VIS

Credit Rating Company Limited

中誠信綠金國際有限公司
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الوكالة الإسلامية الدولية للتصنيف
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ESG RATING METHODOLOGY

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A joint ESG rating is being introduced by CCXGFI, IIRA and VIS, which provides a structured framework to evaluate how organizations manage non-financial risks and opportunities that impact long-term sustainability. By assessing factors such as environmental stewardship, social responsibility, and governance practices, ESG ratings help investors, regulators, and stakeholders gain insights into a company's resilience, ethical standards, and overall impact on society. The methodology typically combines quantitative data, qualitative analysis, and industry benchmarks to deliver a transparent score that reflects both current performance and future risk exposure.

SCOPE OF CRITERIA

The criteria 'Environmental, Social & Governance (ESG)' applies to a wide range of Industrial and services sector non-financial corporates. The ESG methodology also applies to financial institutions including commercial banks, insurance companies, DFI's etc. since their financial and lending activities trigger same kind of risks. ESG methodology identifies the risks related to Environmental, Social and Governance factors which can impact the sustainability of the entities in the long run. It also identifies the opportunities that entities can use for their benefit in order to outperform their competitors by complying with the ever-growing regulatory requirements under ESG framework.

AN OVERVIEW OF RATINGS FRAMEWORK

VIS-CCXGFI-IIRA ESG Rating Methodology provides a comprehensive framework for evaluating the environmental, social, and governance performance of organizations. It is designed to capture both the formal structures and the practical effectiveness of policies, systems, and practices that drive sustainable value creation. The methodology emphasizes transparency, accountability, and measurable outcomes, ensuring that entities are assessed not only on the presence of policies but also on their implementation, disclosure, and alignment with global best practices. By doing so, it aims to provide stakeholders with a reliable and comparable benchmark of sustainability performance.

The ESG rating methodology would provide a rank system or scoring, appraising the environment, social & governance activities & prospects of an entity or issuer in any industry. The Environmental, Social and Governance (ESG) matters have indisputably moved to the forefront as investors are increasingly incorporating sustainability factors into their investment decisions. Companies that effectively communicate their sustainability strategies improve their capital raising abilities have an overall competitive advantage. Globally, regulators are also recognizing importance of ESG reporting and disclosures to assess the impact of ESG risks and opportunities.

Sustainable Developmental Goals (SDGs) are part of United Nations (UN) 2030 agenda for sustainable development, which was adopted by all member states in 2015 including Pakistan. SDGs can help in aligning sector and company specific ESG factors with broader societal and environmental goals. The United Nation Principles for Responsible Investment (UN PRI) is the world's leading proponent of Responsible investment. It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.

ESG considerations must be material to the likelihood of default, financial stress and credit loss which may impact credit rating outcome. Thus, VIS-CCXGFI-IIRA' ESG scoring may impact either positively or negatively on the final outcome of the credit ratings. The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a list of possible actions for incorporating ESG issues into investment practices. These principles are: (1) Incorporate ESG issues into investment analysis and decision-making processes. (2) Incorporate ESG issues into ownership policies and practices. (3) Seek appropriate disclosure on ESG issues by the entities. (4) Promote acceptance and implementation of the Principles within the investment industry. (5) Work together to enhance effectiveness in implementing the Principles. (6) Report on activities and progress towards implementing the Principles.

RATING METHODOLOGY

ESG refers to a broad range of qualitative and quantitative factors that relate to the sustainability of an issuer and to the broader impact on society of its businesses, investments and activities. Examples include a company's carbon footprint or the accountability of a company's management on the actions taken by them. In ESG grading, the main focus is on the aspects of ESG that can have a material impact on the credit quality of an issuer. Some ESG issues may have greater downside risk than upside potential. For example, a company with a track record of health and safety violations may face litigation risks whereas another company with strong governance structure can have proper risk assessment and informed decision making which help in achieving long term credit worthiness.

Our assessment of the exposure to E, S and G risks or benefits is based on the general ESG principles described in this methodology and the scores provide a consistent way to express this assessment. VIS-CCXGFI-IIRA will typically consider the credit impact of the distinct aspects of ESG for an entity in our analysis, as well as the combined impact of ESG considerations. For example, a company could have excellent governance and employee relations that does not offset the negative credit impact of a large carbon footprint.

