

REPORT REVIEW

Republic of Serbia Green Bond report

Green Bond Reporting
Republic of Serbia

29 December 2022

VERIFICATION PARAMETERS

Type(s) of reporting	<ul style="list-style-type: none">Green Bond Reporting
Relevant standard(s)	<ul style="list-style-type: none">Harmonized Framework for Impact Reporting (HFIR) as administered by the ICMA (June 2022)Green Bond Principles as administered by the ICMA (as of June 2021)
Scope of verification	<ul style="list-style-type: none">Republic of Serbia's Green Bond Reporting (December 22, 2022)Republic of Serbia's Green Bond Framework (September 2, 2021)
Lifecycle	<ul style="list-style-type: none">Post-issuance verification
Validity	<ul style="list-style-type: none">As long as no material changes are undertaken by the issuer to its Green Bond Reporting and asset pool as of as of December 22, 2022

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SCOPE OF WORK

Republic of Serbia (“the issuer” or “Serbia”) commissioned ISS Corporate Solutions (ICS) to provide an External Review¹ on its Green Bond Reporting by assessing:

1. The alignment of the Republic of Serbia’s Green Bond Reporting with the commitments set forth in Republic of Serbia Green Bond Framework (as of September 2, 2021)².
2. Republic of Serbia’s Green Bond Reporting - benchmarked against Harmonised Framework for Impact Reporting (HFIR), updated June 2022, as administered by International Capital Market Association (ICMA)
3. The disclosure of proceeds allocation and soundness of reporting indicators – whether the impact metrics align with best market practices and are relevant to the Green Bond issued.
4. Republic of Serbia issued a 7-year green bond in the international markets on 17 September 2021 for EUR 1 billion.

¹ A limited or reasonable assurance is not provided on the information presented in Republic of Serbia’s Green Bond Reporting. a review of the use of proceeds’ allocation and impact reporting is solely conducted against ICMA’s Green Bond Principles core principles and recommendations where applicable, and the criteria outlined in the underlying Framework. The assessment is solely based on the information provided in the allocation and impact reporting. The issuer [or Republic of Serbia] is responsible for the preparation of the report including the application of methods and internal control procedures designed to ensure that the subject matter information is free from material misstatement.

² The Framework was assessed as aligned with the Green Bond Principles as of September 2, 2021

ASSESSMENT SUMMARY

REVIEW SECTION	SUMMARY	EVALUATION
<p>Part 1.</p> <p>Alignment with the issuer's commitments set forth in the Framework</p>	<p>The Republic of Serbia's Green Bond Reporting meets the issuer's commitments set forth in the Green Bond Framework. The proceeds have been used to finance Energy Efficiency, Transport, Sustainable Water and Wastewater Management, Environment, Pollution Prevention and Control, Protection of the Environment, Biodiversity and Sustainable Agriculture in accordance with the eligibility criteria defined in the Framework.</p>	<p>Aligned</p>
<p>Part 2</p> <p>Alignment with the Harmonized Framework for Impact Reporting</p>	<p>The Green Bond Reporting is in line with ICMA's Harmonized Framework for Impact Reporting. The issuer follows core principles and where applicable key recommendations.</p> <p>The Republic of Serbia reports next year from issuance. The report will be available on the Republic of Serbia's website. The Bond was issued on 17 September 2021 following the Framework publication in August 2021 and matures on 16 September 2028. Proceeds have been exclusively allocated to Green Projects, in line with the eligibility criteria set forth in the underlying Framework. The issuer discloses transparently the share of allocated proceeds and committed to fully allocate the remaining proceeds in 2023.</p>	<p>Aligned</p>
<p>Part 3</p> <p>Disclosure of proceeds allocation and soundness of reporting indicators</p>	<p>The allocation of the bond's proceeds has been disclosed, with a detailed breakdown across different eligible project categories/asset categories as proposed in the Framework³.</p> <p>The Republic of Serbia's Green Bond Framework has adopted an appropriate methodology to report the impact generated by providing comprehensive disclosure on data sourcing, calculation methodologies and granularity reflecting best market practices.</p>	<p>Positive</p>

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

REPORT REVIEW ASSESSMENT

PART I: ALIGNMENT WITH COMMITMENTS SET FORTH IN THE GREEN BOND FRAMEWORK⁴

The following table evaluates the Green Bond Reporting against the commitments set forth in Republic of Serbia’s Framework, which are based on the core requirements of the Green Bond Principles as well as best market practices.

