



ESG RATING AGENCY

SOLICITED SUSTAINABILITY RATING METHODOLOGY OVERVIEW



Purpose of this methodology document

This methodology overview document describes EthiFinance’s Solicited Sustainability Ratings (SSR) as proposed by our business unit “ESG Rating Agency” to companies and institutions to evaluate their sustainability performance.

The methodology document is updated and approved by EthiFinance's Methodology Approval Committee on an annual basis.

Definition of a Solicited Sustainability Rating

The objective of an SSR is to assess the maturity of an institution regarding its sustainability policies and management and well as its contribution to sustainable development via its business model. It takes into consideration both the policies in place and the associated practices and performance achieved.

The graph below shows EthiFinance’s different ESG and sustainability ratings. An SSR differs from our ESG Ratings through a higher granularity and a more precise adjustment to the sectoral ESG issues linked to the rated entity's specific activities.

EthiFinance ESG & Sustainability Ratings		
Non-Solicited ESG Ratings	Solicited ESG Ratings	Solicited Sustainability Ratings
<ul style="list-style-type: none"> Carried out on a non-solicited basis Investor-pays model (database subscription) Carried out by investor-products analyst team 	<ul style="list-style-type: none"> Carried out on a solicited basis Issuer-pays model Carried out by issuer-products analyst team 	<ul style="list-style-type: none"> Carried out on a solicited basis Issuer-pays model Carried out by issuer-products analyst team
<p>Common methodology</p> <p>Based on publicly available information</p> <p>Includes a high-level company dialogue phase</p>		<p>More in-depth methodology</p> <p>Includes qualitative comments based on company interviews</p>
<p>Double materiality approach</p> <p>Includes controversy research and products & services analysis</p> <p>CSRD aligned</p>		<p>Double materiality approach</p> <p>Includes controversy research and products & services analysis</p> <p>CSRD aligned</p>

The SSR are established by our issuer-products analyst team in complete independence, based on objective elements and aligned as closely as possible with recognized sustainability standards (CSRD, ILO, OECD, ODD, etc.).

The SSR are carried out by analysts specialized in corporate sustainability and ESG, who are all employees of the EthiFinance group. This methodology has been developed to ensure that the same results are achieved regardless of the analysts involved in the assignment.

Scope of the Solicited Sustainability Rating methodology

This methodology applies to entities of various types: corporate (listed or unlisted, private or public) and financial institutions, independent of their ownership structure (private, public, state-owned). questions asked and the indicators considered are adjusted, if necessary, to the nature of the rated entity.

The rating is based on a thorough analysis of the sustainability performance of the rated entity:

- All relevant ESG themes are covered: Governance, business ethics, social topics and human resources management, environment, external stakeholders, etc.
- The various components of sustainability performance are considered: Policies and goals set by the rated entity, sustainability-related organization within the institution, action plans, performance and measurable outcomes.

METHODOLOGY OVERVIEW

EthiFinance's SSR methodology is based on the following main rating factors:

A/ Sustainability pillars and topics: The information and data required for the analysis are collected and analysed according to EthiFinance's proprietary reference framework organized into four overall pillars, each divided into four topics :

- Environment
 - Climate adaption & mitigation
 - Pollution prevention & control
 - Resources use & circular economy
 - Biodiversity & ecosystems
- Social / Own workforce
 - Working conditions & dialogue
 - Skill development & Training
 - Diversity & Inclusion
 - Health and safety
- Social / External Stakeholders
 - Workers in the value chain
 - Communities & Territories
 - Society at large
 - Consumers and end-users
- Governance
 - Corporate governance
 - Business conduct

- Cybersecurity
- Relationships with suppliers

B/ Double materiality analysis: EthiFinance's SSRs are based on a double materiality analysis (impact materiality and financial materiality) carried out in accordance with the principles laid down by the CSRD and the EFRAG's guidelines.

Our sector analysis applies to 37 sectors and takes a double materiality perspective.

The sectors and sub-sectors of EthiFinance have been defined based on existing classifications such as GICS and NACE. This classification was carried out with a focus on the proximity of ESG issues specific to each sector.

Our standard double materiality analysis (DMA) has been conducted in accordance with the expectations of the European regulator as detailed in the regulatory texts relating to the CSRD and the associated EFRAG guidelines. The DMA applies the following steps:

Impacts, Risks and Opportunities' identification for 16 Sustainability Topics - The DMA uses the 16 sustainability topics of the EthiFinance reference framework: For each sector, a preliminary identification of the main sector-specific Impacts, Risks and Opportunities (IROs) associated with each ESG Topic is carried out.

For impact materiality, the main stakeholders of companies within in the given sector are considered (clients, competitors, suppliers, employees...).

