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METHODOLOGY FOR ASSIGNING ESG RATINGS TO CORPORATES – SHORT PUBLIC VERSION

The Methodology presented is a short public version.

1. General definitions

This methodology describes a system of factors and weights used in the process of assigning environmental, social and governance (ESG) ratings to corporates.

An ESG rating represents the opinion of the Rating Agency on the environmental, social and governance strengths and weaknesses of a corporate.

These ratings allow to compare an entity's performance with other peers in the same industry and are used by investors in the process of investment decision making and in the course of responsible investment portfolio selection. Furthermore, these ratings are used by the rated entities as well as the general public to assess the entity's ESG risks and opportunities.

2. Sources of information

2.1 While assigning a rating score, the following sources of information are used:

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

2.2 The Agency is neither responsible for controlling the accuracy of the documents provided by the company, nor for the authenticity of the information included in these documents.

2.3 The Agency has the right to use other sources of information in case of data incompleteness.

3. Structure of the rating analysis

3.1 The ESG rating of a company is defined as the weighted sum of the assessment of three sections: Environment (1); Social (2); Governance (3).

3.3 The section "***Environment***" includes the analysis of the following integral factors: *environmental risks and opportunities, environmental performance and environmental programmes*.

3.4 The section ***"Social"*** includes analysis of the following integral factors: *human capital, social responsibility and investment responsibility.*

3.5 The section ***"Governance"*** includes the analysis of the following integral factors: *board of directors, ownership, business ethics, risk management, anti-competition practices, accounting and taxation disclosure.*

4. System of indicators

Section	Sub-section	Sub-section Weight	Section weight
Environment	Environmental risks and opportunities	11,1%	1/3
	Environmental performance	11,1%	
	Environmental programmes	11,1%	
Social	Human capital	11,1%	1/3
	Social responsibility	11,1%	
	Investment responsibility	11,1%	
Governance	Board of directors	5,6%	1/3
	Ownership	5,6%	
	Business ethics	5,6%	
	Anti-competition practices	5,6%	
	Risk management	5,6%	
	Accounting and taxations disclosure	5,6%	

4.1 Environment Section

- Environmental risks and opportunities

  The larger the influence of environmental risks the more negative is the impact on the assessment of company's ESG. However, if the company has actions in place to mitigate these risks, we consider it to partially offset the aforementioned negative effect of risks in our assessment.

  Environmental opportunities have a positive impact on the ESG assessment but are counterbalanced by the level of involvement efficiency of them. If the company has in place or has joined any environmental program, this has a positive impact on the rating. The efficiency of programs involvement is either neutral (if they are efficient) or negative (if they are inefficient).

- Environmental performance

  The fact that the company has an environmental policy implementation plan has a positive impact on the rating assessment. If the company has such plan, the body responsible for its implementation as well as its transparency and depth are considered for the analysis. A deep and publicly available environmental implementation plan has a positive impact on the assessment.

- Environmental programmes

  The fact that the company carries out internal and external environmental programmes, as well as it has sufficient tools to measure the effect of such programmes is positively evaluated. The types of the environmental programmes and their efficiency are considered and assessed manually by the expert.

4.2 Social section

- Human capital

  This section considers human capital metrics such as presence of significant above-the-law benefits, human development programmes and their depth, along with health and safety measures implemented in the company. A good performance of the company in terms of these indicators may translate into a stronger positive impact on the rating assessment.

- Social responsibility

In this section the degree of the company's involvement in the socially responsible programmes, which benefit the community, is evaluated. It is also considered, if the company is directly or indirectly involved in one of the controversial industries. If the company has its own (or has joined one from a third party) solid social programme, which benefits the community where it operates, the rating is positively impacted. If, however, the company is directly or indirectly involved in one of the controversial industries, the rating is affected negatively.

- Investment responsibility

  In this section the presence and the degree of implementation of investment responsibility programmes are evaluated. Sufficiency of the company's internal investment responsibility regulation, as well as significance of the socially responsible investments in the total investment of the company have a positive impact on the rating.

4.2 Governance section

- Board of directors

  This section considers the board of directors' structure and transparency, involvement and efficiency, as well as the board members' experience. A well-structured, efficient and experienced board of directors has a positive impact on the rating.

- Ownership

  In this section ownership transparency, stability and ethics are evaluated. The degree of ownership regulations and restrictions, together with the top-management ownership requirements are also checked. The company's good performance in terms of these indicators is positively evaluated.

- Business ethics

  In this section the presence and depth of the company's code of conduct and/or other corporate norms, rules and responsibilities (e.g. whistleblower protection scheme) are evaluated. It is also considered whether the company's Statutes are overridden by shareholders' Agreements, affecting the governance, control and operations of the company. Additionally, if the company has either been involved in the cases of corruption and fraud or is currently under investigation for potential corruption or fraud affair, the rating can be negatively impacted.

- Anti-competition practices

  The fact that the company is regulated by the anti-competition laws and does not breach them is positively assessed. In the case of anti-competition laws breaches, subsequent anti-competition investigations and high settlement amounts may distract the normal operation of the company and hence have a negative influence on the rating.

- Risk management

  Presence of sufficient risk management tools and processes, as well as their ability to mitigate the current and potential risks (e.g. credit risk, political risk, legal risk etc.) influences the rating positively. Additionally, low exposure to IT risks and absence of significant cyber-security breaches have a favorable impact on the rating.

- Accounting and taxations disclosure

  Frequent disclosure of the key financial and non-financial data through either audited annual reports (done by a reputable auditing company limited in its maximum tenure as the company's auditor) or financial statements is positively assessed.

Annex 1. List of rating classes

The environmental, social, governance and total ESG ratings assigned by Rating-Agentur Expert RA GmbH are defined on the basis of allocating the company to one of 9 rating classes according to the following scale:

Rating ESG	Rating E	Rating S	Rating G	Rating level	Score	Rating Band
AAA[esg]	AAA[e]	AAA[s]	AAA[g]	Highest level	89 - 100%	**A-rating band** The entity's position is above average. Minor or no further actions are required, but the entity can benefit from any additional improvement or innovation.
AA[esg]	AA[e]	AA[s]	AA[g]	Very high level	78 - 89%	
A[esg]	A[e]	A[s]	A[g]	High level	67 - 78%	
BBB[esg]	BBB[e]	BBB[s]	BBB[g]	Moderately high level	56 - 67%	**B-rating band** The entity's position is average. The entity faces a bearable amount of risks, which can be mitigated with a reasonable number of further actions.
BB[esg]	BB[e]	BB[s]	BB[g]	Sufficient level	44 - 56%	
B[esg]	B[e]	B[s]	B[g]	Moderately low level	33 - 44%	
CCC[esg]	CCC[e]	CCC[s]	CCC[g]	Low level	22 - 33%	**C-rating band** The entity's position is below average. Strong actions are required. The entity faces a significant amount of risks but there is a big room for improvement.
CC[esg]	CC[e]	CC[s]	CC[g]	Very low level	11 - 22%	
C[esg]	C[e]	C[s]	C[g]	Lowest level	0 - 11%	