

# Sustainability Bond Methodology

## Second-Party Opinion

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## 1. Introduction

Scope ESG Analysis GmbH provides second-party opinions (SPOs) assessing an issuer's sustainability bond framework (Framework) which integrates both green and social aspects in accordance with the Sustainability Bond Guidelines (SBG) of the International Capital Markets Association (ICMA)<sup>1</sup>.

Sustainability bonds are fixed-income instruments classified as use-of-proceeds bonds, designed to finance projects with both environmental and social benefits. As such, both Green Bond Principles (GBP) and Social Bond Principles (SBP) are considered in the evaluation. This methodology outlines Scope ESG's proprietary approach, which employs a four-level earth score assessing the Framework's alignment with the Sustainability Bond Guidelines, compliance with EU taxonomy standards for green projects (where applicable), and adherence to regional or local taxonomies for social projects (if relevant). Additionally, the assessment evaluates the expected environmental and social impacts of the defined projects and analyses potential environmental and social risks associated with the projects' implementation. The baseline for this assessment is the issuer's Framework, which serves as a prerequisite for the analysis.

The assessment consists of eight distinct dimensions, with the first four covering alignment with the GBP/SBPs:

1. GBP/SBP 1: Use of proceeds
2. GBP/SBP 2: Process for project evaluation and selection
3. GBP/SBP 3: Management of proceeds
4. GBP/SBP 4: Reporting
5. Issuer sustainability strategy
6. Green and social taxonomy alignment (*EU or relevant regional/local taxonomy, if applicable*)
7. Impact of proceeds
8. Environmental and social management risks

Each GBP/SBP dimensions are scored individually with six questions per dimension to ensure consistency and transparency in the analysis. The issuer is awarded points based on the outcome of each question: no (0 points), partial (1 point) or yes (2 points). Each GBP/SBP dimension receives an aggregate sub-score from 1 to 12 indicating: poor, limited, significant or transformative performance. To be considered aligned with the GBP/SBP, Scope ESG encourages that each dimension directly related to the GBP/SBP achieves a minimum score of 7

This methodology further includes four additional assessment categories beyond the ICMA criteria, including an assessment of alignment with the relevant green and social taxonomies (EU or equivalent, if applicable), a concise description of the issuer's sustainability strategy and UN SDG alignment, and an assessment of the impact of proceeds from the defined projects. Finally, the SPO sheds light on potential environmental-and-social related risks in the context of the eligible projects if not mentioned under the 'do no significant harm' (DNSH) criteria of the EU taxonomy. These additional assessment categories extend beyond the obligatory assessment steps (dimensions one to four).

This SPO methodology is designed to assess alignment with alternative green and social taxonomies, where relevant. This flexible approach offers a nuanced understanding of sustainability within specific geographic and regulatory contexts, enabling issuers to address both global and local market expectations while enhancing their appeal to a broader range of investors. When evaluating alignment with an alternative taxonomy, the same level of scrutiny and number of questions as applied to the EU taxonomy category are used, tailored to the applicable taxonomy criteria.

The last four categories are scored individually with seven questions per dimension<sup>2</sup>. Following the same calculation as the GBP/SBP categories, each dimension then receives an aggregate sub-score from 1 to 14 indicating: poor, limited, significant or transformative performance. Finally, the total aggregate score is a weighted average of seven dimensions (impact of proceeds and environmental-and-social management risks are considered as one dimension in the total score calculation),

<sup>1</sup> This methodology is aligned with the most recent ICMA principles and guidelines available at the time of assessment.

<sup>2</sup> In the taxonomy alignment category, if a social taxonomy is applicable, an additional seven questions are incorporated into the assessment. This adjustment increases the aggregate sub-score for this dimension to 28, while maintaining the 25% weight in the overall score.

where each GBP/SBP category weights 6.25% representing 25% of the total and the additional assessment categories weight 25%, accounting for the remaining 75%. Although impact and environmental/social risk management are assessed separately, they are aggregated into a single category for final scoring, ensuring a balanced representation of environmental impact and risk mitigation.

$$Total\ Score = \sum_{i=1}^4 0.0625 \times D_i + \sum_{j=5}^7 0.25 \times D_j$$

Where:

$D_i$  represents the scores for each of the GBP/SBP categories: use of proceeds, process for project evaluation and selection, management of proceeds, and reporting.

