Sustainability

Sovereign Rating

Methodology & Research Process

July 2026

Version 1.0

PUBLIC DISCLOSURE ON THE METHODOLOGY MODELS, AND KEY RATING ASSUMPTIONS USED IN ESG RATING ACTIVITIES

ISS STOXX

Contents

Tables & Figures

Tables

Figures

Regulation (EU) 2024/3005: Public Disclosure on the Methodology, Models, and Key Rating Assumptions Used in ESG Rating Activities

This disclosure is published to meet the relevant requirements of the EU ESG Ratings Regulation (EU2024/3005) and related regulatory technical standards. The following index cross-references to the relevant information are made available within the Sovereign Rating Methodology Document and on our website.

Within this disclosure, the Regulation (EU) 2024/3005 of the European Parliament and of the Council of 27 November 2024 on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities is referred to as "**Regulation (EU) 2024/3005**".

Within this disclosure, the Commission Delegated Regulation (EU) of 21 04 2026 supplementing Regulation (EU) 2024/3005 of the European Parliament and of the Council with regard to regulatory technical standards specifying the elements of ESG rating products to be disclosed to the public and to users of ESG ratings, rated items and issuers of rated items is referred to as **"Delegated Regulation"**.

REGULATION (EU) 2024/3005	DELEGATED REGULATION	REQUIRED INFORMATION	ISS GERMANY AG DISCLOSURE
Rating Product Disclosures			
ANNEX III.1.f	Article 3(1)	ESG rating providers shall disclose information on the ESG rating's clearly defined objective and marking whether the rating is assessing risks, impacts, or both, according to the double materiality principle, or any other dimensions, and in the case of double materiality the proportion of the risk and impact materiality. ESG rating providers shall disclose at the level of each ESG rating product: a) a description of the risks covered, where the ESG rating is assessing risks; b) a description of the impacts covered, where the ESG rating is assessing impacts; c) information on how the risk and impact materiality are taken into account according to the double materiality principle, where applicable; d) where the ESG rating is based on other materiality dimensions, a description of those dimensions.	Please refer to: • Objective • Materiality
ANNEX III.1.g	Article 3(2)	ESG rating providers shall disclose the ESG rating's scope, namely, whether it covers an individual E, S, or G factor or whether it is an aggregated rating aggregating E, S and G factors, or whether it covers specific issues such as transition risks. ESG rating providers shall disclose at the level of each ESG rating product: a) a description of what is covered under the E, S or G factors and which factors are aggregated, where applicable; b) a description of the specific issues that the ESG rating covers.	Please refer to: • Rating Structure
ANNEX III.1.h	N/A	ESG rating providers shall disclose in the case of an aggregated ESG rating, the weighting of the three overarching E, S and G categories of factors (for example 33 % for the E factor, 33 % for the S factor, 33 % for the G factor), and the explanation of the weighting method, including weight per individual E, S and G category.	Please refer to: • Weighting
ANNEX III.1.i	N/A	ESG rating providers shall disclose within the E, S or G factors, specification of the topics covered by the ESG rating, and whether they correspond to the topics from the	Please refer to:

REGULATION (EU) 2024/3005	DELEGATED REGULATION	REQUIRED INFORMATION	ISS GERMANY AG DISCLOSURE
		sustainability reporting standards developed pursuant to Article 29b of Directive 2013/34/EU.	• Rating Structure
ANNEX III.1.j	N/A	ESG rating providers shall disclose information on whether the rating is expressed in absolute or relative value.	Please refer to: • An Absolute Assessment Approach - Performance Requirements
ANNEX III.1.o **ANNEX III.1.p**	Article 3(3) Article 3(4)	ESG rating providers shall disclose if an ESG rating of a rated item covers the E factor, information on whether that rating takes into account the targets and objectives of the Paris Agreement or any other relevant international agreements. ESG rating providers shall disclose if an ESG rating of a rated item covers the S and G factors, information on whether that rating takes into account any relevant international agreements. ESG rating providers shall at the level of each ESG rating product: a) include an indication of whether the ESG rating takes into account the targets and objectives of the Paris Agreement and which other international agreements are considered, with reference to basic identifying information on these agreements together with an explanation of their relevance to the ESG rating; b) specify whether the ESG rating is assessing alignment of commitments against the objectives of the agreements referred to in point (a).	Please refer to: • Data Sources • Rating Scale and Scores
Basic Methodological Disclosures			
ANNEX III.1.a	Article 4(1)	ESG rating providers shall disclose an overview of the rating methodologies used and changes thereto, including whether analysis is backward-looking or forward-looking and the time horizon covered. ESG rating providers shall disclose: a) the title of the rating methodology used;	Please refer to: Points a) and f) • Appendix A – Version Control Points b) to e)

