15% buildings in primary energy demand, [Credem technical Report CRIF.pdf](#)

<sup>13</sup> The review is limited to certifications spelled out in the framework

<sup>14</sup> Example provided by Credem. Tax Credit Superbonus, Ecobonus and Sismabonus: Superbonus and Ecobonus provide benefits for the implementation of specific actions aimed at energy efficiency (thermal insulation of external walls, replacement of winter air conditioning systems on common areas, replacement of winter air conditioning systems), and static consolidation or reduction of seismic risk of buildings. Eligible interventions also include (i) the installation of photovoltaic systems and (ii) electric vehicle charging infrastructure in buildings.

**Sustainable management of living natural resources and land use<sup>15</sup>**

*Financing of certified organic agriculture including activities related to Grana Padano and Parmigiano Reggiano production sector*

*Eligible certifications include any certification provided by a certified body of IFOAM, (such as: EU label, Agriculture Biologique, Demeter, etc.)*

*Agricultural activities as well as practices and use of forests and forest land contributing to enhancing biodiversity, or halting or preventing the degradation of soils and other ecosystems, deforestation and habitat loss (agricultural certificates related to this eligible category: FSC, PEFC, IFOAM or Proterra)*

Contribution



**Green Assets backed by State mechanism<sup>16</sup>**

*SACE Green Guarantees (loans awarded by Credem with SACE guarantee to companies with the purpose of financing project finalised to support the following Environmental Objectives, as defined by the European and Italian regulation in terms of New Green Deal: Climate change mitigation, Adaptation to climate change, Water and marine resources protection, Circular economy, Pollution prevention and reduction, Biodiversity and ecosystem protection and reactivation)*

Contribution



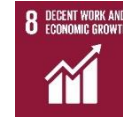
<sup>15</sup> The review is limited to certifications spelled out in the framework.

<sup>16</sup> For this category, the Issuer is relying on a local program ([the SACE Green Guarantees](#)) aimed at financing Italy's Green New Deal. To be eligible for SACE intervention under the Green New Deal, projects are expected to meet the parameters (eligibility criteria) set out in the European Regulation and taxonomy. We have reviewed the eligibility criteria set by SACE and assessed them as generally providing a contribution to the SDGs highlighted. However, it is worth noting that (i) not all projects financed will contribute to all SDGs (e.g., a solar projects will contribute to SDGs 7 and 13 while wastewater management will contribute to SDG 6), (ii) criteria for some projects would need to be more precisely defined to be considered as having a clear environmental benefit according to our methodology (e.g., interventions to ensure the conservation, restoration and sustainable use of terrestrial freshwater ecosystems) and (iii) there is a lack of visibility on the amount that will be allocated to those projects (without clear environmental benefits).

**Green Assets backed by State mechanism**

*Sabatini's Green Assets (assets financed by the Italian Minister of Economic Development that support the purchase (or acquisition in the case of financial leasing transactions) of machinery, plant and new equipment for productive use, with low impact environment, as part of programs aimed at improving the eco-sustainability of products and production processes). Limited to micro, small, and medium enterprises<sup>17</sup>*

Contribution



**Socioeconomic advancement and empowerment**

*Loans granted to SMEs with the Government Guarantee assigned till the 30-06-2022 to support client's difficulties due to the Covid - 19 crisis.*

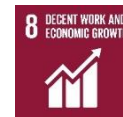
Contribution



**Socioeconomic advancement and empowerment**

*Loans to SMEs located in areas with a GDP per capita below National average or in areas impacted by natural disasters.*

Contribution



**Socioeconomic advancement and empowerment**

*Loans granted to SMEs run by women*

Contribution



**Healthcare system**

*Financing of public health infrastructure including development, acquisition of buildings, facilities or equipment related to public hospitals*