$D_j$  represents the scores of the three additional dimensions beyond the GBP/SBP: sustainability strategy, green and/or social taxonomy alignment, and impact of proceeds and risks, each weighted 25%.

Scope ESG acknowledges that ICMA does not specify the use and distribution of weights. Nevertheless, we maintain that the essence of the SPOs lies in offering investors insights into the ambition of the Frameworks, aspects beyond what the ICMA Principles alone evaluate.

While alignment with green and social taxonomies represent a significant part of the assessment, accounting for 25%, this alignment is not mandatory to achieve a high score. The EU taxonomy does not yet cover the full universe of sectoral activities, and individual impact assessments may produce outcomes different from the binary rationale of the taxonomy. Similarly, many regions lack an implemented social taxonomy, making this assessment inapplicable in certain cases. However, evaluating the degree of alignment between the Framework and these taxonomies, enhances investor understanding, particularly for those considering investments aligned with evolving regulatory standards.

In case the sectoral activities are not covered by the EU taxonomy, or if alignment with a green and social regional or local taxonomy, is deemed unnecessary, the 25% weight of this dimension is redistributed equally to the sustainability strategy and to the impact and environmental and social risks categories, increasing their weight from 25% to 37.5% each. This ensures a balanced and comprehensive evaluation while maintain the integrity of the overall assessment framework.

$$Total\ Score = \sum_{i=1}^4 0.0625 \times D_i + \sum_{j=5}^6 0.375 \times D_j$$

Where:

$D_i$  represents the scores for each of the GBP/SBP categories: use of proceeds, process for project evaluation and selection, management of proceeds, and reporting.

$D_j$  represents the scores of the two additional dimensions beyond the GBP/SBP: sustainability strategy and impact and risk categories, each weighted 37.5%.

## 1.1 Area of application

This methodology covers the following debt instruments: green bonds; social bonds; revenue bonds; project bonds; securitized bonds; convertible bonds/notes; sukuk; schuldscheine; loan facilities; bilateral and syndicated loans; revolving and export credit facilities; commercial papers; asset-backed commercial paper; debt instruments issued by a green bond fund; covered bonds; and green deposits.

Scope ESG also provides SPOs under the Loan Market Association's Principles by using this methodology. As such, any Framework under which the issuer takes out loans is subject to this methodology in accordance with the Green and Social Loan Principles. Any reference to the GBP/SBP in the following section thus embraces the Green and Social Loan Principles as well.

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## 1.2 Geographical and sectoral scope

Scope provides SPOs across all jurisdictions and sectors globally under the International Capital Market Association standards.

## 1.3 Information source





An SPO is based on the issuer's Framework and additional documentation provided by the issuer in writing, through calls, interviews, or email and publicly available information. The documentation may include relevant material as defined in the GBP/SBP as well as information on alignment with the EU taxonomy's technical screening criteria; DNSH criteria; minimum social safeguards; and evidence of alignment of the eligible projects with the issuer's sustainability strategy.

The SPO is a point-in-time analysis with reference to an existing Framework. Any change to the Framework after the SPO's publication would require a new assessment.

## 2. Methodology

### 2.1 Overall earth score





Scope's earth score visually represents our evaluation and verification of the sustainability impact of the issuer's Framework. The overall Framework score relies on eight sub-dimensions. Each dimension receives a sub-score, which is translated in four different performance levels: poor, limited, significant and transformative. The overall Framework score is a weighted average of the performance of all dimensions and ranges from non-alignment with the GBP/SBP (one red earth) to complete alignment with the GBP/SBP and transformative sustainability contributions beyond current market practice (three green earths). The ambitions within the defined sustainable project categories qualify for the respective earth scores. For multiple project categories, the score for the 'Use of Proceeds' dimension is determined by averaging the scores of all individual project categories. This averaged score is then incorporated into the overall weighted average calculation across the seven assessment dimensions, ensuring a balanced and transparent final framework score.