REGULATION (EU) 2024/3005	DELEGATED REGULATION	REQUIRED INFORMATION	ISS GERMANY AG DISCLOSURE
		b) a description of the types of rated items in relation to which the methodology referred to in point (a) applies; c) the time horizon over which the ESG rating is considered valid, where applicable d) a list and overview of the relevant supporting models and key rating assumptions, where applicable; information on measures and procedures to ensure the quality and reliability of data used; e) a description of the defined ranking system of rating categories used, with reference to: i. the meaning of each rating category for absolute and relative values and how the ranking system should be interpreted; ii. in the case of relative values, an explanation as to whether they are relative to a specific industry, geographical area, peer groups or other comparative references and their respective description. f) the dates of the most recent update of the methodology and a description of the changes introduced to the previous version.	• b): Objective • c): Update Process and Cycle • d) Data Sources; Quality Assurance • e) Rating Scale and Scores
ANNEX III.1.b	Article 4(2)	ESG rating providers shall disclose the industry classification used. ESG rating providers shall provide: a) the name of the issuing body of the industry classification used; b) the name and version of the industry classification used; c) any publicly available link to the official documentation of the industry classification system.	• This requirement is not applicable as industry classification is not used for the Sovereign Rating.
ANNEX III.1.c	Article 4(3)	ESG rating providers shall disclose an overview of data sources, including whether data is sourced from sustainability statements required under Directive 2013/34/EU or from information disclosed under Regulation (EU) 2019/2088 and whether sources are public or non-public, and an overview of data processes, estimation of input data in case of unavailability and frequency of data updates.	Please refer to: • Data Sources: Data Sources • Estimation of Input Data: Dealing With Data Gaps

REGULATION (EU) 2024/3005	DELEGATED REGULATION	REQUIRED INFORMATION	ISS GERMANY AG DISCLOSURE
		ESG rating providers shall include a description of the engagement process with rated items or issuers of rated items, including how the input from such engagement is taken into account.	• Data Processes and Frequency of Data Updates: Update Process and Cycle • Engagement with rated items or issuers of rated items is not part of the Sovereign Rating process.
ANNEX III.1.e	Article 4(4)	ESG rating providers shall disclose information on whether and how the rating methodologies are based on scientific evidence. ESG rating providers shall where applicable, describe the process for identifying relevant scientific evidence.	Please refer to: • Methodological Foundations
ANNEX III.1.k	N/A	ESG rating providers shall disclose where applicable, reference to the use of artificial intelligence in the data collection or rating process including information about current limitations and risks of using artificial intelligence.	• This requirement is not applicable to the Sovereign Rating.
Limitations in data sources, methodologies and information			
ANNEX III.1.m	Article 5	ESG rating providers shall disclose any limitation in data sources and methodologies used for the construction of ESG ratings.	Please refer to: • Limitations • Dealing With Data Gaps • Limitations to Methodologies & Data
ANNEX III.1.q	Article 5	ESG rating providers shall disclose any limitation on the information available to ESG rating providers. ESG rating providers shall explain any limitations in respect of the following: a) the availability or consistency of data used in the rating process; b) the completeness, timeliness and accuracy of information; c) the use of assumptions, proxy reference points and data estimation.	
Organisational Disclosures			
ANNEX III.1.d	Article 6(2)	ESG rating providers shall disclose the ownership structure of the ESG rating provider. ESG rating providers shall disclose:	Please refer to:

REGULATION (EU) 2024/3005	DELEGATED REGULATION	REQUIRED INFORMATION	ISS GERMANY AG DISCLOSURE
		a) a chart illustrating their ownership links with any parent undertaking and subsidiaries. The chart shall indicate, where applicable, whether any of those entities perform any of the activities listed in Article 16 (1) or services referred to in Article 16(6) of Regulation (EU) 2024/3005.	• Ownership Structure
ANNEX III.1.l	Article 6(3)	ESG rating providers shall disclose general information on criteria used for establishing fees charged to clients, specifying the various elements taken into consideration, and general information on the business/payment model. ESG rating providers shall disclose the following: a) how the criteria they apply for establishing fees ensure that fees are fair, reasonable, transparent and non-discriminatory in accordance with Article 27 of Regulation (EU) 2024/3005; b) whether the ESG rating provider operates a subscription-paid model, an issuer-paid model, a combination of those models, or another model; c) a description of the relevant business model, and the proportion of total annual revenue derived from each model; d) where applicable, the impact of fees charged for services other than ESG rating activities on the determination of fees for ESG ratings, together with a description of those other services.	Please refer to: • Pricing Policy
ANNEX III.1.n	Article 6(1)	ESG rating providers shall disclose the main risks of conflicts of interest and the steps take to mitigate them. ESG rating providers shall indicate the areas of the ESG rating provider's activities, services or organisational structure from which the main risks of conflicts of interest may arise.	Please refer to: • Conflict of Interest Policy

Sovereign Rating Overview

Objective

The Sovereign Rating provides institutional investors with an opinion on a sovereign issuer's environmental, social, and governance performance to support an evaluation of impacts, risks, and opportunities with respect to sustainability matters. The assessment includes an analysis of both the legislative framework – such as policies, regulations, standards and the degree to which they are effectively or ineffectively implementated – and on the factual situation, meaning the observable realities within a sovereign issuer.

Methodological Foundations

The Sovereign Rating applies a comprehensive set of sustainability performance indicators, which is derived from and is informed by international norms and conventions. Mindful of the long-term maturities of sovereign debt instruments, the rating framework applies – but is not limited to – a long-term approach to materiality, providing investors with forward-looking information on risks and opportunities of investments.

