

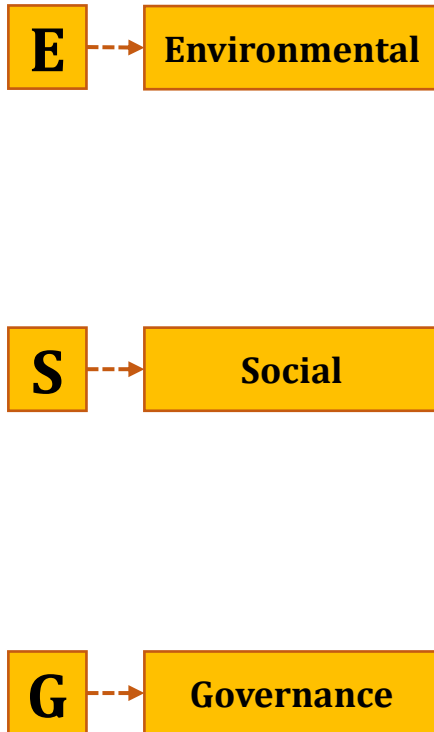
# Rating ESG: new reality in building relationships with investors

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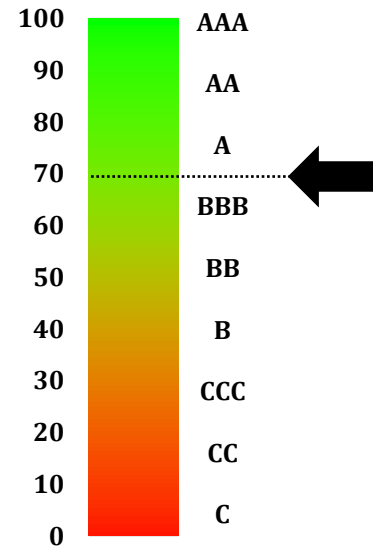
# Our ESG rating

## ESG?



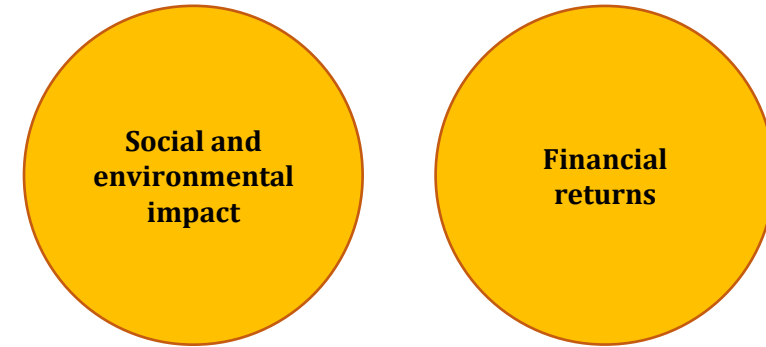
## What is an ESG rating?

*A measure of how well an entity manages its exposure to environmental, social and governance risks and opportunities.*

