



Social and Sustainability Transaction Evaluation: Proposed Analytical Approach

November 18th

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Sustainable Finance External Reviews and Opinions

Sustainable Finance Services

Corporate ESG
Analysis

ESG
Evaluation

External Reviews
and Opinions

Transaction
Evaluations

Green

Social*

Sustainability*

Framework
Alignment Opinions

Green

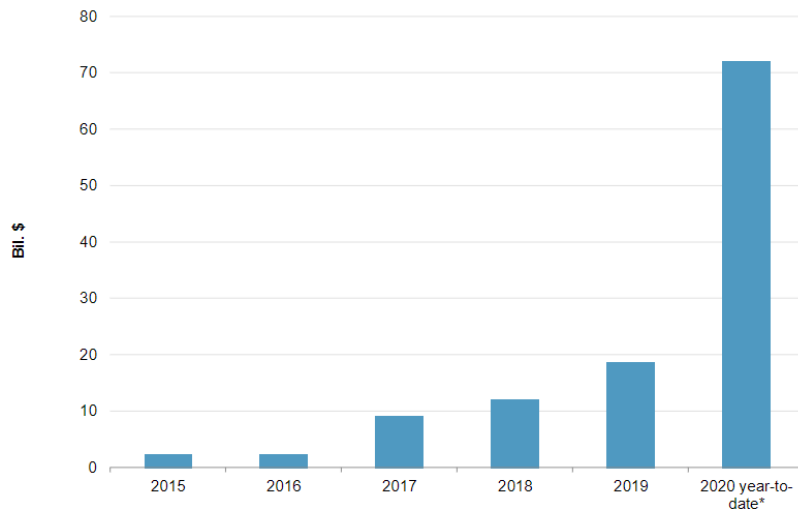
Social

Sustainability

*Analytical Approach proposed on November 12; we are taking feedback on the proposal until Jan. 8, 2021.

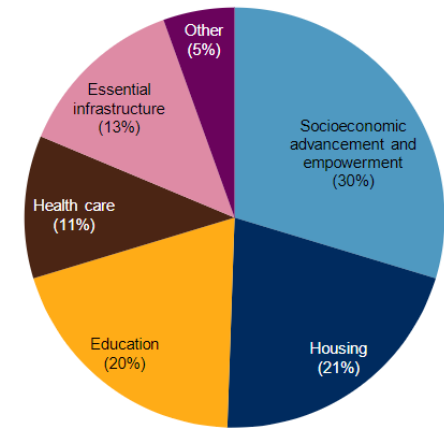
Rapid Growth in the Social Bond Market

Global social bond issuance



*Data as of October 2020. Source: Bloomberg.
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Total social bond issuance by project type



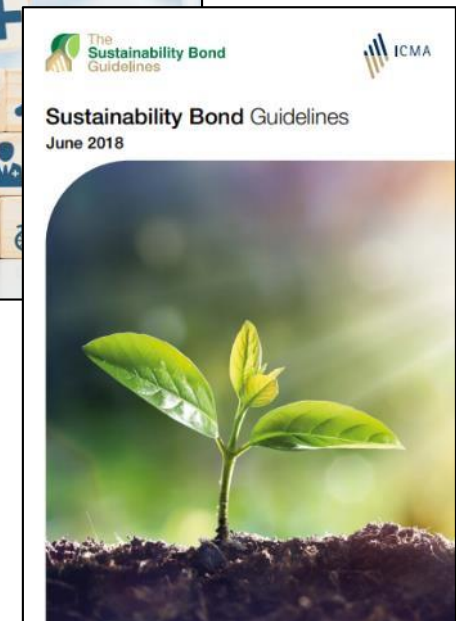
Note: Data apply to social bonds issued under the International Capital Markets Assn.'s Social Bond Principles.
*Essential infrastructure includes transport, water/sewage/sanitation, and power. Data as of Oct. 23, 2020.
Sources: ICMA, S&P Global Ratings.
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What are Social and Sustainability Bonds?

