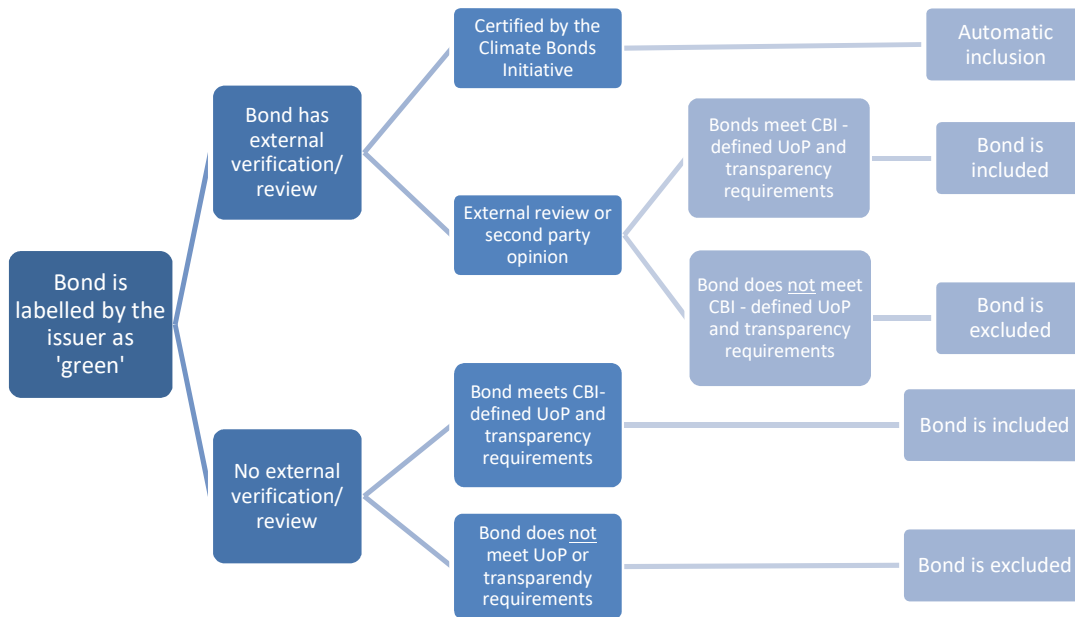


Green Bonds Methodology

The Climate Bonds Initiative uses a clear set of criteria to define green bonds as eligible for its Green Bond Index. More detail on the classification criteria and process is set out in this document.

The four-step process to classify a green bond as eligible includes: identification of environmentally themed bonds, reviewing eligible bond structures, evaluating the use of proceeds and screening eligible green projects or assets for adherence with the Climate Bonds Taxonomy.



Process

1. Identification of green themed (self-labelled) bonds

The issuer of a green bond must declare that the bond is intended to be environmentally beneficial through labelling the bond. The label is most commonly ‘green’ however other labels such as climate-awareness, climate, environmental, carbon, sustainability and ESG (Environment, Social, and Governance) are also eligible.

The issuer must use the label or description in a public document for the label to be valid. For example, the label can be used in reference to the bond in a press release from the issuer, statement on the issuers’ website, the bond prospectus or supporting bond offering documents.

2. Eligible bond structures

The eligible bond structures are divided into **asset-linked** and **asset-backed** structures. Asset linked or use of proceeds bonds have earmarked proceeds from the bond sale for eligible projects. Some issuers of asset-linked bonds may choose to ring-fence proceeds through the use of separate accounts or vehicles. Ring-fencing is not an explicit requirement for inclusion, but proceeds must be at least earmarked for eligible green projects.

For asset-backed structures, bonds are divided into *Project Bonds* and *Securitised Bonds*.

- *Project Bonds* are eligible in case they are backed by a green project and the proceeds from bond sale are used solely to finance that same green project;

- *Securitised Bonds* are eligible if proceeds go towards green projects or assets. Thereby, collateralised assets must not be labelled as 'green'.

3. Transparency on the use of green bond proceeds

Issuers must commit to use proceeds from the bond sale in full (lessor the bond arrangement fees) to finance eligible green projects or assets.