For financial materiality, the main impacts of sustainability topics and the main dependencies of the sector are considered.

This analysis of IROs has been carried out by means of a detailed documentary analysis for each sector (sustainability reports from players in the sector, reports from civil society associations, expert sector analyses, sector regulations, main ESG controversies, etc.).

Double materiality analysis is used both to define the weighting assigned to each sustainability topic and pillar in the scoring model, and to select in-depth sectoral indicators.

C/ Cross-sectoral and sectoral indicators: Information on each sustainability topic is collected in the form of quantitative indicators (numerical data scale) or qualitative indicators (descriptive data scale).

EthiFinance's sustainability framework comprises 180 cross-sector indicators and around 20 sector-specific indicators for each sector.

- Cross-sector indicators, applied to all rated entities on subjects that are structurally the same for all or most sectors (in particular under the social and governance pillars).
- Sectoral indicators, which capture topics and situations that differ from one sector to another (in particular for the environmental pillar).

These indicators cover different aspects:

- Strategies/policies developed by the rated entity to respond to sustainability challenges under the 4 pillars and 16 topics,
- Practices/measures implemented by the rated entities to put their policies in practice,
- Performance/results that show quantitative results and their progression in sustainability performance over time.

We have applied the following principles to choose our indicators:

- Full coverage of the 16 sustainability topics of our overall rating framework,
- Alignment with the ESRS corresponding to the European CSRD framework (around 80% of our indicators are in line with the ESRS),
- Alignment with specific concerns of external stakeholders such as ESG investors, civil society, NGOs or other organizations (literature review),
- Integration of indicators from existing standards and frameworks such as the Carbon Disclosure Project (CDP) or the Global Reporting Initiative (GRI),
- Commonly used sector-specific indicators found in corporate sustainability reporting

D/ Scoring model: The sustainability scores are calculated by successive consolidations, starting with each sustainability topic. The topics are weighted differently according to the results of the sector-specific double materiality analysis: The topics identified as most material in terms of the rated entity's activities weigh more heavily in the score of the associated pillars. The same applies to the pillars: the greater the weight of a pillar, the greater its impact on the final SSR score.

E/ Rating modifiers: Once the score has been calculated as indicated above, two additional modifiers are applied:

1. A penalty may be applied if ESG controversies are identified, following a proprietary controversy analysis methodology and scale
2. A bonus may be applied if the rated entity's products and services are identified as contributing positively to one or more UN Sustainable Development Goal(s).

On this basis, EthiFinance delivers an overall sustainability score, broken down into four thematic scores corresponding to each of the four thematic pillars (Environment, Social/Own workforce, Governance, Social/External Stakeholders). This score is presented on a scale of 1 to 10, with a qualitative ranking from *'limited'* to *'outstanding'*.



The SSR scores are based exclusively on the quantitative elements described above. However, the quantitative score is supplemented by qualitative analysis to make it more explicit and provide users with more insights. These qualitative comments also enable the rated entities to better understand their rating and the associated outlook.

The information is gathered through the assessment of public and internal documents, interviews with representatives of the rated entity and an iterative dialogue based on EthiFinance's findings.

Process

The rating process applied to SSRs is iterative and summarized as follows.

1. Preparation of specific evaluation tools: Calculation of the entity-specific DMA and the associated sustainability topic weights; preparation of the specific questionnaire incorporating the sector indicators corresponding to the company's various activities.
2. Kick-off meeting with the entity to be rated: Presentation of the dedicated project team, methodology and process, provisional timetable and list of documents to be provided before the assignment begins.
3. **Analysis of the product/service portfolio and calculation of any associated bonus:** The portfolio is assessed by one of the analysts dedicated to the client and must be validated by the project lead analyst.
4. Analysis of the level of controversy and calculation of any associated malus: the level of controversy is assessed by one of the analysts dedicated to the client and must be validated by the project lead analyst. In specific cases of 'high exposure' and 'critical exposure', additional approval will be sought.
5. Pre-entry of responses to questionnaire indicators by the EthiFinance team, based on public documents and internal documents provided by the rated entity.
6. Finalization of the completion of the questionnaire by the rated entity: The company representatives complete the information and verify information pre-captured by EthiFinance
7. Quality review and iteration: EthiFinance carries out a quality and consistency review of the data provided by the entity and a meeting is organized to clarify any points still under discussion.
8. Validation of the rating by EthiFinance's Approval Committee: Once the rating has been validated by our committee, which is made up of senior staff who did not participate in the rating, the rating is finalized.
10. Qualitative interviews: qualitative interviews are organized with representatives of the rated entity.
11. Finalization of the draft report and iteration session: a final session with the rated entity enables any misunderstandings to be corrected and any final qualitative clarifications to be made. The score remains unchanged.