Contribution



**Healthcare system**

Contribution



<sup>17</sup> Ministero delle Imprese e del Made in Italy, Circolare direttoriale recante la disciplina dei contributi e dei finanziamenti per l'acquisto di nuovi macchinari, impianti e attrezzature da parte di PMI, December 2022, <https://www.isscorporatesolutions.com/file/documents/spo/spo-20230510-creditoemiliano.pdf>



<p><i>Financing<sup>18</sup> of healthcare services including more generally to SMEs operating in the healthcare sector</i></p>		
<p><b>Non-profit organizations</b></p> <p><i>Loans to finance companies partly State-owned dedicated to financing projects aiming at having a positive social impact in the following sectors: Healthcare; Environmental protection; Schools; Art and recreational activities.</i></p>	<p><b>No Net Impact</b></p>	
<p><b>Non-profit organizations</b></p> <p><i>Loans to finance Non-Profit Organizations dedicated to financing projects aiming at having a positive social impact in the following sectors: Healthcare; Environmental protection; Schools; Art and recreational activities.</i></p>	<p><b>Contribution</b></p>	
<p><b>Social housing</b></p> <p><i>CONSAP mortgages loans<sup>19</sup></i></p>	<p><b>Contribution</b></p>	
<p><b>Social housing</b></p> <p><i>Loans that promote accessibility to housing in Italy dedicated to individuals with an income below the national average pro –capita annual income:</i></p> <ul style="list-style-type: none"> <li>▪ <i>First-time buyers that have a low annual income</i></li> <li>▪ <i>Self-employed that have low annual income</i></li> <li>▪ <i>Later life loans/Lending into retirement that have low annual income</i></li> <li>▪ <i>Low-income beneficiaries</i></li> </ul>	<p><b>Contribution</b></p>	
<p><b>Social Housing</b></p> <p><i>Loans that promote accessibility to housing in Italy dedicated to individuals with an income below the national average pro –</i></p>	<p><b>Contribution</b></p>	

<sup>18</sup> Financing is limited to SMEs

<sup>19</sup> Consap Mortgages is based on a stated mechanism and include a level of revenue threshold for beneficiaries. More information are available on: <https://www.consap.it/fondo-prima-casa/>

capita annual income: First-time buyers that have a medium annual income



**2. Improvements of operational performance (processes)**

The below assessment aims at qualifying the direction of change (or “operational impact improvement”) resulting from the operational performance projects (re)financed by the UoP categories, as well as related UN SDGs impacted. The assessment displays how the UoP categories are mitigating the exposure to the negative externalities relevant to the business model and the sector of the Issuer’s clients.

According to ISS ESG SDG Impact Rating methodology, potential impacts on the SDGs related to negative operational externalities<sup>20</sup> in the Real Estate sector (which Credem finances) are the following:



The table below aims at displaying the direction of change resulting from the operational performance improvement projects. The outcome displayed does not correspond to an absolute or net assessment of the operational performance.

USE OF PROCEEDS (PROCESSES)	OPERATIONAL IMPACT IMPROVEMENT <sup>21</sup>	SUSTAINABLE DEVELOPMENT GOALS
<p><b>Green Building</b></p> <p><i>Renovation measures consisting of installation, maintenance, repair of energy efficiency</i></p>		

<sup>20</sup> Please, note that the impact of the Issuer’s products and services resulting from operations and processes is displayed in section 3.B of the SPO.

<sup>21</sup> Limited information is available on the scale of the improvement as no threshold is provided. Only the direction of change is displayed.

## SECOND PARTY OPINION

Sustainability Quality of the Issuer  
and Green, Social and Sustainability Bond Framework

ISS-CORPORATE 

*equipment, or of  
instruments and devices for  
measuring, regulation and  
controlling energy  
performance of buildings  
with an improvement of  
energy efficiency by 30%  
can be expected*

## B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE FINANCIAL INSTITUTION AND THE SELECTION CRITERIA

The table below evaluates the selection criteria against issuance-specific KPIs. The entirety of the assets are and will be located in Italy.<sup>22</sup>

### ASSESSMENT AGAINST KPIs

#### ESG guidelines into financing process

Credem has integrated considerations on ESG risks in all its processes, according to its Sustainability Policy. Specific sectors, products, and counterparties that are deemed to be highly exposed to ESG risks are excluded. For minor risks, the issuer checks whether they are appropriately managed.