If more than 5% of the proceeds are used for 'general corporate purposes' or projects that are not defined as green, the bond will not be eligible for inclusion.

If proceeds are to be split across different projects, for example an ESG Bond with social projects and separate green projects, the bond would not be eligible.

4. Screening on green credentials

Each bond is reviewed based on the green credentials of use of proceeds. This may be:

- earmarked proceeds for asset-linked, senior unsecured bonds;
- projects backing a project bond or
- assets backing an ABS.

At issuance, the issuer must declare the types of eligible green assets or projects to be financed with the proceeds (in line with the Green Bond Principles).

Inclusions

Climate Bonds reviews the eligible asset types for green bonds using the definitions and criteria of the Climate Bonds Taxonomy. Bonds that are in line with the Taxonomy are included in the bond list.

The Climate Bonds Taxonomy consists of seven categories listed at the end of this document.

(A full explanation of categories and sub-categories are available on the Climate Bonds Initiative website <http://www.climatebonds.net/standards/taxonomy>.)

Exclusions

Bonds that are not aligned with the taxonomy are excluded from the list. In addition, Climate Bonds also specifically checks for any assets that fall into the exclusion criteria outlined in Section 5.

In case a green marked bond is selected for inclusion under the described criteria but cannot fulfil the criteria later on, it will be removed immediately and is not marked as green anymore.

Climate Bonds Green definition (Taxonomy)

Eligible green project and assets

❖ Renewable and Alternative Energy

- **Solar energy** – *photovoltaic solar electricity, concentrated solar power, infrastructure and manufacturing, transmission;*
- **Wind energy** – *offshore and onshore wind farms, infrastructure and manufacturing, transmission;*
- **Bioenergy** – *renewable feed stocks, infrastructure and manufacturing, networks;*
- **Hydropower** – *Run of river and small hydro <15MW (CDM defined), existing large hydro >20MW in temperate zones, re-powering of existing large hydro system;*
- **Geothermal** – *geothermal electricity, geothermal heat pump (GHP) technology;*
- **Other renewable energy** – *sea and ocean derived energy sources;*
- **Energy distribution & management** – *transmission & grid infrastructure, smart systems/meters, heating management;*
- **Energy storage** – *hydro storage systems, thermal heat storage, new technologies.*

❖ Energy efficiency

- **Green building** – *commercial, residential, upgrades/retrofits;*
- **Energy efficiency technology/products manufacturing and supply** – *operational performance will recognise special purpose products needed to ensure buildings meet industry metrics, such as LEED and BREEAM standards;*
- **Energy efficient products** – *manufacturers, assets;*
- **Energy efficient processes/systems;**
- **Cogeneration/tri-generation/combined heat and power;**
- **Waste heat recovery;**
- **Non-energy GHG reductions;**
- **Industrial process** – *eco-efficiency improvements/cleaner production.*

❖ Low-Carbon Transport

- **National rail and freight systems;**
- **Urban rail systems** - *metro & light rail;*
- **Electric vehicles (EVs)** - *passenger and commercial fleets;*
- **Fuel efficient vehicles** - *passenger and commercial fleets;*
- **Alternative fuel vehicles** - *passenger and commercial fleets;*
- **Bus rapid transit (BRT);**
- **Bicycle transport;**
- **Aviation biofuel;**
- **Transport logistics.**

❖ Sustainable Water

- Storm water adaptation investment;
- Investments to deal with rainfall volatility;
- Water treatment and recycling;
- Waterways adaptation.

❖ **Waste, recycling and pollution**

- **Circular economy activities that lead to lower lifecycle energy and GHG usage** – *industrial recycling, recycled products, composting;*
- **Technologies and products** – products/technologies that reduce and capture GHG emissions.