Earth score	Performance score	Description
	<b>Transformative</b>	Transformative sustainability contribution exceeding current market standards, showing complete alignment with pertinent national and industry norms.
	<b>Significant</b>	Significant sustainability contribution that aligns with market practices, demonstrating at least partial conformity with relevant market standards.
	<b>Limited</b>	Environmentally and socially friendly efforts but lack sufficient quantifiable impact metrics and exhibit limited alignment with relevant market standards.
	<b>Poor</b>	No significant or negative sustainability impact with a notable absence of alignment with relevant market standards, potentially resulting in adverse outcomes.

### 3. Assessment of issuance





#### 3.1 Use of proceeds

The Use of proceeds category assesses the use of bond/loan proceeds for eligible sustainable projects. The eligible projects should provide clear sustainability-linked benefits that are assessed and quantified by the issuer where feasible. The GBP/SBP lists distinct categories of eligibility for green/social projects that contribute to environmental and or social objectives as defined by the ICMA Principles or for which the issuer justifies a meaningful contribution to one or more of the UN SDGs.

Earth score	Performance Score	Description
	<p><b>Transformative</b></p>	<p>The eligible project descriptions are clear, detailed, and transparent and are aligned with the issuer’s sustainability objectives. The stated use of proceeds definitions reaches beyond observed market practices in the industry and address material social challenges. The issuer provides quantitative environmental and social impact of the projects.</p>
	<p><b>Significant</b></p>	<p>The eligible projects are aligned with sustainability objectives and provide measurable environmental and social benefits. The projects are aligned with market practice being impactful but may not fully exceed industry best practices.</p>
	<p><b>Limited</b></p>	<p>The projects comply with the GBP/SBP and provide basic environmental and social benefits, but insufficient information and impact measurement is provided.</p>
	<p><b>Poor</b></p>	<p>The issuer does not communicate the list of green or social projects, or the projects listed do not comply with the GBP/SBP.</p>

### 3.2 Process for project evaluation and selection





The Process for project evaluation and selection category assesses the procedures defined in the issuer’s Framework for selecting projects that align with green and social project criteria and industry objectives. It also considers any additional information to identify and monitor potential controversies related to eligible projects.

Earth score	Performance Score	Description
	<p><b>Transformative</b></p>	<p>The issuer applies a highly transparent and structured project selection process with clear environmental and social objectives. Strong governance and due diligence ensure that projects meet high impact standards, while risks are proactively identified, assessed, and managed.</p>
	<p><b>Significant</b></p>	<p>The issuer has a well-defined selection process that identifies environmental and social objectives and integrates risk assessment and governance. However, minor improvements could be made in transparency, communication or mitigation measures.</p>
	<p><b>Limited</b></p>	<p>The issuer demonstrates partial compliance with sustainability guidelines. While environmental and social objectives may be communicated, the project selection process lacks clarity, transparency, or consistency.</p>
	<p><b>Poor</b></p>	<p>The project selection process lacks transparency, with selection criteria or governance not documented. The process is inconsistent and environmental and social risks are not assessed or mitigated.</p>







### 3.3 Management of proceeds

Management of proceeds is the category that reviews the process defined in the Framework to track the net proceeds of the sustainable debt instrument, as well as the unallocated proceeds. The GBP/SBP encourage a high level of transparency and traceability.

Earth score	Performance Score	Description
	<p><b>Transformative</b></p>	<p>The issuer has a well-designed and transparent process to track investments and has a process in place for unallocated net proceeds or proceeds from sudden divestment. The issuer is transparent on the temporary placement of unallocated proceeds dedicated to ESG/green products or at least prevent investment controversies and follows best practices by including external auditors to track internal processes. Disclosure is best-in-class.</p>
	<p><b>Significant</b></p>	<p>The issuer has a well-defined and transparent process to track the net proceeds with processes in place to manage unallocated net proceeds, however transparency about temporary placement may be limited and/or liquid temporary investments may not always be dedicated to ESG/green products. Some minor gaps in disclosure may exist.</p>
	<p><b>Limited</b></p>	<p>The issuer has a basic process for tracking investments but lacks transparency and traceability with informal or inconsistent reporting structures.</p>
	<p><b>Poor</b></p>	<p>The issuer does not have systems, policies, and/or processes for managing net proceeds.</p>

### 3.4 Reporting





The reporting category serves to analyse the issuer's reporting objectives to investors, such as the regular publication of updated information on the use of proceeds. This includes an assessment of the transparency of the qualitative and quantitative indicators, such as expected reductions in carbon intensity or improvement in educational outcomes.

