

Climate EBA Pillar 3 ESG Solution

Description of Assumptions

Pursuant to the European Union's EBA ESG Disclosure Regulation, large EU financial institutions are required to disclose the climate impact and mitigation actions of their activities recorded on their banking book. ISS STOXX's Climate EBA Pillar 3 ESG Solution leverages ISS STOXX's climate and regulatory solutions to provide datapoints that can assist EU banks in meeting the disclosure requirements. The EBA Pillar 3 reporting requirements are divided across 10 granular templates, with each one covering a specific focus area, such as banking book exposures subject to transition risk, physical risks and the mitigating actions taken by banks, as displayed by the calculation of the Green Asset Ratio and Banking Book Taxonomy Alignment Ratio (BTAR). ISS STOXX offers a dedicated dataset, with a detailed user guide and a mapping of its factors to the templates.

The solution depends on a number of ISS STOXX's datasets and underlying methodologies.

Datasets leveraged in the solution, include:

- Emissions data: the dataset allows for the calculation, quality calibration and disclosures of financed emissions, top 20 carbon emitters.
- Physical Risk: for physical risk data set, in particular the aggregated hazards risk category and respective financial impact.
- EU Taxonomy Alignment solution: ISS STOXX has mapped the EBA Pillar 3 Templates 6 to 8 to data points offered in its EU Taxonomy Alignment Solution that are used for the calculation of the Green Asset Ratio and BTAR. This solution incorporates directly reported data to meet entity-level reporting requirements under Article 8 of the Taxonomy Regulation, as well as modeled data for companies that do not report which can be used during the investment decision making process. The EBA Pillar 3 Templates 6 to 8 only require disclosure for the Revenue KPIs.
- Energy and extractives for Paris alignment benchmark exclusions and for production-based intensity scenario analysis.
- ESG corporate quantitative raw data for the iron and steel sector for production-based intensity scenario analysis.
- SDG Impact Rating data is used in the criteria relating to Paris alignment benchmark exclusions calculations. The dataset is also used together with SDG Solutions Assessments dataset to provide information on issuers in the final template of the report.
 - The SDG Impact Rating provides a holistic metric of impact aligned to the UN Sustainable Development Goals (SDGs). The rating measures to which extent companies are managing negative externalities in their operations across the entire value chain to minimize adverse impacts ("do no harm") relative to the SDGs, whilst making use of

existing and emerging opportunities in their products and services portfolio to contribute toward the achievement of the SDGs.

- The SDG Solutions Assessment dataset follows a thematic approach encompassing 15 distinct sustainability objectives, using the UN Sustainable Development Goals (SDGs) as a reference framework. The product's focus is on assessing to what extent companies are making use of existing and emerging opportunities to contribute toward, or obstruct, the achievement of global sustainability objectives via their products and services offering from an SDG perspective.

Research Process

The ISS STOXX's Climate EBA Pillar 3 ESG Solution follows the update cycle of the datasets it uses:

ISS STOXX climate solution data: Financial and asset data is updated throughout the year while company emissions and physical risk data is updated annually. ISS STOXX's climate research process can be broken down as follows:

- Emission database: Company reported or estimated emissions, company-specific data is used from the ISS STOXX database covering approximately 29,000 primary issuers across Scope 1, 2 and 3.

A summary of the research process is provided below:

- Self-reported emissions data is collected from all available sources on an annual basis.
 - Self-reported numbers are evaluated for trustworthiness and, where necessary, discarded.
 - All companies are classified according to their carbon-profile, allowing ISS STOXX to benchmark non-reporting companies against their reporting peers.
 - ISS STOXX applies its 800 sub-sector specific models to estimate the emissions of non-reporting companies according to sector-relevant financial or operations metrics.
 - Scope 3 emissions of each company are assessed based on the sector profile of the company.
 - Emissions of holdings are allocated to the portfolio according to an investor ownership logic. To ensure compatibility with other providers and TCFD recommendations or PCAF, multiple other metrics may also be applied.
 - Quality assurance: If ISS STOXX's analysts, after manually reviewing the data, do not find the self-reported numbers to be reliable, estimated emissions numbers will be used instead.
- Physical risk data: The solution assesses company exposure to physical risks by simulating the impact of hazards such as tropical cyclones or wildfires on company operations and sales. The analysis is based on a company's unique exposure profile, including its sector, financial profile and geographical footprint, e.g., where a company has production facilities or generates revenue. In each scenario, the solution produces a per each hazard, type of hazards (chronic/acute), and at issuer level a financial impact assessment which are also translated into risk categories, which EBA Pillar 3 leverages.

The solution also includes data from ISS STOXX's other solutions such as EU Taxonomy Alignment Solution, SDG Impact Rating / SDG Solutions Assessments and Energy and Extractives.