Although the Sovereign Rating's methodology is not explicitly based on scientific evidence, it is informed by performance and disclosure expectations set by international norms and conventions, such as the Charter of the United Nations, the Universal Declaration of Human Rights, as well as the United Nations (UN) Sustainable Development Goals (SDGs).

An Absolute Assessment Approach – Performance Requirements

States, their citizens, as well as the global society at large face a multitude of sustainability-related risks. On the environmental side some of these are, for example, global climate change, loss of biodiversity, water scarcity, natural resource depletion, and pollution. From a governance perspective some of these global challenges include achieving political stability and accountability of government institutions, safeguarding human rights, establishing gender equality, and protecting the right to live in peace without having to fear bodily harm. On the social side, pressing issues comprise the lack of compliance with international labor rights as well as failure to ensure equal and universal access to health care, education, and social protection.

Governments manage such risks through effective regulatory frameworks, structures, and processes to protect fundamental civil and political rights, as well as to preserve natural resources and the world's ecosystems for present and future generations. Achieving sustainable development is only possible if all three pillars - environment, social, and governance - are effectively addressed. The Sovereign Rating does not differentiate between high-income, non-high-income, industrialized or developing countries.

The Sovereign Rating applies an absolute assessment approach. Indicator assessments are based on pre-defined performance requirements as opposed to a relative assessment vis-à-vis peer performance. Table 1 presents the performance expectations an "A+ Sovereign Issuer" would ideally display according to our holistic understanding of sustainability.

Table 1: Performance Requirements with regards to Sustainability Topics

ENVIRONMENT	SOCIAL	GOVERNANCE
Sustainable use of natural resources	Access to healthcare	Rule of law firmly established and unchallenged
No harm to biodiversity	Access to education	Free and fair elections
Avoidance and mitigation of water stress	Adherence to internationally acknowledged labor rights	Government accountability
Effective climate change mitigation and adaptation	Adequate working conditions	Absence of corruption
Sustainable energy mix and consumption	Ensure social cohesion	Peaceful foreign policy
Sustainable production and consumption patterns		Respect of internationally acknowledged human rights
		No discrimination

Materiality

Informed by relevant international norms and conventions, the Sovereign Rating applies a holistic and forward-looking concept of materiality that focuses on long-term value creation through a double materiality lens.

The rating approach acknowledges that both financial and impact materiality are closely interconnected, as impacts resulting from sovereign issuers' conducts and decisions on relevant stakeholders and/or the environment can affect the economic value of a sovereign instruments over the short, medium, or long term. Consequently, the rating incorporates a broad range of sustainability topics designed to ensure that salient and emerging risks and opportunities are captured. A meaningful sustainability performance analysis is therefore performed to assess risks related to, and impacts on, all relevant stakeholders such as citizens, communities, and ecosystems.

Data Sources

The Sovereign Rating is entirely based on publicly available sources. Sovereign Ratings data is sourced from governmental and international institutions, reputable news sources, as well as recognized non-governmental organizations. Strict cross-checking and verification processes ensure objective and in-depth research.

Given the nature of the issuers assessed by the Sovereign Rating, and the fact that they are not required to produce sustainability disclosures in line with European regulation, sustainability statements required under Directive 2013/34/EU, and information required under Regulation (EU) 2019/2088 are not considered.

The Sovereign Rating uses a variety of data sources:

- **Quantitative data** from international organizations such as the World Bank, the Organisation for Economic Co-operation and Development (OECD), the International Energy Agency (IEA), and international research institutes such as Stockholm International Peace Research Institute (SIPRI)
- **Index values** – quantitative data, which are the result of in-depth analyses primarily by internationally operating non-governmental organizations such as Transparency International

- **Qualitative data** in the form of reports and written content by organizations such as the World Bank, the United Nations (UN) and the International Labour Organisation (ILO), non-governmental organizations and internationally operating news outlets.

Among other aspects, the Sovereign Rating assesses the ratification status of international agreements as follows:

- The Sovereign Rating uses sources to cover Environmental factors and assesses the ratification status of international agreements, such as the Kyoto Protocol and the Paris Agreement. However, the Sovereign Rating does not take into account the targets and objectives of the Paris Agreement.

- The Sovereign Rating uses sources to cover Social and Governance factors and is informed by international agreements such as the Charter of the United Nations, the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights, as well as the United Nations Sustainable Development Goals, among others, as a reference. Each of the international norms and conventions is a globally recognized standard and establishes a benchmark to material issues in the social and governance advancement of a sovereign issuer. While issuers are not assessed against the goals and objectives directly, the targets and objectives are used to guide grading ranges of indicators and to establish absolute performance metrics for issuers.

Requirements for Data Sources

- Coverage: Data sources must achieve coverage of at least 70% of the Sovereign Rating universe. For analytically critical indicators, a minimum coverage threshold of 50% is acceptable only where no alternative indicators with broader coverage are available or suitable.