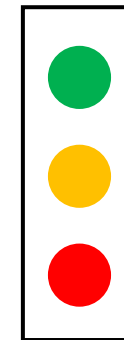


## What are the benefits?

### For Investors



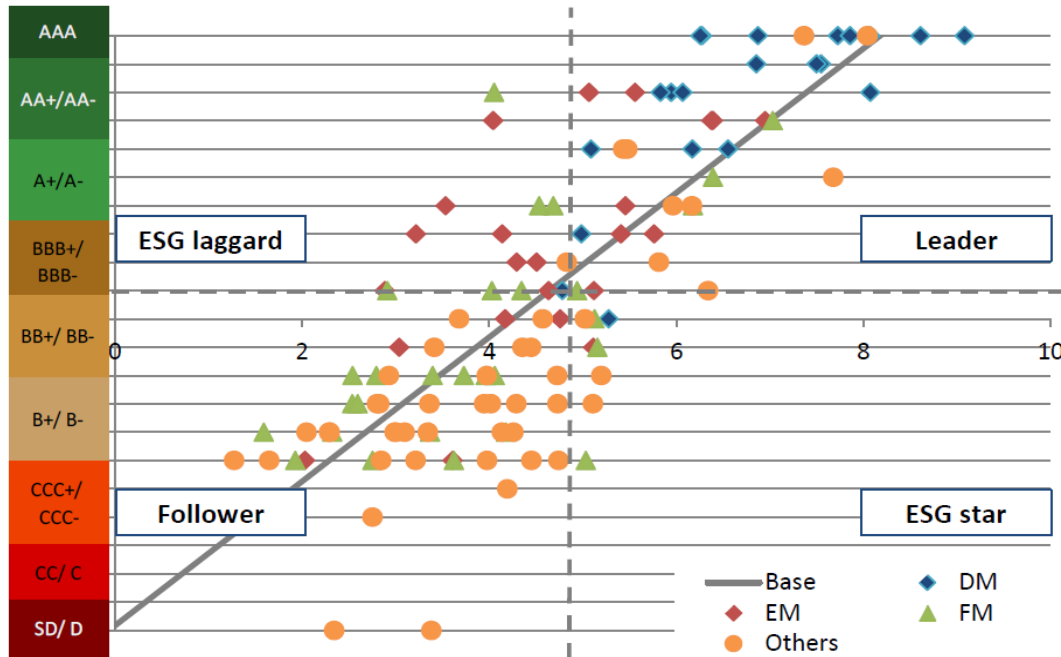
### For the rated entity



Signal for investors and consumers

# Why an ESG rating?

## ESG and Credit ratings not correlated



Source: Allianz Global Investors

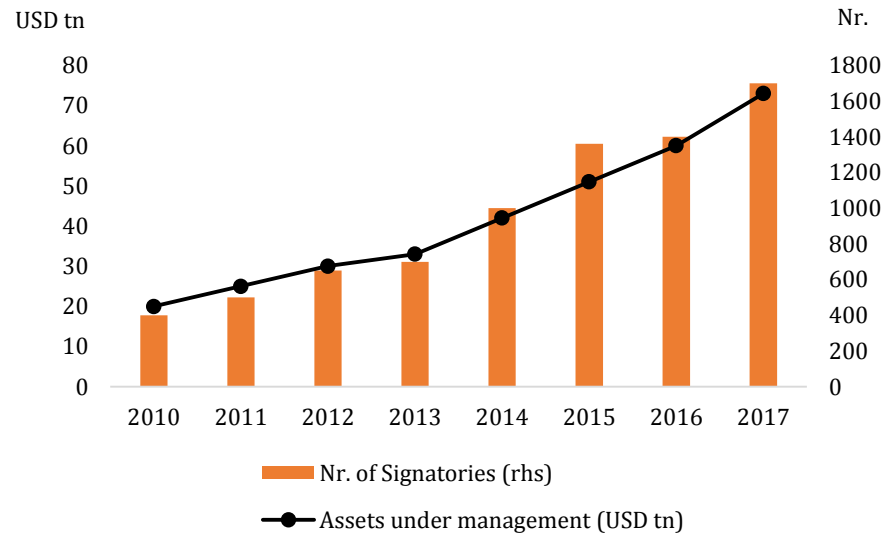
## Positive overall performance

- Corporate financial performance
- Better returns on bonds
- Lower cost of capital
- Better operational performance
- Less volatile

Source: Deutsche Bank, Morgan Stanley Institute for Responsible Investing, University of Oxford

# Why an ESG rating?

## UNPRI Signatories



Source: RAEX Europe based on data from the UN

## Demand

- **90%** of millennials are more interested in responsible investing.
- **60%** of assets under management could be influenced by some sort of ESG motivated policy or regulation.
- Integration of ESG factors into banking practices and products: ESG reports of banking groups (HSBC Group); Guidelines for the consideration of ESG factors (Credit Suisse group); Linking the cost of credit to ESG valuation factors (syndicated loan to Danone);

Source: TIIA, Investment Company Institute

# Rating scale of RAEX-Europe

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%	<b>A-rating band</b> 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>B-rating band</b> 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%	<b>C-rating band</b> 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%	

