

Sustainability

Sustainability Bond Rating

Methodology & Research
Process

July 2026

Version 3.0

PUBLIC DISCLOSURE ON THE METHODOLOGY
MODELS, AND KEY RATING ASSUMPTIONS USED IN
ESG RATING ACTIVITIES

**ISS
STOXX**

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Terms/Acronyms

TERMS/ACRONYMS	DEFINITION
CBI	Climate Bond Initiative
EDGAR	U.S. Securities and Exchange Commission's Electronic Data Gathering, Analysis, and Retrieval 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
PCAF	Partnership for Carbon Accounting Financials
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

Regulation (EU) 2024/3005: Public Disclosure on the Methodology, Models, and Key Rating Assumptions Used in ESG Rating Activities

This disclosure is published to meet the relevant requirements of the EU ESG Ratings Regulation (EU2024/3005) and related regulatory technical standards. The following index cross-references to the relevant information are made available within the Sustainability Bond Rating Methodology Document and on our website.

Within this disclosure, the [Regulation \(EU\) 2024/3005 of the European Parliament and of the Council of 27 November 2024 on the transparency and integrity of Environmental, Social and Governance \(ESG\) rating activities](#) is referred to as “**Regulation (EU) 2024/3005**”.

Within this disclosure, the Commission Delegated Regulation (EU) of 21 04 2026 supplementing Regulation (EU) 2024/3005 of the European Parliament and of the Council with regard to regulatory technical standards specifying the elements of ESG rating products to be disclosed to the public and to users of ESG ratings, rated items and issuers of rated items is referred to as “**Delegated Regulation**”.

REGULATION (EU) 2024/3005	DELEGATED REGULATION	REQUIRED INFORMATION	ISS GERMANY AG DISCLOSURE
Rating Product Disclosures			
ANNEX III.1.f	Article 3(1)	ESG rating providers shall disclose information on the ESG rating's clearly defined objective and marking whether the rating is assessing risks, impacts, or both, according to the double materiality principle, or any other dimensions, and in the case of double materiality the proportion of the risk and impact materiality. ESG rating providers shall disclose at the level of each ESG rating product: a) a description of the risks covered, where the ESG rating is assessing risks; b) a description of the impacts covered, where the ESG rating is assessing impacts; c) information on how the risk and impact materiality are taken into account according to the double materiality principle, where applicable; d) where the ESG rating is based on other materiality dimensions, a description of those dimensions.	Please refer to: • Sustainability Bond Rating Objective • Assessment Approach • Assessment of Environmental and/or Social Impact for UoP Bonds • Assessment of Environmental and/or Social Impact for Sustainability-Linked Bonds
ANNEX III.1.g	Article 3(2)	ESG rating providers shall disclose the ESG rating's scope, namely, whether it covers an individual E, S, or G factor or whether it is an aggregated rating aggregating E, S and G factors, or whether it covers specific issues such as transition risks. ESG rating providers shall disclose at the level of each ESG rating product: a) a description of what is covered under the E, S or G factors and which factors are aggregated, where applicable; b) a description of the specific issues that the ESG rating covers.	Please refer to: • Issuance-Specific Rating Assessment Approach
ANNEX III.1.h	N/A	ESG rating providers shall disclose in the case of an aggregated ESG rating, the weighting of the three overarching E, S and G categories of factors (for example 33 % for the E factor, 33 % for the S factor, 33 % for the G factor), and the explanation of the weighting method, including weight per individual E, S and G category.	Please refer to: • Weighting of Dimensions and Topics

