Sustainability

Sustainability Bond Rating

Methodology & Research Process

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METHODOLOGY AND RESEARCH PROCESS
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ISS STOXX

Contents

Terms/Acronyms

TERMS/ACRONYMS	DEFINITION
CBI	Climate Bond Initiative
EDGAR	U.S. Securities and Excange Commission's Electronic Data Gathering, Analysis, and Retreival system
ESG	Environmental, Social, and Governance
EU	European Union
GRI	Global Reporting Initiative
GSSS bond	Green, Social, Sustainability, Sustainability-linked bond
ICMA	International Capital Market Association
KPI	Key Performance Indicator
OECD	Organization for Economic Co-operation and Development
SASB	Sustainability Accounting Standards Board
SDG	UN Sustainable Development Goals
SLB	Sustainability-Linked Bond
SPT	Sustainability Performance Target
UN	United Nations
UoP	Use of Proceeds bond

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Figures

Introduction

This document is intended to provide a comprehensive overview of ISS STOXX's approach to evaluating the sustainability performance of labelled Green, Social, Sustainability, and Sustainability-linked (GSSS, or labelled) bonds, or Transition bonds, through ISS STOXX's "Sustainability Bond Rating." This rating also incorporates an approach to Hybrid bonds that combine elements of GSSS bonds: such instruments display qualities of both Use of Proceeds and Sustainability-linked bonds.

Sustainability Bond Rating Objective

ISS STOXX's Sustainability Bond Rating is designed to enable institutional investors to support their investment strategies by assessing the Environmental, Social, and Governance (ESG) performance of a labelled bond. In this context, ESG performance refers to the ability of a bond to mitigate negative or generate positive environmental and social impacts and contribute to the issuer's sustainability objectives.

The Sustainability Bond Rating assesses alignment with established international standards and guidelines on labelled bonds, such as those by the International Capital Market Association (ICMA), as well as alignment with the United Nations (UN) Sustainable Development Goals (SDGs). The Sustainability Bond Rating measures absolute performance using a 12-point grading scale from A+ (excellent performance) to D- (poor performance). Supplemental data such as alignment with the EU Taxonomy and the estimated emissions intensity of financed projects can be leveraged to support tailored applications at the discretion of subscribing investors.

Methodological Foundations

The Sustainability Bond Rating methodology builds on bond labelling standards developed by the International Capital Market Association (ICMA) and the Climate Bonds Initiative (CBI), which are complementary. Approximately 97% of labelled sustainable bond issuances worldwide in 2024 were declared to be aligned with the ICMA Green, Social, or Sustainability-Linked Bond Principles, according to ICMA. The methodology also takes into account international normative frameworks, including the UN Global Compact Principles, the Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, and the UN Sustainable Development Goals (SDGs).

Underlying Concepts / Frameworks

Labelled Bond Classification

ISS STOXX recognizes the importance of conducting a sustainability assessment for GSSS bonds at the issuance level, as opposed to the issuer level. An issuance-level assessment allows investors to draw key insights on the material sustainability risks and opportunities of a labelled bond, rather than building an assessment on general elements from the issuer's activities and performance.

To capture and reflect the unique sets of risks, opportunities, and impacts of GSSS bonds, ISS STOXX's Sustainability Bond Rating classifies issuances into three main types:

- Use of Proceeds Bonds (UoP): Proceeds of labelled bonds are exclusively applied to projects or activities that promote environmental sustainability (Green), aim to address a social issue (Social), or involve both Green and Social aspects (Sustainability); or projects that are intended to support transition to greener business activities or technologies (Transition).
- Sustainability-Linked Bonds (SLB): Financial or structural characteristics of the bond are tied to predefined sustainability objectives, measured through Key Performance Indicators (KPIs) and evaluated against predefined Sustainability Performance Targets (SPTs).
- Hybrid: Incorporates aspects of both Use of Proceeds and Sustainability-linked bonds.

