

# Checklist on a ESG Bond Issue

## 1 UoP Bonds(Green, Social, Sustainability bond)

### 1. Use of Bond Proceeds

| Checklist   | Confirmation |
|---|--------------|
| ▶ It is desirable that the issuer use all the proceeds from UoP bonds for projects associated with the UoP bonds.   |              |
| ▶ In choosing an UoP bond project, the issuer should select a project that promises improvement for respective types of UoP bonds.  |              |
| ▶ It is desirable that the issuer quantify the magnitude of the improvement of an UoP bond project where the bond proceeds were used.   |              |
| ▶ The issuer should provide investors with a prior notification, using a prospectus, etc. on the use of bond proceeds and anticipated improvements. If respective UoP bond projects are finalized, it is desirable that each UoP bond project be specified.   |              |
| ▶ The issuer should inform investors not only of the anticipated improvements but also of the assessment and action plans for any possible negative effects associated with the UoP bond project.   |              |
| ▶ In case the issuer uses the proceeds from UoP bonds for repayment of an UoP bond project that has already commenced, it is desirable that the issuer inform investors of 1) the amount (or ratio) that is used for the repayment; 2) the name and specifics (or business) of the UoP bond project that requires the repayment; and 3) the duration of the UoP bond project. |              |
| ▶ The issuer should notify investors of any changes in the use of the UoP bond proceeds.  |              |

## **2. Assessment and Selection of a Project**

| Checklist   | Confirmation |
|---|--------------|
| <ul style="list-style-type: none"> <li>▶ The issuer should inform investors in advance of the improvements it aims to achieve through UoP bonds in terms of creating environmental or social values.</li> </ul>   |              |
| <ul style="list-style-type: none"> <li>▶ The issuer should inform investors in advance of the grounds of evaluation and selection (or criteria of assessment) of an UoP bond project, comparing them with the purpose of the bond issue.</li> </ul>   |              |
| <ul style="list-style-type: none"> <li>▶ In terms of determining the project’s potential to bring about proper improvements based on the criteria of assessment, the issuer should inform investors in advance of the grounds of the decision, persons who made such decision, and the way such decision was made.</li> </ul> |              |
| <ul style="list-style-type: none"> <li>▶ It is desirable that the issuer inform investors in advance of social and environmental standards or certifications, if any, that it refers to for evaluation and selection of an UoP bond project.</li> </ul>   |              |
| <ul style="list-style-type: none"> <li>▶ The issuer should inform investors in advance of processes and eligibility and exclusionary standards adopted, if any, to identify and manage potential social and environmental risks of an UoP bond project that can have a severe impact.</li> </ul>                              |              |
| <ul style="list-style-type: none"> <li>▶ Upon assessing and selecting an UoP bond project, it is desirable that the issuer secure appropriateness by involving departments or external parties that have expertise in evaluating social or environmental values.</li> </ul>   |              |
| <ul style="list-style-type: none"> <li>▶ Upon any major changes in an UoP bond project, the issuer should re-verify the eligibility pursuant to the same process.</li> </ul>  |              |

### **3. Management of Bond Proceeds**

| Checklist   | Confirmation |
|---|--------------|
| <ul style="list-style-type: none"> <li>▶ The issuer should keep track of and manage the proceeds in a way that ensures the proceeds are used only for the UoP bond project.</li> </ul>  |              |
| <ul style="list-style-type: none"> <li>▶ The issuer should keep track of and manage the entire proceeds in an appropriate way while the ways processes of such tracking should be managed by the issuer's internal control.</li> </ul>  |              |
| <ul style="list-style-type: none"> <li>▶ The issuer should be able to prove pursuant to its internal procedure the specifics of loans provided to and investment management of an UoP bond project. It is desirable that the issuer properly retain relevant supporting documents.</li> </ul> |              |
| <ul style="list-style-type: none"> <li>▶ The issuer should check on a regular basis (at least once a year) if the sum of the proceeds used and the remaining proceeds coincides with the total of proceeds procured until the point of repayment.</li> </ul>                                  |              |
| <ul style="list-style-type: none"> <li>▶ In any case there are proceeds that remain unused, the issuer should manage such funds according to the prescribed ways and processes and inform investors of this.</li> </ul>   |              |
| <ul style="list-style-type: none"> <li>▶ It is desirable that the issuer inform investors in advance of the ways in which unused proceeds will be managed.</li> </ul>   |              |
| <ul style="list-style-type: none"> <li>▶ It is desirable that the issuer invest unused proceeds in safe and liquid assets.</li> </ul>   |              |
| <ul style="list-style-type: none"> <li>▶ The issuer should try hard to use unused proceeds for UoP bond projects in the swiftest manner.</li> </ul>   |              |