REGULATION (EU) 2024/3005	DELEGATED REGULATION	REQUIRED INFORMATION	ISS GERMANY AG DISCLOSURE
ANNEX III.1.i	N/A	ESG rating providers shall disclose within the E, S or G factors, specification of the topics covered by the ESG rating, and whether they correspond to the topics from the sustainability reporting standards developed pursuant to Article 29b of Directive 2013/34/EU.	Please refer to: Assessment Approach
ANNEX III.1.j	N/A	ESG rating providers shall disclose information on whether the rating is expressed in absolute or relative value.	Please refer to: Rating Outputs and Signals
ANNEX III.1.o	Article 3(3)	ESG rating providers shall disclose if an ESG rating of a rated item covers the E factor, information on whether that rating takes into account the targets and objectives of the Paris Agreement or any other relevant international agreements. ESG rating providers shall disclose if an ESG rating of a rated item covers the S and G factors, information on whether that rating takes into account any relevant international agreements. ESG rating providers shall at the level of each ESG rating product: a) include an indication of whether the ESG rating takes into account the targets and objectives of the Paris Agreement and which other international agreements are considered, with reference to basic identifying information on these agreements together with an explanation of their relevance to the ESG rating; b) specify whether the ESG rating is assessing alignment of commitments against the objectives of the agreements referred to in point (a).	Please refer to: Methodological Foundations Performance Expectations
ANNEX III.1.p	Article 3(4)		
Basic Methodological Disclosures			
ANNEX III.1.a	Article 4(1)	ESG rating providers shall disclose an overview of the rating methodologies used and changes thereto, including whether analysis is backward-looking or forward-looking and the time horizon covered.	Please refer to: Points a) and f)

REGULATION (EU) 2024/3005	DELEGATED REGULATION	REQUIRED INFORMATION	ISS GERMANY AG DISCLOSURE
		ESG rating providers shall disclose: a) the title of the rating methodology used; b) a description of the types of rated items in relation to which the methodology referred to in point (a) applies; c) the time horizon over which the ESG rating is considered valid, where applicable d) a list and overview of the relevant supporting models and key rating assumptions, where applicable; information on measures and procedures to ensure the quality and reliability of data used; e) a description of the defined ranking system of rating categories used, with reference to: i. the meaning of each rating category for absolute and relative values and how the ranking system should be interpreted; ii. in the case of relative values, an explanation as to whether they are relative to a specific industry, geographical area, peer groups or other comparative references and their respective description. f) the dates of the most recent update of the methodology and a description of the changes introduced to the previous version.	• Appendix F – Version Control Points b) to e) • b): Underlying Concepts/Frameworks • c): Update Cycle • d) Sources of Information; Quality Assurance • e) Rating Outputs and Signals
ANNEX III.1.b	Article 4(2)	ESG rating providers shall disclose the industry classification used. ESG rating providers shall provide: a) the name of the issuing body of the industry classification used; b) the name and version of the industry classification used; c) any publicly available link to the official documentation of the industry classification system.	Please refer to: • Industry Classification
ANNEX III.1.c	Article 4(3)	ESG rating providers shall disclose an overview of data sources, including whether data is sourced from sustainability statements required under Directive 2013/34/EU or from information disclosed under Regulation (EU) 2019/2088 and	Please refer to:

REGULATION (EU) 2024/3005	DELEGATED REGULATION	REQUIRED INFORMATION	ISS GERMANY AG DISCLOSURE
		whether sources are public or non-public, and an overview of data processes, estimation of input data in case of unavailability and frequency of data updates. ESG rating providers shall include a description of the engagement process with rated items or issuers of rated items, including how the input from such engagement is taken into account.	- Data Sources: Sources of Information - Data Processes: Data Collection and Assessment - Estimation of Input Data: Treatment of Disclosure Gaps, Use of Estimated Data - Frequency of Data Updates: Update Cycle - Engagement with rated items or issuers of rated items is not part of the Sustainability Bond Rating process.
ANNEX III.1.e	Article 4(4)	ESG rating providers shall disclose information on whether and how the rating methodologies are based on scientific evidence. ESG rating providers shall where applicable, describe the process for identifying relevant scientific evidence.	Please refer to: Methodology Review Process
ANNEX III.1.k	N/A	ESG rating providers shall disclose where applicable, reference to the use of artificial intelligence in the data collection or rating process including information about current limitations and risks of using artificial intelligence.	This requirement is not applicable to the Sustainability Bond Rating solution.
Limitations in data sources, methodologies and information			
ANNEX III.1.m	Article 5	ESG rating providers shall disclose any limitation in data sources and methodologies used for the construction of ESG ratings.	Please refer to: Limitations
ANNEX III.1.q	Article 5	ESG rating providers shall disclose any limitation on the information available to ESG rating providers.	