In 2023, Credem started collecting ESG data, information, and scores (ESG Score, Environmental Score, Physical Risk Score, Transition Risk Score) for its loan portfolio through an external data provider. In late 2023, Credem revised its Climate and Environmental risks framework to include these ESG data, information, and scores. Climate and Environmental risks (Environmental Score, Transition Score, GHG scope 1 and scope 2, Acute and Chronic Physical Risk Score) are embedded in the risk assessment for all corporate clients which is performed during the origination and monitoring processes.

Credem's Group Credit Policy has been amended to integrate ESG factors in the loan origination process for all corporate clients. A list of ESG indicators was introduced, with a focus on the degree of exposure to the impacts generated by climate and environmental factors on the sustainability of counterparties and the credit portfolio. Extended due diligence is required for high-risk counterparties (triggered through the score from the external data provider) and for carbon-intensive industries, which involves collection of additional data and the requirement for the client to fill in a questionnaire. Additionally, energy performance and physical risk exposure have been embedded in the collateral evaluation (both residential and commercial) as part of the loan origination process.

Credem confirms that, in the case that if any ESG-related controversy is identified after loan origination and inclusion in the portfolio of eligible assets, Credem will assess the appropriate course of action, including the exclusion from the eligible asset pool.

Finally, Credem conducts materiality assessments on the credit portfolio on an annual basis. Consequently, the Group Risk Appetite Framework now includes monitoring indicators

<sup>22</sup> We rely on the geographical location of the projects/loans to assess the E&S management risk system in place through national regulation. For the loans receiving the use of proceeds generated under this framework, Credem will only consider borrowers located in Italy (e.g. having their legal residence or the head office in the country). However, there is no assurance that the borrowers exclusively operate in Italy. As Credem assumes that a significant share of the projects financed will indeed be carried out in Italy, we will also rely on national legislation for the purpose of assessing the KPIs. For the green buildings category, only buildings in Italy will be eligible.

enabling monitoring the impact of physical and transition risks on market and credit risks. A preliminary integration in the Internal Capital Adequacy Assessment Process (ICAAP) 2023 was done, while Credem anticipates a complete integration in the ICAAP 2024.

### **ESG Guidelines into financing process for most sensitive sectors<sup>23</sup> financed under the Framework**

#### **ESG Guidelines into financing process for Forestry and Agriculture**

Only sustainable forestry recognized by FSC and PEFC certifications in accordance with the Framework will be eligible for financing or re-financing. Risks associated with forestry projects, such as the responsible use of fertilizers and pesticides, soil erosion, and reforestation with native species, are covered by the FSC and PEFC. The PEFC also addresses risk management related to fire. However, the Issuer does not have any internal guidelines for the environmental and social risk assessment for its lending and investment in forestry and agriculture projects.

#### **ESG Guidelines into financing process for Agriculture / Agriculture (with animals)**

The Issuer will only finance and re-finance assets certified organic (EU Organic, Bio, IFOAM, Proterra). The EU Organic regulation covers (almost) all agriculture projects and the related risks such as water resources, water contamination, soil erosion and fertility, responsible use of pesticides, herbicides, and fertilizers, alternatives to pesticides, herbicides, and fertilizers, crop rotation and crop residues. The Proterra certification also covers some relevant topics such as water contamination, and the use of fertilizers. However, Credem does not have any internal guidelines for the environmental and social risk assessment for its lending and investment in the agriculture/farming sector.

#### **Labour, Health and Safety**



Most assets financed will be located in Italy, high health & safety and labour standards are ensured by the relevant national legislation and the European Union mandatory social standards.

