July 2022, Frankfurt am Main.

METHODOLOGY FOR ASSIGNING ENVIRONMENTAL, SOCIAL AND GOVERNANCE RATINGS TO CORPORATES

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1. General definitions

An environmental, social and governance (ESG) rating represents the opinion of the Agency on how well corporations manage their exposures to environmental, social and governance risks through policies, programs, disclosures and actions. It also represents the Agency's opinion on how the entity takes advantage of opportunities related to environmental and social factors.

This methodology describes the system of factors and sub-factors used in the process of assigning ESG ratings to corporates. The overall ESG rating is also separated into environmental (E), social (S) and governance (G) ratings. This allows the users of this methodology not only to understand the overall ESG position of the company, but also the individual exposures and mitigation of E, S and G risks.

ESG ratings are comparable with peers in the same industry and can be used by investors in the investment decision-making process as well as in the course of responsible investment portfolio selection. Furthermore, these ratings are used by the rated entities and the general public to identify the entity's ESG risks and opportunities and how well the companies mitigate these risks and take advantage of the opportunities. Our analysis can be performed for any company around the globe and across different industries.

Each rating is assessed by considering the exposure of the company to particular environmental, social and governance risks and opportunities in a particular country, industry or activity. After exposures to different risks and opportunities have been identified, this methodology assesses the policies, reporting and performance of the company in different E, S and G topics which contributed to mitigate the risks and get advantage of the opportunities.

In this methodology, the following definitions are used:

- **Risk exposures:** conditions, which expose the entity to potential negative material effects on the company. Each factor may have a risk exposure related to one or a combination of the following risk exposure categories:
    - **Industry risk exposure:** a risk exposure is material to an industry when it is likely that companies in a given industry will incur substantial costs in connection with it (e.g. the factor *Water use* will measure the water consumption and this will depend on the industry. The agricultural industry is highly exposed to this factor).
    - **Country risk exposure:** a risk exposure is material to a country when conditions to operate in that country can be detrimental for the entity (e.g. the factor *Water use* will measure the water stress and this will depend on the aridness of the country).
    - **Activity-based risk exposure:** there are certain factors for which the risk exposure is material for a company depending especially on the nature of the company's activities regardless of the industry and country where they operate (e.g. in the retail industry the exposure to the factor *Pollution from transport of production* could vary depending on the scope and type of transport of the specific company. Thus, the exposure cannot be considered to be the same for the whole industry.)
- **Opportunities:** Favorable circumstances, which, if exploited, can have a positive material effect on the company's finances. An opportunity is material to an industry when it is likely that companies in a given industry could benefit or profit from it (e.g. opportunities in *Renewable energy* for companies developing LED lighting).
- **Policies, programs:** Companies' internal arrangements, initiatives or strategies aimed at mitigating a risk or getting advantage of an opportunity, which can have a material impact on the company.
- **Reporting:** Companies' internal or external appraisals and reports aimed at disclosing advances and/or results of the implementation of policies.

- **Performance:** Assessment of the achievements reached by the company to mitigate a risk or get advantage of an opportunity. Basically, we analyze how well the results compare with the strategy and objectives set in advance.
- **Controversy:** A one-time or continuing events related to a company's operations that has a material adverse environmental, social, or governance impact (e.g. a large-scale oil spill or a leak of personal customer data.)

2. Sources of information

While assigning a rating score at the initiative of the Agency (unsolicited rating), the following sources of information are used:

- Questionnaire filled in by the company according to the Agency's form;
- Audited financial statements, annual reports of the company, sustainability, CSR and ESG reports in the public domain;
- Information from the mass media and other public sources;
- Website of the company;
- Other relevant public sources.

When assigning a rating at the request of a company on a contractual basis (solicited rating), both the public sources of information listed above and non-public data provided by the Company itself are used.

The agency is not responsible for the accuracy of the information provided by the company. However, the Agency can carry-out additional checks to verify the accuracy of the information provided.

3. Rating classes

The environmental, social, governance and total ESG ratings assigned by Rating-Agentur Expert RA GmbH are defined based on allocating the company to one of nine rating classes according to the following scale:

Table 1. Rating classes

<table>
<tr><th>Rating ESG</th><th>Rating E</th><th>Rating S</th><th>Rating G</th><th>Rating level</th><th>Score</th><th>Rating Band</th></tr>
<tr><td>AAA[esg]</td><td>AAA[e]</td><td>AAA[s]</td><td>AAA[g]</td><td>Highest level</td><td>89 - 100%</td><td rowspan="3">A-rating band
The entity's management of ESG risks and opportunities is of high level. Minor or no further actions are required to improve the ESG score, but the entity can benefit from any additional improvement or implementation of ESG innovations.</td></tr>
<tr><td>AA[esg]</td><td>AA[e]</td><td>AA[s]</td><td>AA[g]</td><td>Very high level</td><td>78 - 89%</td></tr>
<tr><td>A[esg]</td><td>A[e]</td><td>A[s]</td><td>A[g]</td><td>High level</td><td>67 - 78%</td></tr>
<tr><td>BBB[esg]</td><td>BBB[e]</td><td>BBB[s]</td><td>BBB[g]</td><td>Moderately high level</td><td>56 - 67%</td><td rowspan="3">B-rating band
The entity's management of ESG risks and opportunities is of moderate level. The entity faces a bearable amount of ESG risks, which can be mitigated with a reasonable number of further actions.</td></tr>
<tr><td>BB[esg]</td><td>BB[e]</td><td>BB[s]</td><td>BB[g]</td><td>Sufficient level</td><td>44 - 56%</td></tr>
<tr><td>B[esg]</td><td>B[e]</td><td>B[s]</td><td>B[g]</td><td>Moderately low level</td><td>33 - 44%</td></tr>
<tr><td>CCC[esg]</td><td>CCC[e]</td><td>CCC[s]</td><td>CCC[g]</td><td>Low level</td><td>22 - 33%</td><td rowspan="2">C-rating band
The entity's management of ESG risks and opportunities is of low level. Strong and</td></tr>
<tr><td>CC[esg]</td><td>CC[e]</td><td>CC[s]</td><td>CC[g]</td><td>Very low level</td><td>11 - 22%</td></tr>
</table>

C[esg]	C[e]	C[s]	C[g]	Lowest level	0 - 11%	multiple actions are required to manage ESG risks to which the company is exposed.

The overall ESG rating as well as the subrating for each assessment area do not necessarily belong to the same rating band (e.g., the overall ESG rating of a company is B[esg], with the environmental subrating of CCC[esg], the social subrating of B[esg], and the managerial subrating of BB[esg]). Thus, combinations of overall ESG ratings and sub-ratings for each assessment area may vary. ESG ratings are not credit ratings within the meaning of Regulation (EC) No. 1060/2009 and are outside the scope of the supervisory activities of the European Securities and Markets Authority (ESMA).

4. ESG rating assignment process

The ESG rating is an integral rating and is calculated as the weighted average of the rating scores obtained for the individual environmental, social and governance ratings. The weights assigned to each individual rating to calculate the overall ESG rating are assessed as the share of the section exposure to the overall exposure of the company (for example: the exposure of the environmental topic on the total ESG exposure.) The ratings of sections E, S, and G consist of weighted average factor scores, which in turn consist of weighted average subfactor scores (see Table 2).