REGULATION (EU) 2024/3005	DELEGATED REGULATION	REQUIRED INFORMATION	ISS GERMANY AG DISCLOSURE
		ESG rating providers shall explain any limitations in respect of the following: a) the availability or consistency of data used in the rating process; b) the completeness, timeliness and accuracy of information; c) the use of assumptions, proxy reference points and data estimation.	Limitations to Methodologies & Data
Organisational Disclosures			
ANNEX III.1.d	Article 6(2)	ESG rating providers shall disclose the ownership structure of the ESG rating provider. ESG rating providers shall disclose: a) a chart illustrating their ownership links with any parent undertaking and subsidiaries. The chart shall indicate, where applicable, whether any of those entities perform any of the activities listed in Article 16 (1) or services referred to in Article 16(6) of Regulation (EU) 2024/3005.	Please refer to: Ownership Structure
ANNEX III.1.l	Article 6(3)	ESG rating providers shall disclose general information on criteria used for establishing fees charged to clients, specifying the various elements taken into consideration, and general information on the business/payment model. ESG rating providers shall disclose the following: a) how the criteria they apply for establishing fees ensure that fees are fair, reasonable, transparent and non-discriminatory in accordance with Article 27 of Regulation (EU) 2024/3005; b) whether the ESG rating provider operates a subscription-paid model, an issuer-paid model, a combination of those models, or another model; c) a description of the relevant business model, and the proportion of total annual revenue derived from each model;	Please refer to: Pricing Policy

REGULATION (EU) 2024/3005	DELEGATED REGULATION	REQUIRED INFORMATION	ISS GERMANY AG DISCLOSURE
		d) where applicable, the impact of fees charged for services other than ESG rating activities on the determination of fees for ESG ratings, together with a description of those other services.	
ANNEX III.1.n	Article 6(1)	ESG rating providers shall disclose the main risks of conflicts of interest and the steps take to mitigate them. ESG rating providers shall indicate the areas of the ESG rating provider's activities, services or organisational structure from which the main risks of conflicts of interest may arise.	Please refer to: • Conflict of Interest Policy

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

The Sustainability Bond Rating provides institutional investors with an opinion on the Environmental, Social, and Governance (ESG) performance of a labelled bond, in order to enable investors to support their own investment strategies. 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 \(SDGs\)](#) due to their relevance in defining impact criteria across a range of Environmental, Social and Governance topics against which bond issuances are assessed.

Materiality

The Sustainability Bond Rating methodology applies a holistic and forward-looking concept of materiality that focuses on long-term value creation through a double materiality lens. The rating approach acknowledges that both financial and impact materiality are closely interconnected, as impacts resulting from companies' business operations on stakeholders and/or the environment can affect the economic value of a company over the short, medium, or long term. Consequently, the rating incorporates a broad range of sustainability topics designed to ensure that salient and emerging ESG risks and opportunities are captured, namely assessing the actual or potential material impact of products or services financed by a bond on the environment or society,

and assessing the measures adopted in the management of environmental and social risks of financed activities.

While Sustainability Bond Rating does not solely focus on financial materiality, its findings inform investors about potential reputational and/or legal risks that are linked to the adverse impacts of their investments on society and/or the environment. These findings can be implemented through a variety of investment strategies, such as integration in portfolio construction or engagement.