Assessment Approach

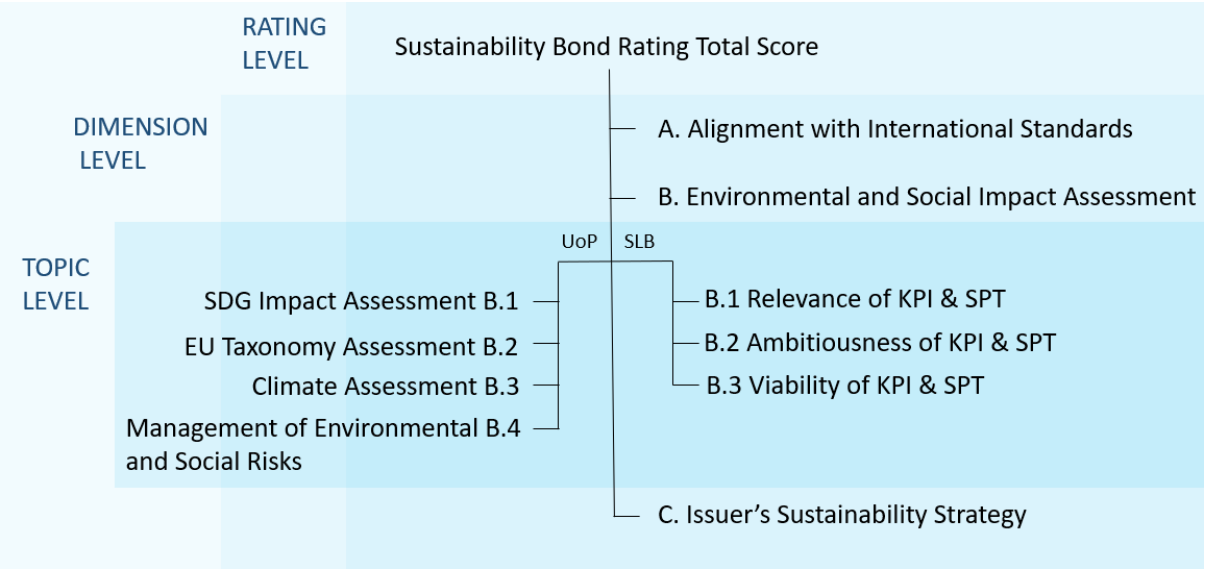
Issuance-Specific Rating Assessment Approach

ISS STOXX's Sustainability Bond Rating is made up of three dimensions:

1. Alignment with International Standards
2. Environmental and Social Impact Assessment
3. Issuer's Sustainability Strategy

Each dimension is subdivided into topics and further broken down into indicators (see Figure 1 below).

Figure 1: Top-level Hierarchy of the Sustainability Bond Rating



Note: UoP = Use of Proceeds; SLB = Sustainability-Linked Bonds; KPI = Key Performance Indicator; SPT = Sustainability Performance Targets.

Source: ISS STOXX

For all layers of the rating hierarchy – the overall rating, dimensions, and topics – there are aggregated scores based on the underlying indicator assessments. Drawing on a pool of approximately 400 such indicators, an average of approximately 150 indicators per bond are evaluated based on the specific rating structures for each issuance type.

As shown in Figure 1, the topics within the Environmental and Social Impact Assessment differ for Use of Proceeds Bonds (left) and Sustainability-Linked Bonds (right), reflecting the fundamental difference in the use of proceeds (i.e., sustainability-related projects vs. unspecified proceeds allocation). For Hybrid Bonds, topics from both Use of Proceeds Bonds and Sustainability-Linked Bonds are considered during evaluation.

Figure 2 presents some of the fundamental questions addressed by our approach to UoP bonds at each dimension-level assessment detailed above.

Figure 2: ISS STOXX's Approach to Assessing Use-of-Proceeds Bonds

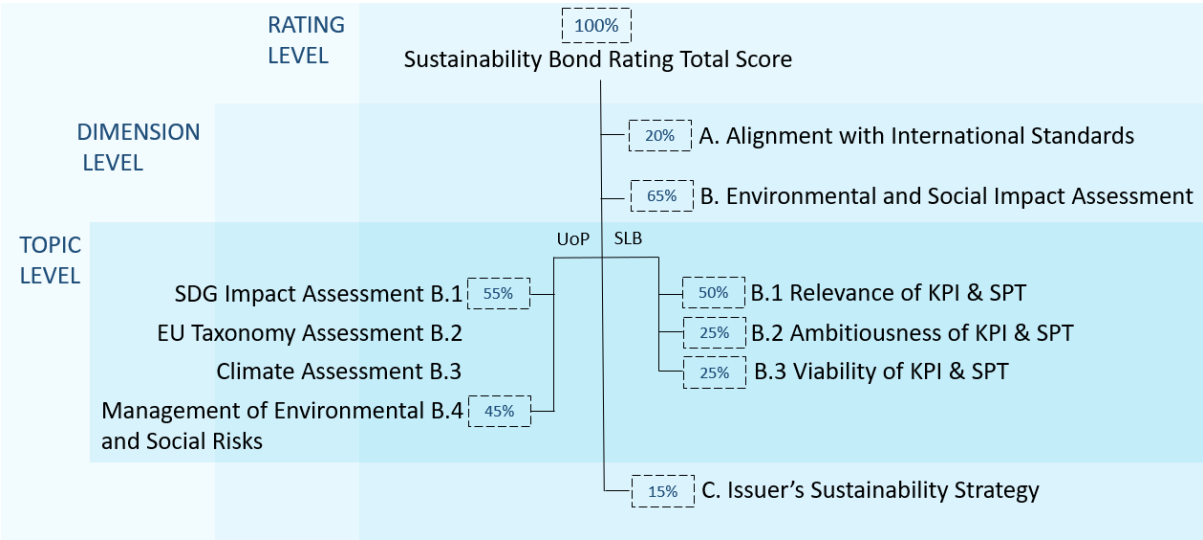
Alignment with International Standards	Environmental and Social Impact Assessment	Issuer's Sustainability Strategy
✓ Does the issuer provide a framework which aligns with market standards and best practice?	✓ What are the (expected) environmental/social benefits of financed projects?	✓ What is the issuer's overall sustainability strategy and performance?
✓ Does the issuer provide transparent and robust impact reports?	✓ Does the issuer take steps to mitigate environmental and/or social risks associated with financed projects?	✓ How do the financed projects link to the issuer's overall sustainability strategy?

