External Review Services

Use of Proceeds Bonds & Loans

Methodology

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1. Background & Purpose

This document outlines the key elements of the methodology applied by ISS-Corporate ("ICS") to assess whether use of proceeds instruments are aligned with the relevant market principles and whether the eligible categories financed or refinanced through such instruments demonstrate an appropriate level of sustainability quality. The methodology applies to green, social and sustainability bonds, loans and other use of proceeds instruments, including, where relevant, deposits, commercial paper and Sukuk structures.

ICS's external reviews of use of proceeds instruments are structured around three analytical components. First, ICS assesses the alignment of the issuer's or borrower's framework, or equivalent transaction documentation, with the applicable use of proceeds principles. Second, ICS assesses the sustainability quality of the use of proceeds, including (a) the contribution of financed categories/activities to the UN Sustainable Development Goals (SDG) and (b) outlines the management of associated environmental and social risks and impacts. Third, ICS provides a qualitative assessment of the consistency of the framework with the issuer's or borrower's broader sustainability strategy and, where relevant, the stated rationale for issuance.

2. Applicable Standards and Regulatory Framework

ICS's methodology incorporates the requirements and guidance set out in the following market standards, as applicable to the instrument type under review:

» Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines, as administered by the International Capital Market Association (ICMA).
» Green Loan Principles and Social Loan Principles (and related guidance), as published by the Loan Market Association (LMA), the Loan Syndications and Trading Association (LSTA) and the Asia Pacific Loan Market Association (APLMA).

Where relevant to the scope of the mandate, ICS may also perform additional assessments against other standards or taxonomies selected by the issuer or borrower. These may include the European Green Bond Regulation, the EU Taxonomy Regulation and its delegated acts, the Climate Bonds Standard, the Climate Transition Bond Guidelines, the Guide to Transition Loans, and other implemented or proposed national, regional or international taxonomies and sustainability standards.

3. Information Quality and Sources

External reviews are conducted on the basis of information provided by issuers or borrowers, together with publicly available disclosures, scientific studies and reports. Issuers or borrowers are expected to provide both public disclosures and all relevant non-public internal documentation. At a minimum, the assessment requires a written financing framework or, where no framework is available, a completed questionnaire and equivalent transaction-level documentation. Additional supporting information may include annual reports, sustainability reports, investor presentations, allocation policies, project lists, historical data, exclusion criteria, due diligence procedures and evidence relating to the issuer's or borrower's sustainability strategy.

For the purposes of the review, ICS gives particular weight to information that is clear, transparent, documented in writing and sufficiently specific to support an assessment of project eligibility, process design, management of proceeds, reporting commitments and the management of environmental and social risks and impacts. ICS may also draw on sources, including industry sustainability issue mapping, country and corporate research, where relevant to the scope of the review. Where information is incomplete, insufficiently documented or otherwise limits the assessment, ICS reflects such limitations explicitly and transparently in the review outcome. This is particularly relevant when evaluating the specificity and transparency of eligibility criteria and the adequacy of environmental and social risk management measures.

4. Pre-Issuance Reviews

ICS provides external reviews for use of proceeds instruments that assess:

» the alignment of the framework or transaction documentation with the applicable use of proceeds principles;
» the sustainability quality of the use of proceeds, including SDG contribution, and the management of environmental and social risks and impacts; and
» an overview of the issuer's or borrower's sustainability strategy, drawing on the key sustainability objectives and priorities defined by the issuer or borrower.

Table 1

Section	Dimension	Granular Signal
Part 1	Use of Proceeds	Aligned | Aligned with exceptions* | Not aligned
	Process for Project Evaluation and Selection	Aligned | Not aligned
	Management of Proceeds	Aligned | Not aligned
	Reporting	Aligned | Not aligned
Part 2	2.A. Contribution to the UN Sustainable Development Goals	Positive | Moderate | Negative
	2.B. Management of Environmental and Social Risks and Impacts	Qualitative commentary
Part 3	Overview of the issuer's or borrower's sustainability strategy	Qualitative commentary

4.1. Part 1: Alignment with Use of Proceeds Principles

Part 1 assesses whether the framework, or equivalent transaction documentation, is aligned with the applicable use of proceeds principles. The analysis follows the four core components of the principles: (1) Use of Proceeds; (2) Process for Project Evaluation and Selection; (3) Management of Proceeds; and (4)

Reporting. To conclude on alignment, all core components and key disclosures expected under the relevant principles must be present and assessed positively.