GBP	OPINION	ALIGNMENT WITH COMMITMENT
1. Use of Proceeds	<p>Republic of Serbia confirms to follow the Use of Proceeds’ description provided by Republic of Serbia’s Green Bond Framework. The report is in line with the initial commitments set in the Republic of Serbia’s Green Bond Framework: Energy Efficiency, Transport, Sustainable Water and Wastewater Management, Environment, Pollution Prevention and Control, Protection of the Environment, Biodiversity and Sustainable Agriculture.</p> <p>The issuer’s green categories align with the project categories and in accordance with the eligibility criteria as proposed by the Republic of Serbia’s Green Bond Framework. Environmental benefits at the category level are described and quantified.</p> <p>The issuer is transparent that EUR 879.74m of proceed is allocated (which represents nearly 87.9% of the total proceeds), 63% of the allocated proceed is for new finance, and 37% of the allocated proceed is for refinancing. Also, the financed projects align with the exclusion criteria defined in the frame; no project is associated with exclusion criteria through this assessment.</p>	✓
2. Process for Project Evaluation and Selection	<p>Republic of Serbia confirms to follow the Process for Project Evaluation and Selection description provided by Republic of Serbia’s Green Bond Framework. The report is in line with the initial commitments set in the Republic of Serbia’s Green Bond Framework: Establish a Green Bond Working Group (“GBWG”) involving different departments for overseeing the process, the selection of Eligible Green Expenditures, the allocation of funds received and the delivery of the allocation and impact reporting to investors and the public.</p>	✓

⁴ The Republic of Serbia Green Bond Framework was assessed as aligned with the GBP (as of September 2, 2021).

	<p>The projects selected are defined and structured in a congruous manner. The issuer ensures compliance with the Eligibility Criteria. ESG risks associated with the project categories are identified and managed through an appropriate process.</p> <p>The issuer confirms that the GBWG was established on 11 June 2021, which delegates accountability for the performance of the green bond by overseeing different processes.</p> <p>ESG risks associated with the project categories are identified and managed through an appropriate process. All financed projects adhere to national legislation, such as in the fields of environmental protection, social and labor laws.</p>	
3. Management of Proceeds	<p>Republic of Serbia confirms to follow the Process for Management of Proceeds description provided by Republic of Serbia's Green Bond Framework.</p> <p>The proceeds allocated represent over 87% of the amount collected to eligible projects, with no exceptions. The proceeds are tracked in an appropriate manner and attested in a formal internal process. Moreover, the issuer confirms that the temporary unallocated proceeds are held in cash in the treasury account of the Republic of Serbia according to the regulation; the temporary unallocated proceeds will be fully allocated to the eligible projects in 2023.</p>	✓
4. Reporting	<p>The Republic of Serbia Impact Report is coherent with the Reporting description provided by Republic of Serbia's Green Bond Framework. The report is in line with the initial commitments set in the Republic of Serbia's Green Bond Framework: providing investors and the public with transparent disclosure on the allocation of proceeds to Eligible Green Expenditures, as well as on the results and positive environmental impact of those expenditures.</p> <p>The sections "Allocation reporting" and "Impact Reporting" of the Green Bond Reporting comply with the pre-issuance commitment expressed in the framework. The report is intended to be publicly available</p> <p><i>Further analysis of this section is available in Part III of this report.</i></p>	✓
5. Verification	<p>ISS ESG has provided a Second Party Opinion (SPO) on Republic of Serbia's Green Bond Framework in 2021.</p>	

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

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

The table below evaluates Republic of Serbia's Green Bond Reporting against the ICMA Harmonized Framework for Impact Reporting.