Source: ISS STOXX

Weighting of Dimensions and Topics

To adequately reflect the relative importance of topics, ISS STOXX has developed different weighting scenarios for each issuance type. Although the distribution of weights at the dimension level is the same across Use of Proceeds and Sustainability-Linked Bonds, weights at the topic level differ (see Figure 3).

Figure 3: Overall Weights for Sustainability Bond Rating



Note: UoP = Use of Proceeds; SLB = Sustainability-Linked Bonds; KPI = Key Performance Indicator; SPT = Sustainability Performance Targets.

Source: ISS STOXX

At the dimension level, the Environmental and Social Impact Assessment carries the heaviest weight in the rating (65%), followed by the evaluation of the Alignment with International Standards (20%) and the link with the Issuer's Sustainability Strategy (15%).

At the topic level, the weight distribution reflects the relevant bond characteristics. For Use of Proceeds bonds, the Environmental and Social Impact Assessment can identify, and quantify, the contribution of funded projects towards the SDGs and evaluate the practices adopted by the issuer to address negative externalities of the financed projects. The EU Taxonomy and Climate Assessment components do not carry a weight, but they provide additional contextual information.

For Sustainability-Linked Bonds, the Environmental and Social Impact Assessment considers the relevance and ambitiousness of the KPIs and SPTs adopted by the issuer. For Hybrid Bonds, both these assessments are made with the overall weight for the Environmental and Social Impact Assessment dimension being split equally between the two assessments.

Rating Outputs and Signals

ISS STOXX's Sustainability Bond Rating presents the overall absolute rating grade as well as dimension-level signals and outputs. To provide full transparency on underlying assessments and aggregation of scores, ISS STOXX discloses the grade and weight of all topics which contribute to the overall grade.

Letter Grade and Numerical Scale

The letter-rating scale ranges from D- to A+ and measures absolute performance. Underlying the letter grades is a numerical scale ranging from 1 to 4. Each letter grade spans an interval of 0.25 on the numerical scale:

Figure 4: Letter Grade, Numerical Scale, and Classification of Letter Grades

D-	D	D+	C-	C	C+	B-	B	B+	A-	A	A+
1.00-<1.25	1.25-<1.50	1.50-<1.75	1.75-<2.00	2.00-<2.25	2.25-<2.50	2.50-<2.75	2.75-<3.00	3.00-<3.25	3.25-<3.50	3.50-<3.75	3.75-4.00
Poor			Medium			Good			Excellent		

Source: ISS STOXX

Assessment Rules

Performance Expectations

For each indicator, absolute performance expectations for scores along the rating scale are defined with the goal to facilitate objective, reproducible, and comparable assessments informed by international standards.

SETTING OF PERFORMANCE EXPECTATIONS

Several different factors contribute to setting performance expectations.

Consideration of issuance-specific standards such as:

- International Capital Market Association – Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines, Sustainability-linked Bond Principles
- Climate Bonds initiative: Climate Bonds Taxonomy and Climate Bonds Certification

Alignment with international norms, standards, and regulations such as:

- UN Global Compact Principles
- UN Guiding Principles on Business and Human Rights
- Fundamental Conventions of the International Labor Organization
- OECD Guidelines for Multinational Enterprises
- UN Sustainable Development Goals
- EU Sustainable Finance Taxonomy
- Science Based Targets Initiative

Influence of standard-setting organizations such as:

- Global Reporting Initiative
- Sustainability Accounting Standards Board (now part of IFRS Foundation)
- International Sustainability Standards Board

Alignment with ICMA Principles

According to ICMA, 97% of labelled sustainable bond issuances worldwide in 2024 were declared to be aligned with the ICMA Principles. However, additional indicators are incorporated into the rating for issuances that do not follow the standard. These indicators incorporate disclosure and performance requirements similar to those of bonds that follow ICMA principles to maintain comparability.