The rating process (see Graph 1) includes the following steps:

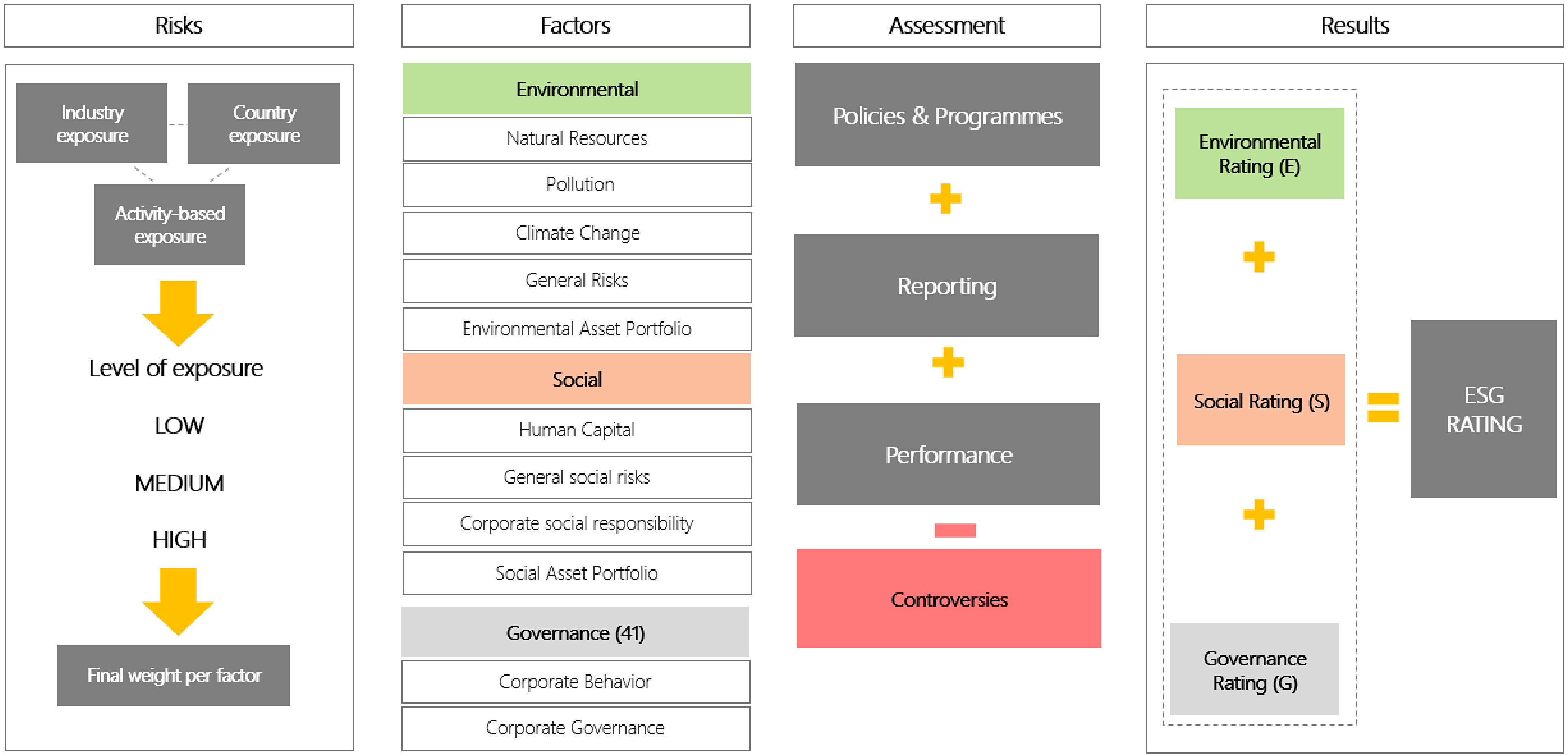
1. Risk exposure assessment
2. Risk mitigation assessment
3. Controversies assessment

Table 2. Topics, factors and sub-factors

Topic	Factor	Sub-factor
Environmental	Natural Resources	Water stress
		Biodiversity
		Energy use
	Pollution	Waste management & recycling
		Contaminants introduction
		Environmental Product responsibility
	Climate Change	Carbon emissions
		Climate change adaptation
		Renewable energy
	General Risks	Stakeholder engagement
		Supply chain
	Environmental asset portfolio	Environmental responsible investment
		Environmental loan portfolio
Social	Human Capital	Labour practices
		Occupational health & safety (OHS)
		Talent attraction & retention
		Diversity & inclusion
	Corporate social responsibility (CSR)	Social benefits
		Local Communities
		Human rights
	General Risks	Suppliers chain
		Product safety & quality
		Data privacy & cyber security
	Social asset portfolio	Social responsible investment
		Social loan portfolio & financial inclusion
		Financial product responsibility
Governance	Corporate Structure	Board structure & transparency
		Ownership

		Risk management
	Corporate Behaviour	Business ethics
		Anti-competition practices
		Tax payment & transparency

Graph 1. The main stages of ESG rating assignment



4.1 ESG risks exposure assessment

The exposure to environmental, social and governance risks for each sub-factor depends on the industry and the countries in which the company operates, as well as the specific nature of the company's business. The approach helps take into account regional specificities as well as the company's particular business environment. In addition, given the nature of the company's operations, a different level of exposure than that of the rest of the industry can be decided upon.

Based on the level of exposure, the shares of exposure to a sub-factor in the total exposure of the section are determined (e.g. exposure to the sub-factor "Energy Use" in the total exposure to environmental risks.)

4.2 ESG risks mitigation assessment

The risk mitigation assessment for ESG sub-factors consists of a weighted average of three blocks:

Block	Weight
Policies and programs	10%
Reporting	20%
Performance	70%

The assessment of each block is defined as the average assessment of quantitative and qualitative indicators. For each indicator, in turn, a score is assigned:

Score	Conditions
0 (minimum score)	The assessment of the indicator does not meet the required criteria or information needed for the assessment is not available
0,5	The assessment of the indicator partially meets the required criteria or there is insufficient information to make a complete assessment
1 (maximum score)	The assessment of the indicator fully meets the assessment criteria

In addition, basic scores can be adjusted by 0,25, depending on compliance with the assessment criteria and completeness of required information based on expert opinion.

4.2.1 Policies and programs

Within this block, the Agency evaluates the strategies, policies, programs, other documents and statements of the company, including those present in the annual reports, presentations and web resources of the company, as well as the presence in the above documents of quantitative goals and deadlines for their achievement. The main indicators for this block are:

A. Policies

Score	Policies

0	Absence of information about available policies, strategies, statements and other documents that confirm the company's commitment to mitigate risks and take advantage of opportunities
0,5	Policies, strategies, statements and other internal documents, according to the Agency's assessment, partially indicate the company's commitment to mitigate risks and take advantage of opportunities
1	The company has publicly available policies, strategies, statements and other internal documents that in the Agency's opinion show the company's commitment to mitigate risks and take advantage of opportunities

B. Programs

Score	Programs
0	Absence of information about the availability and implementation of programs (initiatives, measures), showing the actions of the company to mitigate risks and take advantage of opportunities
0,5	Aavailable information according to the Agency partially indicates the presence of programs (initiatives, measures) aimed at reducing risks and taking advantage of opportunities
1	The company discloses information about the availability of programs (initiatives, measures), which, in the Agency's opinion, indicate the reduction of risks and the use of opportunities.