In this methodology, 'must' denotes a requirement for an ICS 'Aligned' conclusion (based on the relevant standard and evidence availability), while 'should' reflects a recommended disclosure/practice under the underlying principles.

For the Use of Proceeds component, ICS conducts a sustainability quality assessment to determine whether each financed category or activity is eligible under the applicable green and social principles. When a framework includes multiple categories, and one or more of them do not demonstrate a clear positive contribution – but also do not constitute an obstruction – ICS may still assess the overall framework as Aligned. This determination depends on the nature, materiality, and treatment of such categories within the framework, including their relevance to the issuer's or borrower's transition strategy.

If the retained categories show limited transparency, rely on business-as-usual or compliance-related practices, or lack clear eligibility criteria, ICS may require the issuer or borrower to demonstrate appropriate remediation measures or justify the transitional relevance of such expenditure. In such cases, the framework may be assessed as aligned with exceptions.

However, if any retained category is assessed as an obstruction, the overall framework is assessed as Not aligned.

Table 2

Requirements	Assessment
Use of proceeds: The framework should define eligible categories/activities and describe their expected environmental and/or social benefits in qualitative and/or quantitative terms.	ICS assesses whether (i) the eligible categories/activities are consistent with the project categories contemplated by the relevant principles; (ii) the eligibility criteria are defined clearly and transparently; (iii) the expected environmental and/or social benefits are described and, where feasible, quantified; and (iv) information on the intended allocation of proceeds is provided, or the timing of such disclosure is clearly stated.
Process for project evaluation and selection: The framework must describe a structured process for selecting projects to ensure their eligibility and managing related environmental and social risks and impacts.	ICS checks whether the issuer or borrower has established a coherent and documented selection process for eligible projects, whether sustainability risks associated with the financed categories/activities are identified and managed appropriately, whether harmful activities are excluded where relevant, and whether the selected categories are linked to the issuer's or borrower's sustainability strategy, and whether the specific target population has been identified for social instruments.
Management of proceeds: The net proceeds (for bonds) or an equivalent amount (or, for loans, credited to a dedicated account and tracked	ICS checks whether the issuer or borrower commits to full allocation to eligible categories, whether proceeds are tracked appropriately and are managed through a bond-by-bond approach or portfolio approach, how unallocated proceeds are

Requirements	Assessment
appropriately) must be tracked and allocated to eligible categories through a formal internal process.	managed, and whether additional arrangements are in place for deposits, commercial paper, loan tranches or Sukuk structures where relevant.
Reporting: The issuer or borrower should commit to transparent allocation and impact reporting at least annually (and in case of material developments), as appropriate to the instrument type.	ICS checks whether the issuer or borrower commits to annual allocation reporting until full allocation or until maturity, whether reporting will be made public or shared with participating lenders as appropriate to the instrument type, and whether the framework specifies the level, scope and expected content of allocation and impact reporting.

4.2. Part 2: Sustainability Quality of the Use of Proceeds

Part 2 evaluates the sustainability quality of the use of proceeds in two ways. First, ICS assesses the contribution of the financed categories/activities to the UN Sustainable Development Goals. Second, ICS outlines how the issuer or borrower identifies, manages and mitigates environmental and social risks and impacts associated with the financed categories/activities, based on a set of assessment criteria tailored to the nature of the categories and the issuer or borrower profile.