- Comparability: A data source of a single indicator must provide comparable data across rated entities, e.g., use the same method for compiling the data

- Consistency: Data sources must provide comparable data over a long period of time to warrant stability within the data and therefore the rating

- Credibility: A data source must be reputable and widely internationally recognized

Methodology: Principles, Concept, and Structure

Rating Scale and Scores

Alphabetical and Numeric Rating Scale

The rating scale applies ranges from D- (worst rating score) to A+ (best rating score) and measures the absolute performance. Underlying these letter grades is a twelve-point numerical scale ranging from 1.00 (worst rating score) to 4.00 (best rating score). The letter grades are thus equivalent to intervals of 0.25:

Figure 1: Numerical Scale, Alphabetical Rating and Performance Level

D-	D	D+	C-	C	C+	B-	B	B+	A-	A	A+
1.00-<1.25	1.25-<1.50	1.50-<1.75	1.75-<2.00	2.00-<2.25	2.25-<2.50	2.50-<2.75	2.75-<3.00	3.00-<3.25	3.25-<3.50	3.50-<3.75	3.75-4.00
Poor			Medium			Good			Excellent		

A high score (A+ to A-) expresses an excellent overall sustainability performance paired with a low risk profile. Scores from B+ to B- represent an on average good sustainability performance where risks can be adequately managed. Lower rating scores (C+ - to D-) indicate an increased risk profile as well as low institutional capacity to manage risks, entailing a higher risk of grievances and violations in sustainability areas.

The rating scale is consistent with the framework of our Corporate Rating and Sustainability Bond Rating, enabling a comparison of the results across different asset classes and products at portfolio level.

Prime Status

Prime status is attributed to those countries that achieve or exceed the Prime threshold of B-/2.50, which means they fulfil ambitious absolute performance requirements. A B- score indicates good sustainability performance, where sovereigns are able to adequately manage their sustainability risks. Below that threshold, lower scores are reflective of or indicate shortcomings in the management of sustainability-related risks, such as lack of respect for human and labor rights, a poor social security system disadvantaging a large proportion of a country's population, and/or considerable environmental degradation and overexploitation. The Sovereign Rating framework follows an absolute best-in-class approach, meaning that the share of Prime-rated countries is not pre-defined but is dependent upon absolute performance requirements under which all rated entities are assessed. This means that the same Prime threshold of B-/2.50 is applied to all rated sovereign issuers.

Decile Rank and Performance Score

In addition to the overall rating, a decile (tenth part of total) rank indicates performance relative to all rated entities within the Sovereign Rating and therefore allows for comparisons between all rated issuers. A decile rank of 1 indicates high relative performance, while a 10 indicates a lower relative performance.

The decile rank is determined based on the underlying numerical score of the rating. If the total number of countries cannot be evenly divided by 10, the surplus ratings are distributed from the top (1 decile) to the bottom. If there are ratings with identical absolute scores that span across a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of ratings in the decile below.

Figure 2: ISS STOXX Decile Rank

10	9	8	7	6	5	4	3	2	1
Low relative performance									*High relative performance*

Performance Score

The 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. This means that all countries with values greater than 50 are Prime, while countries with values less than 50 are Not Prime. Therefore, it allows for a more granular peer comparisons between countries. It also ensures that ratings data is structured in a comparable manner to corporate ratings data in portfolio analytics.

Table 2: Transposition of Numerical Score Range to Sustainability Performance

PRIME THRESHOLD B-					
LETTER GRADE	**NUMERICAL SCORE RANGE**				**SUSTAINABILITY PERFORMANCE SCORE**
A+	3.75	to <=	4.00	50%	<= 100
A	3.50	to <	3.75		< 91.67
A-	3.25	to <	3.50		< 83.33
B+	3.00	to <	3.25		< 75.00
B	2.75	to <	3.00		< 66.67
B-	2.50	to <	2.75		< 58.33
C+	2.25	to <	2.50	50%	< 50.00
C	2.00	to <	2.25		< 41.67
C-	1.75	to <	2.00		< 33.33
D+	1.50	to <	1.75		< 25.00
D	1.25	to <	1.50		< 16.67
D-	1.00	to <	1.25		< 8.33

Rating Structure

The Sovereign Rating is an aggregated rating which integrates Environment (E), Social (S), and Governance (G) factors. The E, S, and G rating dimensions are comprised of defined categories, which in turn are further split into several topics and ultimately indicators.

At the highest level, the rating is made up of two dimensions, the Social and Governance Rating and the Environmental Rating, which are both subdivided into three categories. Each category is broken down into further layers of analysis (topics) down to the indicator level. Topics and indicators can be located at different layers of the rating hierarchy, depending on the complexity of the respective subject matter. For instance, while the topic "A.1.1. Political System" already comprises of indicators, the topic "A.1.2. Governance and Stability" is composed of further topics, i.e., "A.1.2.1. Governance" and "A.1.2.2. Corruption and money laundering".

All indicators are individually assessed based on defined performance expectations. All other layers of the rating hierarchy – topics, categories, dimensions, and the overall rating – are aggregated and derived scores. Weights and scores are made transparent at all levels.

The rating structure is designed to assess a sovereign issuer's performance at different levels of aggregation, allowing the identification of areas for improvement at a topic level. Table 3 presents a list of the main topics within the E, S, and G dimensions of the Sovereign Rating:

Table 3: List of Main Rating Topics

ENVIRONMENT	SOCIAL	GOVERNANCE
Land Use	Health	Political System
Biodiversity	Education and Communication	Political Stability
Water	Basic Labor Rights and Working Conditions	Corruption and Money Laundering
Climate Change	Employment	Safeguarding of Civil and Political Rights
Energy	Social Cohesion	Discrimination
Agriculture	Inequality	Gender Equality
Industry		
Transport		
Private Consumption		

Considering the nature of the assessed issuers, and the objective of the Sovereign Rating, the content of the topics covered by the solution do not correspond to the topics from the sustainability reporting standards developed pursuant to Article 29b of Directive 2013/34/EU.