## 4. Reporting

| Checklist  | Confirmation |
|--|--------------|
| <ul style="list-style-type: none"> <li>▶ The issuer should inform investors of the latest information about and improvements achieved through the use of the bond proceeds since the issue of the UoP bond.</li> </ul>   |              |
| <ul style="list-style-type: none"> <li>▶ The issuer should inform investors of material changes in the circumstances, if any, at least once a year until all the bond proceeds are used up. An impact reporting should be performed at least once since all the proceeds are distributed.</li> </ul>   |              |
| <ul style="list-style-type: none"> <li>▶ The information that should be disclosed by the issuer include:               <ul style="list-style-type: none"> <li>○ List of UoP bond projects that received the bond proceeds                   <ul style="list-style-type: none"> <li>– Overview of the UoP bond projects, including its progress</li> <li>– The amount of proceeds used for the UoP bond projects</li> <li>– Environmental and social improvements expected from the UoP bond project</li> </ul> </li> <li>○ The amount, ratio, scheduled timeline of use, management plans, etc. of unused proceeds.</li> </ul> </li> </ul> |              |
| <ul style="list-style-type: none"> <li>▶ If bond proceeds were used for reinvestment, it is desirable that the issuer include the following information in its disclosure:               <ul style="list-style-type: none"> <li>○ The amount (or ratio) of the proceeds used for reinvestment</li> <li>○ The name and specifics (or business) of the UoP bond project linked to the reinvestment</li> </ul> </li> </ul>  |              |
| <ul style="list-style-type: none"> <li>▶ It is desirable that an issuer disclose information for each UoP bond project. Provided, however, that it is difficult to disclose information of each project due to reasons such as relevant laws and regulations and confidentiality clauses, the issuer may consolidate such information for disclosure (i.e. portfolio-type disclosure).</li> </ul>  |              |
| <ul style="list-style-type: none"> <li>▶ It is desirable that, if possible, the issuer present qualitative and quantitative performance metrics for environmental and social improvements in light of the nature of the UoP bond project.</li> </ul>   |              |
| <ul style="list-style-type: none"> <li>▶ It is desirable that, if possible, the issuer use qualitative metrics to state improvements and include methods of calculation and preconditions.</li> </ul>  |              |
| <ul style="list-style-type: none"> <li>▶ It is desirable that the issuer inform investors of the use of the proceeds, including an impact report, through its website (and, if listed, the exchange in which it is listed)</li> </ul>  |              |

## 5. External Reviewers' Evaluation

| Checklist   | Confirmation |
|---|--------------|
| ▶ The issuer should establish a management framework for an issue of UoP bonds.   |              |
| ▶ The issuer should have its UoP bond management framework evaluated by external reviewers. This also applies to any changes in the management framework.   |              |
| ▶ The issuer should disclose the document of evaluation of its management framework issued by the external reviewer.  |              |
| ▶ It is recommended that the issuer disclose external reviewer's evaluation of its report on the use of proceeds, along with the report, including impact assessment.   |              |
| ▶ The issuer should select an external reviewer that meets internationally accepted standards (i.e. ICMA, CBI) to seek an external review.  |              |
| ▶ The external reviewer should comply with the basic requirements asked of experts, such as good faith, fairness, expertise, care, confidentiality and conduct.   |              |
| ▶ The external reviewer should exhibit a sufficient organizational structure and human resources that have professional experience and qualifications required to perform evaluation of the subject matters.  |              |
| ▶ Depending on the types of external evaluation, the external reviewer should assess: 1) environmental or social improvements the UoP project seeks to achieve; 2) appropriateness of 4 factors expected from the UoP bonds; and 3) where required, potential material risks in creating environmental or social values pertinent to the specific project |              |
| ▶ The external reviewer should include a general description of the purpose of the assessment, scope of duty, credentials and expertise in a document that contains the result of the review.   |              |
| ▶ The external reviewer should include the result of the review of any interests involved and conflict of interest (a third party) with the issuer and information protection policy.   |              |
| ▶ The external reviewer should state the criteria and standards applied to the assessment in a document that contains the result of the review.   |              |
| ▶ The external reviewer should include limits of its assessment in the conclusion of the result of the review.  |              |