C. Targets

Score	Targets
0	Absence of information about the company's goals to mitigate risks and take advantage of opportunities
0,5	The company's goals are aimed at mitigating risks and taking advantage of opportunities, but the goals are not quantified and/or there is no timeframe for achieving them
1	The company publicly discloses quantitative goals with deadlines for achieving them, which, according to the Agency, are aimed at mitigating risks and taking advantage of opportunities

4.2.2 Reporting

Within this block, the Agency assesses the disclosure of information related to ESG factors for completeness, regularity, consistency, comparability, reliability. The main indicators for the reporting block are:

A. Reporting on ESG indicators

Score	Reporting on ESG indicators
0	Absence of disclosure of ESG-indicators
0,5	Disclosure of ESG-indicators is partial, which does not allow a full analysis of the effectiveness of risks mitigation and taking advantage of opportunities based on data for at least the last 4 year
1	The company's public reporting makes it possible to assess the effectiveness of risks mitigation and taking advantage of opportunities based on data for at least the last 4 year

B. Disclosure of the company's measures to mitigate risks and use opportunities

Score	Disclosure of the company's measures to mitigate risks and use opportunities
0	Absence of information about the company's measures to mitigate risks and use opportunities
0,5	Partial disclosure of the company's measures does not allow a full analysis of the effectiveness of these measures to mitigate risks and use opportunities
1	The company's public reporting makes it possible to assess the effectiveness of measures to mitigate risks and use opportunities

C. Verification

Score	Verification
0	Absence of information about assurance (verification) of assessed indicators/reporting by a third party
1	All indicators/reporting have been independently assured (verified) by a third party

4.2.3 Performance

The effectiveness of risk mitigation and the use of opportunities is assessed by quantitative and qualitative indicators. The main indicators for the reporting block are:

A. Dynamics (trend)

Available years	Dynamics (based on the average annual growth rate) of absolute and relative indicators		
	Positive	Neutral/Stable	Negative
4 Y	1	0,5	0
3 Y	0,75	0,5	0
2 Y	0,25	0	0

Dynamics (trend) of the share of "green" and social investments and loans in investment and credit portfolios*

Available years	Dynamics (based on the average annual growth rate)		
	Positive	Neutral/Stable	Negative
not less than 2 years	1	0,5	0

*The current limitation on the number of years for the assessment is due to the early stage of development of financial companies' reporting on this indicator. In the future, the methodology for assessing this indicator will be changed in the direction of increasing the number of years.

B. Position relative to industry

Score	Position relative to industry
0	Absence of information for assessment or the company's indicators is in the worst 33.3% percentile of industry benchmarks

0,5	The company's indicators are between the worst and the best 33.3% percentile of industry benchmarks
1	The company's performance is in the best 33.3% percentile of industry benchmarks

C. Implementation of measures and actions to mitigate risks and use opportunities

Score	Implementation of measures and actions to mitigate risks and use opportunities
0	Absence of information about measures to mitigate risks and use opportunities
0,5	In the Agency's opinion, measures partially allow to mitigate risks and take advantage of opportunities
1	In the Agency's opinion, measures partially effectively allow to mitigate risks and take advantage of opportunities

D. Effectiveness of measures and actions to mitigate risks and use opportunities

Score	Effectiveness of measures and actions to mitigate risks and use opportunities
0	There is evidence of significant negative cases and breaches related to the realization of ESG-risks in the year being assessed and during the 2 preceding calendar years
0,5	There is evidence of moderate negative cases and breaches related to the realization of ESG-risks in the year being assessed and during the 2 preceding calendar years OR negative cases were not identified, but the company does not publicly confirm the absence of such cases and breaches
1	There is evidence of absence of negative cases and breaches related to the realization of ESG-risks in the year being assessed and during the 2 preceding calendar years AND the company publicly confirms the absence of such cases and breaches

4.3 Controversies assessment

In the process of assigning the ESG rating, open data sources are analyzed for the presence of controversial situations in the current year and during the 2 preceding years. The corresponding sub-factor is determined for the identified controversial situations. For example, an environmental accident resulting in environmental pollution is a disputable situation for the environmental sub-factor "Pollution". If there is a disputable situation, a penalty point in the form of a % of the risk exposure by which the risk management score is reduced is applied to the assessment of the corresponding sub-factor. The agency can decide to withdraw a current controversy no earlier than 12 months of the monitoring period from the start of the controversy penalty.

Table 3. Penalty score matrix

Severity	Response			
	No information	**Low**	**Moderate**	**High**
Very high	100%	100%	75%	50%
High	100%	75%	50%	25%
Moderate	75%	50%	25%	10%

The penalty score depends on the assessment of two components:

- **The company's response**: how the company reacted to the negative situation, how it removes its consequences and takes actions to prevent such a situation in the future. The assessment of the company's reaction is divided into 4 levels:

  - No information: the company does not respond in any way to the negative situation, including not accepting responsibility for the incident;

  - Low level: the company officially admits its guilt and responsibility for the negative situation, but the Agency's assessment of the company's measures to remove the consequences is unsatisfactory;

  - Moderate level: the company officially admits its guilt and responsibility for the negative situation, takes measures and actively inform stakeholders of the actions taken, but the consequences of the situation still have a negative impact;

  - High level: the measures taken by the company have removed the negative consequences as much as possible, and the company has implemented preventive actions to avoid such a situation in the future.

- **Severity**: the scale and severity of the negative impact on the environment, social sphere and the company's activities.

Table 4. Assessment of the severity

	Very high	**High**	**Moderate**
E	Environmental accidents, pollution, results of anthropogenic activities that led to significant negative consequences, including:		
	- pollution of land, water, leading to negative consequences for ecosystems and human health in an area of more than 100 square kilometers OR exceeding the annual average industry indicators by more than 3 times	- pollution of land, water, leading to negative consequences for ecosystems and human health in an area of more than 10 square kilometers OR exceeding the annual average industry indicators by more than 2 times	- pollution of land, water, leading to negative consequences for ecosystems and human health in an area of more than 1 square kilometers OR exceeding the annual average industry indicators by more than 50%
S	Negative social situations related to employees, customers, and local communities, including:		
	- industrial accidents that resulted in fatalities of employees exceeding the annual average number of fatalities in the industry by more than 2 times - violations of human rights, working conditions, affecting more than 50% (or more than 500 people) company's or suppliers' employees - harm, violation of rights, leakage of data of more than half of the company's	- industrial accidents that resulted in fatalities of employees exceeding the annual average number of fatalities in the industry by more than 50% - violations of human rights, working conditions, affecting more than 30% (or more than 300 people) company's or suppliers' employees - harm, violation of rights, leakage of data of more than 30% of the company's clients (or more than 500 clients)	- industrial accidents that resulted in fatalities of employees exceeding the annual average number of fatalities in the industry by more than 25% - violations of human rights, working conditions, affecting more than 10% (or more than 100 people) company's or suppliers' employees - harm, violation of rights, leakage of data of more than 10% of the company's clients (or more than 200 clients)

	clients (or more than 1000 clients) - harm, violation of rights, deterioration of living conditions of at least 30% of local communities (or more than 1000 households) living in the regions where the company operates	- harm, violation of rights, deterioration of living conditions of at least 10% of local communities (or more than 500 households) living in the regions where the company operates	- harm, violation of rights, deterioration of living conditions of at least 5% of local communities (or more than 200 households) living in the regions where the company operates
G	Negative situations in the company's corporate governance and corporate behavior that have led to significant reputational risks and financial consequences, including:		
	- corruption, tax avoidance, violations of antitrust laws, resulting in penalties/losses/damages of at least 5% of annual revenues of the company - revocation of licenses and permits, leading to restrictions on core activities - complete restriction of access to finance and blocking of banking and trade transactions - downgrade of credit ratings to below investment grade	- corruption, tax avoidance, violations of antitrust laws, resulting in penalties/losses/damages of at least 3% of annual revenues of the company - revocation of licenses and permits, leading to restrictions on certain activities - significant restriction of access to finance and blocking of banking and trade transactions - downgrading of credit ratings to several levels below	- corruption, tax avoidance, violations of antitrust laws, resulting in penalties/losses/damages of at least 1% of annual revenues of the company - partial restriction of access to finance and blocking of banking and trade transactions - credit rating downgrades by one level below

5. ESG factors and sub-factors

This section details the assessment and management of risk exposure for each sub-factor and provides a complete list of qualitative and quantitative indicators. However, depending on the industry, company profile, legal form of organization and other specific characteristics, some indicators may not be used.