In order to be meaningful for ratings, ESG considerations must be material to the likelihood of default and credit loss. Issuers encounter a multitude of ESG risks and opportunities, many of which have little tangible impact on operating or financial performance. For example, a company's volunteer work, charitable activities and other such initiatives are important to the extent that they produce social value, but their potential positive impact on the company's financial health or credit standing is unlikely to be material, however, these factors may have a positive impact on its franchise value and enhance visibility with the stakeholders. The materiality of a particular aspect of ESG is typically specific to a sector or an issuer or a transaction. For example, air pollution emission standards may be an important credit issue for the auto manufacturing sector but may not be meaningful for media companies.

Our approach to ESG considerations is an assessment of the impact on an issuer's cash flows and the value of its assets overtime; the stability of cash flows and assets in relation to the issuer's debt burden and other financial obligations. For example, for a non-financial corporate, we assess how ESG issues such as product safety and carbon transition risks influence credit drivers such as demand for its products, cost of production, need for financing to make capital expenditures as well as the changes to these drivers over time. For financial institutions, we assess how ESG issues such as governance and customer relations influence credit factors such as the issuer's ability to access funding in markets, its liquidity, risk tolerance, capital position, profitability and other governance issues that can affect the sustainability of the FI's business model.

A. ENVIRONMENTAL RISK ("E")

Environmental risks are a significant consideration for a large number of issuers in the public and private sectors. Environment risk is broadly categorized into two segments:

I. The consequences of regulatory or policy initiatives that seek to reduce environmental trends or hazards.

- Regulations that have been implemented or those that are likely to be introduced (by the regulators or binding agreements under an international accord) with impact on the credit profiles of issuers and sectors.

- Longer-term regulatory initiatives where implementation is unclear or subject to delays provide less visibility into the likely impact on the relative risk of default and credit loss for issuers.

II. The adverse effects of direct environmental trends and hazards such as pollution, drought, severe natural and human-caused disasters and climate change.

The Environmental pillar of ESG evaluates the extent to which organizations integrate environmental stewardship into their governance, strategy, and operations. The framework evaluates governance structures, climate and carbon management, resource efficiency, circular economy practices, biodiversity protection, pollution prevention, transparency, and regulatory compliance as key dimensions of environmental performance.

The assessment emphasizes the translation of policies into measurable outcomes through robust management systems, reliable data, and credible disclosure. It evaluates how organizations address climate risks and opportunities, reduce emissions, optimize resource use, safeguard ecosystems, and prevent pollution, while ensuring compliance with evolving regulatory requirements. Transparent engagement with stakeholders and alignment with international frameworks further strengthen environmental credibility.

Entities that demonstrate disciplined governance, verifiable reporting, and sustained progress against defined targets are assessed more favorably. Strong performance in the Environmental pillar signifies not only effective risk mitigation and operational efficiency but also enhanced resilience, long-term competitiveness, and alignment with global sustainability imperatives.

A.1 Environmental Governance & Management Systems

The assessment of Environmental Governance and Management Systems within the ESG rating methodology evaluates the strength and effectiveness of an entity's environmental practices and oversight. It assesses how environmental risks and opportunities are integrated into policies, strategies, and operations, with particular focus on governance structures, board accountability, and enterprise-wide risk management.

The methodology reviews management systems such as ISO 14001, assessing how policies translate into practice through monitoring, reporting, and continuous improvement. It evaluates the setting of targets on emissions, energy, water, waste, and biodiversity, as well as the extent to which companies pursue climate mitigation, resource efficiency, and circular economy strategies.

Transparency and disclosure are key, with emphasis on reporting quality, third-party verification, and alignment with global standards such as GRI and TCFD. Stakeholder engagement and participation in voluntary commitments or certifications also reflect stronger governance maturity.