## 1. Selection of KPIs

| Checklist   | Confirmation |
|---|--------------|
| <ul style="list-style-type: none"> <li>▶ KPIs should be relevant, core and material to the issuer’s overall business, and of high strategic significance to the issuer’s current and/or future operations.</li> </ul>                 |              |
| <ul style="list-style-type: none"> <li>▶ KPIs should be measurable or quantifiable on a consistent methodological basis.</li> </ul>   |              |
| <ul style="list-style-type: none"> <li>▶ KPIs should be externally verifiable and able to be benchmarked.</li> </ul>  |              |
| <ul style="list-style-type: none"> <li>▶ Issuers are encouraged to select KPIs that they have already included in their previous annual reports, sustainability reports or other non-financial reporting disclosures.</li> </ul>      |              |
| <ul style="list-style-type: none"> <li>▶ Issuers should provide historical externally verified KPI values covering at least the previous 3 years in situations where the KPIs have not been previously disclosed.</li> </ul>          |              |
| <ul style="list-style-type: none"> <li>▶ Issuers should communicate clearly to investors the rationale and process according to which the KPIs have been selected and how the KPIs fit into their sustainability strategy.</li> </ul> |              |
| <ul style="list-style-type: none"> <li>▶ Issuers should provide a clear definition of KPIs and include the applicable scope or perimeter as well as calculation methodology.</li> </ul>   |              |
| <ul style="list-style-type: none"> <li>▶ Issuers should make use of calculation methodology of KPIs where feasible, science-based or benchmarked against an industry standard.</li> </ul>   |              |

## 2. Calibartion of SPTs

| Checklist  | Confirmation |
|--|--------------|
| ▶ SPTs should represent a material improvement in the respective KPIs and be beyond a “Business as Usual” trajectory.  |              |
| ▶ SPTs should be compared to a benchmark or an external reference.   |              |
| ▶ SPTs should be consistent with the issuers’ overall strategic sustainability and ESG strategy.   |              |
| ▶ SPTs should be determined on a predefined timeline, set before (or concurrently with) the issuance of the bond.  |              |
| ▶ The issuer’s own performance over time for which a minimum of 3 years, where feasible, of measurement track record on the selected KPIs and the provision of forward–looking guidance on the KPI are recommended.  |              |
| ▶ It is recommended for issuers to provide SPT’s relative positioning versus its peer’s or current industry or sector standards.   |              |
| ▶ It is recommended for issuers to provide the reference to the science–based scenarios or absolute levels or official country/regional/international targets or recognised Best–Available–Technologies or other proxies to determine relevant targets across environmental and social themes.   |              |
| ▶ Issuers should make clear reference to the timelines for the target achievement, including the target observation date, period, the trigger event, and the frequency of SPTs; the verified baseline or reference point selected for improvement of KPIs as well as the rationale for that baseline or reference point to be used; in what situations recalculations or pro–forma adjustments of baselines will take place; any other key factors beyond the issuer’s direct control that may affect the achievement of the SPTs. |              |

