

ISS ESG COUNTRY RATING

ISS ESG's Country Ratings assess the extent to which a sovereign issuer is positioned to successfully manage salient risks related to ESG themes, thus providing investors with forward-looking information on sustainability risks, adverse impacts, and opportunities of investments.

The rating comprises three dimensions – Environment, Social, and Governance – and a maximum of 107 indicators per rated country that assess the legislative as well as factual situation in a country. The main topics in the Environment dimension are: Land use, biodiversity, water, climate change, energy, agriculture, industry, transport, and private consumption. The Social dimension consists of the following six topics: Health, education and communication, basic labor rights and working conditions, employment, as well as social cohesion and inequality. The Governance dimension comprises topics such as political system, political stability, corruption and money laundering, safeguarding of civil and political rights, discrimination, and gender equality.

ISS ESG also offers a complementary Country Controversy Assessment, in which a comprehensive analysis of relevant controversies with respect to 19 different topics is undertaken. These topics include – but are not limited to – climate protection, human and labor rights, child labor, corruption and money laundering, as well as military budget and nuclear weapons.

Outputs

The ESG Country Rating provides a qualitative assessment of sovereign issuers' readiness to manage ESG risks and comprises a range of complementary outputs. The rating applies a twelve-point grading system from A+/4.00 (excellent performance) to D-/1.00 (poor performance). All indicators are individually assessed based on clearly defined absolute performance expectations. Based on individual scores and weightings at the indicator level, results are aggregated to yield data on the topic level as well as an overall score (rating). Prime status is attributed to those countries that achieve or exceed the Prime threshold of B-/2.50, which means they meet ambitious absolute performance requirements and are thus well positioned to adequately manage ESG risks.

In addition to the overall rating, a decile rank indicates performance relative to all rated entities allowing for comparisons between rated states and sovereign bond issuers. A decile rank of 1 indicates high relative performance, while a 10 indicates a low relative performance. The ESG Performance Score is the numerical representation of the alphabetic ratings (A+ to D-) on a scale of 0 to 100 with 50 representing the Prime threshold.

Further, clients can access qualitative analyst opinions. These are compiled by ISS ESG analysts, summarizing the main rating results, and providing a qualitative sustainability outlook for each rated entity.

Research Process

All ratings are reviewed on an annual basis and updated regularly when new data becomes available or relevant incidents occur. The ISS ESG Country Ratings research process can be broken down as follows:

- **Data collection:** Data is primarily sourced from publicly available information, such as governmental and international institutions, reputable news sources, as well as recognized international or local non-governmental organizations. The Country Rating uses both

quantitative and qualitative data. Quantitative data points make up around 75 percent of the rating indicators, while the remaining 25 percent are based on qualitative data. Strict cross-checking and verification processes are designed to ensure that sources are credible, comparable across the universe of rated entities, consistent over time, and also that they provide sufficient coverage of a minimum share of the universe of rated countries.

- ESG research: Proprietary ratings and scoring models are applied to generate a rating.
- Quality assurance: In an annual quality assurance process the accuracy and correctness of the Country Ratings research is tested.
- Final report: A final report is published on ISS ESG customer platforms.

Use of Estimated Data

ISS ESG's Country Rating does not incorporate any estimated data. All data points are captured as published by the primary source.

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