The framework extends beyond basic compliance, evaluating the extent to which organizations embed environmental considerations into their strategic decision-making, demonstrate robust and credible risk management practices, and exhibit forward-looking stewardship aimed at continuous improvement and long-term sustainability

A.2 Climate Change & Carbon Management

The assessment of Climate Change and Carbon Management within the ESG framework evaluates how effectively organizations address climate risks and opportunities through five dimensions: emissions measurement and reporting, emission reduction, Climate Strategy and Targets, mitigation actions, performance monitoring, and climate resilience. It begins with accurate disclosure of Scope 1, 2, and relevant Scope 3 emissions, ideally aligned with global standards such as the GHG Protocol, GRI, or TCFD, and independently verified for credibility.

Organizations are rated on the ambition and credibility of their emission reduction targets, particularly when aligned with science-based pathways, and the extent to which these commitments are embedded into business planning and capital allocation. Mitigation is assessed through concrete measures such as energy efficiency, renewable energy adoption, process optimization, and supply chain engagement, with stronger scores given to entities demonstrating sustained investment and innovation.

Performance monitoring evaluates whether progress is regularly tracked, transparently reported, and assured externally, with year-on-year reductions in emissions signaling robust management. Climate resilience and adaptation extend the evaluation to preparedness for physical and transition risks, through scenario analysis, risk assessments, and long-term planning.

The methodology positively evaluates organizations that combine credible emissions management with proactive mitigation and resilience strategies, reflecting both current performance and long-term readiness for a low-carbon future.

A.3 Resource Efficiency & Conservation

The assessment of Resource Efficiency and Conservation evaluates how effectively organizations manage natural resources and reduce their environmental footprint across energy, water, and materials. Energy management evaluates monitoring, efficiency targets, renewable adoption, and integration into long-term planning. Water management emphasizes measuring withdrawals and discharges, pursuing conservation and recycling, and addressing risks in water-stressed regions. Material efficiency evaluates how companies reduce raw material use, minimize waste, adopt sustainable sourcing, and incorporate circular economy practices.

Entities that demonstrate systematic tracking, measurable targets, and continuous improvements in energy, water, and materials are assessed more positively, as they reduce ecological impacts, improve efficiency, and strengthen resilience against resource scarcity and regulatory pressures.

A.4 Circular Economy & Waste Management

The assessment of Circular Economy and Waste Management assesses how organizations minimize waste, optimize resource use, and adopt circular models that extend product lifecycles. It evaluates waste tracking and reduction, responsible disposal, and proactive measures such as zero-waste policies and hazardous waste controls. Circular design is assessed through durable, repairable, or recyclable products and lifecycle approaches that reduce environmental impacts. Recycling and recovery focus on programs that close resource loops through reuse, partnerships, and transparent reporting.

Organizations that embed circularity into operations and strategy, demonstrate measurable improvements in waste reduction and recovery, and align with global sustainability norms have a better rating consideration for their environmental responsibility and long-term resilience.

A.5 Biodiversity & Ecosystem Protection

The assessment of Biodiversity and Ecosystem Protection evaluates how organizations manage their impacts on natural habitats and species, recognizing biodiversity loss as both an environmental and business risk. It evaluates impact assessments, conservation and restoration initiatives, and responsible land use, with particular focus on eliminating deforestation from supply chains.

Entities that integrate biodiversity into strategic planning, invest in restoration projects, and adopt deforestation-free policies demonstrate stronger governance and alignment with global biodiversity goals. Such practices not only mitigate ecological risks but also enhance long-term resilience and stakeholder trust.

A.6 Pollution Prevention & Environmental Health

The assessment of Pollution Prevention and Environmental Health evaluates how organizations manage emissions, discharges, and hazardous substances to protect ecosystems and human health. It emphasizes air quality, water quality, and chemical management, recognizing pollution as a key environmental and business risk.

Air quality management evaluates controls on harmful emissions and adoption of cleaner technologies. Water quality management evaluates wastewater treatment, recycling, and compliance with standards. Chemical management reviews safe handling, substitution of toxic substances, and adherence to global conventions.

Organizations that demonstrate comprehensive pollution controls, transparent reporting, and continuous improvement are assessed more positively, as they reduce ecological harm, protect public health, and strengthen resilience against regulatory and reputational risks.