ICMA Definitions: Social and Sustainability Bonds

- Social bonds
 - Use of proceeds bonds that raise funds for new and existing projects that address or mitigate a specific social issue and/or seek to achieve positive social outcomes... especially but not exclusively for a target population(s).
- Sustainability Bonds
 - Bonds where the proceeds will be exclusively applied to finance or re-finance a combination of both Green and Social Projects.



*Definitions are taken from the International Capital Markets Association's (ICMA) Social Bond Principles (SBPs) and Sustainability Bond Guidelines (SBGs).

S&P Global Proposed Key Definitions for TEs

- Social Benefits

- The social benefit of a project reflects an increase in positive social outcomes including inclusive and equitable economic growth, such as school enrollment, and access to essential infrastructure, or the reduction of negative social outcomes, such as homelessness, and deaths due to traffic accidents.
- Benefit can accrue to the general population, or target reducing inequities in social outcomes within and among countries attributable to gender, region, ethnicity, age, disability status, or other characteristics.

- Sustainability Benefits

- The sustainability benefits of a project reflects the combined environmental and social benefits of a project.



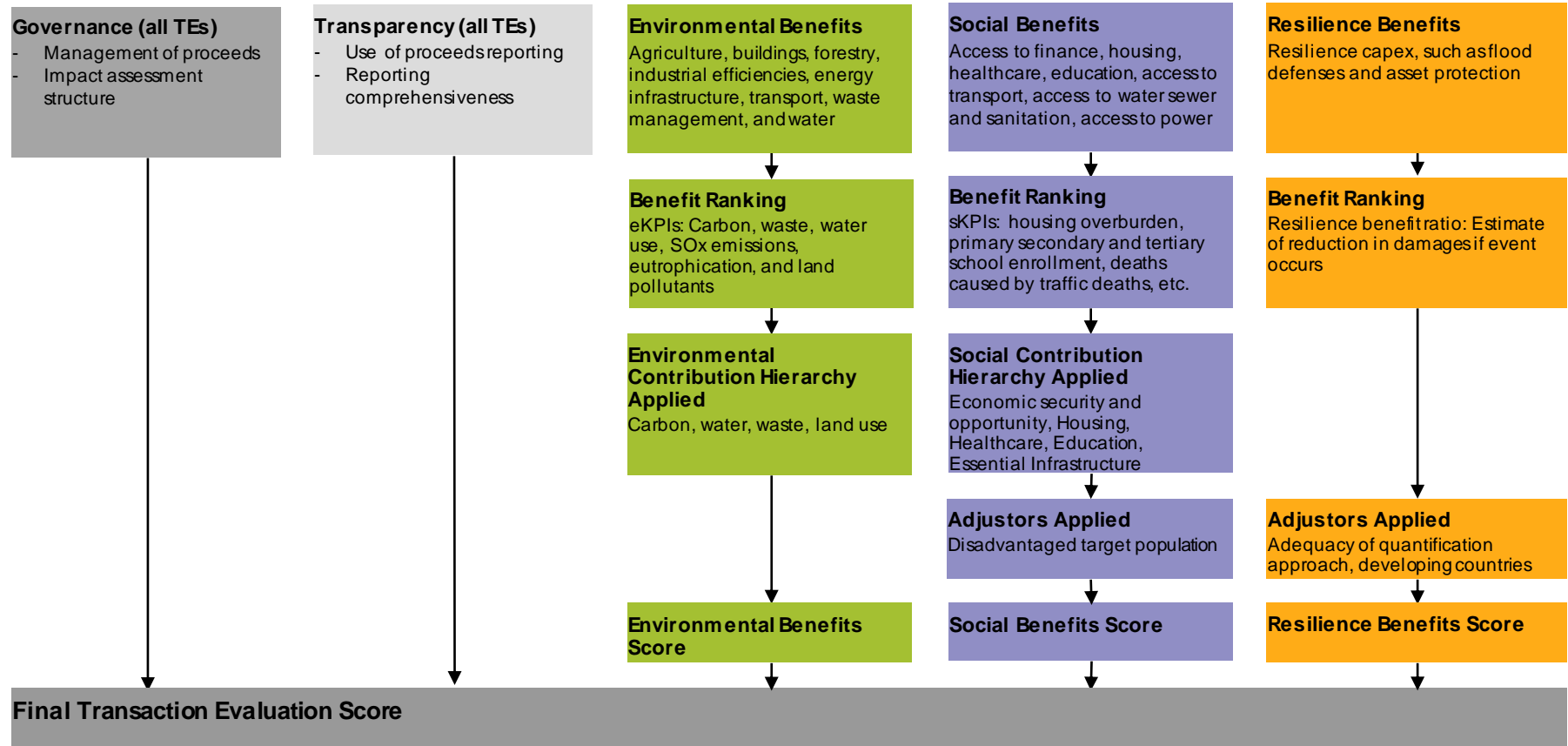
Proposed Analytical Approach

Transaction Evaluation Scoring Scale

	Green Transaction Evaluation	Social Transaction Evaluation	Sustainability Transaction Evaluation	Resilience Transaction Evaluation
Transaction Evaluation	E Score	S Score	SE Score	R Score
75-100	E1	S1	SE1	R1
50-75	E2	S2	SE2	R2
25-50	E3	S3	SE3	R3
0-25	E4	S4	SE4	R4

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Green And Resilience TE Analytical Approach & Proposed Social TE Analytical Approach



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Social KPIs Considered In Determining Benefit Ranking For Projects With Social Benefits

Project type	Access to financial accounts§	Inadequate housing	Housing overburden*	School enrollment	Health care coverage	Healthcare overburden	Public transport access	Traffic mortality		
Services										
Finance	X									
Health care					X	X				
Education				X						
Facilities										
Adequate housing		X								
Affordable housing*			X							
Health care					X	X				
Education				X						
Transport							X	X		
	Public transport access	Traffic mortality	Drinking water access	Water cost burden	Sanitation access	Handwashing access	Wastewater treated	Managed solid waste	Electricity access†	Energy cost burden†