4.2.1. Contribution to the UN Sustainable Development Goals (Part 2.A)

For the purpose of the SDG assessment, ICS generally distinguishes between two broad types of use of proceeds categories or activities: (1) Products and services directly provided to end-user institutions (such as corporate entities, public sector entities, non-profit organisations) or to end consumers and users external to the issuer or borrower; (2) Operational improvements within the issuer's or borrower's own operations, comprising expenditure aimed at reducing negative externalities or enhancing positive externalities across operations. For financial institutions, this distinction is not applied due to limited visibility into borrowers' operational practices and the diversified nature of lending portfolios.

ICS evaluates the direct sustainability impact of each financed category/activity using a three-point scale: Obstruction, No Net Impact, and Contribution. The assessment is based on the intrinsic sustainability characteristics of the category or activity and the associated eligibility criteria, rather than issuer- or borrower-level performance.

ICS applies a most-direct-impact approach, mapping financed categories and eligibility criteria only to those UN Sustainable Development Goals to which the categories or activities are most directly linked, while taking due account of material negative externalities associated with the financed categories or activities. The assessment outcome indicates whether the financed activity makes a positive contribution to, has no meaningful contribution to, or contributes negatively to specific UN Sustainable Development Goals.

Table 3

Assessment area	Scope of financed categories/ activities	Applicable issuers or borrowers	Assessment outcome	SDG mapping in relation to assessment outcome
Products and services	Products or services provided to external institutions or to consumers/users	All issuers or borrowers	Obstruction | No Net Impact | Contribution	Mapping of the financed category to the 17 UN Sustainable Development Goals with the clearest and most direct linkage, while taking a holistic view of any associated negative externalities
Operational improvements	Processes and operations intended to improve internal operational performance	Corporate issuers or borrowers		

ICS also assigns an overall summary assessment for Part 2.A using a three-point scale: Positive, Moderate and Negative. A Positive conclusion is used where no category/activity is assessed as an Obstruction and the share of categories/activities assessed as No Net Impact remains at or below 10% and does not exceed 10 categories/activities limited to No Net Impact Case 1 and Case 2. A Moderate conclusion is used where no category/activity is assessed as an Obstruction, but the share of categories/activities is assessed as No Net Impact exceeds 10% or more than 10 categories/activities are assessed as No Net Impact, again limited to No Net Impact Case 1 and Case 2. A Negative conclusion is used where at least one category is assessed as an Obstruction.

Table 4

Dimension	Case 1 – Insufficient criteria	Case 2 – BAU / Compliance driven	Case 3 – Methodological evidence gap
Core issue	Eligibility criteria are not sufficiently transparent, specific, or measurable to demonstrate consistent positive outcomes.	Activity primarily reflects business-as-usual, compliance-driven expenditure.	While a positive contribution may exist, the evidence is insufficient to demonstrate a net positive impact under our methodology, especially where impacts are indirect or controversy risks remain.
Typical characteristics	Vague eligibility definitions; limited metrics or thresholds; limited ability to verify outcomes.	Activities expected in normal operations; limited incremental benefit; primarily compliance driven.	Not covered by taxonomy; evidence indirect or not recognised; unclear impact pathway; controversy risks remain in the evidence.

Dimension	Case 1 – Insufficient criteria	Case 2 – BAU / Compliance driven	Case 3 – Methodological evidence gap
Interpretation of impact	Impact cannot be demonstrated due to weak criteria.	Impact is likely limited or non-additional.	Impact may be plausible, but not provable within methodology constraints.
Assessment implication	Aligned with exceptions.	Aligned with exceptions.	Distinct treatment; aligned logic applies only to Case 3.

Note: Case 3 reflects situations where there may be an indication of positive environmental or social contribution, but the available evidence is not sufficient, sufficiently direct, or sufficiently aligned with ICS's methodological standards to support a positive classification. This does not imply absence of impact, but rather a limitation in evidentiary support under the methodology.

4.2.2. Management of Environmental and Social Risks and Impacts (Part 2.B)

This section outlines whether, and to what extent, the issuer or borrower has established processes to identify, manage and monitor the environmental and social risks and impacts associated with the financed categories or activities. The analysis relies on assessment criteria selected based on the nature of the use of proceeds categories/activities and the issuer or borrower profile. Publicly available policies, internal documents and, where appropriate, national legislation and market standards may be used to support the assessment.