CORE PRINCIPLES		
ICMA HFIR	GREEN BOND REPORTING	ASSESSMENT
Reporting on an annual basis	Republic of Serbia has reported annually from issuance, and as of December 2022, over 87% of the proceeds have been allocated. The issuer also committed to allocate the funds during 2023 fully. The report will be available on Republic of Serbia's website.	✓
Illustrating the environmental impacts or outcomes	<p>The assessment and measurement of the impacts generated by Republic of Serbia Green Bonds covered the following areas:</p> <p>Energy Efficiency</p> <ul style="list-style-type: none"> a. Number of buildings to be refurbished to at least the threshold defined b. Estimated CO₂ savings c. Estimated energy savings <p>Transport</p> <ul style="list-style-type: none"> a. Total length of constructed and modernized railways b. Number of state-of-art electric motor units (EMU) - trains (SOKO) c. Total Number of subsidized green vehicles (mixed fleet EURO6/hybrid) <p>Sustainable Water and Wastewater Management - Projects and Impacts</p>	✓

	<ul style="list-style-type: none"> a. Number of interventions on reservoirs and water supply systems b. Construction and restoration of reservoirs storage capacity c. Length of wastewater networks installed / maintained <p>Pollution Prevention and Control and Circular Economy</p> <ul style="list-style-type: none"> a. Number of polluted sites under remediation b. Size of polluted sites under remediation in km² c. Share of remediated sites redeveloped for same or other uses² <p>Protection of Environment and Biodiversity and Sustainable Agriculture</p> <ul style="list-style-type: none"> a. Area of (improved) sustainable forest management b. Area protected /restored /maintained 	
ESG Risk Management	ESG risks associated with the project categories are managed. All financed projects adhere to national legislation, such as in the fields of environmental protection, social and labor law.	✓
Allocation of proceeds - Transparency on the currency	All green Bond-related cash-flows are reported in one currency – EURO when allocating the green bond proceeds and reporting on the projects, given that the green bond was issued based on the EURO. The issuer also provides the exchange rate between Dinar to the euro for transparency.	✓

RECOMMENDATIONS

ICMA HFIR	GREEN BOND REPORTING	ASSESSMENT
Define and disclose period and process for Project Evaluation and Selection	<p>Proceeds has been exclusively allocated to Green Projects. Also, the issuer also committed to allocating the funds during 2023 fully.</p> <p>The issuer followed a transparent process for selection and evaluation of Eligible Green Projects. Projects financed and/or refinanced through the</p>	✓

	green bond issued under Green Bond Framework were evaluated and selected based on compliance with the Eligibility Criteria as laid out in the Framework.	
Disclose total amount of proceeds allocated to eligible disbursements	A total of EUR 1 billion was raised through the issuer's Green Bond in the international market in September 2021. Over 87.9% of the proceeds has been allocated to Green Assets as of 30 September 2022. Around EUR 120.2M remain to be allocated	✓
Formal internal process for the allocation of proceeds and to report on the allocation of proceeds	The issuer followed a transparent process for the allocation of proceeds.	✓
Report at project or portfolio level	The Green Bond Reporting includes the total amount of proceeds allocated per eligible project category.	✓
Describe the approach to impact reporting	The issuer identifies the total project's allocated proceeds.	N/A
Report the estimated lifetime results and/or project economic life (in years)	The issuer does not report on the average portfolio lifetime (in years) or the project economic life. After communicating with the issuer, the issuer will include this information in 2023 as feasible.	N/A
Ex-post verification of specific projects	The issuer currently does not have ex-post verifications for its projects, however Issuer plans to conduct verification in the future.	N/A
Report on at least a limited number of sector specific core indicators	The issuer reports on sector-specific core indicators and other sustainability indicators as outlined in the underlying Framework and in line with the proposed indicators by ICMA.	✓
If there is no single commonly-used standard, issuers may follow and disclose their own calculation methodologies	The issuer disclosed its calculation methodology transparently for the metrics reported. Energy Efficiency – the contribution of the number of buildings from the public and private sectors with improved energy efficiency levels to the threshold defined in national legislation	✓

	<p>Transport - the contribution of the length of infrastructure constructed and/or maintained, the contribution of the number of vehicles subsidized</p> <p>Sustainable Water and Wastewater Management - the contribution of the construction and restoration of reservoir storage capacity, the contribution of the length of wastewater network installed/maintained.</p> <p>Pollution Prevention and Control and Circular Economy – Size of Polluted Sites under Remediation in km², the volume of Removals, and the volume of Excavations related to the polluted sites under remediation</p> <p>Protection of the Environment and Biodiversity and Sustainable Agriculture - the area of (improved) sustainable forest management, the total area protected/restored/maintained.</p>	
Disclosure on the conversion approach (if applicable)	The issuer reports on similar units for both projects under the same green investment category Renewable Energy.	N/A
Projects with partial eligibility	All financed projects all fully eligible.	N/A
When the expected impacts of different project components may not be reported separately, issuers may use (and disclose) the attribution approach	The impact of Republic of Serbia's projects is reported separately per category on an aggregated basis.	N/A