A.7 Transparency, Reporting & Communications

The assessment of Transparency, Reporting, and Communications evaluates how organizations disclose environmental performance, ensure credibility, and engage stakeholders. It evaluates the scope and quality of reporting, alignment with global frameworks such as GRI, SASB and TCFD, and the use of third-party verification to enhance trust.

Stronger performers are those that provide consistent, forward-looking disclosures, validate data through independent assurance, and maintain proactive dialogue with regulators, investors, and communities. Such practices strengthen accountability, reduce greenwashing risks, and build long-term stakeholder confidence.

A.8 Regulatory Compliance & Risk Management

The assessment of Regulatory Compliance and Risk Management assesses how organizations meet environmental legal obligations and manage related risks. Legal compliance is evaluated through adherence to applicable laws, monitoring systems, and a track record free from material violations.

Risk management extends the evaluation to how entities identify and address physical, regulatory, and transition risks, integrating them into enterprise-wide frameworks and long-term planning. Companies with strong compliance records and proactive risk governance are assessed more positively, as they demonstrate resilience, accountability, and preparedness for evolving environmental challenges.

B. SOCIAL RISK ("S")

VIS-CCXGFI-IIRA view social considerations as falling broadly into two categories (i) issuer-specific considerations, such as product safety problems that harm an issuer's reputation, (ii) the adverse effects of external factors, such as regulation that leads to higher compliance costs or creates rigid work rules.

The Social pillar within the ESG framework evaluates how organizations manage their workforce, communities, customers, and broader stakeholders to create sustainable long-term value. The methodology encompasses five core areas: human capital management, community impact, product and service responsibility, labor relations and human rights, and societal contribution and stakeholder engagement.

The assessment emphasizes workforce health and safety, diversity, equity, inclusion, professional development, and retention as foundations of organizational resilience. It also evaluates how companies contribute to community development, safeguard cultural heritage, and deliver products and services that are safe, accessible, and socially beneficial. Labor standards, supply chain practices, and human rights due diligence are integral to ensuring ethical operations, while transparency, compliance with social regulations, and alignment with the UN Sustainable Development Goals reflect accountability to society at large.

Organizations that exhibit strong governance, transparent disclosure, and tangible social outcomes are evaluated more positively. High performance in the social pillar reflects not only effective stakeholder management but also reinforces long-term resilience, competitiveness, and social license to operate

B.1 Human Capital Management

The assessment of Human Capital Management within the ESG framework evaluates how organizations manage workforce well-being, development, and equity as key drivers of long-term sustainability. It emphasizes five dimensions: health and safety, training and development, diversity and inclusion, gender pay gap, and employee satisfaction and retention.

Health and safety are assessed through compliance, risk controls, and initiatives that promote both physical and mental well-being. Training and development evaluate investments in upskilling, leadership development, and career progression. Diversity and inclusion consider equitable hiring, representation, and workplace culture, while the gender pay gap dimension emphasizes transparency, regular pay equity audits, and corrective actions. Employee satisfaction and retention are measured through engagement surveys, turnover rates, and initiatives that foster loyalty and professional growth.

Companies that embed strong practices across these areas are assessed more positively, as they demonstrate commitment to employee welfare, equity, and long-term value creation, while building resilient and sustainable workforces.

B.2 Community Impact

The assessment of Community Impact within the ESG framework evaluates how organizations contribute to the well-being and development of the communities in which they operate. It evaluates three dimensions: local economic development, infrastructure and social services support, and cultural preservation and respect.

Local economic development evaluates whether companies generate positive spillovers through local hiring, supply chain integration, and support for small and medium enterprises. Infrastructure and social services support evaluate contributions to education, healthcare, housing, and other community needs, either directly or through partnerships. Cultural preservation and respect measure how organizations engage with and protect local traditions, heritage, and indigenous rights, ensuring that operations are inclusive and socially responsible.

Organizations that demonstrate structured community engagement, transparent reporting, and measurable positive outcomes are assessed more positively, as they align business success with long-term social sustainability and community resilience.

B.3 Product and Service Responsibility

The assessment of Product and Service Responsibility evaluates how organizations ensure their offerings are safe, ethical, accessible, and socially beneficial. It encompasses four dimensions: product safety and quality, accessibility and affordability, marketing ethics and transparency, and innovation for social benefit.