The assessment areas may encompass a broad range of topics, including, but not limited to, sustainability governance, labour rights, health and safety, biodiversity, community engagement, waste and water management, user safety, supply chain impacts, non-discrimination, responsible lending practices, and responsible marketing. The applicable assessment areas are tailored to the nature of the entity, and differ across corporates, financial institutions, and sovereign or sub-sovereign issuers or borrowers.

Each assessment area is reviewed against the specific measures identified in the issuer's or borrower's policies, procedures, governance arrangements and due diligence processes. The review is factual in nature and is intended to determine whether the issuer or borrower has established credible processes to identify, manage and monitor the most relevant sustainability risks and impacts associated with the financed categories/activities.

4.3. Part 3: Issuer's/Borrower's Sustainability Strategy

Part 3 provides a qualitative overview of the issuer's or borrower's sustainability strategy, drawing on the key sustainability topics and priorities defined by the issuer or borrower. This analysis serves to provide contextual information for the sustainability quality assessments and to assess whether the financed categories or activities are coherent with the broader strategic direction communicated by the issuer or borrower.

ICS reviews public disclosures and supporting documentation to identify the issuer's or borrower's material sustainability topics, the process used to define them, sustainability targets and timelines, science-based targets where relevant, capital and operating expenditure linked to sustainability objectives, stakeholder involvement, sustainability risk management, reporting practices, collective commitments and prior sustainable or sustainability-linked issuances. Where relevant, ICS also considers the stated rationale for issuance and whether the instrument is presented as supporting stated sustainability ambitions or strategic priorities.

Table 5

Requirements	Assessment
Material sustainability objectives and priorities should be publicly defined.	ICS reviews public disclosures to identify the issuer's or borrower's material sustainability topics, the process used to define them and the extent to which these topics are linked to the financed categories/activities.
The issuer or borrower should disclose sustainability targets, implementation plans or other strategic commitments where relevant.	ICS reviews disclosed targets, timelines, science-based commitments, financial budgets and transition or implementation plans where relevant to the financed categories/activities and the issuer's broader sustainability strategy.
The issuer or borrower should provide sufficient evidence of sustainability governance and reporting.	ICS reviews stakeholder involvement, risk management, reporting frameworks, sustainability reporting frequency, association memberships and prior sustainable financing activity to determine whether the sustainability strategy is supported by credible governance and disclosure practices.

5. Optional Additional Assessment Modules

Where requested by the issuer or borrower, ICS may supplement the core use of proceeds methodology with additional assessment modules. These modules are selected according to the standards or regulatory frameworks included in the scope of the mandate and may affect the structure of the resulting external review document.

5.1. EU Taxonomy Assessment Module

Under this module, ICS may assess the eligibility of the financed categories/activities against the EU Taxonomy Regulation and, where requested and supported by sufficient evidence, may assess alignment with the applicable technical screening criteria, Do No Significant Harm criteria and minimum safeguards. Depending on the scope of the mandate, this module may be presented as a separate section of the external review or may replace elements of the standard risk management analysis where the assessment covers taxonomy eligibility and, where requested and evidenced, taxonomy alignment (substantial contribution, DNSH and minimum safeguards in accordance with applicable technical screening criteria).

5.2. European Green Bond Regulation Assessment Module

Under this module, ICS assesses the relevant European Green Bond factsheet (Annex I), allocation report(s) (Annex II) and, where applicable, the impact report (Annex III) against the requirements of the European Green Bond Regulation, including the applicable annex templates and the related use of proceeds and taxonomy requirements. The module reflects the Regulation's requirements for pre-issuance review of the factsheet and post-issuance review of allocation reporting. Where this module is the sole standard selected by the issuer, the structure of the external review may differ from the standard use of proceeds format in order to reflect the structure and disclosure architecture set out in the Regulation.