#### **Biodiversity**



Most assets financed will be in Italy. Thus, the Issuer ensures that its environmental impacts and impacts on the communities have been mitigated and reduced as Italy is considered a Designated Country according to the Equator Principles.

#### **Inclusion**

<sup>23</sup> The categorization of a sector as 'most sensitive' follows an evaluation of the number of controversies prevalent in the context of the financing operations of a financial institution.



The Issuer's Code of Conduct states that discrimination based on sex, race, language, personal and social conditions, religious and political orientations are prohibited. The Issuer's Code of Conduct also applies to access to credit, meaning that no one from the target population will be excluded from accessing the services.

### **Data protection and information security**

The Issuer adopted an information security management model that defines objectives, organizational structure and process for governance, management and reporting on information security and cyber security. With regards to the protection of personal data, Credem introduced a dedicated governance model and an internal regulatory framework that defines guidelines and assigns tasks and responsibilities in the management of compliance and the assessment of related risks. The issuer confirmed that investment in the evolution of cyber security processes and measures to maintain effective defenses and adequate reaction capabilities in case of any IT security incident is ongoing. Additionally, training and awareness initiatives are in place directed at employees and customers, contributing to preventing the interruption of services, data loss, illicit or incorrect use of data, as well as unauthorized access.



The Issuer is not certified for ISO27001, with the exception of the subsidiary CREDEMTEL SpA. Nevertheless, the Issuer has integrated ISO27001 and other security certificate requirements that may be required depending on applicable sector-specific regulations (e.g., card payments industry standards) into its information security management system and is considering pursuing the ISO27001 certification process in the next years.

Additionally, Credem set up an IT Audit unit within their Internal Audit function, which regularly verifies compliance with the internal IT security and data protection topics.

Credem adopted an Information Security Group Policy, which also applies to IT outsourcing. Any contractual relationship with third-party IT providers is preceded by a due diligence process that involves Credem's Security Governance Function, Cyber Security Operations Function, and the Data Protection Function, for the respective competence areas. Contractual agreements with external providers include a mandatory attachment, which defines general and operational IT security rules.

Further relevant corporate documents include the Data Protection Group Policy and the related personal data protection operations manual, as well as the Code of Ethics.

The issuer has also stated that it has taken steps to adapt its processes to the European GDPR.

### Responsible treatment of customers with debt repayment problems



The issuer has specific risk monitoring controls in place. The activation is based on early warning indicators and intercepts events/situations of potential default, thus leading to the development of control actions that are carried out with respect to the customer. The sales network is part of training activities in order to manage potential situations of early difficulties on the part of customers. The Issuer offers the option to renegotiate or restructure debts to clients experiencing repayment problems. All measures are offered under no detrimental conditions (no higher interest rates, no special commission, or request to sell collaterals at below market value). Additionally, Credem guarantees that all alternative options are examined before undertaking foreclosure as a last resort. The Network Relationship Managers, perform an advisory function with regard to the customer's needs and debt situation, as does the manager (of the central office). Clients may be assisted by consumer associations which, on behalf of the clients themselves, deal directly with the bank in order to identify the most appropriate solutions for resolving problems. The client also has access to Mediation or Assisted Conciliation Bodies in Italy to which clients may turn in order to settle out-of-court any disputes that may arise with the bank. All the documentation and information provided to customers aims to be clear and transparent, but there are not any particular internal guidelines/policies about the use of small prints. When a loan is refused, the manager (who maintains the customer relationship) will be provided with the reasons why the loan was not granted. For private loans, a letter of rejection is sent to the client with the motive of rejection. For corporate loans, the rejection letter is not automatically produced, but the client can refer to the manager for further information regarding the rejection. Furthermore, Credem has educational content publicly available on their website for clients.<sup>24</sup>