- **EU Taxonomy Alignment Solution:** Company reported taxonomy alignment data is collected by ISS STOXX on an annual basis for each company within the scope of data collection where data is available. The research process can be broken down as follows:
 - **Data collection:** Information is gathered from corporate disclosures such as sustainability reports and annual reports.
 - **Quality assurance:** Experienced analysts review the accuracy of collected data.
- **SDG Solutions Assessment:** The SDG Solutions Assessment is updated annually as well as on an ad-hoc basis in case of relevant corporate actions (e.g., mergers, acquisitions). ISS STOXX's SDG Solutions Assessment research process can be broken down as follows:
 - **Data collection:** Corporate disclosures such as annual reports, sustainability reports, company websites, investor presentations, and others are screened. Corporate revenue data which is incorporated is quantitative (whether reported or estimated).
 - **Research:** Proprietary ratings and scoring models are applied to derive relevant scores.
 - **Quality assurance:** Draft analyses are systematically proofread by experienced analysts.
 - **Company feedback:** A comprehensive dialogue with the assessed issuers is generally carried out once every two to three years as part of the separate Corporate Rating process, with the feedback also utilized within the SDG Solutions Assessment. Additionally, corporate issuers are welcome to send information/updates for consideration at any time. For more details regarding the company feedback, please refer to the Corporate Rating methodology overview.
- **ISS STOXX SDG Impact Rating:** The SDG Impact Rating is derived from ISS STOXX's SDG Solutions Assessment, Corporate Rating, and Norm-Based Research. The research input for the products and services score is based on quantitative corporate revenue data (reported or estimated). Data for the operations pillar is derived from the Corporate Rating which uses both quantitative and qualitative data, and the controversy score is built on signals and scores reflecting qualitative assessments of corporate controversies. For more details, e.g., regarding data collection within those solutions, please refer to their respective methodology overviews.
- **ISS STOXX Energy and Extractives Screening:** Energy & Extractives assessments are updated annually as well as on an ad-hoc basis in case of relevant corporate actions (e.g., mergers, acquisitions). ISS STOXX's Energy & Extractives research process can be broken down as follows:
 - **Risk assessment:** Classification of industry by risk to fossil fuel extraction, power generation and related services, and the review of third-party data and reports
 - **Research:** Review of corporate disclosure such as regulatory filings, sustainability reports, press releases, investor presentations, company websites, and other company disclosures. Third-party information such as government sources, industry databases, and reputable newspapers are cross-referenced as supplemental to company disclosures. All assessments are based on publicly available information, with corporate reporting being the primary source. The screens collect financial and non-financial metrics, which can be of quantitative as well as qualitative in nature, to provide clients with a full suite of data to inform their investing strategies.

- Quality assurance: All significant changes as well as new assessments are peer-reviewed and company dialogues are initiated if key information is not disclosed.

Please refer to the respective methodology documents for further information.

Use of Estimated Data

ISS STOXX Climate Solutions uses estimated or modelled data if disclosed data is deemed by ISS to be insufficient or inadequate. Estimated or modelled figures are based on clear estimation and modelling rules to ensure that results are based on reasonable assumptions with medium to high certainty.

- Emissions database: For companies which do not disclose emissions, and those who report with a low trust metric (according to internal analysis conducted by ISS STOXX), emissions data is modelled. Due to limited disclosure from issuers, as of January 2024, approximately 66 percent of company emissions are modelled.
- Physical risk: External Climate models are integrated into impact functions to estimate the damage of the climate hazards. Estimated financial impact is then based on EVA financial projections.
- EU Taxonomy Alignment Solution : For companies that do not report their taxonomy alignment and/or are outside of ISS STOXX's data collection universe, ISS STOXX models issuers' taxonomy alignment leveraging several proprietary, as well as third party, data sets. These data sets include ISS STOXX's Energy & Extractives data, SDG Solutions Assessment as well as FactSet's Hierarchy with Revenue data, which are used to identify involvement in eligible activities and quantify respective revenues and capex. A variety of factors from ISS STOXX's Corporate Rating, Norm-Based Research, SDG Solutions Assessment and Climate Solutions are used to assess compliance with the EU Taxonomy's screening criteria for substantial contribution, DNSH requirements and minimum social safeguards.
- SDG Impact Rating: The SDG Impact Rating leverages the data sets referenced above. In the SDG Solutions Assessment, shares of net sales generated with products are assessed by analysts based on company reported data and following clear estimation rules. In the Corporate Rating, some types of indicators allow for estimations if no (precise) reported data is available but assumptions with medium to high certainty can be made. In addition, estimations on coverage (i.e., the reach of content) can be made based on contextual information. No estimations are made for raw data. Norms-Based Research relies on stakeholder allegations, i.e., reported data. For more details regarding the use of estimated data within those solutions, please refer to their respective methodology overviews.
- SDG Solution Assessments: As of January 2024, the share of estimated product-specific revenue figures incorporated into the SDG Solution Assessments was >90%.
- Energy and Extractive Screening: ISS STOXX's Energy and Extractives primarily leverages company reported data. Should disclosure be insufficient or inadequate, information regarding the degree of involvement of an issuer in certain activities will be estimated. This is largely a result of significant differences in reporting quality, standards, and requirements between the companies in Energy and Extractives' large universe. While company reported data is in most cases used as the starting point, as part of the standardization process this is aligned with the definitions applied in Energy &

Extractives to ensure the comparability, consistency, and comprehensiveness of the research results.

- Overall, approximately 70% of the assessments within the Energy & Extractives coverage universe contain some calculated/estimated data. As noted above, this figure can differ depending on the individual company's reporting quality, standards, and requirements. In some cases, where a company provides granular, high-quality reporting, an Energy & Extractives assessment may be significantly based on company reported data. Where this is not the case, an Energy & Extractives assessment will contain more calculated/estimated data, based on the more limited company reported data that is available.

Please refer to the respective methodology documents for further information.

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ISS STOXX Sustainability enables investors to develop and integrate responsible investing policies and practices, engage on responsible investment issues, and monitor portfolio company practices through screening solutions. It also provides climate data, analytics, and advisory services to help financial market participants understand, measure, and act on climate-related risks across all asset classes. In addition, our Sustainability solutions cover corporate and country research and ratings enabling its clients to identify material social and environmental risks and opportunities. Sustainability solutions are provided by Institutional Shareholder Services Inc., an investment adviser registered under the U.S. Investment Advisers Act of 1940.

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