

JCR-ER Guideline and Information on Environmental, Social and Governance Factors on Credit Ratings

“Initiative on ESG in Credit Ratings Statement,” by United Nations Principles for Responsible Investment (UNPRI) is an important move to guide rating agencies in a better-informed and socially comprehensive and responsible investment world. Environment, social and governance factors, which were integrated into JCR-ER’s credit rating assignments via qualitative assessments in its methodologies, are now more formally evaluated as JCR-ER signed the said initiative on May 16, 2018.

JCR-ER assigns both credit and corporate governance compliance ratings, the latter are assigned with respect to several benchmarks including requirements mandated by local regulations, guidelines introduced by multilateral institutions such as OECD, IFC and universally accepted best practices. These considerations are reflected in the credit rating assignments as well, as our rating reports include a section in corporate governance and identify environment and social impact in industry and company risk assessment. As such, JCR-ER has formalised its commitment to ESG principles with the signing of the initiative.

As independent opinions on a corporation’s credit risk, ratings take into account the liability service capacity of the corporations and/or issuers. In this regard, all of the factors which have an impact on the cash flows, business position and operating environment of the corporation/issuer are evaluated in JCR-ER methodologies.

ESG factors are individually accounted for in our methodology due their clear and increasingly sizable impact on the revenue base, cost efficiency and risk management.

(E) - Environmental risk factors are evaluated with respect to the existing and potential impact on the operating conditions and relevant compliance issues. While we consider a degree of environmental impact for each rating assignment, certain business lines are held to stricter scrutiny when the impact is higher, such as heavy industry, construction, energy production, chemicals, textile etc. In this perspective, JCR-ER assesses the costs associated with reducing the environmental footprint and compliance, as well as potential upside risks stemming from positioning the company as an eco-friendly producer/service provider.

JCR-ER refers to internal management reporting, reports from regulatory institutions on environmental impact, third-party verifications of compliance, among others. Both existing and potential risk factors are evaluated as the ratings assigned by JCR-ER has short-term and long-term scales.

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(S) Identifying and evaluating Social factors are challenging, though JCR-ER focuses on the human factors and examines the policies in place to cultivate human factor and efforts to abolish actions/policies which are detrimental to the wellbeing and opinions of the stakeholders.

(G) Owing to our established corporate governance rating practice, integration of the governance aspect into credit rating is strong. JCR-ER collects information about stakeholder participation, transparency, independence, risk management, accountability and equity. Both internal documentation, such as written policies and guidelines, and third-party reporting are analysed to assess the quality of the corporate governance framework of a company.

JCR-ER focuses on governance aspect as it is a crucial factor defining the effectiveness of the risk management policies, internal control and audit functions, compliance risk management which are essential mechanisms to ensure the sustainability of a firm's operations and financial performance.

As a result, ESG factors are integral part of JCR-ER's credit rating methodology and rating assignments. Due their immediate/potential impact on the cash inflows and outflows, via stronger business position and additional costs, respectively, these factors and the evaluation are embedded in the rating reports and working papers. Additionally, as ESG factor by their nature focus on sustainability, JCR-ER monitors the developments related with each of the factors and how they affect the company along with additional actions taken by the company with respect to them.

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