# The ESG rating process



**E**

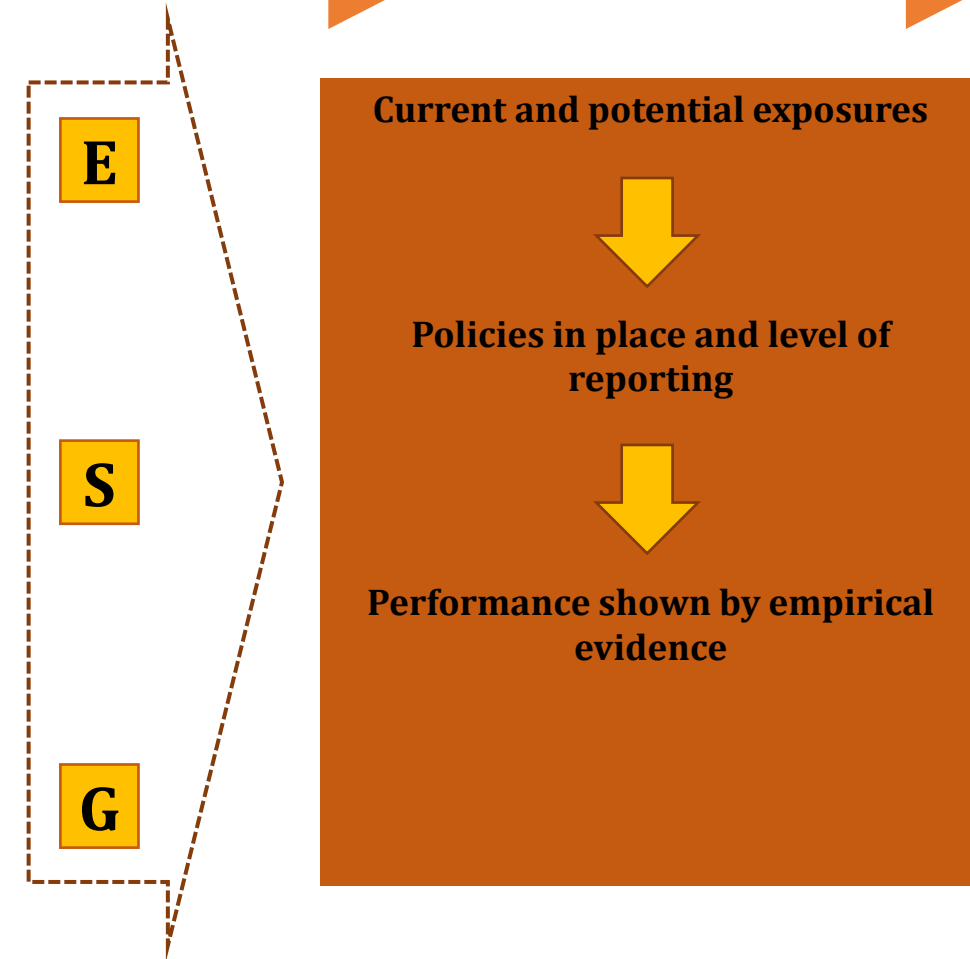
**S**

**G**

**Sources of information:**

- Rated entity
- Government
- Media
- Other public sources

# The ESG rating process



# The ESG rating process



**E**

## Current and potential exposures

Corruption.

**S**

## Policies in place and level of reporting

The entity has a strong anti-corruption and compliance policies.