Transport	X	X								
Utilities										
Energy									X	X
Water			X	X						
Wastewater/ sewage					X	X	X			
Waste management								X		

*Depending on the project, the specific sKPI will be the housing overburden rate for low-income renters, all renters, low-income homeowners, or all homeowners. §Access to financial accounts is measured for two populations: women, and low-income individuals. †Depending on project, the specific sKPI value will be the electricity access or cost burden rate for rural, urban, or total population. sKPIs -- Social key performance indicators.

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Social Contribution Hierarchy: Scores And Weighting

Tier	Rationale	Economic security and opportunity	Housing	Health care	Education	Essential infrastructure	Hierarchy score	Hierarchy weight
1	Programs that provide life-saving essential services to highly vulnerable populations		Shelter for communities in emergency situations			Programs to provide lifesaving services in emergency situations	100	85%
2	Programs that provide services essential for basic health, safety, and income	Social security and social insurance programs	Housing for homeless populations and those with insufficient housing	Projects to establish systems for essential medical care	Investments in primary and secondary education	New infrastructure for unserved communities	100	75%
3	Programs that enhance community socioeconomic mobility and enhance health, safety, and income.	Programs that promote equitable economic growth and increase access to finance for the underserved	Affordable housing	Improvements to essential medical care to improve patient access and outcomes	Investments in higher education and professional training and pre-primary education	Improvements to existing infrastructure to improve access and performance and reduce negative impacts	90	70%
4	Programs that enhance individual socioeconomic mobility and enhance health, safety, and income			Specialty care that allows for greater physical and socioeconomic mobility	Programs to improve individual educational outcomes	Programs to reduce household utility expense	80	65%
5	Programs that enrich the lived experience	Incentives to increase workplace equity	Programs that promote homeownership		Cultural preservation and arts programs		70	60%
6	Programs and technologies with negative social impacts					Projects with negative social impacts	50	60%