Weighting

Each topic is assigned a specific weight, reflecting its materiality and its relevance from a sustainability perspective. The aggregate score reflects the weighting between the three pillars Environment (50%), Social (15%), and Governance (35%). This logic is consistently applied to all rated issuers in the Sovereign Rating universe, and it is rooted in the holistic understanding of sustainability that aims to factor in short as well as long-term sustainability risks.

For example, a sovereign issuer that exhibits a strong track record in its governance and social pillars may be less exposed to short-term solvency risks. However, where such performance is supported by environmental exploitation or unsustainable consumption patterns, related sustainability risks, such as transition or physical risks, may materialize over longer time horizons. Conversely, some countries may demonstrate comparatively strong environmental performance due to limited industrial activity and relatively intact natural capital. While their exposure to solvency risks may be higher, their exposure to environmental sustainability risks, such as overexploitation or biodiversity loss, may still be lower.

In this context, a higher weighting of the environmental pillar supports a more comprehensive and forward-looking assessment of sustainability risks from a global perspective.

Figure 3 presents a high-level overview of the Sovereign Rating's weighting.

Figure 3: Weighting Structure from Dimension to Topic Level

Sovereign Rating Total Score

- 50% — A. Social and Governance Rating
  - 20% – A.1. Political System and Governance
    - 5% — A.1.1. Political system
    - 15% – A.1.2. Governance and stability
  - 15% — A.2. Human Rights and Fundamental Freedoms
    - 10.5% – A.2.1. Safeguarding of civil and political rights
    - 4.5% — A.2.2. Non-Discrimination and gender equality
      - 1.8% – A.2.2.1. Non-Discrimination
      - 2.7% – A.2.2.2 Gender equality
  - 15% – A.3. Social Conditions
    - 3% — A.3.1. Health
    - 3% — A.3.2. Education and communication
    - 4.5% – A.3.3. Labor
    - 4.5% – A.3.4. Social Cohesion
- 50% — B. Environmental Rating
  - 10% — B.1. Natural Resources
    - 4% – B.1.1. Land use
    - 2% - B.1.2. Biodiversity
    - 4% – B.1.3. Water
  - 25% — B.2. Climate Change and Energy
    - 15% — B.2.1. Climate change
    - 10% — B.2.2 Energy
  - 15% – B.3. Production and Consumption
    - 4.5% – B.3.1. Agriculture
    - 4.5% - B.3.2. Industry
    - 3% – B.3.3. Transport
    - 3% – B.3.4. Private consumption

Indicators

More than 100 qualitative and quantitative indicators assess the legislative framework – such as policies, regulations, standards, and the degree to which they are effectively or ineffectively implemented – and on the factual situation, meaning the observable realities within a sovereign issuer. For each indicator, performance expectations were developed based on global sustainable development challenges, as well as international norms and conventions. To obtain meaningful assessments at the topic level, a combination of indicators best suited to measure sustainability performance in a given field is applied.

Figure 4: Types of Quantitative and Qualitative Indicators

Quantitative indicators

About 75 percent of all indicators focus on the quantitative analysis of sustainability performance applying granular performance expectations in the form of benchmark and trend assessments. Where appropriate, metrics are normalized against meaningful factors including Gross Domestic Product (GDP), surface area, forest area, or population.

The assessment process of quantitative indicators includes the:

- Evaluation of a sovereign issuer's performance with a grade between 1.00 (D-) and 4.00 (A+) based on the evaluation criteria;
- Trend assessment (applied to some, but not all quantitative indicators): Slight up or downgrade depending on whether the trend over time is positive, or negative. If the trend is stable, the grade will neither be up nor downgraded.

Table 4: Examples of Different Types of Quantitative Indicators

TYPE	EXAMPLE	EXPLANATION
Trend & Benchmark	Public expenditure on education as a percentage of gross domestic product (GDP)	Assesses both the level of public expenditure on education as a percentage of the gross domestic product (GDP) as well as the trend of the public spending over the last three to five years
Benchmark	Public health expenditure	Assesses the public expenditure on health as a percentage of the gross domestic product (GDP)
Distribution	Total energy mix	Granular assessment of the energy mix (e.g., renewable sources, natural gas, coal) of a sovereign issuer

Table 5: Theoretical Example of Trend & Benchmark Indicator Type

ASSESSMENT TREND AND BENCHMARK INDICATOR: PUBLIC EXPENDITURE ON EDUCATION AS % OF GROSS DOMESTIC PRODUCT (GDP)						
BENCHMARK CORRIDORS	SOVEREIGN RATING GRADE		TREND ASSESSMENT			
	Alphabetical	Numerical	Decreasing Trend		Increasing Trend	
			Downgrade	Final Grade	Upgrade	Final Grade
≥7.0	A+	4.00	- 0.5	3.50	/	4.00
≥6.0 - <7.0	B+	3.00	- 0.5	2.50	+ 0.5	3.50
≥5.0 - <6.0	B-	2.50	- 0.5	2.00	+ 0.5	3.00
≥4.0 - <5.0	C	2.00	- 0.5	1.50	+ 0.5	2.50
≥3.0 - <4.0	D+	1.50	- 0.5	1.00	+ 0.5	2.00
<3.0	D-	1.00	/	1.00	+ 0.5	1.50