Product safety and quality focus on compliance with standards, quality assurance systems, and continuous monitoring to protect consumers. Accessibility and affordability assess whether essential products and services are available to diverse and underserved groups at fair prices. Marketing ethics and transparency consider truthful communication, responsible advertising, and avoidance of harmful or misleading practices. Innovation for social benefit evaluates how organizations develop solutions that address societal needs such as health, education, or inclusion.

Companies that embed responsibility across these areas and demonstrate transparency, accountability, and consumer focus are assessed more favorably, as they align business success with long-term social value and stakeholder trust.

B.4 Labor Relations & Human Rights

The assessment of Labor Relations and Human Rights within the ESG framework evaluates how organizations uphold fair labor practices and protect fundamental rights across their operations and supply chains. It emphasizes three dimensions: labor standards compliance, supply chain labor practices, and human rights due diligence.

Labor standards compliance assesses adherence to international conventions and local laws on wages, working hours, freedom of association, and non-discrimination. Supply chain labor practices assess whether companies monitor and enforce ethical standards among suppliers, addressing risks such as child labor, forced labor, and unsafe working conditions. Human rights due diligence evaluates policies, risk assessments, and grievance mechanisms that identify, prevent, and remediate adverse human rights impacts.

Organizations that demonstrate strong governance, transparent reporting, and proactive measures across these dimensions are assessed more positively, as they reduce social risks, strengthen worker protections, and uphold global human rights commitments.

B.5 Societal Contribution and Stakeholders Relations

The assessment of Societal Contribution and Stakeholder Relations evaluates how organizations align their operations with broader societal goals, manage stakeholder expectations, and contribute to sustainable development. It covers five dimensions: contribution to the UN Sustainable Development Goals (UNSDGs), community impact programs, ESG transparency, compliance with social regulations, and customer complaint resolution.

Contribution to UNSDGs evaluates how business strategies and initiatives support global sustainability priorities. Community impact programs evaluate structured efforts in areas such as education, healthcare, and social inclusion. ESG transparency evaluates the clarity and reliability of social disclosures, while social regulations compliance measures adherence to labor, consumer protection, and other relevant laws. Customer complaint resolution emphasizes accessible, fair, and timely grievance mechanisms that build trust and accountability.

Organizations that demonstrate structured programs, transparent engagement, and measurable positive outcomes across these areas are assessed more positively, as they strengthen social license to operate and align business success with long-term societal well-being.

C. GOVERNANCE RISK (“G”)

Governance risks are an important consideration for all debt issuers. Unlike environmental and social risks, which may be driven by external factors, governance risks are largely issuer driven. Governance relates to the framework and processes through which decisions are made and related actions are carried out. The different constituents of governance help direct and manage business and financial activities.

The Governance pillar of the ESG rating framework evaluates the effectiveness of the systems by which organizations are directed, controlled, and held accountable. Sound governance is recognized as a cornerstone of sustainable value creation, as it provides the structures and processes necessary to safeguard stakeholder interests, ensure ethical conduct, and mitigate regulatory, reputational, and operational risks.

The methodology evaluates governance performance across multiple dimensions, including board structure and independence, board effectiveness and oversight, executive compensation, shareholder rights and treatment, audit and financial oversight, business ethics and compliance, and ESG integration and reporting. Each dimension is assessed with respect to the adequacy of formal frameworks and, more importantly, the extent and quality of their implementation in practice.

The assessment places emphasis on board independence and competence, alignment of management incentives with long-term value creation, protection of shareholder rights, integrity of audit and control functions, and the strength of ethical and compliance frameworks. Increasing weight is attributed to the integration of ESG considerations into corporate strategy and risk management, together with transparent and reliable disclosure practices.

Scoring differentiates entities that exhibit only basic or reactive governance arrangements from those demonstrating robust, transparent, and globally aligned practices. Strong performance under this pillar signals a resilient governance culture that enhances accountability, strengthens stakeholder confidence, and supports sustainable long-term growth.