5.3. Climate Transition Finance Assessment Module

Under this module, ICS may assess whether the instrument is situated within a credible climate transition context, including the issuer's transition strategy, governance, environmental materiality, science-based pathway and implementation transparency. This module may be relevant to issuers in hard-to-abate sectors or to financial institutions using proceeds to support transition activities or financed emissions reduction.

Annex 1. Applicable Standards and Analytical Sources

The assessment may draw on the following categories of standards, sources, and analytical references, as relevant to the scope of the review:

- ICMA's Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines.
- LMA's Green Loan Principles and Social Loan Principles.
- Issuer or borrower financing frameworks, questionnaires and transaction documentation.
- Annual reports, sustainability reports, allocation reports, investor presentations and other public corporate disclosures.
- Publicly disclosed eligibility criteria, allocation policies and supporting verification statements.
- Relevant international, regional, national or industry standards, taxonomies or initiatives used to benchmark financed categories/activities or risk management expectations.
- Internal corporate, country and analytical sources used by ICS.

Annex 2. Assessment Signals

ICS uses the following assessment signals when concluding on principles alignment, sustainability quality and consistency with the issuer's or borrower's sustainability strategy.

Table 5

Assessment area	Signals	Interpretation
Part 1 - Use of Proceeds alignment	Aligned | Aligned with exceptions* | Not aligned	Aligned is used where the financed categories/activities are assessed positively overall, including where retained No Net Impact categories fall under the case where a positive impact cannot be clearly substantiated under the methodology (No Net Impact Case 3). Aligned with exceptions* is used where retained No Net Impact categories are linked to insufficiently transparent criteria or mainly business-as-usual, remediation or compliance-related expenditure (No Net Impact Case 1 or Case 2). Not aligned is used where a retained category is assessed only as an Obstruction.
Part 2.A – SDG assessment	Positive | Moderate | Negative	Positive is used where no category/activity is assessed as an Obstruction and No Net Impact categories remain at or below 10% and do not exceed 10 categories/activities, limited to No Net Impact Case 1 and Case 2. Moderate is used where no category/activity is assessed as an Obstruction, but No Net Impact categories/activities exceed 10% or more than 10 categories/activities are assessed as No Net Impact, limited to No Net Impact Case 1 and Case 2. Negative is used where at least one category is assessed as an Obstruction.
Part 2.A.1 - Products and services SDG assessment	Obstruction | No Net Impact | Contribution	Reflects the direct sustainability impact of the financed category and its most relevant contribution to the UN Sustainable Development Goals.
Part 2.A.2 - Operational improvements SDG assessment	Obstruction | No Net Impact | Contribution	Reflects the directional change achieved through financed operational improvements of the issuer's or borrower's material externalities.
Part 2.B - Management of	Qualitative commentary	Used to provide contextual information drawn primarily from the company's public policies and measures,

Assessment area	Signals	Interpretation
Environmental and Social Risks and Impacts		sustainability reporting, and relevant regulatory requirements, reflecting the Issuer's or Borrower's risk management commitments.
Part 3 - Sustainability strategy	Qualitative commentary	Used to provide contextual information drawn primarily from sustainability reporting and other public information, reflecting the issuer's or borrower's sustainability commitments.

Annex 3. Quality Management and Review Process

ICS conducts external reviews based on written information provided by the issuer or borrower and supplementary public disclosures. The review process may include requests for clarification, additional supporting documents, and written confirmations where the framework or transaction documentation does not contain sufficient detail for the assessment.

The issuer or borrower remains responsible for the completeness and accuracy of the information made available for the review. ICS performs the assessment independently and in accordance with its internal quality management procedures, including review and sign-off processes designed to promote methodological consistency, transparency, and proper documentation of assessment limitations.

Where relevant, the review process may rely on internal subject matter expertise and research sources to support the assessment of project category eligibility, SDG contribution, environmental and social risk management, and the contextual analysis of the issuer's or borrower's sustainability strategy. ICS conducts the review in accordance with its Code of Ethics and related internal policies designed to promote integrity, transparency, professional competence, objectivity, and the management of conflicts of interest.

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