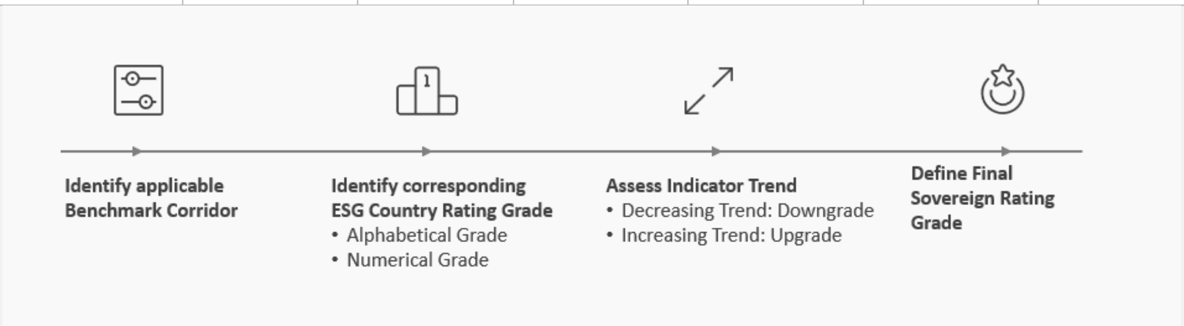
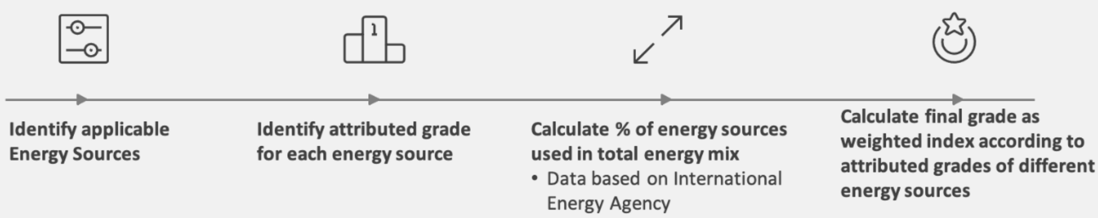


Table 6: Practical Example of Trend & Benchmark Indicator Type

SOVEREIGN ISSUER	VALUE: PUBLIC EXPENDITURE ON EDUCATION IN % OF GDP (2018)	GRADE BEFORE TREND ASSESSMENT	TREND ASSESSMENT	FINAL GRADE
Germany	4.2	C / 2.00	Stable	C / 2.00
Sweden	6.9	B+ / 3.00	Increasing (+ 0.5)	A / 3.50
United Kingdom	5.4	B- / 2.50	Decreasing (- 0.5)	C / 2.00
Belize	7.6	A+ / 4.00	Increasing (no grade change due to end of rating scale)	A+ / 4.00

Table 7: Example of Distribution Indicator Type

ASSESSMENT DISTRIBUTION INDICATOR: TOTAL ENERGY MIX			
ENERGY SOURCES	ATTRIBUTED GRADE	GERMANY	BELIZE
		VALUE IN % (2019)	VALUE IN % (2018)
Solar, wind, and other renewables	A+ / 4.0	5.2	0.4
Geothermal	A+ / 4.0	0.1	0.0
Hydropower	B+ / 3.0	0.6	0.5
Biofuels and waste incineration	B- / 2.5	10.1	6.0
Natural gas	B- / 2.5	26.4	21.5
Crude oil, natural gas liquids	D+ / 1.5	29.6	0.4
Oil (products, shale, sands)	D+ / 1.5	3.8	71.1
Coal	D+ / 1.5	17.9	0.0
Peat	D- / 1.0	0.0	0.0
Nuclear	D- / 1.0	6.4	0.0
Final Grade		C- / 1.972	C- / 1.792