❖ **Sustainable agriculture and forestry**

- **Forestry activities that avoid or substantially reduce carbon loss, and that deliver substantial carbon sequestration** – *certified assets (as per internationally accepted certification standards), afforestation (plantations on non-forested degraded lands), re-vegetation (reforestation on previously forested land), reduced emissions from deforestation and degradation (REDD);*
- **Agriculture that reduces carbon and GHG emissions, increases soil based carbon sequestration and improves climate resilience** – *reduced water use, verifiable reduced fertilizer use, verifiable zero-till agriculture, verifiable rangeland management, intensive agriculture efficiencies, intelligent management systems and resilience.*

❖ **Climate resilient infrastructure and climate adaptation**

- **Infrastructure** – *bridges, rail, infrastructure to protect against increased rainfall;*
- **Information technology and communications** – *broadband, data centres using renewable energy, low-carbon infrastructure, products and technologies that support smart grid applications, technology substitution.*

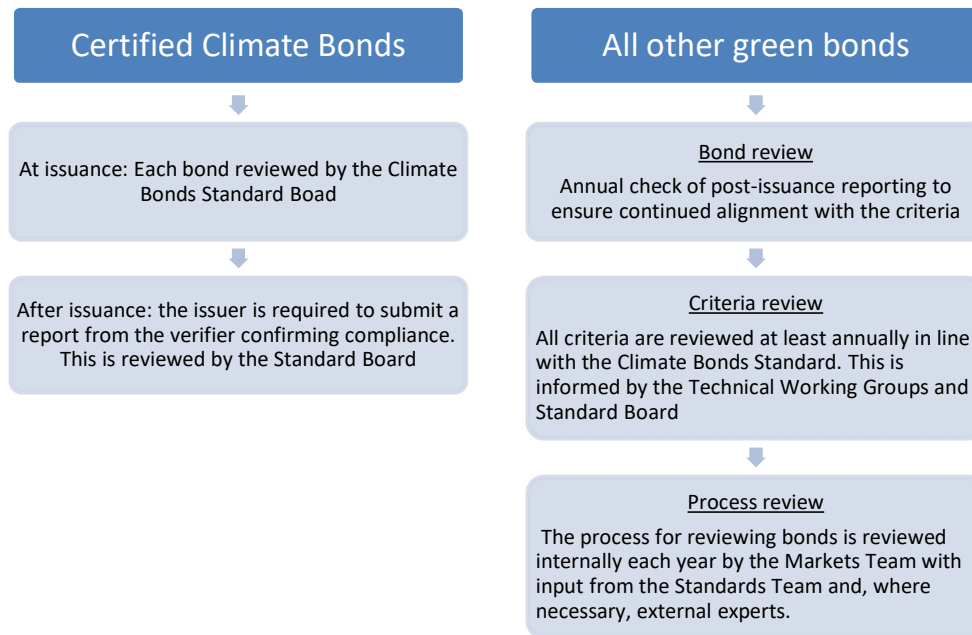
Exclusions

While any bond that does not fit into the areas defined above, the following areas are ineligible for selection and are explicitly excluded from the list:

Sector	Excluded areas
Energy	Uranium mining for nuclear power;
	Any fossil fuel-based power generation including: gas, 'clean' coal and other coal.
Energy efficiency	Efficiency upgrades to GHG intensive power sources – e.g. cleaner coal technology;
	Energy savings in fossil fuel extraction activities - emission reduction requirements require a rapid phase-out of all fossil fuel usage. Anything that helps to extend the life of fossil fuel usage is excluded.
Waste	Landfill without gas capture;
	Waste incineration without energy capture.
Transport	Rail lines where fossil fuels account for more than >50% of freight.

Review and governance

The criteria used and processes are under review through the following process:



The criteria used to determine bond eligibility are refined and improved as work is completed through the Climate Bonds Standard. The Climate Bonds Standard convenes Technical Working Groups consisting of key experts from academia, international agencies, industry and NGOs to develop sector-specific eligibility criteria for each low-carbon investment area.

The end criteria for each low-carbon investment area are approved by the Standard Board and the technical working groups.

Once criteria are finalised, they are used to inform the decision-making process for the index. While they cannot always be adhered to in full (the Standard requires different levels of disclosure), they are used to refine the taxonomy.

The process for selecting bonds is reviewed annually through an internal process. Where necessary, the Board or external experts are consulted.