5.1 Environmental

This section describes the Agency's approach to assessing the company's exposure to environmental risks and ways to mitigate these risks. Moreover, we also assess any potential opportunities the company might be exposed to and how the entity takes advantage of the potential environmental opportunity. The section is divided in five themes:

- Natural resources
- Pollution
- Climate change
- General risks

- Environmental Asset Portfolio

At the same time, each theme is evaluated according to a number of sub-factors.

5.1.1 Natural resources

A. Water use

<u>Risk exposure assessment</u>:

To define the **country** risk exposure we look at the level of risk from a water crisis in the country. Following the approach of country's water use assessment the country is exposed to high risk if the risk level from a water crisis is high or extremely high.

Sources: World Resources Institute; Aqeduct Water Risk Atlas

To assess the risk exposure related to the **industry**, we look at the water use by sector as measured by the ratio of cubic meters used to revenues (USD in million). We compare the water use of the industry with the average among all industries. The higher the water use of an industry, the stronger the exposure of the industry to the risk of water use.

<u>Risk mitigation assessment</u>:

Policies & programmes

☐ The Company has a water use policy

☐ The Company has a program aimed at reducing consumption and efficient water use

☐ The Company sets water use targets

☐ Commitment to undertake a precautionary approach to water stress challenges

Reporting

☐ The Company reports regularly on water use and its efficiency

☐ The Company’s reporting on water use is verified

☐ The Company reports on measures to reduce water use

Performance

☐ The trend shows a decrease in water withdrawal in the Company

☐ The Company's water withdrawal per revenue is below the industry average

B. Biodiversity

<u>Risk exposure assessment</u>:

In order to identify the **country** risk exposure, we evaluate the amount of protected sites divided by the area of the country as well as terrestrial and marine protected areas relatively to the total territorial area and Global Environment Facility Benefits Index For Biodiversity. The larger the amount of protected sites relatively to the area, terrestrial and marine protected areas relatively to the total territorial area, and the value of the Global Environment Facility Benefits Index For Biodiversity, the higher the exposure of the company to the risk of damaging biodiversity in that country. In this methodology, a protected site is defined as an area of land and/or sea specially dedicated to the protection and maintenance of biological diversity.

Additionally we take into account the data on GDP dependency on Biodiversity and Ecosystem Services (BES) provided by the Swiss Re Institute, which assesses which economies are most reliant on nature and evaluates the exposure each country has to BES decline. The higher GDP dependency on BES in a country, the stronger the exposure of the company to the biodiversity risk in that country.

Sources: Protected Planet, Swiss Re Institute, Open sources

The **industry** risk exposure is defined by measuring the need of the industry to operate in or close to protected areas. For example, some oil and mining companies operate close to the areas, which have previously not been economically exploited and mostly protected. As a result of the economic activity from such industries, these areas can be partially damaged or polluted. In contrast, banks typically operate in urban areas and their operations do not represent a risk to the local biodiversity. Additionally we take into account the data on sector dependency provided by Swiss Re Institute.

Sources: Swiss Re Institute, Open sources

<u>Risk mitigation assessment</u>:

Policies & programmes

☐ The Company undertakes a precautionary approach towards biodiversity

☐ The Company has a biodiversity conservation program

Reporting

☐ The Company reports regularly on its impact on biodiversity

☐ The Company's assessment of its impact on biodiversity is verified

☐ The Company reports regularly on biodiversity conservation measures

Performance

☐ The trend shows a reduction of the Company's impact on biodiversity

☐ There is evidence that the Company implements conservation measures

C. Energy use

<u>Risk exposure assessment</u>:

The exposure of the **country** is assessed by the level of energy consumption in the country as measured by the energy deficit or surplus. The higher the energy demand on top of the available supply, the stronger the exposure to the country risk. The total energy deficit or surplus is calculated by subtracting total energy consumption from total energy production and is measured in Million Tonnes of Oil Equivalent (Mtoe).

Sources: Enerdata

The **industry** risk exposure is assessed by the analyst based on the energy intensity calculated as total energy use to revenues (USD in million) in the industry relative to the universe. The higher the energy intensity of an industry, the stronger the exposure of the industry to the risk of energy use.

Sources: Open sources

<u>Risk mitigation assessment</u>:

Policies & programmes

☐ The Company has an energy use and energy efficiency policy

☐ The Company has an energy use and energy efficiency program

☐ The Company sets energy use and energy efficiency targets

Reporting

☐ The Company reports regularly on energy use and its efficiency

☐ The Company’s reporting on energy use is verified

☐ The Company reports on measures to reduce energy use and increase energy efficiency

☐ The Company's energy management is certified by a third party

Performance

☐ The trend shows a decrease in energy consumption

☐ The Company's energy use per revenue is below the industry average

5.1.2 Pollution

A. Waste management & Recycling

Risk exposure assessment:

The **country** risk exposure is assessed based on the waste management practices in the country. We take into account the amount of waste generated per capita and the share of waste recycled in accordance with the waste global database provided by the World Bank. The higher the amount of waste generated per capita and the lower the share of waste recycled in a country, the stronger the exposure to the country risk.

Sources: World Bank

The **industry** risk exposure is assessed based on the level of the waste to revenues (USD in million) and the share of waste recycled to total waste by the industry relative to the universe. The higher the average amount of total waste to revenues and the lower the share of waste recycled to total waste among companies, belonging to the industry, the stronger the risk exposure.

Sources: Open sources

Risk mitigation assessment:

Policies & programmes

☐ The Company has a policy aimed at managing waste and reducing waste generation

☐ The Company has a waste management program aimed at managing waste and reducing waste generation

☐ The Company sets production waste reduction and waste management targets

Reporting

☐ The Company reports regularly on its waste generation figures

☐ The Company’s reporting on waste generation figures is verified

☐ The Company reports on its waste management practices

Performance

☐ The trend shows a decrease in the volume of waste generated

☐ The Company's waste generation per revenue is below the industry average

☐ The trend shows a reduction in the proportion of waste that is sent to landfills

B. Generation of contaminants

<u>Risk exposure assessment</u>:

The risk exposure for the **country** is assessed based on the air emissions as well as wastewater treatment in the country. This methodology defines wastewater treatment as the proportion of wastewater that undergoes at least primary treatment in each country, multiplied by the proportion of the population connected to a wastewater collection system. The higher the air pollution exposure to PM2.5 (particulate matter, micrograms per cubic meter) and the lower wastewater treatment score in the country, the stronger the country's risk exposure.

Sources: OECD, Environmental Performance Index

The **industry** risk exposure is assessed based on the air emissions and water pollutant emissions by the industry relative to the universe. The higher the average amount of air emissions to revenues and water pollutant emissions among companies, belonging to the industry, the stronger the risk exposure.