Assessment of Environmental and/or Social Impact for UoP Bonds

The social and environmental impact of financed projects is a key element of the ESG performance assessment. For the Use of Proceeds instruments, indicators assess the impact of the funded projects on the UN SDGs (see Figure 5). The assessment is based on the allocated share of each project that contributes to or obstructs the achievement of one or more of the goals.

Figure 5: UN Sustainable Development Goals

Source: United Nations

Evaluating the impact on SDGs considers whether funded projects are revenue generating or for operational improvements. Revenue-generating projects promote products or services with direct environmental or social impact. Operational-improvement projects may have an impact on the issuer's business practices. (Appendix 1 presents an example of such an assessment.)

Assessments of an issuer's management of environmental and social risks include measuring their adherence to international standards in matters of biodiversity, water and climate protection, human rights, labor rights, and business ethics.

For example, an (fictitious) issuer funding an offshore wind energy project makes disclosures on its strategy to manage potential impacts on marine biodiversity in connection with the financed project. This disclosure will be captured in the biodiversity assessment for the issuance. Equivalent assessments focus on topics such as Climate, Water, and Business Ethics.

Assessments that are included in the rating but are not graded include the estimated carbon emissions intensity of financed projects, estimated Potential Avoided Emissions (PAE) of financed projects, overall exclusion flags for Paris-Aligned Benchmark (PAB) and Climate Exclusion Benchmark (CTB), as well as the estimated EU Taxonomy alignment.

Assessment of Environmental and/or Social Impact for Sustainability-Linked Bonds

The factors on which the Social and Environmental Impact of financed projects for Sustainability-Linked Bonds are based are fundamentally different from those of UoP bonds. To determine the impact of the funded projects, the KPIs and SPTs defined by the issuer are assessed for their relevance and ambitiousness.

Additionally, the potential callability of the bond, which may allow issuers to pay off the bond before the maturity date, is also considered. This factor may be an avenue for issuers to avoid the consequences of not meeting the predefined sustainability targets. For this reason, the viability of the bond is also evaluated based on the observation of all targets prior to the bond becoming callable. More details on SLB impact assessment are available in Appendix 2.

Issuer's Sustainability Strategy

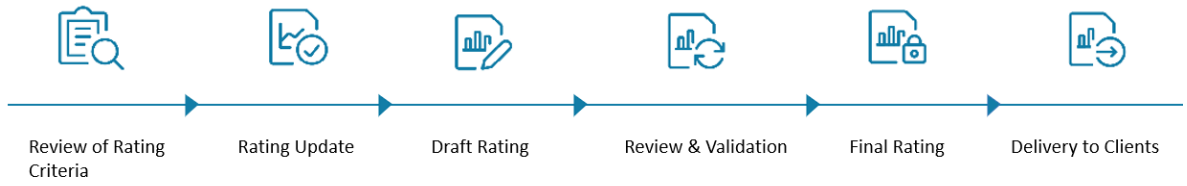
This dimension focuses on determining if the issuer has established any sustainability goals for its business strategy and if the bond proceeds cater to these objectives. Contextual information on the issuer's ESG performance is also included if the issuer is covered by ISS STOXX's Corporate Rating or Sovereign Rating.

Rating Process

Data Collection and Assessment

Data collection and analysis for ISS STOXX's Sustainable Bond Rating is exclusively conducted in-house by trained and specialized analysts who adhere to comprehensive evaluation guidelines for each indicator assessment. Assessments are systematically reviewed by senior analysts to maintain the high quality of data. The rating process is described in the figure below.

Figure 6: ISS STOXX's Rating Process



Source: ISS STOXX

Sources of Information

ISS STOXX's Sustainability Bond Rating leverages qualitative and quantitative data sourced exclusively from publicly available information, including an issuer's own disclosures and reporting and Second Party Opinion providers' databases. Qualitative data includes an issuer's regulatory alignment, whereas quantitative data

includes information on the allocation of bond proceeds to eligible project categories. Regulatory or supervisory authority databases such as EDGAR and stock exchange databases may also be used. Information sourced is catalogued internally and referenced with detail during the data collection process.

Treatment of Disclosure Gaps

ISS STOXX's Sustainable Bond Rating measures performance and requires relevant information on which an objective and reproducible assessment can be based. Relevant information is either information exactly matching the data requirements or sufficiently robust evidence to allow for an assessment or reasonable estimates. In the absence of relevant information, the performance of an indicator cannot be positively assessed, resulting in a grade of 1.