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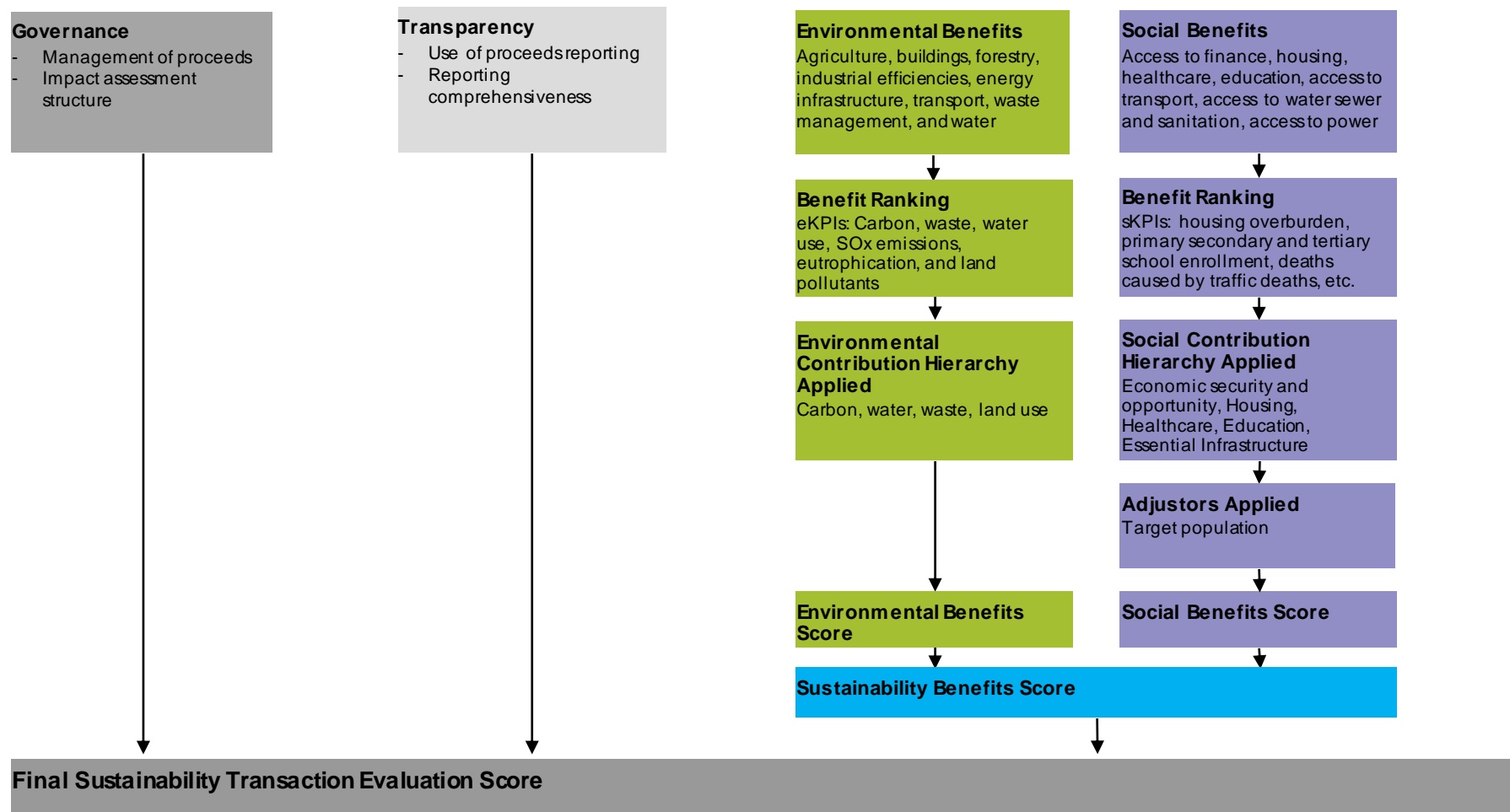
Adjustment for disadvantaged target populations

“Social Projects directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes *especially but not exclusively* for a target population(s).” - ICMA

- We may increase the social benefits score for projects where the benefits will accrue primarily to disadvantaged target populations.
- These populations may include women, low-income populations, residents of rural areas, seniors, and persons with disabilities.