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, the 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

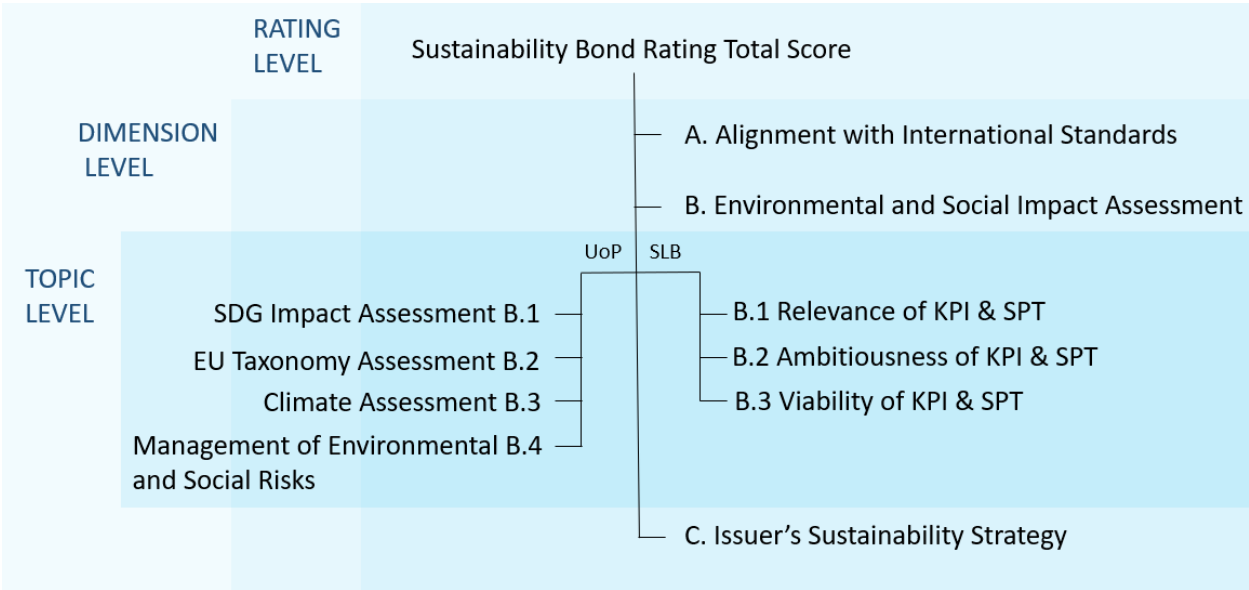
Issuance-Specific Rating Assessment Approach

The Sustainability Bond Rating is an aggregated rating that aggregates Environmental (E), Social (S) and Governance (G) factors. Accordingly, the Rating is made up of three dimensions across these factors:

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 is 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.

The content of the topics covered by the Sustainability Bond Rating do not correspond to the topics from the sustainability reporting standards developed pursuant to Article 29b of Directive 2013/34/EU. This rating evaluates GSSS bonds at instrument level, with a specific focus on the credibility, integrity and environmental ambition of the financed projects rather than corporate reporting standards.