In addition to company disclosures, relevant information may be retrieved from secondary sources such as national legislation, OECD reports, ILO databases, government web pages, and information provided by the European Commission. Assessing management of risks for which high legal and factual standards in countries of operations are considered involves these indicators:

- Measures on freedom of association and collective bargaining
- Measures on protecting human rights
- Implementation of a health and safety management system
- Measures on corruption prevention

Use of Estimated Data

Estimations based on robust evidence may be made under the following conditions:

For quantitative indicators that are based on percentage assessments, estimations can be made if no (precise) reported data is available. Analysts are provided with clear guidance on how and in what instances estimations may be made.

For example, when assessing the allocation of proceeds of a UoP bond and in the absence of precise disclosure, proceeds are assumed to be equally distributed among all project categories disclosed in the Bond Framework. During the yearly update cycle, this allocation is re-assessed based on the latest available information within issuer disclosures.

In the absence of complete information from the issuer, estimations are avoided, however:

If the allocation of bond proceeds is not clearly specified by the issuer, estimations are made based on contextual information, provided reasonable assumptions can be made with medium-to-high certainty.

For example, if the issuer states that 100% of the bond proceeds have been allocated but only provides details on 70% of those proceeds, the remaining 30% of proceeds are assessed as "No net impact."

Update Cycle

Project disclosure post-issuance tends to be more granular than that of disclosures in the pre-issuance stage. This highlights the importance of the ongoing annual review process. A focused methodology across ISS' data and research teams sets guidelines and parameters to give investors the most relevant and updated information to support their decision-making process. Sustainability Bond Ratings are generally reviewed on an annual basis.

Quality Assurance

ISS STOXX has established a quality management system featuring the following quality controls for the Sustainability Bond Rating:

- ISS STOXX's Sustainability Bond Rating is based on a consistent and rigorous rating methodology designed to yield comparable scores across issuers.
- The methodology and scoring approaches are built into proprietary software utilized by the analysts and are designed to ensure the objectivity, consistency, and comparability of assessments.
- All analysts undergo a rigorous training program.
- All ratings are systematically proofread by experienced analysts who are intimately familiar with the rating methodology and assessment rules.
- A dedicated global Methodology team oversees the consistent application of the methodology. Additionally, the team initiates and coordinates methodological developments in cooperation with research leads.
- A Methodology Review Board consisting of experienced methodology and research leaders reviews the methodology periodically to ensure its robustness.

Methodology Review Process

ISS STOXX's Sustainability Bond Rating methodology is subject to annual review and periodic updates that are overseen by ISS STOXX's Methodology Review Board, which is comprised of experienced methodology and research leaders across jurisdictions.

Board reviews consider factors including regulatory developments, existing and emerging disclosure standards, stakeholder expectations, academic research, and scientific and technological developments. A variety of factors may need to be considered when analyzing the labelled debt market, such as issuer disclosure practices (e.g., publishing multiple frameworks with several bonds under each framework or reporting project allocation on a portfolio basis) or varying levels of alignment with regulatory frameworks such as the EU Taxonomy.

As part of this process, ISS STOXX may undertake surveys to elicit the views of key stakeholders on methodological foundations and potential methodology enhancements prior to implementation.

Appendix

Appendix A: SDG Impact Assessment

An (fictitious) issuer involved in the Oil & Gas Exploration and Production industry discloses in its Green Bond Framework two eligible project categories to be financed from the proceeds of its green bond. In its allocation report, the issuer further provides details on how bond proceeds were allotted to these projects. Based on this information, assessments are made on the impact of funded projects on relevant SDGs.

Inspired by ISS STOXX's SDGA solution, the SDG Impact Assessment applies a proprietary classification system for eligible project categories across five assessment categories, which reflect their potential impact on the achievement of different SDGs:

Table 1: Classification System for Objective Scores

Objective Score	Assessment Category
4	Significant contribution
3	Limited contribution
2	No (net) impact
1.5	Limited obstruction
1	Significant obstruction

Weighted by the allocated percentage for each project category, the score of the SDG Impact Assessment provides an indication on the overall contribution or obstruction to SDGs caused by the funded projects. A weighted impact score per SDG and aggregated for all SDGs is available in our dataset.

Table 2: SDG Mapping per Project Category

Name of project category	Type of project category	Allocated percentage of the overall value	Project category score	SDG 7	SDG 11	SDG 13
Energy generation based on solar	Revenue Generating	70%	**4**	4		4
Buildings certified to a comprehensive sustainable building standard	Operational Improvement	30%	**3**		3	

In the above example, the overall SDG Impact Assessment score is calculated as follows:

1. Project category score is applied using the most distinct logic:
    a. If all scores > 2, highest score
    b. If all scores < 2, lowest score
    c. If both, average of the highest and lowest
2. A weighted average of the scores per individual project category vis-à-vis the proportion of the overall value of the instrument allocated to each project category (e.g., 4*70% + 3*30% in the example above) is calculated.