Earth score	Performance Score	Description
	<b>Transformative</b>	Up-to-date information on the use of proceeds is available and accessible to stakeholders with annual reports providing comprehensive details on the eligible projects. Impact reporting is highly transparent, utilizing both qualitative and quantitative measures and the issuer consistently refers to and adopts best practices.
	<b>Significant</b>	The reporting process is generally up-to-date and accessible to stakeholders with annual reports providing details on the eligible projects. The impact reporting may lack comprehensive external assurance or in-depth impact analysis.
	<b>Limited</b>	The issuer provides annual reports with basic details on the funded green projects with room for improvement in transparency and accessibility. Impact reporting may focus more on qualitative measures with limited disclosure of quantitative methodologies and assumptions
	<b>Poor</b>	The issuer does not provide updated information on use of proceeds in the reporting process with annual reports providing minimal details.

#### 4. Assessment beyond the GBP/SBPs

##### 4.1 Sustainability strategy

This category assesses the alignment of the Framework with the issuer’s sustainability strategy and/or assesses the alignment with relevant and material impact objectives of the industry in the absence of a sustainability strategy<sup>3</sup>. This part of the assessment extends beyond the obligatory alignment check of a Framework with the GBP/SBPs.

Earth score	Performance Score	Description
	<b>Transformative</b>	The issuer’s sustainability strategy is clearly articulated, accessible, and aligned with recognized global standards and frameworks. It is fully integrated into core business activities and value chain. The issuer sets ambitious measurable ESG targets beyond observed in market practice.
	<b>Significant</b>	The issuer has a well-defined sustainability strategy that is publicly available and partially aligned with global standards such as environmental certifications or industry standards. The strategy includes measurable targets with transparency in reporting. However, while the issuer meets industry standards, it does not go beyond regulatory requirements.
	<b>Limited</b>	The issuer’s commitment to a sustainability strategy lacks clarity, accessibility, or alignment with global standards. While targets and KPIs exist, they are vague or lack ambition. The strategy does not sufficiently address material ESG impacts or demonstrate a structured approach to sustainability integration.
	<b>Poor</b>	The issuer does not formally commit to a sustainability strategy with no measurable targets, nor governance structure. Transparency is absent and sustainability considerations are not integrated into the business model.





<sup>3</sup> For public sector issuers, the sustainability strategy is assessed compared to the benchmark of other public issuers with similar characteristics (such as municipalities in the same or similar jurisdiction).

#### 4.2 Green and/or social taxonomy alignment

Where applicable, this category assesses the alignment of the selected projects with the EU taxonomy or an equivalent regional or local taxonomy, as well as the issuer’s willingness to comply with these criteria. Scope ESG always refers to the official EU or regional/local legislation at the time of writing the SPO. Any changes to the taxonomy after the publication of the SPO are deemed irrelevant for the existing Framework’s alignment with the EU taxonomy or any other applicable taxonomy. This part of the assessment extends beyond the obligatory alignment check of a Framework with the GBP/SBPs.





Given the existence of numerous social taxonomies worldwide, and the global applicability of this methodology, Scope ESG evaluates the alignment of selected social projects with relevant social taxonomies, as such alignment may be required in certain regions. Where applicable, this category assesses both alignment and the issuer’s commitment to meeting these criteria.

The description below outlines the approach for EU Taxonomy alignment. However, if alignment with another taxonomy is applicable, the description will be adapted accordingly, reflecting best practices, market standards, limited, or poor alignment. If the selected projects within the Framework do not fall under the economic activities by the EU taxonomy or the corresponding regional, local and/or social taxonomy, this category is excluded from the analysis without impacting the overall score.