### **3. Bond Characteristics**

| Checklist  | Confirmation |
|--|--------------|
| <ul style="list-style-type: none"> <li>▶ Issuers should provide the definition of KPIs, SPTs(including calculation methodologies) and the potential variation of the financial and/or structural characteristics of SLB.</li> </ul>  |              |
| <ul style="list-style-type: none"> <li>▶ It is recommended the variation of the bond’s financial and/or structural characteristics should be commensurate and meaningful relative to the issuer’s original bond financial characteristics.</li> </ul>                                    |              |
| <ul style="list-style-type: none"> <li>▶ Any fallback mechanisms in case the SPTs cannot be calculated or observed in a satisfactory manner should be explained.</li> </ul>  |              |
| <ul style="list-style-type: none"> <li>▶ It is recommended for issuers to state the pro-forma adjustments of baselines or KPI scope, the restatement of the SPT and drastic changes in the regulatory environment that could substantially impact the calculation of the KPI.</li> </ul> |              |
| <ul style="list-style-type: none"> <li>▶ Issuers should submit relevant documents which include the bond characteristics such as prospectus or underwriting agreement.</li> </ul>  |              |



## 4. Reporting

| Checklist  | Confirmation |
|--|--------------|
| <ul style="list-style-type: none"> <li>▶ Issuers should publish and keep readily available through web site;               <ul style="list-style-type: none"> <li>- up-to-date information on the performance of the selected KPI;</li> <li>- a verification assurance report relative to the SPT outlining the performance against the SPTs and the related impact, and timing of such impact, on the bond's financial and/or structural characteristics;</li> <li>- any information enabling investors to monitor the level of ambition of the SPTs</li> </ul> </li> </ul> |              |
| <ul style="list-style-type: none"> <li>▶ Reporting should be published regularly, at least annually, and in any case for any date/period relevant for assessing the SPT performance leading to a potential adjustment of the financial and/or structural characteristics of SLB.</li> </ul>  |              |
| <ul style="list-style-type: none"> <li>▶ Issuers should report to KRX in case there is any variations in the bond characteristics due to the SPT performance.</li> </ul>   |              |

## **5. Verification**

| <b>Checklist</b>   | <b>Confirmation</b> |
|--|---------------------|
| ▶ Issuers should seek independent and external verification of their performance level against each SPT for each KPI by the qualified external reviewer at least once a year.                                |                     |
| ▶ It is recommended for issuers to be verified until after the last SPT trigger event of the bond has reached in case there are potential adjustments in financial and/or structural characteristics of SLB. |                     |
| ▶ Issuers should submit the result of verification to KRX, and it is recommended to upload the file on the website.  |                     |

## **6. External Reviewers' Evaluation(including Verification)**

| Checklist  | Confirmation |
|--|--------------|
| ▶ The SLB framework should be separately evaluated from external reviewer whenever the bond is issued.   |              |
| ▶ It is desirable to have SLB framework separately from Use of proceed bond framework.   |              |
| ▶ The External reviewer should check whether the SLB framework is written based on appropriate principles.   |              |
| ▶ The External reviewer should evaluate the correlation of KPI, resolution, credibility, the rationale and ambition of predefined SPT, the correlation between benchmarks and baselines and reliability of suggested strategies to achieve the goal, based on the scenario analysis. |              |
| ▶ KPI methodology or calibration of SPT should be evaluated from the external reviewers in case there are substantial adjustments.   |              |
| ▶ The issuer should select an external reviewer that meets internationally accepted standards (i.e. ICMA, CBI) to seek an external review.   |              |
| ▶ The external reviewer should comply with the basic requirements asked of experts, such as good faith, fairness, expertise, care, confidentiality and conduct.  |              |
| ▶ The external reviewer should exhibit a sufficient organizational structure and human resources that have professional experience and qualifications required to perform evaluation of the subject matters.   |              |
| ▶ The external reviewer should include a general description of the purpose of the assessment, scope of duty, credentials and expertise in a document that contains the result of the review.  |              |
| ▶ The external reviewer should include the result of the review of any interests involved and conflict of interest (a third party) with the issuer and information protection policy.  |              |
| ▶ The external reviewer should state the criteria and standards applied to the assessment in a document that contains the result of the review.  |              |
| ▶ The external reviewer should include limits of its assessment in the conclusion of the result of the review.   |              |