<u>Risk mitigation assessment</u>:

Policies & programmes

☐ The Company has a contaminants reduction policy

☐ The Company has a contaminants reduction program

☐ The Company sets contaminants reduction targets

Reporting

☐ The Company reports regularly on its air emissions

☐ The Company reports regularly on its water pollution

☐ The Company's reporting on water and air pollution is verified

☐ The Company reports on contaminants reduction practices

☐ The Company reports periodically on pollution from other sources (optional indicator)

Performance

☐ The trend shows a decrease in air emissions

☐ The Company's air emissions per revenue are below the industry average

☐ The trend shows a decrease in the volume of water pollution

☐ The Company's water pollution per revenue is below the industry average

☐ The Company's pollution from other sources is declining (optional indicator)

C. Environmental product responsibility

<u>Risk exposure assessment</u>:

Exposure to this risk is assessed only for companies whose activities indicate the materiality of this potential risk. The exposure to this risk is medium by default, implying the possibility to correct the exposure based on the expert opinion of the analyst. The risk assessment is aimed at understanding the potential exposure of the Company to extended product responsibility and packaging regulations and the potential environmental impact of the company's products and packaging materials. This methodology allows assessing this risk based on available information about the practices and controversies on an industry level of the country/-ies where the company operates.

<u>Risk mitigation assessment</u>:

Policies & programmes

☐ The Company has policy related to environmental product responsibility

Reporting

☐ The company reports on its environmental product responsibility practices

Performance

☐ The Company implements initiatives to improve its environmental product responsibility

☐ Assessment of environmental product responsibility

5.1.3 Climate Change

A. Carbon emission risks

<u>Risk exposure assessment</u>:

The **country** risk exposure is assessed by the amount of greenhouse gas emissions (CO2 equivalent) per capita and per GDP in the country. The higher the amount of greenhouse gas emissions per capita and per GDP, the stronger the exposure to the country risk. In order to assess country's risk exposure, we use data on CO2 equivalent emissions in tonnes per capita provided by OECD as well as CO2 equivalent emissions per GDP provided by the World Bank.

Sources: OECD, World Bank

The **industry** risk exposure is assessed by the amount of greenhouse gas emissions (CO2 equivalent) intensity in the industry relative to the universe. The higher the emissions intensity calculated as total CO2 equivalent emissions to revenues among companies, belonging to a particular industry, the stronger the risk exposure to the industry.

Sources: Open sources

<u>Risk mitigation assessment</u>:

Policies & programmes

☐ The Company has a GHG emissions reduction policy

☐ The Company has a GHG emissions reduction program

☐ The Company sets GHG emissions reduction targets

Reporting

☐ The Company reports periodically on its GHG emissions

☐ The Company’s reporting on GHG emissions is verified

☐ The Company reports on measures to decrease GHG emissions

Performance

☐ The trend shows a decrease in GHG emissions (CO2 equivalent)

☐ The Company's GHG emissions per revenue below the industry average

B. Climate change adaptation

Risk exposure assessment:

The exposure to this risk is assessed for the **country** through the Global Climate Risk index, which analyses to what extent countries have been affected by the impacts of weather-related loss events (storms, floods, heat waves etc.) Additionally we take into account the data on annual surface temperature change provided by OECD and the ND-GAIN Country Index, which summarizes a country's vulnerability to climate change and other global challenges in combination with its readiness to improve resilience.

Sources: OECD, Notre Dame Global Adaptation Initiative

We also assess the **industry** exposure to this risk based on the climate change commercial risks opportunities score looking at the average among companies, belonging to a particular industry, relative the universe.

Sources: Open sources

Risk mitigation assessment:

Policies & programmes

☐ The Company has a climate change adaptation policy

☐ The Company has a climate change adaptation program

☐ The Company sets targets on climate change adaptation

Reporting

☐ The Company reports on the climate change risks

☐ The Company reports on the climate change adaptation measures

Performance

☐ The company takes measures to adapt to climate change impact

C. Renewable energy (RE)

Opportunity exposure assessment:

A company’s opportunity to benefit from renewable energy is bounded by the geographical, climatic, institutional and economic stance of the **country** of operation. The Renewable Energy Country Attractiveness Index developed by Ernst & Young (RECAI)[1] collects exactly such opportunities from a pool of 40 emerging and developed countries.

[1] http://www.ey.com/gl/en/industries/power---utilities/ey-renewable-energy-country-attractiveness-index-methodology

If the company's country of operations is not included in the RECAI, the methodology allows to solve this issue by looking at the closest country peer included in the ranking and in this way assign a level of opportunity. This is based on the conception that countries which share the same geographical, institutional or economic position tend to offer similar opportunities in the RE ground.

In addition to RECAI, we evaluate the share of renewable energy in primary energy supply in a country relative to the universe. The higher the share of renewable energy in primary energy supply in a country, the higher the exposure to the opportunity. We use data of renewable energy as % of primary energy supply provided by OECD.

Sources: Ernst & Young, OECD

We also assess the **industry** exposure to this risk based on the ratio of renewable energy use to total energy use in companies, belonging to a particular industry, relative to the universe.

Sources: Open sources

<u>Opportunity exploitation assessment</u>:

The analyst assesses the degree and extent of exploiting the benefits of this opportunity, based on the needs and industry of operation of the company and the industry where it operates.

Policies & programmes

☐ The Company has a policy aimed at increasing the renewable energy use

☐ The Company has a program aimed at increasing the renewable energy use

☐ The Company sets targets for increasing the renewable energy use

Reporting

☐ The Company reports regularly on the use of renewable energy

☐ The Company reports on transit to renewable energy

Performance

☐ The trend shows that the Company's use of renewable energy is increasing OR higher than industrial benchmarks

5.1.4 General Environmental Risks

A. Stakeholder engagement

<u>Risk exposure assessment</u>:

The exposure to this risk is medium by default, implying the possibility to correct the exposure based on the expert opinion of the analyst. The risk assessment is aimed at understanding the existence and features of the engagement of different stakeholders with the decisions of the company. This methodology considers that the stronger the engagement of stakeholders in the decisions of the company, the better the transparency and reputation of this company among market participants. This ultimately has a financial impact to the company by increasing trusts and awareness among the consumers and investors.

Sources: Open Sources

<u>Risk mitigation assessment</u>:

Policies & programmes

☐ The Company has a stakeholders engagement policy regarding environmental issues

☐ The Company sets environmental KPIs for management

☐ The Company is a signatory of environmental initiatives

Reporting

☐ The Company reports about stakeholders engagement regarding environmental issues

☐ The Company reports regularly about expenditures on environmental projects

Performance

☐ There is evidence of environmental plans implementations where stakeholders are involved

☐ The trend shows a decrease in environmental expenditures (charges for negative impact + fines for violation of environmental legislation)

☐ Environmental compliance

☐ The Company's environmental management is certified

B. Supply chain

<u>Risk exposure assessment</u>:

Every company is exposed to a medium risk of obtaining raw materials from suppliers, which do not follow an environmental management program (the so-called supplier chain environmental risk.) There is a possibility to correct the exposure based on the expert opinion of the analyst.