Earth score	Performance Score	Description
	<b>Transformative</b>	The issuer demonstrates exemplary compliance with EU taxonomy requirement, providing all documents to verify alignment with technical screening criteria, DNSH principles, and minimum social safeguards. Projects financed by the green bond align closely with the environmental objectives of the EU taxonomy and the issuer provides robust evidence to support this alignment.
	<b>Significant</b>	The issuer demonstrates satisfactory compliance with EU taxonomy requirements, providing all documents to verify alignment with technical screening criteria and limited documentation to verify at least partial alignment with the DNSH principles or minimum social safeguards. There may be minor gaps or inconsistencies in documentation or evidence provided, and the activity may not be fully aligned with the EU taxonomy, however the issuer has adopted best practices within the sector.
	<b>Limited</b>	The issuer demonstrates limited compliance with EU taxonomy requirements, technical screening criteria, DNSH principles, and minimum social safeguards. Projects financed by the green bond are not aligned with EU taxonomy with significant gaps or inconsistencies in documentation or evidence provided. It complies with the technical screening criteria but does not disclose information pertaining DNSH criteria or minimum social safeguards
	<b>Poor</b>	The issuance fails to comply with EU taxonomy requirements, technical screening criteria, DNSH principles, and minimum social safeguards. Projects financed by the green bond show little to no alignment with relevant environmental objectives and technical screening criteria.





### 4.3 Impact of proceeds

Impact of proceeds is the category assessing the sustainability impact of the selected green and social projects in the Framework, by reviewing the relevance of environmental and social objectives within respective geographies and industries. This section evaluates the extent to which the projects financed by the bond proceeds contribute to environmental sustainability objectives and social welfare goals. This part of the assessment extends beyond the obligatory alignment check of a Framework with the GBP/SBPs.

Earth score	Performance Score	Description
	<p><b>Transformative</b></p>	<p>The projects are fully aligned with the issuer’s environmental and social objectives and significantly address material issues within the sector and region of activity, making a meaningful contribution to sectoral sustainability goals. Best practices are adopted by the issuer in executing the activity, showing a strong commitment to addressing relevant value-chain negative impacts of defined projects.</p>
	<p><b>Significant</b></p>	<p>The projects are aligned with specific environmental and social objectives outlined in the Framework, considering the value chain to some extent. The projects address material impacts within the sector and region of activity; however, projection of sustainable benefits may lack some details compared to best practices and additional documentation to support the environmental and social impact of projects could be more comprehensive. The issuer may display commitment to addressing relevant value-chain negative impacts of the defined projects.</p>
	<p><b>Limited</b></p>	<p>The projects are partially aligned with the specific environmental and social objectives outlined in the Framework as material impacts within the sector and region of activity are considered to some extent leading to a weak impact measurement, therefore the contribution to sectoral sustainability goals may be limited.</p>
	<p><b>Poor</b></p>	<p>The projects are not aligned with specific environmental and social objectives outlined in the Framework and are unlikely to provide a meaningful contribution to addressing material impacts in the sector.</p>

#### 4.4 Environmental and social management risks

Environmental and social management risks category provide an evaluation of the issuer’s ability to identify, assess, and manage environmental and social risks associated with the eligible projects defined in the Framework. This section aims to analyse the effectiveness of the issuer’s policies, procedures, and practices in mitigating potential negative impacts on the environment and society. This part of the assessment extends beyond the obligatory alignment check of a Framework with the GBP/SBPs.

Earth score	Performance Score	Description
	<p><b>Transformative</b></p>	<p>The issuer has a risk management strategy in place that addresses direct and indirect risks associated with every project category of the issuance. The issuer provides comprehensive information on mitigation strategies and procedures ensuring compliance with relevant regulations, standards, and guidelines throughout the entire value chain.</p>
	<p><b>Significant</b></p>	<p>The issuer proactively assesses and mitigates environmental and social risks with structured processes and strong governance. The issuer provides sufficient information on mitigation strategies and procedures, but supply chain activities is not guaranteed to be monitored.</p>
	<p><b>Limited</b></p>	<p>The issuer’s risk management is limited in scope, considering risks partially with gaps in transparency and standardization of risk definition. The mitigation procedures may be limited and compliance with relevant regulations may be inconsistent.</p>
	<p><b>Poor</b></p>	<p>The issuer does not have a process in place to identify, define, and manage environmental and social risks related to the projects.</p>

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