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

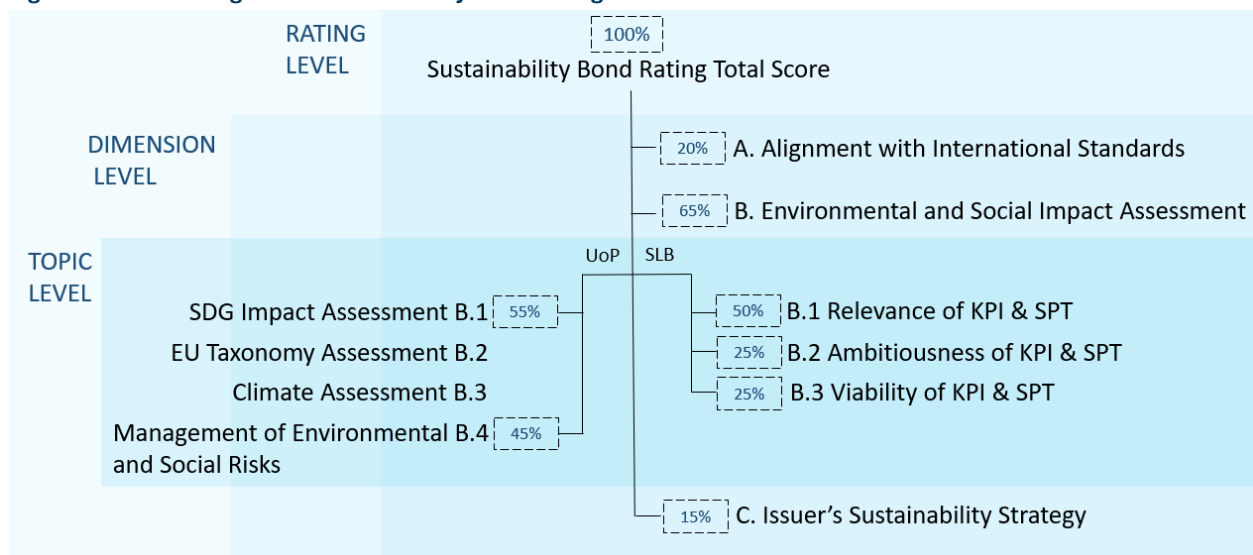
Alignment with International Standards	Environmental and Social Impact Assessment	Issuer's Sustainability Strategy
✓ Does the issuer provide a framework which aligns with market standards and best practice? ✓ Does the issuer provide transparent and robust impact reports?	✓ What are the (expected) environmental/social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

The 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, Climate Transition 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 A 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 E.

Issuer's Sustainability Strategy

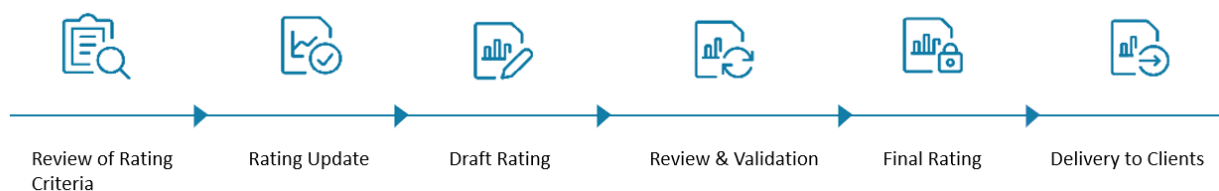
This dimension focuses on determining if the issuer has established any sustainability goals for its business strategy and if the bond proceeds cater to these objectives. Contextual information on the issuer's ESG performance is also included if the issuer is covered by ISS STOXX's Corporate Rating or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

Rating Process

Data Collection and Assessment

Data collection and analysis for Sustainability 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: Sustainability Bond Rating's Process



Source: ISS STOXX

Sources of Information

The 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 sources are catalogued internally and referenced in detail during the data collection process.

Data is not sourced from sustainability statements required under Directive 2013/34/EU or from information disclosed under Regulation (EU) 2019/2088.

Treatment of Disclosure Gaps

The Sustainability 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.”

Industry Classification

The Sustainability Bond Rating primarily leverages a proprietary industry classification. For more information on the underlying methodology, please refer to the appendix of the ISS STOXX’s Corporate Rating Methodology Document.

The Climate Impact Assessment component of the solution also leverages NACE and GICS Classifications:

NACE Classification

NACE (Nomenclature of Economic Activities) is [the European statistical classification of economic activities](#) adopted by the European Commission in October 2022. The latest version, namely NACE revision 2 update 1, came online in 2025, however, the [NACE revision 2.0](#) is currently enforced for mapping industry classifications.