OPINION

The Republic of Serbia follows Harmonized Framework for Impact Reporting's core principles and key recommendations. The issuer provides transparency on the level of expected reporting as well as on the frequency, scope and duration, aligned with best practices. The issuer reported annually, illustrated the environmental impacts of the projects, and reported in one currency.

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

Use of Proceeds Allocation

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

The Use of Proceeds allocation reporting occurred annually from the issuance, until full allocation of the proceeds.

The issuer also disclosed transparently the amount of unallocated proceeds and the temporary investments. Proceeds that have not been allocated have been temporarily held in Serbia's treasury account as cash according to their regulation.

Proceeds allocated to Eligible Projects/Assets

The proceeds' allocation is broken down at the project category level. The issuer has provided details about each project included in the portfolio.

The allocation report section of the Green Bond Reporting of Republic of Serbia aligns with best-market practices by providing information on:

- Allocation of the issued Green Bonds to Green Categories overview
- Eligible Green Expenditures description (an aggregated basis)
- Breakdown of use of proceeds between refinancing and new financing
- Breakdown of the type of Eligible Green Expenditures
- The amount of allocated proceeds
- The amount of unallocated proceeds and the expected allocation period

Impact Reporting Indicators

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

ELEMENT	ASSESSMENT
<p>Relevance</p>	<p>The impact reporting indicators chosen by the issuer for this bond are the following:</p> <p>Energy Efficiency</p> <ol style="list-style-type: none"> Number of calls issued Number of buildings to be refurbished to at least the threshold defined Estimated CO₂ savings (in tCO₂ lifetime) Estimated energy savings (in GWh lifetime) <p>Transport</p> <ol style="list-style-type: none"> Number of calls issued Total length of constructed and modernized railways (in km) Number of state-of-art electric motor units (EMU) - trains (SOKO) Total number of taxi vehicles subsidized (mixed fleet EURO6/hybrid)⁵ Total Number of subsidized green vehicles (electric, hybrids, etc.) <p>Sustainable Water and Wastewater Management - Projects and Impacts</p> <ol style="list-style-type: none"> Number of projects funded by subsector Number of interventions on reservoirs and water supply systems Construction and restoration of reservoirs storage capacity (in m³) Length of wastewater networks installed/maintained (in km) <p>Pollution Prevention and Control and Circular Economy</p> <ol style="list-style-type: none"> Number of projects funded Number of polluted sites under remediation Size of polluted sites under remediation in km² Share of remediated sites redeveloped for same or other uses <p>Protection of Environment and Biodiversity and Sustainable Agriculture</p> <ol style="list-style-type: none"> Number of projects funded by subsector Area of (improved) sustainable forest management (in ha) Area protected /restored /maintained (in ha)

⁵ Taxis in Serbia are considered part of the public transport infrastructure. And under the following criterion: "Subsidies to incentivize the switch to more sustainable mode of transport including public transportation".