Overall SDG Impact Assessment: 3.7

Appendix B: Climate Impact Assessment

The Climate Impact Assessment enables the estimation of an emissions footprint of a Use of Proceeds bond with the use of ISS STOXX's Industry Average Emissions Intensity factors (IAEI). Weighted by the allocated proceeds for each project, outputs include overall emissions intensities for Scope 1, Scope 2 and Scope 3 of the bond. These factors are calculated based on NACE and GICS classification mapped to each project. Emission estimations are attributed to the issuers' own reported emissions if available when bond proceeds are allocated to operational improvement activities,

Below is an example of an (fictitious) issuer involved in the Oil & Gas Exploration and Production industry financing two eligible project categories from the proceeds of its green bond as disclosed in its allocation report. Based on this information, assessments are made on the impact of funded projects on emission intensities.

Table 3: Emissions Intensity Mapping per Project Category

Name of project category	Type of project category	Allocated percentage of the overall value	Scope 1 Emission Intensity per EVIC in tCO_2e /Mil EUR	Scope 2 Emission Intensity per EVIC in tCO_2e /Mil EUR	Scope 3 Emission Intensity per EVIC in tCO_2e /Mil EUR
Energy generation based on solar	Revenue Generating	70%	**44.22**	**4.56**	**154.13**
Buildings certified to a comprehensive sustainable building standard	Operational Improvement	30%	**203.18**	**28.61**	**4635.78**

The overall Scope 1, Scope 2 and Scope 3 Climate Impact Assessment is calculated using a weighted average of the emissions intensity per individual project category vis-à-vis the proportion of the overall value of the instrument allocated to each project category

- Overall Scope 1 Emission Intensity per EVIC in tCO_2e /Mil EUR

  44.22 * 70% + **203.18** * 30% = **91.908**

- Overall Scope 2 Emission Intensity per EVIC in tCO_2e /Mil EUR

  4.56 * 70% + **28.61** * 30% = **11.775**

- Overall Scope 3 Emission Intensity per EVIC in tCO_2e /Mil EUR

  154.13 * 70% + **4635.78** * 30% = **1498.625**

The same process is followed for estimating emission intensities based on Revenue and Asset.

Appendix C: Potential Avoided Emissions Estimation

Potential Avoided Emissions (PAE) estimations in ISS STOXX's Sustainability Bond Rating aims to capture the positive greenhouse gas impact of projects financed by a UoP bond relative to a counterfactual scenario in which it does not exist. **Step 1-4 are calculated using corporate data which is applied to bonds in Step 5.**

1. **Product Pairing:** Each "Green" project category is paired with a "Brown" baseline representing the conventional technology it replaces (e.g. electric vehicles and internal combustion engine vehicles).

Table 4: Mapping of 'Green' activities with 'Brown' alternatives*

Category	Green Project	Brown Project
Energy (solutions)	biomass	fossil fuels
	geothermal	fossil fuels
	hydropower	fossil fuels
	nuclear	fossil fuels
	solar	fossil fuels
	wind	fossil fuels
	renewables	fossil fuels
Energy component (enablers)	key components for renewables	key components for fossil fuels
	key components for solar	key components for fossil fuels
	key components for wind	key components for fossil fuels
Transportation (solutions)	electric vehicles	conventional combustion engine vehicles
	hybrid vehicles	conventional combustion engine vehicles
	mass transportation	conventional combustion engine vehicles
Transportation component (enablers)	charging systems	key components for combustion vehicles
	key components for clean transport	key components for combustion vehicles
	key components for hydrogen transport	key components for combustion vehicles

*Note: project coverage may be subject to change over time

2. **Emissions Intensities:** A normalized weighted average Scope 1, 2, & 3 intensity (tCO_2e /Mil EUR) is calculated for each project using corporate reported emissions intensities (I) and revenue shares per product (w).

$$I_{Product} = \sum_i \widetilde{w}_{i,Product} \cdot I_i$$

3. **Baseline Intensities:** A baseline intensity (tCO_2e /Mil EUR) is calculated for each product pair using global market shares per product (b):

$$I_{Baseline\ Product} = I_{Brown\ Product} \cdot b + I_{Green\ Product} \cdot (1 - b)$$