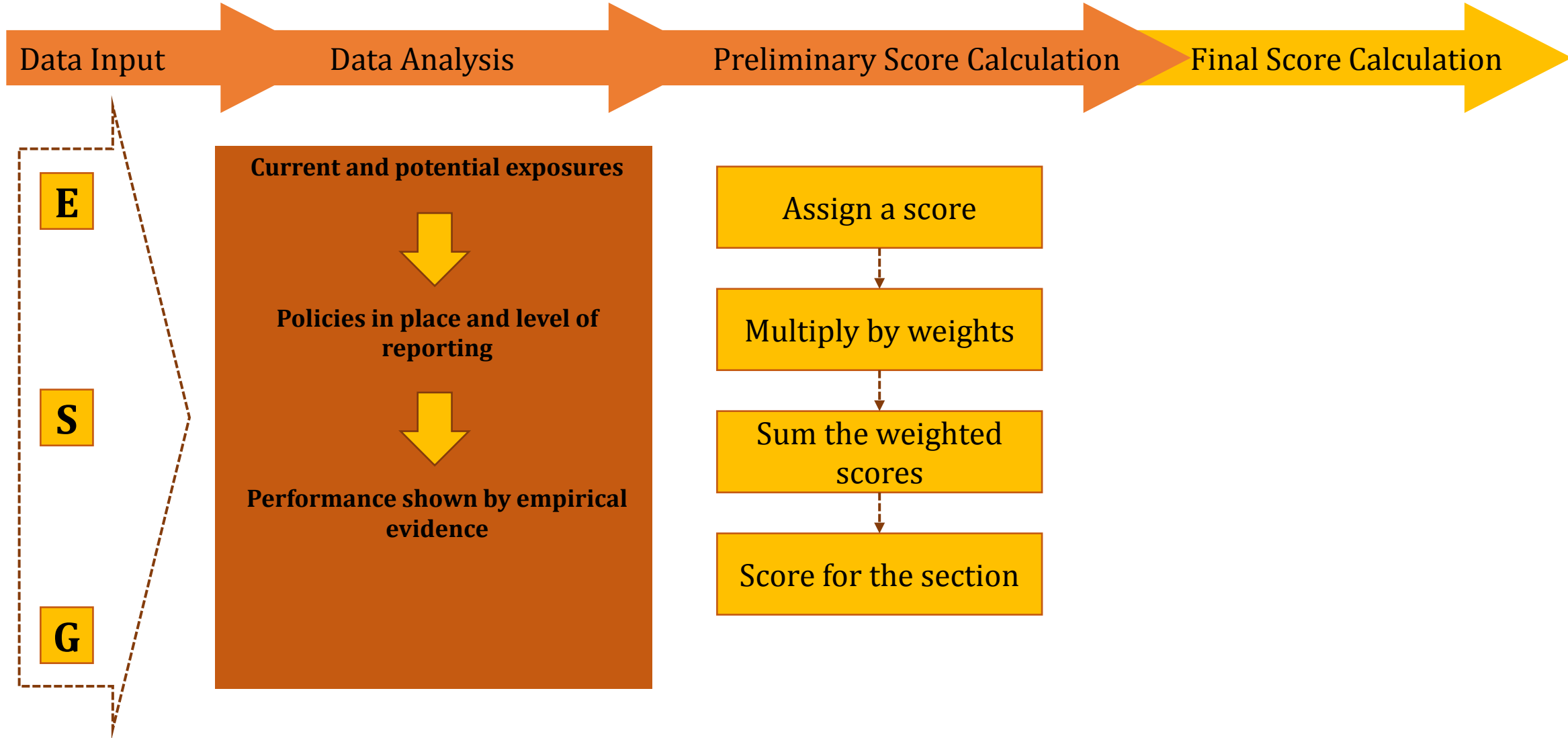
**G**

## Performance shown by empirical evidence

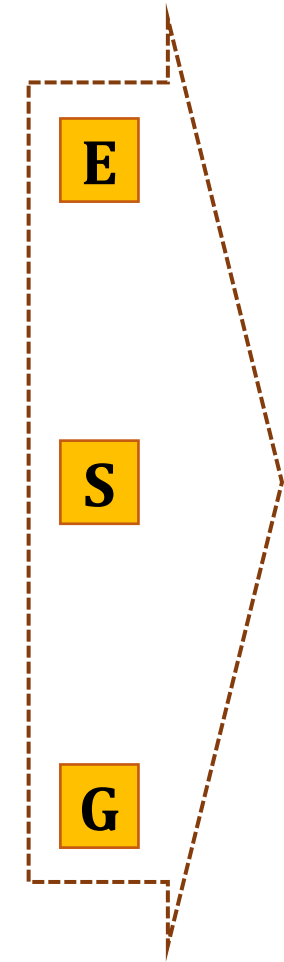
The entity is not under investigation for corruption, bribery or any other type of fraud.



