Environmental, Social and Governance Addendum

Scope of the Addendum

Ratings criteria developed by Prudential Ratings factors the Governance component of Environmental, Social and Governance (ESG) under the consideration of Management and Governance in Business Profile assessment. The purpose of this addendum is to incorporate the Environmental and Social elements of ESG into the ratings assessment and highlight the ratings factors that they impact.

Environmental, Social and Governance Factors

Prudential Ratings recognises that ESG performance has become a material consideration in all industries. Reducing the overall environmental footprint of companies in both the manufacturing and service industries is crucial, as the risks of financial and reputational costs linked to environmental litigation are increasing. Producing more with less material is essential for many industries affected by the increasing scarcity of natural resources. For all industries, minimizing the consumption of natural resources and waste-generating activities can reduce costs and, in some cases, lead to new business opportunities, which could enhance the rated entity's business profile relative to non-compliant peers. ESG performance is an aspect directly linked to the companies' reputation and brand equity. Maintaining transparency through appropriate reporting and board-level monitoring increases stakeholders' and customers' trust. Prudential Ratings will give more weight to independently audited and verified ESG reports.

Prudential Ratings use the following definitions for ESG:

• Environmental: includes an entity's eco-operational efficiency, use of renewable energy sources, climate change and carbon emissions management practice, waste management, raw material sourcing, deforestation and pro-biodiversity practice.

• Social: includes the company's employee engagement, labor standards, customer relationships, policy on gender and diversity, human rights and community relations.

• Governance: refers to how the company is managed by its executives, its performance reporting quality and the breadth and effectiveness of board oversight.

Amendments to be made to existing criteria:

Applicable Criteria	Environmental & Social Impact
Bank Ratings Criteria	Prudential Ratings factor in ESG into the competitive position assessment. As we believe strong ESG fundamentals can improve the franchise of compliant financial institutions and provide greater access to stable funding. A rated entity demonstrating a percentage of funds originating from social or green funds deriving from its green/ESG compliance will receive and uplift in its business profile consideration. Evidence of relatively weaker / reputationally damaging ESG practices, could bring down the competitive position assessment.
Insurance Ratings Criteria	Prudential Ratings considers ESG factors in the assessment of competitive position and capital adequacy. Underwriters with distinguished participation in the provision of impact insurance may receive uplift in competitive position assessment. The rated entity needs to demonstrate a satisfactory track record in delivering on the specified mandate(s). Prudential Ratings further considers ESG risk factors in the capital adequacy assessment through an examination of potential ESG risk exposures and how they are financed, mitigated or transferred to third parties.
Corporates Ratings Criteria	Environmental and social risk factors are initially factored into the sector risk assessment during industry dynamics analysis.

	These broad factors are then reflected in the sector risk score. For instance, the exposure to climate transition risks is broadly considered higher in industries like transportation or fossil fuel and basic material production when compared to hospitality. In addition, the extent to which environmental and social risk factors influence the creditworthiness of a rated entity will depend on other factors, including how the rated entity is managing the risk, and the extent to which rated entity is implementing, or plans to implement, any mitigation measures. Therefore, Prudential Ratings may also provide some uplift in the financial profile, if there's evidence of superior access to stable/low-cost 'green' funding, or if revenues are projected to increase on the basis of superior sustainability policies.

The table below highlight Prudential Ratings qualification of the rated entity under ESG Ratings component.

Score	**Description**
Strong	A maximum of 1 notch upgrade can be awarded a rated entity that sufficiently demonstrates a clear competitive/niche advantage or strengthened financial profile emanating from above industry average adoption of ESG.

Adequate	All elements of ESG are sufficiently complied with for the size and complexity of the organization.
Weak	Management has a shown ESG deficiencies such as breach of laws or regulation, does not abide by ESG regulations in jurisdiction where it applies, high management turnover, prevalence of key man risk, lack of succession planning, inadequate board oversight and overly complicated board structures.