Proposed Sustainability TE Analytical Approach



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Sustainability TE Categories

Category	Services (social impacts only)	Transport (significant environmental and social impacts)	Facilities (significant environmental and social impacts)	Utilities (significant environmental and social impacts)	Natural Resource Use (environmental impacts only)
<ul style="list-style-type: none"> Project types 	<ul style="list-style-type: none"> Social security and social insurance Finance Healthcare (non-facilities) Education (non-facilities) Cultural preservation & arts programs§ 	<ul style="list-style-type: none"> Rail Roads§ Private vehicles * Other 	<ul style="list-style-type: none"> Residential Health care Transport Education Arts and culture Other * 	<ul style="list-style-type: none"> Energy Water Wastewater/sewage Waste management 	<ul style="list-style-type: none"> Agriculture† Forestry Industrial efficiencies

* Environmental benefits only. §Social benefits only. †While agriculture can be argued to have social impacts, there are no comparable projects in-scope for social benefits analysis.

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Examples: Sustainability Benefits Score Calculations

Example 1: Access to finance project (social impacts only)

Environmental benefits score	Social benefits score	Sustainability benefits score
N/A	90	90

Example 2: Affordable housing renovation that meets green buildings standards (environmental and social benefits)

Environmental benefits score	Social benefits score	Sustainability benefits score
90	60	75

Example 3: Market-rate housing renovation that meets green buildings standards (environmental benefits only)

Environmental benefits score	Social benefits score	Sustainability benefits score
90	0	60

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Sustainability Transaction Evaluation

CONFIDENTIAL Case Study: ABC Bank 2020 Sustainability Bond

Mmm. DD YYYY

Transaction Overview

ABC Company issued a \$100 million sustainability bond in September 2020. ABC Company is a U.S. based company, headquartered in California. The proceeds of the issued sustainability bond will be used to finance the construction of affordable housing for low- and middle-income families in California and Maine – some of which will be built as green buildings – as well as to provide access to finance for underserved enterprises in California. All building projects constructed by ABC Company in California are required to achieve zero net energy consumption and be designed to meet LEED Silver certification at a minimum. In contrast, there are no green building requirements for the affordable housing projects in Maine. Part of the proceeds will also go towards financing for small and medium enterprises. In our view, these projects are purely social in nature and do not have any environmental impact. All of the projects financed by the bond are eligible to be evaluated under our Sustainability Transaction Evaluation.

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Sustainability Evaluation Overview

Transaction's governance

- Management of proceeds
- Impact assessment structure

57

Transaction's transparency

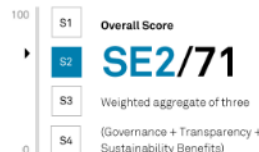
- Use of proceeds reporting
- Reporting comprehensiveness

81

Sustainability Benefits

73

Social Sector	Social Project Type	Social Contribution Hierarchy Tier
Housing	Affordable housing, low-income Affordable housing, all-income	Programs that enhance community socioeconomic mobility and enhance health, safety, and income
Economic security and opportunity	Access to finance	Programs that enhance community socioeconomic mobility and enhance health, safety, and income

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Project-Level Scores

Project Details							Social/ environmental benefit score and weight	Sustainability Benefit score	Use of proceeds (mil. US\$)
Location	Sector	Project	KPI indicator(s)	Benefit ranking	Hierarchy score and tier	Target population			
California, U.S.	Housing	Affordable housing, low-income	High: Housing overburden	100	Score: 90 Tier 2	None	Score: 93 Weight: 50%	80	\$60
	Green buildings	New build, residential	Low: Carbon intensity	12	Score: 90 Tier: 2	N/A	Score: 67 Weight: 50%		

Project Description

ABC Company issued a \$100 million Sustainability Bond in September 2020 to finance the construction of affordable housing – some of which will be constructed as green buildings – as well as to provide access to finance for underserved enterprises. The affordable housing projects in California will serve low-income (median household income in the bottom quintile) and very-low income (bottom decile) individuals and working families. The projects also address environmental sustainability through green building standards. The buildings have a combination of photovoltaic systems, EnergyStar appliances, drought-tolerant landscaping, and innovative construction waste management. Projects are designed to meet LEED or GreenPoint sustainable building standards. As such we evaluate these projects under our green buildings hierarchy. The affordable housing projects in Maine will serve median-income, and median-high income individuals, and more specifically the senior citizen population. These projects are not required to adhere to green building standards. The remainder of the proceeds are aimed towards increasing access to finance for small and medium-sized businesses (SMBs) with a focus on projects as providing strictly social and economic benefits.