Sources: Open Sources

<u>Risk mitigation assessment</u>:

Policies & programmes

☐ The Company performs monitoring of suppliers regarding environmental issues

☐ The Company has a program of cooperation with suppliers on environmental issues

Reporting

☐ The Company reports regularly on environmental assessment of its supply chain

☐ The Company reports on initiatives aimed at improving environmental performance in the supply chain

Performance

☐ The Company implements initiatives aimed at improving environmental performance in the supply chain

☐ Assessment of environmental risks mitigation in the supply chain

5.1.5 Environmental Asset Portfolio

A. Environmental responsible investment

<u>Risk exposure assessment</u>:

The **country** risk exposure is based on the level environmental investment requirements where the financial institution operates. The higher the level of regulations and/or requirements, the higher the exposure to this risk as the financial institutions have increased pressure to invest in environmentally friendly assets and to develop policies and procedures in other to comply with the requirements.

The **industry** risk exposure is applied only to the financial sector and it is assessed as high. Industry exposure to other sectors is nil.

Sources: Environmental authorities, Regulators, Central Banks, Open sources

Risk mitigation assessment:

Policies & programmes

☐ There are policies in place to exclude all type of involvement in environmentally controversial industries

☐ There are clear policies with environmental targets for investing (either in monetary terms or absolute terms, e.g. number of projects and/or entities)

☐ The institution is a signatory of frameworks[2] committed to promote assessing and managing environmental risk in project finance

Reporting

☐ Commitment to report regularly on the green impact of the investment portfolio

☐ Commitment to report regularly on the green allocation of the investment portfolio

Performance

☐ The institution's portfolio shows a positive trend of growth in the share of "green" investments

☐ The institution's asset portfolio shows no involvement in environmentally controversial industries

B. Environmental loan portfolio

Risk exposure assessment:

The **country** risk exposure is based on the level environmental requirements in the jurisdiction where loans are issued. The higher the level of environmental regulations and/ or requirements in regard to the issuance of loans, the higher the exposure to this risk as the financial institutions have increased pressure to issue environmentally friendly loans and to develop policies and procedures in other to comply with the requirements.

The **industry** risk exposure is applied only to the financial sector and it is assessed as high. Industry exposure to other sectors is nil.

Sources: Environmental authorities, Regulators, Central Banks, Open sources

Risk mitigation assessment:

Policies & programmes

☐ There are policies in place to issue loans avoiding any type of involvement in any environmentally controversial entities and activities

[2] Examples of International Framework Documents: Equator Principles, UNEP Finance Initiative.

☐ There are clear policies in order to issue green loans in the defined categories

Reporting

☐ Commitment to report regularly on the green impact of the loan portfolio

☐ Commitment to report regularly on the green allocation of the loan portfolio

Performance

☐ The institution’s loan portfolio shows a positive growth trend in the share of "green" loans

☐ The institution’s loan portfolio shows no involvement in environmentally controversial entities

5.2 Social

The purpose of this section is to assess the exposure of the corporation to social risks and how this exposure is mitigated. Moreover, we also assess any potential opportunities the company might be exposed to and how the entity takes advantage of the potential social opportunity. The section is divided in five themes:

- Human capital
- Local communities
- General risks
- Social Asset Portfolio

At the same time, each theme is evaluated through a number of sub-topics.

5.2.1 Human capital

A. Labour Practices

Risk exposure assessment:

This risk is assessed on the basis of the country's labour conditions, as shown by the Incidence of the following metrics by industry and region (classified by income group):

- Excessive working hours[3]
- Underemployment[4]
- Informal employment

The final risk exposure is determined qualitatively by the analyst through considering the highest exposure among all the previously mentioned metrics.

Sources: International Labour Organization

Risk mitigation assessment:

Policies & programmes

☐ The Company has a policy on labor conditions

☐ The Company has a program on labor conditions

☐ The Company sets targets on labor conditions

Reporting

☐ The Company reports regularly on labor conditions and practices

☐ The Company reports on measures aimed at improving labor conditions

Performance

☐ The Company's employees are covered by the collective bargaining agreements

☐ The Company demonstrates that labor conditions are improving or are at a high level (compared to industry competitors)

[3] Workers are subject to excessive working hours when they work more than 48 hours per week.
[4] Underemployment is the under-use of a worker due to a job that does not use the worker's skills, or is part time, or leaves the worker idle.

☐ Assessment of compliance with labor practices in the Company

B. Occupational health & safety (OHS)

Risk exposure assessment:

The **country and industry** risk exposure is measured by the occupational injury rates of the industry and region where the company operates.

Risk mitigation assessment:

Policies & programmes

☐ The Company has a policy on OHS

☐ The Company has a program on OHS

☐ The Company sets OHS targets

Reporting

☐ Internal monitoring is conducted regularly to check that the OHS standards are met

☐ The company reports regularly on the OHS issues

Performance

☐ Absence of fatal incidents was reported

☐ The trend shows a decrease in the injury rate

☐ The Company implements measures to improve OHS

C. Talent Attraction & retention

Risk exposure assessment:

This methodology applies **activity-based** approach for this factor, meaning that the exposure to the risk of attracting and retaining human resources is medium by default. However, the risk can differ depending on the amount of internal training required. The existence of internal policies aimed at attracting and retaining employees affects the rating positively, implying the possibility to correct the exposure based on the expert opinion of the analyst.

Risk mitigation assessment:

Policies & programmes

☐ The Company has a talent attraction policy

☐ Rewards and recognition policies are in place

Reporting

☐ Employment satisfaction surveys are conducted internally

☐ The Company reports on trainings and development of employees

☐ The Company reports data on talent attraction and retention

Performance

☐ Assessment of the employee turnover in the Company

☐ Efficiency of recruiting

☐ Assessment of conditions for the retention the employees

D. Diversity & inclusion

<u>Risk exposure assessment</u>:

The exposure to the risk of having poor diversity and inclusion policies is medium by default, implying the possibility to correct the exposure based on the expert opinion of the analyst.

<u>Risk mitigation assessment</u>:

Policies & programmes

☐ The Company has a diversity and inclusion program

☐ The Company sets diversity and inclusion quotas

☐ The Company implements measures supporting a diverse workforce

Reporting

☐ Diversity and inclusion are regularly monitored in the Company (broken down by gender, age, representatives of the local community, employees with disabilities)

☐ The Company reports on trainings and initiatives regarding diversity and inclusion

Performance

☐ The Company implements initiatives to encourage diversity and inclusion

☐ The share of women in the Company's personnel structure is at or above the industry average

☐ Training and guidance regarding diversity and inclusion are in place

5.2.2 Corporate Social Responsibility

A. Social benefits

<u>Risk exposure assessment</u>:

The exposure to this risk is assessed by country regardless of the company's industry of operation. This methodology assess the risk based on the number of social security conventions that each country ratified out of the 9 Social Security Conventions of the International Labour Organization[5].

<u>Risk mitigation assessment</u>:

Policies & programmes

☐ The Company has policies aimed at provision of social benefits in excess of those guaranteed by law

Reporting

☐ The Company reports on social package[6]

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[5] The ILO social security conventions are intended to enforce benefit coverage in the following social spheres: medical care, sickness, unemployment, old age, employment, injury, family, maternity, invalidity, and survivors.
http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:2899614733118296::NO:12100:P12100_ILO_CODE:C128:NO

[6] Including, but not limited to: health insurance and benefits, sick pay, retiree benefits, childbirth benefits, fringe benefits for employees' families.

☐ The Company reports on social benefits expenditures

Performance

☐ The Company's social benefits per employee are stable or growing

☐ Assessment of Company's social package

B. Local communities

<u>Risk exposure assessment</u>:

The **country** risk exposure is assessed by the rate of CSR reporting in the country. This methodology considers that the lower the CSR reporting rate, the stronger the exposure to the country risk. In order to assess country's risk exposure the data provided by the KPMG Survey of Sustainability Reporting are used. National rates of sustainability reporting among countries and jurisdiction are divided into the following categories: higher than 90%; higher than the global average; lower than the global average (less than 77%).