### Sales practices



The issuer has Transparency Provisions that ensure sales personnel are not pursuing their own interests or those of the intermediary to the detriment of customers with respect to potential commissions. The provisions include anchoring to quantitative and qualitative criteria; no incentives to offer a specific product or a specific category or combination of products that are not suited to the client's financial objectives and needs or that entail higher costs than another product that is also appropriate, consistent and useful with

<sup>24</sup> <https://www.credem.it/content/credem/it/scopri-credem-banca/educazione-finanziaria.html>, e-learning for under 30; <https://www.credem.it/content/credem/it/scopri-credem-banca/educazione-finanziaria/webinar/educazione-economica-e-parita-digenere.html>, webinars.



respect to the client's interests, objectives and characteristics; appropriate balancing with respect to the fixed component of the remuneration; being subject to correction mechanisms that allow it to be reduced or eliminated in the event of conduct that has caused or contributed to significant harm to customers or a significant breach of the Transparency Provisions. The sales personnel has access to information sheets for each product detailing cost characteristics, target market, sales and after-sales procedures, including sales restrictions. The Issuer revises the Sales process internally at least annually including clients' complaints.

### Responsible marketing



The Issuer, in its Code of Conduct, is committed to being transparent with regard to risks connected to the products offered; with regard to the economic conditions of the products/services offered, also with reference to the composition of expenses and tax charges; with regard the necessary assistance to improve the use and facilitate the understanding of its products/services, as well as those marketed by the bank on behalf of third parties. The issuer also has internal guidelines and policies in order to ensure the compliance with "Disposizioni sulla trasparenza delle operazioni e dei servizi bancari e finanziari, correttezza delle relazioni tra intermediari e clienti" by the Bank of Italy.<sup>25</sup> Documents provided under this guideline include information on the intermediary, the characteristics and typical risks of the operation or service, a complete list of the economic conditions offered, the contractual clauses concerning, for example, the right of withdrawal due to the customer and the intermediary, ("Fogli informativi"). All the documentation and information provided to customers aims to be clear and transparent, but there are not any particular internal guidelines/policies about the use of small prints. When a loan is refused, the manager (who maintains the customer relationship) will be provided with the reasons why the loan was not granted. For private loans, a letter of rejection is sent to the client with the motive of rejection. For corporate loans, the rejection letter is not automatically produced, but the client can refer to the manager for further information regarding the rejection.

### Exclusion criteria

The group-wide policies exclude involvement in speculative derivatives on food commodities and non-conventional weapons. For the purpose of the Green, Social and Sustainability Bonds Framework further sectors are excluded. Any kind of investment directly related to fossil fuel, to nuclear energy generation, and to the armament sector are excluded from eligible green loans. SMEs associated with the sector of alcohol, animal maltreatment, armament, gambling, fossil fuel and tobacco are excluded from eligible social loans. Additionally, the Issuer

<sup>25</sup> <https://www.credem.it/content/credem/it/footer/trasparenza.html>, different documents and guides to be provided to customers, which contain relevant information.



prohibits doing businesses with: persons included in the official counter-terrorism lists issued by the UN, EU, OFAC or included in external lists of undesirable persons provided for this purpose by Credem or Group Companies; countries which, due to a high risk of money laundering and terrorist financing and/or considering also the geopolitical context, involve difficulties and high costs for the performance of sufficiently thorough due diligence to identify the profile of the counterparties of the customers' transactions, as well as the classification of the goods under the commercial transactions; trust companies, trusts, anonymous companies or controlled through bearer shares based in high risk third countries, as identified by the European Commission; the so-called "shell banks"; entities for which it is not possible to comply with customer due diligence obligations, except in cases where abstention is not possible because there is a legal obligation, or the execution of the transaction by its very nature cannot be postponed or abstention may hinder the investigation. Lastly, it prohibits the sale of products and services for which an approval process has not been complied with, including risk assessments in the anti-money laundering area, as well as the opening or maintenance of anonymous or numbered accounts and deposits under fictitious names.