Scoring Summary

This transaction received an overall score equivalent to a Sustainability Evaluation (highest) to SE4 (lowest). The sustainability benefits score for this transaction is 1.0, which is the highest score in the sustainability benefits score range in California which will be new construction projects in Maine with new construction standards, and projects in California. The transaction achieved a score of 1.0, which is the highest score in the sustainability benefits score range in California which will be new construction projects in Maine with new construction standards, and projects in California.

Key Strengths And Weaknesses

The solid sustainability benefits score (73) reflects our understanding of the social and environmental impacts of the use of proceeds. It is also a function of the location of the projects and the sectors being financed, mainly affordable housing (including green buildings and standard construction) and access to finance.

The majority of the proceeds (60%) are dedicated to affordable housing projects for low-income households in California. These projects are in the second-tier of our social housing hierarchy as they enhance basic capabilities of human development including community socioeconomic mobility, health, safety, and income. Low-income households often face a greater security of tenure, are more vulnerable to eviction, more likely to pay housing costs that threaten or compromise attainment of basic needs, and more likely to experience overcrowding than middle-income individuals and families, benefitting the score. Over 57% of low-income renters in

Mapping To The UN Sustainable Development Goals

The Sustainable Development Goals were set up by the United Nations in 2015 and form a social bond intends to contribute to the following SDGs. For a full list of SDGs and SDG ta

Access to essential services: financing and financial services

SDGs

1. No Poverty





Transaction Alignment Opinion







Transaction Alignment Opinion





- Our Social Evaluation can provide a second opinion on social bond alignment with the Social Bond Principles (SBP).
- Our Sustainability Evaluation can provide a second opinion on alignment with the Sustainable Bond Guidelines (SBG), which is equivalent to the SBPs and the Green Bond Principles (GBPs) or Green Loan Principles (GLP).
- This is known as the Transaction Alignment Opinion and is performed at the client's request.
- The transaction alignment opinion does not affect the TE score in the proposed Analytical Approach. This opinion is also distinguished from the Social or Sustainability Financing Framework Alignment Opinion, which focuses on the framework for beneficial transactions.



Project Contribution to the Sustainable Development Goals (SDGs)

Contributions to the Sustainable Development Goals (SDGs)

Access to essential services: education and vocational training		
SDGs	SDG targets	
	1. No Poverty	1.4
	2. Zero Hunger	2.3
	3. Good Health and Well-Being	3.c
	4. Quality Education	4.1 4.2 4.3 4.4 4.5 4.6 4.7 4.a 4.c
	8. Decent Work and Economic Growth	8.3 8.6
	10. Reduced Inequality	10.2

Affordable housing		
SDGs	SDG targets	
	1. No Poverty	1.4
	11. Sustainable Cities and Communities	11.1
Access to essential services: health/healthcare		
SDGs	SDG targets	
	1. No Poverty	1.4
	3. Good Health and Well-Being	3.1 3.2 3.3 3.4 3.5 3.6 3.8 3.b 3.c



Request for Feedback

Request for Feedback

- S&P Global Ratings is seeking feedback on the proposed analytical approach for Social TEs and Sustainability TEs. The proposed Analytical Approach, Analytical Supplement, Q&A, and recording of this session can all be found at: <https://webinars.on24.com/ratings/SandSEval>
- We would particularly like to hear from you regarding:
 - The overall structure of the social contribution hierarchy, and assigned projects, weights, and scores.
 - The social key performance indicators (sKPIs) chosen for project benefit rankings.
 - The approach to combining environmental and social benefits for Sustainability TEs.
- You can submit your feedback online or by email at **SFERO_Feedback@spglobal.com**.
- We encourage interested market participants to submit their written comments on the proposed analytical approach by **Jan. 8, 2021**.



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