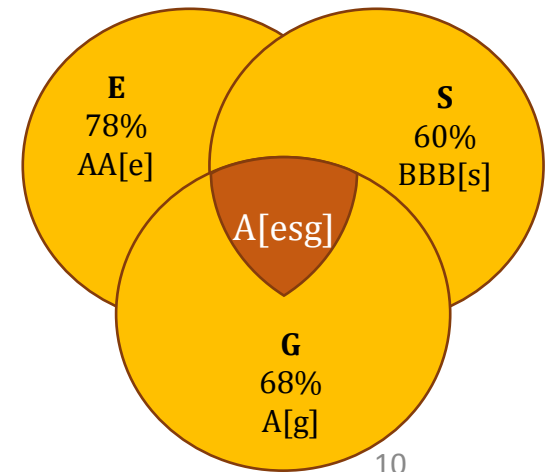
# The ESG rating process



# The ESG rating process



Score	ESG	E	S	G
89 - 100%	AAA[esg]	AAA[e]	AAA[s]	AAA[g]
78 - 89%	AA[esg]		AA[s]	AA[g]
67 - 78%		A[e]	A[s]	
56 - 67%	BBB[esg]	BBB[e]		BBB[g]
44 - 56%	BB[esg]	BB[e]	BB[s]	BB[g]
33 - 44%	B[esg]	B[e]	B[s]	B[g]
22 - 33%	CCC[esg]	CCC[e]	CCC[s]	CCC[g]
11 - 22%	CC[esg]	CC[e]	CC[s]	CC[g]
0 - 11%	C[esg]	C[e]	C[s]	C[g]



# The ESG methodology

## Corporates Methodology

Section	Factor
1. Environment	Environmental risks
	Environmental opportunities
	Environmental policy implementation and efficiency
	Transparency of the policy
	Environmental programs (internal)
	Environmental programs (external)
2. Social	Above-the-law benefits
	Human development
	Health & Safety
	Socially responsible industry
	Socially responsible programs
	Investment responsibility programmes
3. Corporate Governance	Board structure and transparency
	Board attendance and efficiency
	Board experience
	Ownership transparency
	Ownership restrictions
	Management ownership
	Ownership stability
	Ownership ethics
	Code of conduct
	Company Statutes
	Corruption, bribery and legal settlements
	Anti-competition regulation
	Competition breaches
	Risk exposure
	Information & Cyber-security
Reporting	

## Regions Methodology

Section	Factor
1. Environment	Environmental Risks
	Environmental Opportunity
	Environmental policy implementation and transparency
	Budget Expenditure and Efficiency
2. Social	Social benefits and security functions
	Education
	Health care system
	Security
	Socially responsible industry
	Socially responsible programmes
PPP Investment	
1. Regional Governance	Stability of the government
	Support to the government
	Investment attractiveness / business-climate
	Industrial parks and free economic zones
	Transparency of the regional government in the Internet
	Regulatory Impact Assessment (RIA) practices OR Similar practices
	Anti-corruption commission / department in the regional administration
	Characteristics of self-declarations of the employees of administration bodies
	Quality of the fiscal budget planning
	Quality of the fiscal budget execution
	Quality of the debt management
	Tax deductions and credits

# The ESG methodology: Corporate

## Environmental

### 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 programs

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

# The ESG methodology: Corporate

## Social section

### Human capital

This section considers **human capital metrics** such as presence of significant above the-law benefits, **human development programs** 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 programs**, 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 program, 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 programs** 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.

# The ESG methodology: Corporate

## 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.

### 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.

### 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.

### 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.

### 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. 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.

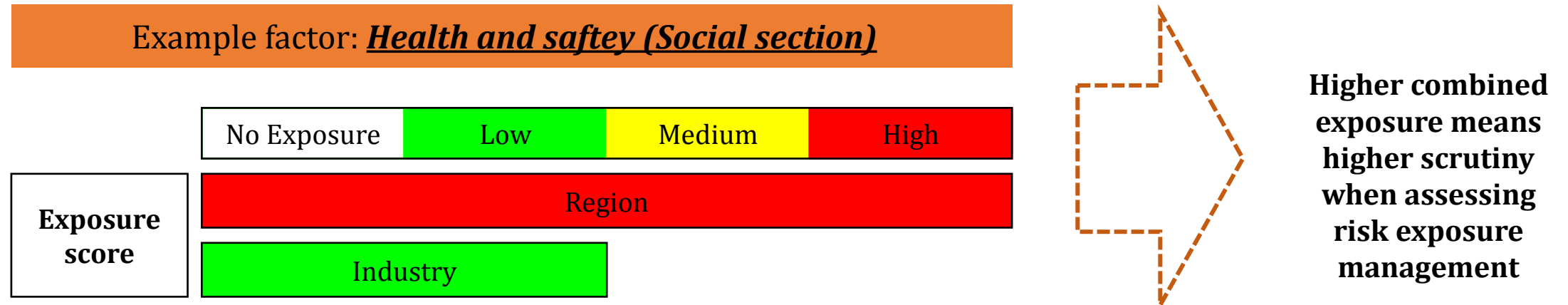
### Accounting and taxations disclosure

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.