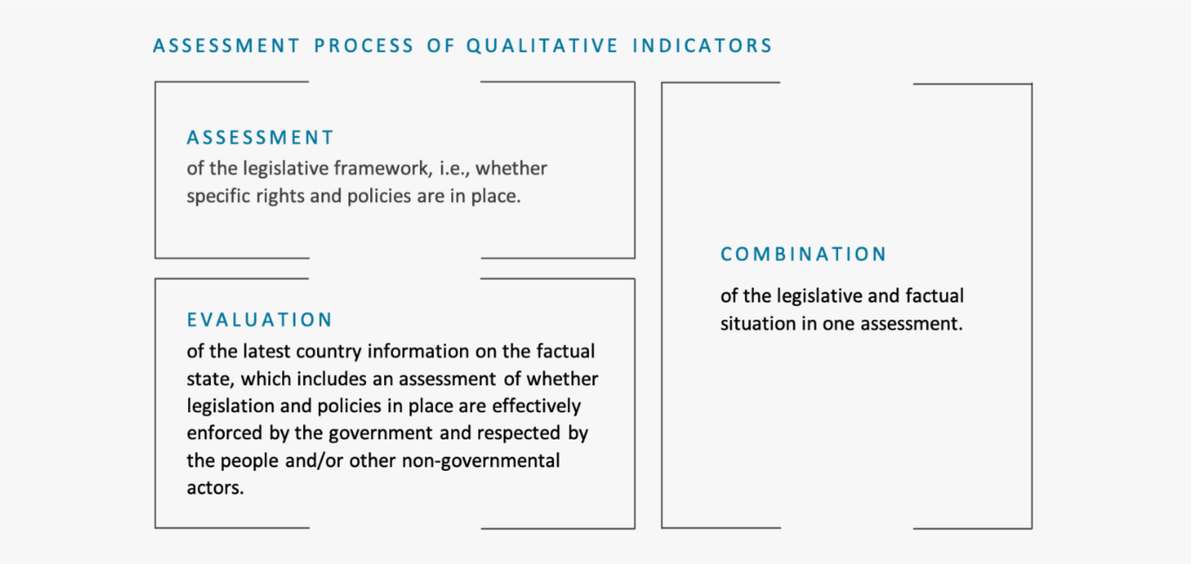


Qualitative Indicators

About 25 percent of all indicators relate to the qualitative assessment of performance, focusing both on the legislative framework – such as policies, regulations, standards, and the degree to which they are effectively or ineffectively implemented – and on the factual situation, meaning the observable realities within a sovereign issuer. Qualitative assessment rules are formalized in evaluation guidelines which cover the aspects' legal situation, relevant actors, and most common grievances.

Moreover, on an individual sovereign issuer level the rating follows a "worst-case" approach, meaning that the grading always considers the worst situation in a sovereign issuer, even if it merely applies to a certain region. For instance, not all federal states of the United States of America retain the death penalty. Some have already abolished it. Nonetheless, in the rating indicator "A.2.1.4. Death Penalty" the lowest grade will be assigned to the United States of America because some federal states still retain the death penalty.

Figure 5: Assessment and Evaluation of Qualitative Indicators



Dealing With Data Gaps

Data coverage and quality may vary depending on the source and the sovereign issuer being rated but is generally stable given that data availability is a key criterion for indicator selection and design. Nevertheless, data gaps for certain countries still exist and differences in data availability are particularly noticeable between OECD and non-OECD countries. The Sovereign Rating framework applies two different approaches on how to deal with missing data points:

- Set indicator to "not applicable" (n/a) and remove weight, while rebalancing the weighting across indicators of the same topic
  Impact: The indicator will not be assessed for this sovereign issuer

- Assign the lowest grade (D-/1.00) to the respective indicator due to lack of data
  Impact: The indicator will be assessed, and the issuer will be assigned the lowest grade due to the lack of published data.

Detailed information on the applicability and data availability for every indicator can be found in the Data Dictionary provided for client use.

Controversy Assessment

In addition to the best-in-class Sovereign Rating, a complementary Country Controversy Assessment is provided, offering an extra layer of analysis of sovereign issuers. This assessment may be used either independently or in conjunction with the Sovereign Rating.

The Country Controversy Assessment is based on a comprehensive analysis of relevant controversies across 19 different topics, enabling clients to consider specific areas of concern pertaining to the actions and performance of a country.

The Country Controversy Assessment is derived either directly from credible and widely recognized external sources such as selected indices or blacklists, or from a sovereign issuer's performance within the relevant section of the Sovereign Rating. For selected controversy topics, different levels of severity are assessed, allowing clients to apply a level of customization in line with their investment objectives.

Figure 6: Country Controversy Assessments

	THEMATIC AREAS	COUNTRY CONTROVERSY ASSESSMENT			
ENVIRONMENT	**Climate change**	Climate protection			
	Energy	Coal power	Nuclear power		
	Biodiversity	Biodiversity	Whaling		
SOCIAL	**Labor standards**	Labor rights	Child labor	Freedom of association	
	Human rights and fundamental freedoms	Human rights	Freedom of speech and press	Discrimination	Death Penalty
GOVERNANCE	**Political system and political stability**	Authoritarian regime	Global peace index	Military budget	Nuclear weapons
	Corruption and money laundering	Corruption	Money laundering		
	Other	Euthanasia			

Limitations

The Sovereign Rating's methodology and data may be subject to certain limitations. The below outlines such limitations as well as the action taken to address these.

Limitation in Availability or Consistency of Data Sources

- The Sovereign Rating is designed to exclusively rely on publicly available sources and to assess sustainability performance against established international instruments and standards. For each indicator in the rating, data sources must provide data for a representative share of the rated universe. However, as mentioned in the section on Dealing with Data Gaps, some sources may not provide data for each entity in the rated universe.

- The Sovereign Rating applies two different approaches to deal with missing data points:

  - Set indicator to "not applicable" (n/a) and remove weight, while rebalancing the weighting across indicators of the same topic
    Impact: The indicator will not be assessed for this sovereign issuer

  - Assign the lowest grade (D-/1.00) to the respective indicator due to lack of data
    Impact: The indicator will be assessed, and the issuer will be assigned the lowest grade due to the lack of published data.

Limitations in the Completeness, Timeliness, and Accuracy of Information

- The Sovereign Rating uses data that is exclusively sourced from publicly available information. Data on issuers assessed by Sovereign Rating is often subject to time-lags. Sovereign Rating analysts continuously monitor sources for updates, which prompts the update process and cycle outlined in the following section.