The classification consists of an alphanumeric designation of the form DNN.N.N, where D stands for a capital letter A-Z and N are digits 0-9.

The system is hierarchical: at the highest level are broad industrial sectors such as Manufacturing or Mining which are refined at three further level.

GICS Classification

The [Global Industry Classification Standard \(GICS\)](#) was developed by S&P Dow Jones Indices, an independent international financial data and investment services company and a leading provider of global equity indices, and MSCI, a provider of global indices and benchmark-related products and services.

The GICS structure consists of 11 Sectors, 25 Industry groups, 74 Industries and 163 sub-industries. Each level adds 2 digits to the GICS Codes, making it up to 8 digits when at Level 4.

Limitations

The Sustainability Bond Rating Solution is designed to exclusively rely on publicly available disclosures and assess bond performance against established standards for performance expectations and contributions to financing the green transition. However, the Sustainability Bond Rating's methodology and data may be subject to certain limitations. The below outlines such limitations as well as the action taken to address these:

Limitations in Availability or Consistency of Data Sources

- **Lack of Standardization in Issuer Disclosure:** Issuers often disclose information using different formats, definitions, and levels of detail. This lack of standardization in the depth of disclosures increases the risk of interpretations errors and requires additional effort to normalize information for analysis.
- **Evolving market requires agility:** The market landscape is continuously evolving due to innovation in issuance structures and shifts in investor demand. New products, frameworks, or disclosure practices can emerge rapidly, requiring data collection processes and methodologies to remain flexible and adaptable to market developments.

Limitations in the Completeness, Timeliness, and Accuracy of Information

- **Reliance on public sources:** Data collection is inherently constrained by the quality, completeness, and accessibility of public sources. Often public disclosures can be outdated, amended post-issuances, selectively detailed, spread across multiple documents, or released at different times, potentially leading to discrepancies in data collection.
- **Limited go-to-market timeframe:** Initial analysis relies on preliminary documents provided by issuers in pre-issuance disclosures. The typically short go-to-market window can place constraints on the depth and robustness of data collection, particularly for innovative or first-time issuance structures.

Limitations in the use of Assumptions, Proxy Reference Points, and Data Estimation

- **Use of Assumptions:** Where primary data is incomplete or unavailable, assumptions are often adopted to enable coverage and continuity, like for instance in the estimation of proceed allocation in the absence of allocation reports. While these assumptions are applied consistently and based on best available information, they inherently reduce precision and require revision as more granular or verified data becomes available.
- **Reliance on proxy reference points:** In the absence of direct issuer-level information, proxy reference points may be used to approximate missing data, such as for estimating sector averages of emission intensities. While our methodology aims to capture the unique risk profile of each instrument, the use of proxies can introduce a degree of simplification.

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 STOXX's data and research teams sets guidelines and parameters to give investors the most relevant and updated information to support their decision-making process. Each rating is considered valid until the next scheduled update, which is typically on an annual basis, or until bond maturity.

Quality Assurance

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

- The 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

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

The Sustainability Bond Rating Solution is informed by international standards setting performance and disclosure expectations as provided by the ICMA principles, OECD Guidelines, UN Global Compact, IFC Performance Standards, etc. for Green, Social, Sustainability and Sustainability-linked bonds, which in turn – to varying degrees – are based on scientific evidence. Methodology 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

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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.

The solution's underlying methodology is considered valid until an update is carried out and applied.

Appendix

Appendix A: SDG Impact Assessment

A (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., $4 \cdot 70\% + 3 \cdot 30\%$ 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 a (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 ₂ e /MIL EUR	SCOPE 2 EMISSION INTENSITY PER EVIC IN tCO ₂ e /MIL EUR	SCOPE 3 EMISSION INTENSITY PER EVIC IN tCO ₂ e /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 tCO₂e /Mil EUR

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

- Overall Scope 2 Emission Intensity per EVIC in tCO₂e /Mil EUR

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

- Overall Scope 3 Emission Intensity per EVIC in tCO₂e /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 the 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 (tCO₂e /Mil EUR) is calculated for each project using corporate reported emissions intensities (I) and revenue shares per product (w).