## PART III: CONSISTENCY OF GREEN, SOCIAL AND SUSTAINABILITY BONDS WITH CREDEM'S SUSTAINABILITY STRATEGY

*Key sustainability objectives and priorities defined by the Issuer*

TOPIC	ISSUER APPROACH
<p><b>Strategic ESG topics</b></p>	<p>In its 2024-2027 Strategic Business Plan, the Issuer focuses on prosperity (climate change, shared value, service quality, training and growing paths), principles of governance (stakeholders engagement on ESG topics, improvement of the link between ESG topics, Management by Objectives system and superindex, coverage of ESG induction to the Board and the Top Management, improving the Carbon Disclosure Project rating), planet (climate change), people (diversity, equity and inclusion, corporate welfare, training and growing paths).<sup>26</sup></p> <p>According to the Issuer, these strategic ESG topics have been identified through materiality assessment.</p>
<p><b>ESG goals/targets</b></p>	<p>To achieve its strategic ESG topics, the Issuer has set a number of goals, including the following.</p> <p>For its prosperity topic:</p> <ul style="list-style-type: none"> <li>▪ For climate change, (i) increasing the amount of loans granted in 2024 (aiming for EUR 150m for corporate, from EUR 50m in baseline year 2023, and for +27% for retail, from baseline year 2023) (ii) increasing the number of green products available for retail and corporate clients, (iii) increasing the amount of leasing contracts (electric cars, solar panels, etc.) from EUR 20m in baseline year 2023 to EUR 50m in 2024, (iv) increasing the ratio of total outstanding ESG emissions (green, social and sustainable bonds issuances) / total outstanding bonds to 60% in 2024 from 42.4% in 2023</li> </ul>

<sup>26</sup> As disclosed in Credem's Non-financial Statement, available at: <https://www.credem.it/content/dam/credem/documenti/gruppo-credem/sostenibilita/DNF%202023.pdf>

	<ul style="list-style-type: none"> <li>▪ For shared value, increasing the number of new hires, moving from 1344 in 2022 and aiming for an additional 500 in 2027</li> <li>▪ For service quality, increasing the client satisfaction from 82/100 to 83/100</li> <li>▪ For training, increasing the number of students involved in financial education initiatives, moving from 443 of baseline year 2022 to 5000 in 2027.</li> </ul> <p>For its principles of governance topic:</p> <ul style="list-style-type: none"> <li>▪ For stakeholders engagement on ESG topics, a 25% improvement, based on surveys, focus groups and/or interview</li> <li>▪ For improvement of the link between ESG topics, extension of the ESG superindex to all the most relevant personnel<sup>27</sup> and introduction of specific KPIs on legal entities and commercial routes</li> <li>▪ For coverage of ESG induction to the Board and the Top Management, improvement of the ESG induction cycle for Board of Directors and Top Management</li> <li>▪ For improvement of the Carbon Disclosure Project rating, improvement of the rating from D to B.</li> </ul> <p>For its planet topic:</p> <ul style="list-style-type: none"> <li>▪ For climate change, in 2027, compared to a 2022-year baseline, (i) reducing the energy consumption by 10%, (ii) reducing Scope 1 emissions by 3%, (iii) reducing Scope 2 emissions by 18%, (iv) reducing Scope 3 emissions by 6%, (v) offsetting 100% of Scope 1 and Scope 2 emissions with certified<sup>28</sup> carbon offsets in 2025.</li> </ul>
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<sup>27</sup> The ESG superindex is a synthetic indicator of sustainable development, characterized by the following elements: reduction of Scope 2 emissions, sustainable finance, ESG training, gender equality, and compliance with the multi-year plan concerning the progressive integration of climate and environmental risks into the business model.

<sup>28</sup> The Issuer is still in the process of determining the platform where they will purchase the relevant carbon credits.