# Methodological developments

Our Agency is committed to improve the ESG methodology on a constant basis in order to keep up with the latest best practices in the market. For this reason, our rating team is improving the aforementioned methodologies so that factor weights depend on the industry and regional exposure of the entity. Additionally, the improved methodology will be aimed at capturing the risks and mitigation actions of a number of environmental issues which are considered to affect corporates and regions.

The entity needs to have enough policies in place and a sufficient performance level in order to mitigate the combined exposure between industry and geography.



- Regional exposure score is **High**: The entity operates in a region where health and safety standards are low and it does not have sufficient healthcare infrastructure.
- Industry exposure score is **Low**: The entity is in the financial industry where health and safety risks are lower than in other industries (e.g. Energy).

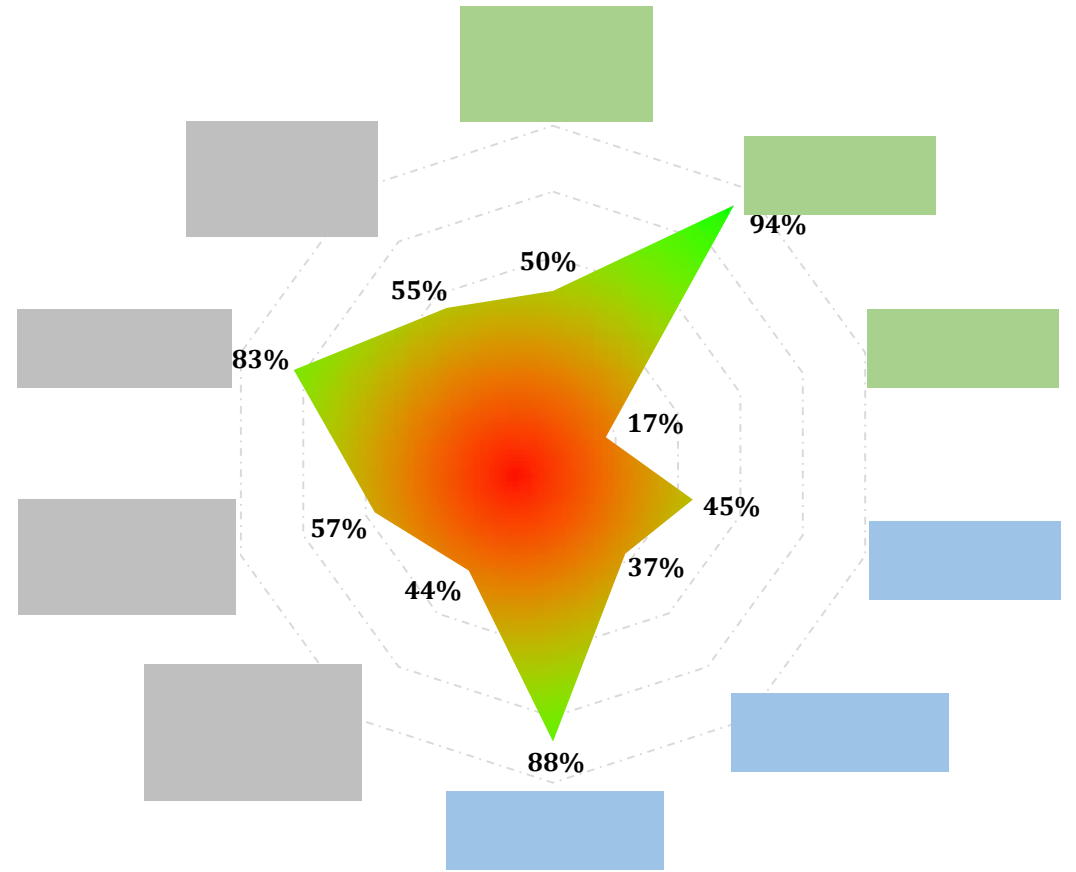
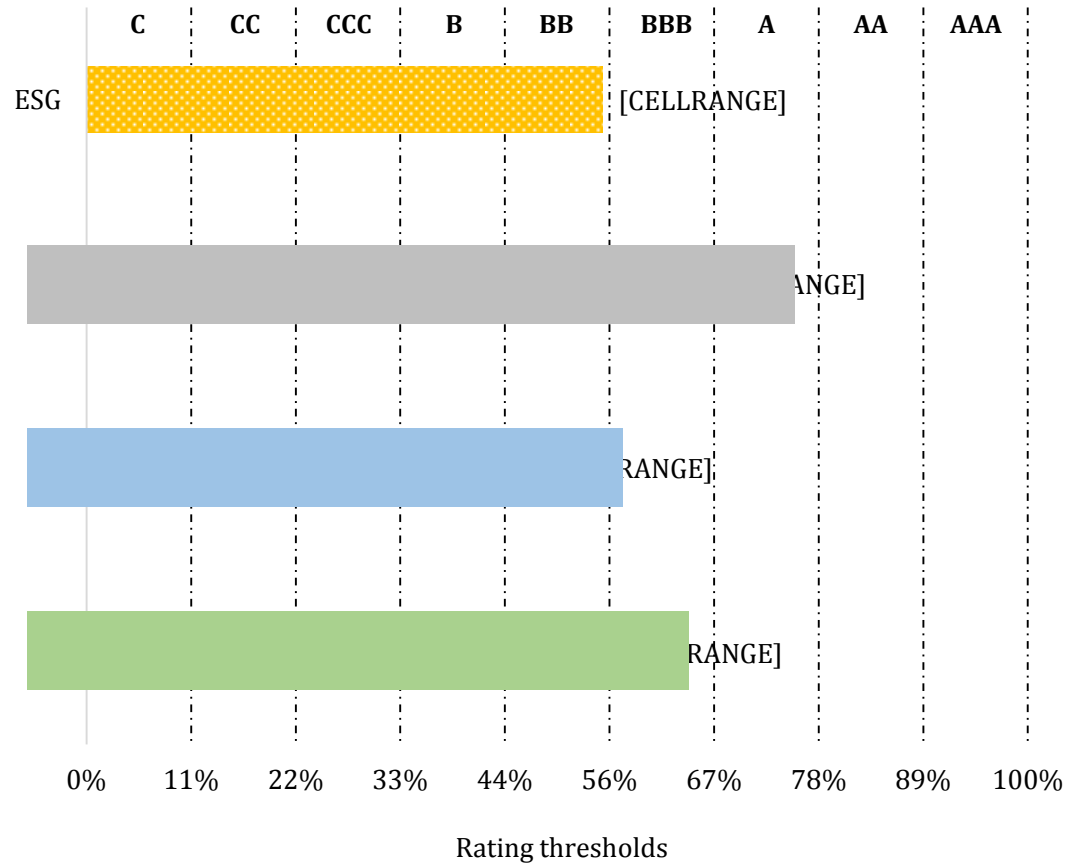
# ESG ratings methodology: companies