4. **Potential Avoided Emissions Intensity:** The avoided emissions intensity (tCO_2e /Mil EUR) is computed for the green product as:

$$I_{PAE\ of\ Green\ Product} = I_{Baseline\ Product} - I_{Green\ Product}$$

5. **Bond-Level PAE Intensity**: The product-level avoided emissions intensities (tCO_2e /Mil EUR) , calculated using data from corporates, are applied to each bond (i) using the use of proceeds share for all PAE-eligible project types($\overline{w}$) which are reweighted by the bonds PAE applicable proceeds share. This makes it so that the Bonds PAE Intensity (tCO_2e /Mil EUR) only refers to the share of its proceeds which is eligible for PAE rather than the full use of proceeds:

$$I_{Bond} = \overline{w}_{i,Green\ Project\ 1} \cdot I_{PAE\ of\ Green\ Project\ 1} + \cdots + \overline{w}_{i,Green\ Project\ n} \cdot I_{PAE\ of\ Green\ Project\ n}$$

$$where\ \overline{w}_{i,Green\ Project} = \frac{w_{i,Green\ Project}}{\sum_P w_i}$$

PCAF's guidance specifies that investors must separate disclosure from climate "solutions," understood as products that directly reduce greenhouse gas emissions, and "enablers" which are products that indirectly contribute to reductions. Among the project types listed above, Energy and Transport qualify as solutions while Energy and Transport components qualify as enabling activities that should be disclosed separately. The following table illustrates how clients should expect to view the PAE data in the feed. In the following example, the bond only received PAE for one activity which is classified as a solution:

Table 5. Potentially Avoided Emissions Mapping per Project Category

Issuance	PAE Enabler	PAE Enabler Percentage proceeds	PAE Solution	PAE Solution Percentage Proceeds*	PAE Intensity
Green bond issuance value of EUR 500 Mil	Not Applicable	Not Applicable	**4000**	**70%**	**4000**

*The PAE Intensity refers to the 70% of PAE eligible proceeds only

Appendix D: PAB and CTB Exclusion Flags

The European Securities and Markets Authority (ESMA) has clarified that European Green Bonds issued under Regulation (EU) 2023/2631 are not subject to the exclusion checks of the ESMA Fund Names Guidelines, as they benefit from comprehensive safeguards guaranteed by the EU legal framework. For all other Use of Proceeds bonds, a look-through approach applies, requiring an assessment to determine the instrument does not finance any activities referred to in Article 12(1)(a-b) and (d-g) of the Commission Delegated Regulation (CDR) (EU) 2020/1818. Investments in companies excluded under Article 12(1)(c) do not benefit from this look-through approach.

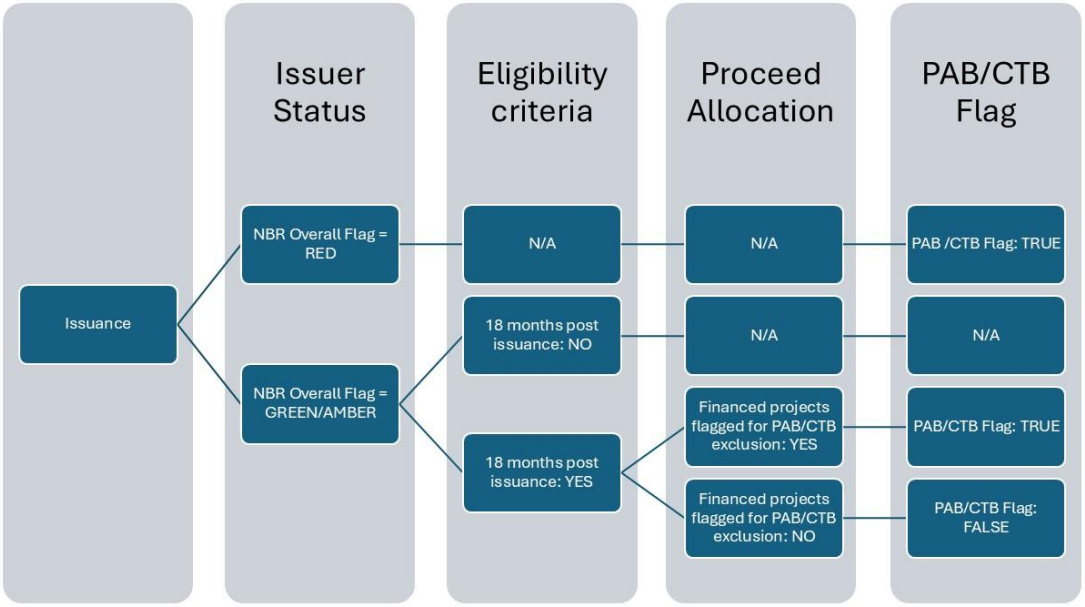
ISS STOXX Sustainability Bond Rating Solution provides an overall exclusion flag for Paris Aligned Benchmark (PAB) as defined in Article 12(1)(a-g) of CDR EU 2020/1818 and an overall exclusion flag for Climate Transition Benchmark (CTB) as defined in Article 12(1)(a-c) of CDR EU 2020/1818.