	<p>For its people topic:</p> <ul style="list-style-type: none"> <li>▪ For diversity, equity and inclusion, maintaining the Equal Salary certification and the Gender Equality certification</li> <li>▪ For company welfare, health coverage borne by the company</li> <li>▪ For training, increasing the number of people attending voluntary ESG courses annually, from 14% in baseline year 2022, to 30% in 2027.</li> </ul> <p>According to the Issuer, the ESG goals are verified quarterly and reported to the sustainability committee and the Board of Directors.</p>
<p><b>Action plan</b></p>	<p>The Issuer has adopted specific governance structures to implement its sustainability strategy, and a control model, characterized by the presence of several corporate bodies which are also involved in sustainability: the Board of Directors, the Group Risk and Sustainability Committee, the Group Sustainability Committee, the Credit Strategy Committee, the Sustainability Governance Department (created and strengthened during 2023), The Internal Audit Department, and the Board of Statutory Auditors.</p> <p>Furthermore, for the period 2023-2027, the Issuer has allocated EUR 2.5m for the installation of photovoltaic systems, and EUR 7m for revamping interventions, installation of remote-control energy systems and renewal of systems.</p>
<p><b>Climate Transition Strategy</b></p>	<p>The Issuer has a short, medium and long-term climate change strategy in place.</p> <p>The Issuer committed to reduce its carbon footprint to zero with respect to residual Scope 1 and Scope 2 CO<sub>2</sub> emissions by 2025, and has developed a roadmap to achieve this goal, with intermediate targets for 2023 (which were successfully reached) and additional goals for 2027. Starting from 2025, 100% of Scope 1 and 2 residual CO<sub>2</sub> emissions will be compensated via carbon credits (afforestation projects).</p>

	<p>Regarding its Scope 3 CO<sub>2</sub> emissions, in 2023 the Issuer has calculated its total emissions, and the related Weighted Average Carbon Intensity. Furthermore, it has a target to reduce its Scope 3 emissions for work travel and paper consumption by 6% by 2027.</p> <p>Regarding financed emissions, in line with its Net Zero Banking Alliance (NZBA) membership, Credem committed to align the institution’s lending and investment portfolios to net-zero scenarios by 2050, with intermediate targets by 2030.</p> <p>Since the Issuer falls under the scope of the European Non-Financial Reporting Directive (NFRD), the Issuer commits to disclose its Green Asset Ratio annually, with further indicators and information on exposures to economic activities involved in the fossil and nuclear sectors.<sup>29</sup></p>
<p><b>Top three areas of breaches of international norms and ESG controversies in the industry<sup>30</sup></b></p>	<p>Financial market irregularities, Failure to mitigate climate change impacts, and Layoffs.</p>
<p><b>Breaches of international norms and ESG controversies by the Issuer</b></p>	<p>At the date of publication and leveraging ISS ESG Research, no controversy in which the Issuer would be involved has been identified.</p>
<p><b>Sustainability Reporting</b></p>	<p>The Issuer reports on its ESG performance and initiatives on an annual basis. The report is prepared as part of Credem’s Non-Financial Statements. Moreover, the Issuer publishes its Non-Financial Disclosure (compiled based on the GRI standard) annually.<sup>31</sup></p>
<p><b>Industry associations, Collective commitments</b></p>	<p>The Issuer is a member of the Net Zero Banking Alliance since the beginning of 2024.<sup>32</sup> Furthermore, since 2022 Credem adheres to the Women in Banking Charter, promoted by the Italian Banking Association, and in 2023 it obtained the certification PDR UNI 125:2022, issued by Bureau Veritas, on gender equality.</p>

<sup>29</sup> In its Non-Financial Disclosure, available here: <https://www.credem.it/content/dam/credem/documenti/gruppo-credem/sostenibilita/DNF%202023.pdf>