Sources: KPMG

Instead of **industry** risk exposure this methodology applies activity-based approach for this factor.

Sources: Open sources

<u>Risk mitigation assessment</u>:

Policies & programmes

☐ The Company has a policy regarding the engagement with local communities

☐ The Company has a program that includes investments aimed at benefiting local communities

Reporting

☐ The Company regularly reports on initiatives and investments benefiting local communities

☐ The Company reports on communication with local communities

Performance

☐ Investments in local communities are stable or growing

☐ Assessment of CSR initiatives benefiting local communities

C. Human rights

<u>Risk exposure assessment</u>:

The **country** risk exposure is assessed through the Human Rights Protection Scores.[7] Higher human rights scores indicate better human rights protection. The lower the Human Rights Protection Score, the higher country's risk exposure. Country's exposure to the risk is low if the indicator is above the 70th percentile. If the indicator is below the 30th percentile, the country's exposure to the opportunity is high. For values above 30th percentile and below the 70th percentile, the country's exposure to the opportunity is medium.

[7] https://ourworldindata.org/human-rights

Sources: Our World in Data

The level of the **industry** risk exposure is assessed by the level of policy human rights score, trade union representation score, and policy freedom of association score in the industry relative to the universe.

Sources: Open sources

Risk mitigation assessment:

Policies & programmes

☐ The Company has a human rights policy

☐ The policy contains initiatives to prevent discrimination

☐ The policy contains initiatives to prevent unequal pay for equal work

☐ The company recognizes the rights of its employees to freedom of association

Reporting

☐ The Company reports on human rights compliance

☐ The Company reports on initiatives to prevent and avoid human rights violations

Performance

☐ Assessment of human rights compliance

☐ The Company implements initiatives to prevent and avoid human rights violations

5.2.3 General Social Risks

A. Supply chains

Risk exposure assessment:

The exposure to this risk is medium by default, implying the possibility to correct the exposure based on the expert opinion of the analyst for risks associated with obtaining raw materials from suppliers that do not follow social mitigation programs (so-called social risk of the supply chain.)

Sources: Open sources

Risk mitigation assessment:

Policies & programmes

☐ The Company performs monitoring of suppliers regarding social issues

☐ The Company has a program of cooperation with suppliers on social issues

Reporting

☐ The Company reports on initiatives, aimed at improving social performance in the supply chain

☐ The Company reports regularly on monitoring regarding social issues in the supply chain

Performance

☐ The Company implements initiatives to improve social performance in the supply chain

☐ Assessment of social risks mitigation in the supply chain

B. Product Safety & Quality

Risk exposure assessment:

The level of exposure to this risk in case of its materiality for the company is medium by default, implying the possibility of adjusting the exposure based on the analyst's expert opinion regarding the risks associated with the improper quality of the products / services provided.

Sources: Open Sources

Risk mitigation assessment:

Policies & programmes

☐ The Company has a product safety & quality control policy

Reporting

☐ The Company reports on its product safety & quality control practices

Performance

☐ The Company implements initiatives to improve its product safety & quality

☐ Assessment of the product safety & quality control practices

C. *Data Security*

Risk exposure assessment:

The level of exposure to this risk is determined based on the analyst's expert opinion regarding the volume of personal data collected, the availability and severity of data privacy regulation, the vulnerability of companies in the industry to cyber threats, and potential privacy and data protection breaches.

Sources: Open Sources

Risk mitigation assessment:

Policies & programmes

☐ The Company has users' data privacy policy

☐ The Company has a cyber security policy

Reporting

☐ The Company reports on actions undertaken to comply with its data privacy and cyber security policies

☐ The Company reports on risks and breaches related to data privacy and cyber security

Performance

☐ The Company carries out actions to prevent data privacy and cyber security breaches

☐ Assessment of data privacy and cyber security quality

5.2.4 Social Asset Portfolio

A. Social responsible investment

Risk exposure assessment:

The **country** risk exposure is based on the level social investment requirements where the financial institution operates. The higher the level of regulations and/or requirements, the higher the exposure to this risk as the financial institutions have increased pressure to invest in to socially beneficial assets or assets which have underlying social responsibility and to develop policies and procedures in other to comply with the requirements.

The **industry** risk exposure is applied only to the financial sector and it is assessed as high. Industry exposure to other sectors is nil.

Sources: Regulator, Central Bank, Open sources

Risk mitigation assessment:

Policies & programmes

☐ There are policies in place to exclude all type of involvement (investments) in socially controversial industries

☐ There are clear policies with social targets for investing

☐ The institution is a signatory of frameworks[8] committed to promote assessing and managing social risk in project finance

Reporting

☐ Commitment to report regularly on the social impact of the investment portfolio

☐ Commitment to report regularly on the social allocation of the investment portfolio

Performance

☐ The institution's portfolio shows high level of social investments in the categories defined

☐ The institution asset portfolio shows no involvement in socially controversial industries

B. Social loan portfolio & financial inclusion

Risk exposure assessment:

The **country** risk exposure is based on the level social requirements where the financial institution issues loans as well as where it offers other financial non-loan products as well as the level of access to finance. The higher the level of regulations and/or requirements, the higher the exposure to this risk as the financial institutions have increased pressure to invest in to socially beneficial assets or assets which have underlying social responsibility and to develop policies and procedures in other to comply with the requirements.

The **industry** risk exposure is applied only to the financial sector and it is assessed as high. Industry exposure to other sectors is nil.

Sources: Regulator, Central Bank, Open sources

Risk mitigation assessment:

Policies & programmes

[8] Examples of International Framework Documents: Equator Principles, UNEP Finance Initiative.

☐ There are policies in place to issue loans avoiding any type of involvement in socially controversial industries

☐ There are clear policies in order to issue social loans in the defined categories

☐ There are clear policies in order to extend non-loan social products to propel financial inclusion

☐ The institution is a signatory of frameworks committed to promote assessing and managing social risk in project finance

Reporting

☐ Commitment to report regularly on the social impact of the loan portfolio and other products

☐ Commitment to report regularly on the social allocation of the loan portfolio and other financial products

Performance

☐ The institution's loan portfolio shows high level of social loans in the categories defined

☐ The institution's loan portfolio shows a high level of social non-credit products[9] contributing to the expansion of access to financial services

C. Financial product responsibility

Risk exposure assessment:

The **country** risk exposure is based on the level of the population's trust on the financial services offered in a country. The lower the level of trust in financial and/or banking services, the higher the financial institution must invest in client relationship management, transparency and communication in order to sell product and protect the consumer. This methodology determines the level of the population's trust on the financial services offered in a country based on the average trust in financial services sector data provided by Statista.

Sources: Statista

The **industry** risk exposure is applied only to the banking sector and it is assessed as high. Industry exposure to other sectors is nil.

Risk mitigation assessment:

Policies & programmes

☐ There are policies in place for the successful implementation of client relationship management practices in the sales stage

☐ There are policies in place for the successful implementation of client relationship management practices in the post-sales stage

☐ The institution has procedures in place to be transparent in their financial product offering

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[9] Non-credit products for certain social categories of people with limited access to financial services, including deposits, payment cards, cash and settlement services, financial counseling and financial literacy, insurance.