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

3. **Baseline Intensities:** A baseline intensity (tCO₂e /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 (tCO₂e /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 (tCO₂e /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 ($\bar{w}$) which are reweighted by the bonds PAE applicable proceeds share. This makes it so that the Bonds PAE Intensity (tCO₂e /Mil EUR) only refers to the share of its proceeds which is eligible for PAE rather than the full use of proceeds:

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

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

The Partnership for Carbon Accounting Financials' (PCAF) [Supplemental Guidance on Avoided Emissions](#) 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.

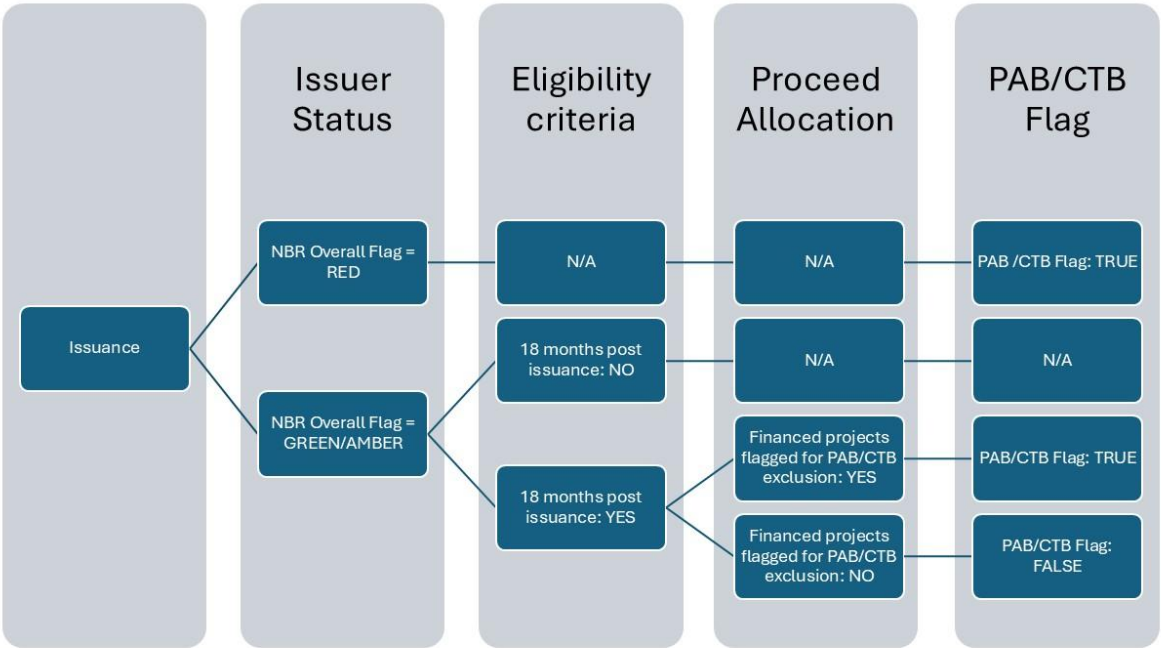
The Sustainability Bond Rating Solution provides an overall exclusion flag for Paris Aligned Benchmark (PAB) as defined in Article 12(1)(a-g) of CDR EU 2020/1818 and an overall exclusion flag for Climate Transition Benchmark (CTB) as defined in Article 12(1)(a-c) of CDR EU 2020/1818.

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 of 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 enables 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
3.0	July 2026	Inclusion of the Public Disclosure on the Methodology, Models, and Key Rating Assumptions Used in ESG Rating Activities (as defined by the Regulation (EU) 2024/3005)



sales@iss-stoxx.com
iss-stoxx.com

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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.

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