<sup>30</sup> Based on a review of controversies identified by ISS ESG over a 2-year period, the top three issues that have been reported against companies within the Commercial Banks & Capital Markets industry are displayed above. Please note that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

<sup>31</sup> In its Non-Financial Disclosure, available here: <https://www.credem.it/content/dam/credem/documenti/gruppo-credem/sostenibilita/DNF%202023.pdf>

<sup>32</sup> See here: <https://www.unepfi.org/member/credito-emiliano/>

**Previous sustainable/sustainability-linked issuances or transactions and publication of sustainable financing framework**

In 2022, Credem issued one green bond (for a total amount of EUR 600m) and one social bond (for a total amount of EUR 200m). They were both verified by ISS-Corporate. Furthermore, Credem published its first Green, Social and Sustainability Bond Framework in 2023, and issued one green bond (for a total amount of EUR 400m) and four social bonds (for a total amount of EUR 745m). In 2024, Credem issued one social bond for EUR 500m).

*Rationale for issuance*

Credem’s Green, Social and Sustainability Bonds Framework creates transparency about Credem’s financing and develops relationships with long-term investors, as well as creating synergies internally between the different departments on sustainability topics.

The 2023 update of the Issuer’s Green, Social and Sustainability Bonds Framework includes recent market development, namely on the regulatory front: for the update, CREDEM has taken into account the Substantial Contribution Criteria of the European Taxonomy to develop the eligibility criteria of the use of proceeds categories and added some use of proceeds categories (Social housing) or eligible products (tax incentives put in place by state mechanisms). Conversely, the 2024 update is strictly linked to the development of the Issuer’s sustainability strategy.

**Opinion:** *The key sustainability objectives and the rationale for issuing Green, Social and Sustainability Bonds are clearly described by the Issuer. The majority of the project categories financed are in line with the sustainability objectives of the Issuer.*

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## ANNEX 1: METHODOLOGY

The ISS-Corporate SPO provides an assessment of labelled transactions against international standards using ISS-Corporate proprietary methodology. For more information, please visit: <https://www.iss-corporate.com/file/publications/methodology/iss-corporate-green-social-and-sustainability-bond-loan-spo-methodology-summary.pdf>



## ANNEX 2: QUALITY MANAGEMENT PROCESSES

### SCOPE

Credem commissioned ISS-Corporate to compile a Green, Social and Sustainability Bonds SPO. The Second Party Opinion process includes verifying whether the Green, Social and Sustainability Bond Framework aligns with the ICMA Green and Social Bond Principles, and the Sustainability Bond Guidelines and to assess the sustainability credentials of its Green, Social and Sustainability Bonds, as well as the Issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion:

- ICMA Green Bond Principles
- ICMA Social Bond Principles
- ICMA Sustainability Bond Guidelines

### ISSUER'S RESPONSIBILITY

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

- Green, Social, and Sustainability Bond Framework
- Selection criteria
- Documentation of ESG risks management

### ISS-CORPORATE'S VERIFICATION PROCESS

Since 2014, ISS Group, of which ISS-Corporate is a part of, 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 Second Party Opinion of the Green, Social and Sustainability Bonds to be issued by Credem has been conducted based on a proprietary methodology and in line with the ICMA Green and Social Bond Principles, and Sustainability Bond Guidelines.

The engagement with Credem took place from March to May 2024.

### ISS-CORPORATE'S BUSINESS PRACTICES

ISS-Corporate has conducted this verification in strict compliance with the ISS Group 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 SPO

Companies turn to ISS-Corporate for expertise in designing and managing governance, compensation, sustainability and cyber risk programs that align with company goals, reduce risk, and manage the needs of a diverse shareholder base by delivering best-in-class data, tools, and advisory services.

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

Learn more: <https://www.iss-corporate.com/solutions/sustainable-finance/bond-issuers/>

For more information on SPO services, please contact: [SPOsales@iss-corporate.com](mailto:SPOsales@iss-corporate.com)

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