

GUIDANCE

Guidance Regarding the Consideration of ESG Factors in Euler Hermes Rating Credit Ratings

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Guidance Regarding the Consideration of ESG Factors in EHRG Credit Ratings

Credit ratings issued by Euler Hermes Rating GmbH (“EHRG”), as defined by our “Basic Principles for Assigning Credit Ratings and Other Services” as well as EHRG methodologies, aim to assess the credit risk of corporate issuers, projects or issuances. Our analysis is therefore focused on the identification and evaluation of factors influencing the credit risk of corporate issuers, projects or issuances. In our opinion environmental, social or governance (ESG) factors are incorporated in our defined rating criteria, as outlined by our methodologies for corporate issuer, project or issuance ratings, and are examined and evaluated in our comprehensive analytical process for the impact they may have on the credit risk of an issuer, project or issuance. ESG factors may affect our assessment of sector, business, site, object, project and financial risk profile as well as operational risks, notching factors or other rating considerations, as detailed by our rating methodologies.

In our view environmental, social or governance factors may e. g. include the following elements:

- **Environmental:** changes of regulation aiming for reduction of energy consumption, carbon dioxide emission, air, water or soil pollution and its impact on an industry and its products, environmental risks from production or exploitation processes as well as use of hazardous substances etc.
- **Social:** adherence to applicable labour laws, management of employee relations, supplier management, stakeholder management, reputation, etc.
- **Governance:** impact of shareholding structures, independence and credibility of board committee members, potential for key person risks, transparency for external stakeholders, adequacy of incentive structure, etc.

Where ESG factors have a material impact for the assessment of a rating, their influence is reflected in the defined risk categories, which we examine in our credit risk analysis, such as sector, business, site, object, project, financial and operational risk, notching adjustments or other rating considerations. Governance factors are explicit rating criteria of our corporate issuer and project rating methodologies as part of operational risk or notching adjustment considerations.

As an example of an environmental factor, which materially affects the market environment of the automotive and other industries, we would point to regulation aiming to limit and reduce CO2 emissions. We assess the impact of such regulation together with growing public awareness and possible impacts on customer preferences on our regular sector or market risk elements, such as structural change, substitution risk, market growth, competitive intensity and overall profitability of the industry. In addition to the market risk, these changes related to environmental regulation and public awareness will most likely also affect business or strategic risk elements, such as strategic position, competitiveness, product portfolio, diversification/concentration, strategic objectives, competencies, resources and ability to adapt to structural changes. On the level of financial risk analysis, we would expect increasing investment and financing requirements as well as impacts on margins and financial flexibility.

In summary, our rating methodologies and analytical processes are designed to capture the existing and emerging influences, which shape the credit risk of corporations, projects or issuances in the future. In the process of assigning a credit rating, we perform a comprehensive, forward looking and sustainability oriented analysis. We therefore believe that the elements commonly summarized by the ESG concept are likely to have a material impact on the credit risk of a corporate issuer, project or issuance and are therefore important factors considered in our regular analytical processes.

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