☐ The institution has procedures in place to minimize the social impact of their financial product offering

Reporting

☐ Commitment to report regularly on the institution’s strides to improve transparency and client relationship management

Performance

☐ The institution’s customer base is stable and growing

☐ The institution has no reputational damage and has successful brand awareness

☐ The institution has low or nil legal costs arising from conflicts with customers

5.3 Governance

The purpose of this section is to assess the exposure of the corporation to governance risks through the company's board and its efficiency, ownership structure, business ethics, anti-competition practices, quality of the risk management processes, as well as quality of reporting and to assess how well these risks are being mitigated. The section is divided in two themes:

- Corporate structure
- Corporate behaviour

At the same time, each theme is evaluated through a number of sub-factors.

5.3.1 Corporate structure

A. Board structure & transparency

Risk exposure assessment:

The **country** risk exposure is assessed based on the Efficacy of Corporate Boards. The data are provided by the World Bank. Countries where the value of efficacy of corporate boards is higher are considered to have a low risk exposure in this sense.

Sources: World Bank

This methodology defines **industry** risk exposure as medium by default, implying the possibility of adjusting the exposure based on the analyst's expert opinion regarding the risks. The factor is applicable for public companies and joint-stock companies, while it might not be applicable for private companies.

Risk mitigation assessment:

Policies & programmes

☐ The Company has a policy that regulates independence of the Board's directors

☐ The Company has a policy that regulates the size, activities and structure of the board

☐ The Company has a policy that regulates the remuneration of the Board's directors

Reporting

☐ Remuneration of the Board's directors is publicly disclosed

☐ Board meetings results are publicly disclosed

☐ The Company reports on Board composition and activities

Performance

☐ The number of directors in the Board and its composition are stable

☐ Independency of the Board

☐ Diversity of the Board

☐ Competences of the Board

B. Ownership

<u>Risk exposure assessment</u>:

The **country** risk exposure is assessed qualitatively based on the typical business practices regarding the transparency, stability, conflicts of interests and restrictions of company owners in every **country**. Countries where companies tend to have publicly disclosed and stable ownership structures, are considered to have a low risk exposure in this sense. We also take into account the data provided by the World Bank on informality including percent of firms competing against unregistered or informal firms, percent of firms formally registered when they started operations in the country, and percent of firms identifying practices of competitors in the informal sector as a major constraint. The higher the average of the three indicators, the lower country’s risk exposure.

Sources: World Bank

This methodology defines **industry** risk exposure as medium by default, implying the possibility of adjusting the exposure based on the analyst's expert opinion. The exposure might be corrected, taking into account the regional and industry specific or type of legal entity.

<u>Risk mitigation assessment</u>:

Policies & programmes

☐ There is a publicly available charter of the Company

☐ The Company has regulations on the general meetings of shareholders

☐ The Company has a dividend policy

Reporting

☐ Beneficial owners of the Company are publicly disclosed

☐ There are no offshore companies in the corporate structure of the Company

☐ The results of shareholders' general meetings are publicly available

Performance

☐ Assessment of the ownership structure

☐ The Company ensures equal and fair conditions for all shareholders in realizing their rights

C. Risk management

<u>Risk exposure assessment</u>:

The **country** risk exposure is assessed qualitatively based on the typical risk management practices in the country. Countries where companies tend to have well developed risk management practices, are considered to have a low risk exposure in this sense. This methodology assumes that countries having adopted ISO 31000 as their national risk management standard are exposed to lower risk. The data are provided by the International Organization for Standardization.

Sources: International Organization for Standardization

This methodology defines **industry** risk exposure as medium by default, implying the possibility of to correct the exposure based on the expert opinion of the analyst regarding the risks.

Sources: Open sources

<u>Risk mitigation assessment</u>:

Policies & programmes

☐ The system of risk management is established

Reporting

☐ The Company's reporting includes identification, assessment and updating of risks

☐ The Company reports about efficiency of its risk management system

Performance

☐ The Company conducts risk management activities and risk mitigation on an ongoing basis

☐ Assessment of the risk management efficiency

5.3.2 Corporate behaviour

A. Business ethics

Risk exposure assessment:

The **country** risk exposure is assessed based on the typical business ethics practices as well as the perception of corruption in the **country**. Countries where companies tend to have good business ethics practices, are considered to have a low risk exposure in this sense. Such indicator as Ethical Behavior Of Firms Index rates the corporate ethics of companies (ethical behavior in interactions with public officials, politicians, and other firms) and is considered by this methodology as a relevant metric to assess country's business ethics practices. The data is provided by the World Bank. The values of the index vary from 1 to 7, where 1 represents extremely poor and 7 corresponds to excellent business ethics practices. Countries with higher level of corruption are associated with higher country's risk exposure. The data on Corruption Perceptions Index is provided by the global coalition against corruption Transparency International.

Sources: World Bank, Transparency International

This methodology defines **industry** risk exposure as medium, implying the possibility of to correct the exposure based on the expert opinion of the analyst regarding the risks.

Risk mitigation assessment:

Policies & programmes

☐ The company has a Code of Conduct, which outlines and regulates the ethical behaviour of employees

☐ The Code of Conduct is intended to be complied by every employee of the Company

☐ The Company has a policy to comply with anti-corruption practices

☐ The Company has a policy that covers cases of corruption, bribery or any other kind of fraud

Reporting

☐ The Company reports on risks and breaches of the Code of Conduct

☐ The Company reports on actions undertaken to comply with anti-corruption practices and the Code of Conduct

Performance

☐ The Company carries out initiatives to prevent corruption, frauds and bribery

☐ Assessment of anti-corruption measures and compliance with the Code of Conduct

B. Anti-monopoly practices

Risk exposure assessment:

The **country** risk exposure is assessed based on the effectiveness of the anti-monopoly policies in the country. Countries, which tend to have strong anti-monopoly policies practices, are considered to have a low risk exposure in this sense. The data on Effectiveness of anti-monopoly policy are provided by the World Bank. The indicator shows to what extent does anti-monopoly policy promote competition and takes values of 1 to 7 where 1 indicates that anti-monopoly policy does not promote competition and 7 demonstrates that anti-monopoly policy effectively promotes competition in a country.

Sources: World Bank

This methodology defines **industry** risk exposure as medium by default, implying the possibility of to correct the exposure based on the expert opinion of the analyst regarding the risks.

Risk mitigation assessment:

Policies & programmes

☐ The company has a policy to comply with anti-monopoly practices

Reporting

☐ The Company reports on actions undertaken to comply with anti-monopoly practices

Performance

☐ The Company takes measures to prevent and minimize anti-competition risks

☐ Assessment of anti-monopoly compliance

C. Tax payment & transparency

Risk exposure assessment:

The **country** risk exposure is assessed based on the tax payment and transparency of companies in the country. Countries in which companies tend to avoid taxes or not report tax payments are considered to have a high-risk exposure in this sense. Companies, which avoid or do not report taxes, are highly exposed to reputational and economic sanctions. This methodology defines the level of country's risk exposure in this regard in accordance with the value of Corporate Tax Haven Index, which is a ranking of jurisdictions most complicit in helping multinational corporations underpay corporate income tax. The higher the value of the index, the higher country's risk exposure.

Sources: Tax Justice Network

Risk mitigation assessment:

Policies & programmes

☐ The Company has a policy to comply with tax regulations

Reporting

☐ External accounting audits are conducted regularly

☐ The Company regularly reports financial statements

Performance

☐ There is no evidence of significant or/and regular tax avoidance or non-reporting of tax payments