Table 6. Exclusion Criteria

	Definition from regulation
Article 12.1 (a)	Controversial Weapons
Article 12.1 (b)	Cultivation and production of Tobacco
Article 12.1 (c)	Violations of UN Global Compact principles / OECD Guidelines for Multinational Enterprises
Article 12.1 (d)	Deriving revenues of 1% or more from involvement in Coal-related activities
Article 12.1 (e)	Deriving revenues of 10% or more from involvement in Oil-related activities
Article 12.1 (f)	Deriving revenues of 50% or more from involvement in Gas-related activities
Article 12.1 (g)	Deriving revenues of 50% or more from Electricity Generation with a GHG intensity of more than 100 g CO_2 e/kWh

The PAB Flag and the CTB Flag provide a T/F value if an issuance is in violation to any of the relevant exclusion criteria. The issuer is initially assessed for violations to Article 12(c) using data available through ISS STOXX's Norm-Based Research Solution. Issuers assigned a RED flag triggers a "True" outcome. In order to apply the look-through approach in the methodology, assessment of activities financed by a bond is dependent on reported allocation data by the issuer, A minimum duration of 18 months has been set to ensure availability of an Allocation Report. The decision tree for the PAB and CTB flags is illustrated below:

Figure 7: Decision tree for PAB/CTB Flags



Source: ISS STOXX

Appendix E: Impact Assessment for SLBs

The credibility of an SLB rests on the selection of KPIs that are material to the issuer's core sustainability and business strategy and addressing key ESG challenges faced by the issuer's industry. SLB credibility also rests on the selection of SPTs that align with international standards. The identification of such KPIs and SPTs enable the assessment of the environmental and social impact of the bond based on its relevance, ambitiousness, and the viability of the predefined targets.

Table 7. Weighting Scenario for SLBs

Raw Material Sourcing & Recycling	Weight
Relevance	50%
Does the issuance disclose Raw material sourcing and recycling KPIs related to a key issue defined for the issuer's industry?	
Does the issuance disclose Raw material sourcing and recycling KPIs related to a topic deemed relevant to the issuer's industry according to SASB?	
Does the issuance disclose Raw material sourcing and recycling KPIs related to a topic deemed material per the GRI guidelines (including sector standards)?	
Does the issuance disclose Raw material sourcing and recycling KPIs related to a topic that is particularly relevant for the region where the issuer operates?	
Does the issuance disclose Raw material sourcing and recycling related Sustainability Performance Targets (SPT) aligned with the EU Taxonomy?	
Ambitiousness	25%
Does the issuance disclose Raw material sourcing and recycling related Sustainability Performance Targets (SPT) aligned with international benchmarks?	
Viability of predefined targets	25%
Does the call date precede the final target date for any of the Raw material sourcing and recycling related Sustainability Performance Targets?	

Note: SASB = Sustainability Accounting Standards Board; GRI = Global Reporting Initiative

Appendix F: Version Control

Name of Methodology: Sustainability Bond Rating

VERSION	DATE	DETAILS
1.0	April 2025	Publication of the Sustainability Bond Rating Methodology and Research Process document
2.0	April 2026	Methodology Enhancement: Inclusion of data factors on PAB/CTB exclusion as per ESMA Guidance and Potentially Avoided Emission Intensity factors

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ISS STOXX delivers world-class research, data, and technology solutions that empower capital market participants to pursue their visions with confidence. Our expertise spans indices, corporate governance, sustainability, cyber risk, and fund intelligence, giving clients the tools they need to uncover opportunities, manage risks, and navigate evolving regulations. We are made up of 4,000 professionals operating across 20 countries and serving approximately 5,000 clients, including many of the world's leading institutional investors. Our scale and reach give us deep market knowledge, while our innovative methodologies allow us to offer our clients tailored insights that drive impact and success.

ISS STOXX Sustainability enables investors to develop and integrate responsible investing policies and practices, engage on responsible investment issues, and monitor portfolio company practices through screening solutions. It also provides climate data, analytics, and advisory services to help financial market participants understand, measure, and act on climate-related risks across all asset classes. In addition, our Sustainability solutions cover corporate and country research and ratings enabling its clients to identify material social and environmental risks and opportunities. Sustainability solutions are provided by Institutional Shareholder Services Inc., an investment adviser registered under the U.S. Investment Advisers Act of 1940.