Limitations in the use of Assumptions, Proxy Reference Points, and Data Estimation

- The Sovereign Rating is exposed to limitations in the use of assumptions, proxy reference points, as well as data estimation.

- For example, qualitative indicators are assessed using defined evaluation criteria, but analyst judgment and discretion is at times incorporated. Analyst judgment and discretion are minimized through levels of review and approval for each indicator.

- Further, quantitative indicators utilize raw data points provided by sources and incorporate them into evaluation criteria, assuming absolute performance metrics and materiality. The evaluation criteria, however, are guided by extensive research into goals and targets developed by international norms and conventions.

- Finally, the Sovereign Rating does not incorporate proxy reference points into the methodology.

Assessment Process, Quality Assurance, and Methodological Review

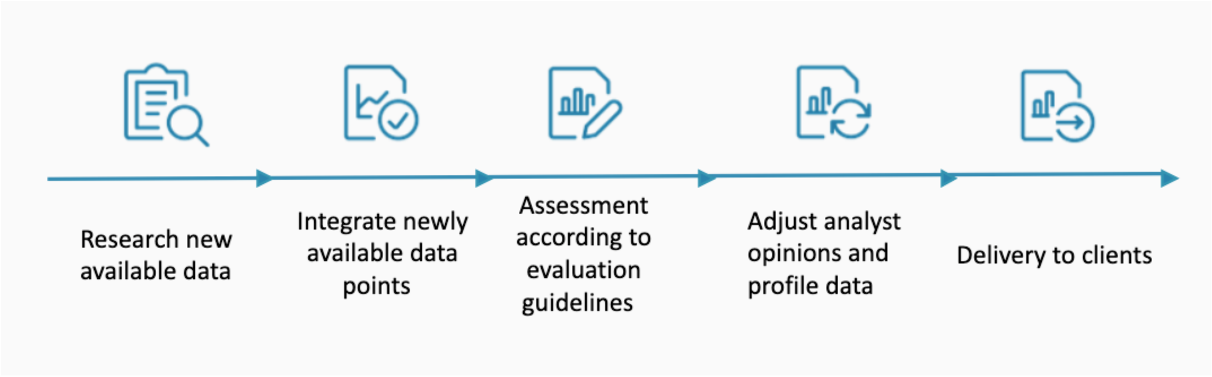
Update Process and Cycle

Sovereign Ratings are based on a staged update process. All published ratings are considered valid until the next scheduled update, which is typically on an annual basis, or prompted through the publication of new data.

During the update process, dedicated Sovereign Rating analysts:

- Research the latest available data, taking into account the sources' publication schedules, and integrate the most recent data points from the primary sources into the internal database;
- Assess the newest data points according to the internal evaluation guidelines and adjust grades if necessary;
- Check the controversy assessment for relevant changes, i.e. changes in ratification status for international treaties;
- Adjust other relevant information such as sovereign issuer profile data.

Figure 7: Sovereign Rating Process



Quality Assurance

An annual quality assurance process has been put in place to ensure research is conducted and incorporated correctly and accurately. The documentation of all primary sources including their assessments is also archived to provide a record of past gradings.

Additionally, the following quality controls have been put in place:

- Sovereign Ratings are assessed using the same strict rating methodology and reflect the material environmental, social and governance topics of sovereign issuers.
- The methodology and scoring approach is built into proprietary software utilized by the analysts designed in a way to ensure objectivity, consistency, and comparability of assessments.
- Sovereign Rating analysts verify the assessment of all indicators, both quantitative and qualitative, and all controversy assessments on an annual basis.
- A dedicated Global Methodology team led by the Global Head of Methodology and comprising experienced analysts oversees the consistent application of the methodology. Additionally, the team initiates and coordinates methodological developments in cooperation with internal specialists.
- To ensure a robust and consistent methodology development process and structure, a Methodology Review Board consisting of highly experienced methodology and research leaders has been established to guide, steer and vet the methodology development strategy and process.

Transparency on Methodology and Results

The rating methodology ensures full transparency across criteria weighting, point values, and performance requirements in the ratings, thereby enabling investors to clearly retrace the overall rating outcome.

Appendix

Appendix A: Version Control

Name of Methodology: Sovereign Rating

VERSION	DATE	DETAILS
1.0	July 2026	Publication of the Sovereign Rating Methodology and Research Process document. Inclusion of the Public Disclosure on the Methodology, Models, and Key Rating Assumptions Used in ESG Rating Activities (as defined by the Regulation (EU) 2024/3005)

ISS STOXX

sales@iss-stoxx.com
iss-stoxx.com

ISS STOXX delivers world-class research, data, and technology solutions that empower capital market participants to pursue their visions with confidence. Our expertise spans indices, corporate governance, sustainability, cyber risk, and fund intelligence, giving clients the tools they need to uncover opportunities, manage risks, and navigate evolving regulations. We are made up of 4,000 professionals operating across 20 countries and serving approximately 5,000 clients, including many of the world's leading institutional investors. Our scale and reach give us deep market knowledge, while our innovative methodologies allow us to offer our clients tailored insights that drive impact and success.

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.