	<p>The indicators are quantitative and material to the Use of Proceeds categories financed through this bond and partially in line with the Harmonized Framework for Impact Reporting administrated by the ICMA. This aligns with best market practices.</p>
<p>Data sourcing and methodologies of quantitative assessment</p>	<p>For its impact indicator(s), Reporting is based on “ex-ante” estimates of climate and environmental impacts at the time of project appraisal and data from the Government of Serbia’s internal data as well as publicly available sources for the reported result. When in the absence of quantitative impact data, qualitative information is used to facilitate a better understanding of the environmental impact through the green bond</p> <p>In general, Impact reporting data was collected and processed by intergovernmental Ministries. Following are the examples quoted in the green bond reporting.</p> <p>GHG emission accounted by IFI Approach to GHG Accounting for Energy Efficiency Projects for GHG emissions reduced/avoided, and the applicable governmental agencies responsible for such calculations will be communicated.</p> <p>The contribution of the length of infrastructure constructed and/or maintained by using national data with the calculation:</p> $\begin{aligned} & \text{Contribution of the length of infrastructure constructed and/or maintained} \\ & = \\ & \text{length of infrastructure constructed and/or maintained / total track length of Serbia's railways} \\ & \quad \text{(electrified/non-electrified)} \end{aligned}$ <p>The contribution of the construction and restoration of reservoir storage capacity by using national data with the calculation</p> $\begin{aligned} & \text{Contribution of the construction and restoration of reservoir storage capacity} \\ & = \\ & \text{construction and restoration of reservoir storage capacity / total capacity of reservoirs in Serbia} \end{aligned}$
<p>Baseline selection</p>	<p>Baseline values for some impact reporting indicators are available which are determined by existing historical data sources. However, it is worth noting that some baseline values are not directly comparable due to the different being used between baseline values and impact indicators. Besides that, if historical data does not exist to create the baseline, peer-reviewed sources or reports published by international institutions and economic and engineering analyses and models are utilized.</p>
<p>Scale and granularity</p>	<p>The impact data is presented at the Use of Proceed category level for the indicator(s).</p>

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

Based on the project categories financed and refinanced by the bonds as disclosed in the issuer’s Green Bond Reporting, the impact indicator(s) adopted by Republic of Serbia for its Green Bond can be mapped to the following SDGs, according to the ICMA “A High -Level Mapping to the Sustainable Development Goals”⁶.

IMPACT INDICATORS	SUSTAINABLE DEVELOPMENT GOALS
<p>Energy Efficiency</p> <ul style="list-style-type: none"> • Number of calls issued • Number of buildings to be refurbished to at least the threshold defined • Estimated CO₂ savings (in tCO₂ lifetime) • Estimated energy savings (in GWh lifetime) 	
<p>Transport</p> <ul style="list-style-type: none"> • Number of calls issued • Total length of constructed and modernized railways (in km) • Number of state-of-art electric motor units (EMU) - trains (SOKO) • Total number of taxi vehicles subsidized (mixed fleet EURO6/hybrid) • Total Number of subsidized green vehicles (electric, hybrids, etc.) 	
<p>Sustainable Water and Wastewater Management - Projects and Impacts</p> <ul style="list-style-type: none"> • Number of projects funded by subsector • Number of interventions on reservoirs and water supply systems • Construction and restoration of reservoirs storage capacity (in m³) • Length of wastewater networks installed/maintained (in km) 	

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

Pollution Prevention and Control and Circular Economy

- Number of projects funded
- Number of polluted sites under remediation
- Size of polluted sites under remediation in km²
- Share of remediated sites redeveloped for same or other uses



Protection of Environment and Biodiversity and Sustainable Agriculture

- Number of projects funded by subsector
- Area of (improved) sustainable forest management (in ha)
- Area protected /restored /maintained (in ha)



OPINION

*The allocation of the bond's proceeds has been disclosed, with a detailed breakdown across different eligible project categories/asset categories as proposed in the Framework and the Republic of Serbia's Green Bond Framework has adopted an appropriate methodology to report the impact generated by providing comprehensive **disclosure on data sourcing, calculations methodologies and granularity reflecting best market practices**. Besides, the impact indicators used align with best market practices using ICMA's recommended metrics, in the HFIR.*

DISCLAIMER

1. Validity of the External Review/Second Party Opinion (SPO): As long as no material changes are undertaken by the issuer to its Green Bond Reporting and asset pool as of as of December 22, 2022
2. ISS Corporate Solutions, Inc. (“ICS”), a wholly-owned subsidiary of Institutional Shareholder Services Inc. (“ISS”), sells/distributes SPOs which are prepared and issued by ISS ESG, the responsible investment arm of ISS, on the basis of ISS ESG’s proprietary methodology. In doing so, ISS adheres to standardized procedures to ensure consistent quality of responsibility research worldwide.
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ANNEX 1: Methodology

Review of the post-issuance Reports

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

High-level mapping to the SDG

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

ANNEX 2: Quality management processes

SCOPE

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

CRITERIA

Relevant Standards for this Report Review:

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

ISSUER'S RESPONSIBILITY

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

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

ISS ESG'S VERIFICATION PROCESS

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

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

The engagement with Issuer Name took place in December 2022.

ISS' BUSINESS PRACTICES

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

About this External Review

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

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

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

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