A NEW WAY OF FACING RISK
Green Bonds Rating Methodology

What type of service is HR Ratings going to offer?
• A Green rating where a scale of nine levels is established in order to classify sustainable projects financed through debt. It’s not a credit rating.

What’s the objective of the methodology?
• Provide a mechanism to classify these green bonds in accordance to the environmental benefits of the project(s) financed through the bond.
• Monitor, evaluate and inform continually to the market about the capacity of the issuer to comply with the international transparency standards and statements generation.

What is the rating based on?
• International recognized criteria for the evaluation of Green Bonds such as the Climate Bonds Standards, developed by the Climate Bonds Initiative (CBI) and the Green Bond Principles (GBP). These two guidelines establish clear criteria for the assessment of the quality of the green projects, such as transparency and information policies.

What is the criteria used for the rating?
• Environmental analysis of the project
• Transparency and report of the key indicators of the project
• Both analytic components are based mostly in a qualitative analysis.
Green Bonds Rating Methodology

Rating process

Chart 1: Green Bonds Rating Methodology

**Preliminary Phase**
- Compliance with Climate Bonds Taxonomy
- Adoption of Green Bond Principles

**First Stage – Environmental Analysis of Eligible Projects and Assets**
- Project
  - Environmental Benefits
  - Project Lifecycle
  - Technology
- Context
  - Geographic Location
  - ES Performance*
  - Side Effects

**Second Stage – Green Bond Principles Compliance**
- Green Bond Principles
  - Use of Proceeds
  - Process for Projects Evaluation and Selection
  - Management of Proceeds
  - Reporting
- Final Green Bond Rating

Source: HR Ratings
Green Bonds Rating Methodology

First stage - Environmental Analysis of Eligible Projects and Assets

The evaluation and consideration of the environmental benefit implicit to the project, as well as the context evaluation, will result in a level within the next three level scale:

**HR GB 1**
Bonds related to projects that, considering their nature and context, offer the superior environmental solution contributing to the limitation of global temperature increase in accordance with the terms of the Paris Agreement.

**HR GB 2**
Bonds related to projects that, considering their nature and context, offer a good environmental solution contributing to the limitation of global temperature increase in accordance with the terms of the Paris Agreement.

**HR GB 3**
Bonds related to projects that, considering their nature and context, offer an acceptable environmental solution contributing to the limitation of global temperature increase in accordance with the terms of the Paris Agreement.
Second stage - Green Bond Principles Compliance

Once the four GBP are evaluated (Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds and Reporting), HR Ratings will proceed in differentiating the bonds within another three-level scale based on the issuer’s level of compliance.

![Chart 2. GBP Classification and Scale]

Source: HR Ratings
Green Bonds Rating Methodology

Final Rating

The result of the methodology is a Green Rating composed by three levels which represent the type of environmental solution and another three levels which represent the compliance with the GBP.

The final Green Rating is a scale of nine levels that clearly indicates in its notation the results of each of the two previous analysis.

<table>
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<th>Company and product identifier</th>
<th>Stage 1: Environmental Analysis</th>
<th>Stage 2: Green Bond Principles Compliance</th>
<th>Final Scale</th>
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Source: HR Ratings
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Monitoring and Reporting

Why is it necessary?
HR Ratings considers that supervision and follow-up of the green ratings are preferable given that the investments on these debt instruments, in their majority, are long run investments. It’s useful for the investors to know in a periodic manner if the project keeps conserving its environmental benefits and if the issuer keeps complying with international standards of transparency and reporting.

With what frequency?
At least once a year, even though it could be made with a higher frequency depending on the periodicity with which the issuer presents its information.

What type of information would be necessary?
• Report, preferably with quantitative metrics, the environmental benefits of the project. The evaluation could also be made with qualitative variables.
• Report the compliance of the ESG (Environmental, Social and Governance) principles.
• Report any secondary negative effect that can be generated in the operation of the project.
• Report the administration and application of the resources obtained through the bond.

HR Ratings will be flexible with the formats and periodicity in which the issuer reports the information.

It is important to emphasize that, as part of the follow-up process in traditional credit ratings, HR Ratings already has a vast experience with the follow-up of infrastructure projects that involve physical visits to the assets.