## Draft version

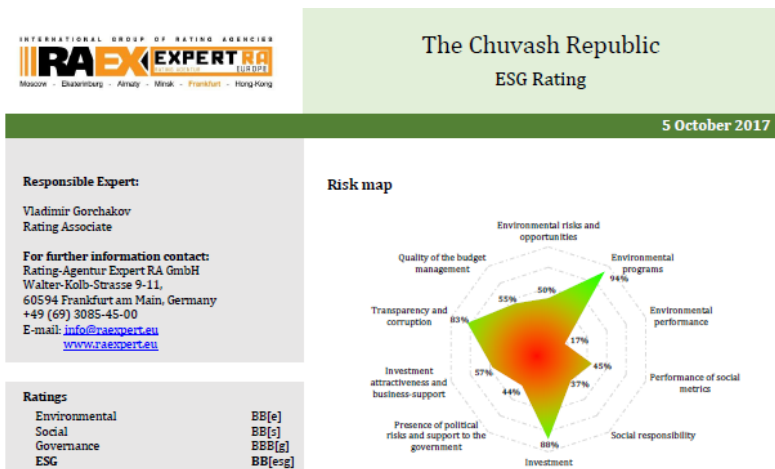
Section	Factor
<b>1. Environment</b>	Natural resources
	Pollution
	Climate change
	Environmental Opportunities
	General
<b>2. Social</b>	Human Capital
	Business Liability
	Local Communities
	Social Opportunities
	General
<b>3. Governance</b>	Corporate Structure
	Corporate Behavior
	General



# Example of assigning ESG rating to the region: Chuvash Republic



# Example of assigning ESG rating to the region: Chuvash Republic



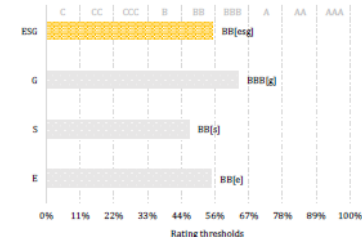
## Summary

Rating-Agentur Expert RA GmbH assigned BB[esg] ESG rating to the Chuvash Republic, which means sufficient ESG rating level, with BB[e] environmental rating, BB[s] social rating and BBB[g] governance rating. The region has strong environmental policy, which is based on the presence of comprehensive long-term environmental program as well as existence of public body responsible for this policy. At the same time, the environmental risks assessment was restrained by a moderately low level of environmental protection programs financing. The assessment of social risks was positively supported by the presence of different social programs and socially oriented PPP-projects, while poor security metrics and lack of priorities for social responsible industries have an adverse effect on this section. The assessment of the regional governance was positively supported by sufficient level of transparency, presence of anti-corruption procedures and satisfactory level of the self-declarations disclosure, while moderately low quality of fiscal budget planning affected the assessment negatively.

## ESG scorecard

Section	Sub-section	Weight	Score
Environment	Environmental risks and opportunities	11.1%	50%
	Environmental programmes	11.1%	94%
	Environmental performance	11.1%	17%
Social	Performance of social metrics	11.1%	45%
	Social responsibility	11.1%	37%
	Investment responsibility	11.1%	88%
Governance	Presence of political risks and support to the government	8.3%	44%
	Investment attractiveness and business support	8.3%	57%
	Transparency and corruption	8.3%	83%
	Quality of the budget management	8.3%	55%

## ESG score and rating per section



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## Environment

Sub-factor	Score
Environmental risks	78%
Environmental opportunities	31%
Environmental policy implementation and transparency	94%
Budget expenditure and efficiency	17%

- Presence of a detailed and comprehensive long-term environmental policy program and a public body responsible for the policy**  
Chuvash government has a definite environmental policy program, called "Development of the natural resources potential and environmental safety for 2014-2020" that covers all key environmental risks of the region: environmental safety; protection and reproduction of objects of fauna; development of water management complex; forestry and handling of waste. This program includes detailed measures, efficiency metrics, responsible bodies and sources of financing. In addition, the regional government has a body responsible for the environmental policy - the Ministry of Natural Resources and Ecology of the Chuvash Republic, which can be considered as a very transparent structure.
- Exposure to several natural and human related ecological risks, which are partly mitigated by the authorities' actions**  
The Chuvash Republic is exposed to various natural ecological and climatic risks (soil degradation, fires and floods) as well as risks originated from human activity (deforestation, pesticides and fertilizers pollution, vehicular air pollution and others). However, most of these risks are partially mitigated by different actions implemented by the regional authorities, such as strengthening the control and building of new facilities (flooding protection constructions, new national parks and wastewater treatment facilities).
- Moderate level of involvement in environmental opportunities**  
The region uses a limited number of environmental opportunities, such as hydroelectricity, energy efficient street lighting and more ecological fuel for public transport, while other environmental opportunities such as wind power or biofuels are also available.
- Moderately low level of environmental protection programs financing**  
According to the 2016 results, only 0.11% of the total consolidated budget expenditures were attributed to the "Environmental protection" section, as compared to 0.22% on average for all Russian regions. Moreover, the risks of insufficient financing were recognized as key risks for the successful implementation of the environmental policy program, while only 15% of the program costs were planned to be financed by the Republican budget. In addition, the region has limited involvement in internationally recognized ecological programs.

## List of major controversies

Controversy	Type of factor
No controversies were found	Environmental

Source: RAEX (Europe) calculations based on data from the government of the Chuvash Republic, Ministry of Finance of the Russian Federation, Ministry of Natural Resources and Environment of the Russian Federation, public sources of information.

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# Thank you for attention!

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