C.1 Board Structure & Independence

The assessment of Board Structure and Independence within the ESG framework evaluates the effectiveness, balance, and autonomy of an organization’s highest governing body in overseeing strategic direction, risk management, and sustainability commitments. The methodology emphasizes board composition, independence, diversity, and accountability mechanisms as indicators of governance strength.

A key element of the evaluation is the degree of independence among board members. Independent directors are critical for safeguarding objectivity, mitigating conflicts of interest, and ensuring that decisions are taken in the best interest of all stakeholders rather than dominated by management or controlling shareholders. The methodology evaluates the proportion of independent directors, separation of the Chair and CEO roles, tenure policies, and mechanisms that protect minority shareholder rights.

Board structure is also assessed in terms of expertise, diversity, and alignment with organizational strategy. This includes evaluating whether the board possesses the necessary skills in areas such as finance, risk management, ESG, and industry-specific knowledge. Gender and cultural diversity are further considered as important factors contributing to broader perspectives and more inclusive decision-making.

The assessment also reviews the allocation of responsibilities within the board, such as the presence of specialized committees for audit, risk, nominations, and ESG oversight, and the effectiveness with which these committees operate. Transparency in director selection, re-election processes, and disclosures regarding board activities and performance are further indicators of governance maturity.

Organizations with well-structured boards, strong independence, and transparent governance practices are assessed more positively. A balanced and independent board enhances accountability, strategic oversight, and resilience, thereby contributing positively to long-term sustainability and stakeholder trust within the ESG framework.

C.2 Board Effectiveness & Oversight

The assessment of Board Effectiveness and Oversight within the ESG framework evaluates the ability of the board to provide strategic direction, monitor management, and ensure accountability in advancing organizational performance and sustainability objectives. The methodology emphasizes the board's competencies, oversight practices, and commitment to long-term value creation.

A key aspect of the evaluation is the alignment between the board's skills and the company's strategic priorities, including financial performance, risk management, and ESG integration. The methodology evaluates whether directors possess relevant expertise in areas such as industry knowledge, governance, audit, risk, and sustainability, and whether the board engages in continuous training to remain effective in a dynamic business environment.

Effectiveness is also assessed through the robustness of oversight mechanisms. This includes the board's role in setting strategy, approving major decisions, monitoring executive performance, and overseeing risk management frameworks. The existence of specialized committees—such as audit, risk, remuneration, and ESG committees—along with their independence and activity levels, are important indicators of effective oversight.

Performance evaluation processes further contribute to board effectiveness. The methodology reviews whether boards undertake regular self-assessments or external evaluations, implement corrective measures, and disclose outcomes transparently. Active engagement with stakeholders and responsiveness to shareholder concerns are also considered as measures of accountability.

Organizations with boards that demonstrate strong expertise, active oversight, and a culture of continuous improvement are assessed more positively. High performance in this dimension reflects a governing body capable of ensuring accountability, managing risks, and guiding sustainable long-term growth within the ESG framework.

C.3 Executive Compensation

The assessment of Executive Compensation within the ESG framework evaluates how remuneration structures align management incentives with long-term organizational performance, shareholder interests, and sustainability objectives. The methodology evaluates transparency, fairness, and alignment as key dimensions of effective compensation governance.

A central focus is the link between pay and performance. The evaluation assesses whether executive compensation packages incorporate both financial results and non-financial metrics, including ESG targets, risk management, and long-term value creation. Excessive reliance on short-term incentives or disproportionate pay relative to performance signals weak governance, while balanced structures that reward sustainable growth are assessed more positively.

Transparency and disclosure are also key indicators. The methodology reviews whether companies clearly communicate compensation policies, performance metrics, and outcomes to shareholders, enabling informed evaluation. Independent board committees overseeing remuneration, free from conflicts of interest, further strengthen governance practices.

Fairness is assessed through the consideration of internal pay equity, including the ratio between executive pay and average employee compensation. Companies that demonstrate sensitivity to equity concerns and disclose efforts to address pay gaps reflect stronger governance maturity.

Organizations with transparent, performance-linked, and responsibly structured executive compensation frameworks are assessed more positively. Strong practices in this dimension ensure that leadership incentives support prudent risk-taking, accountability, and alignment with both shareholder interests and broader sustainability goals.

C.4 Shareholder Rights & Treatment

The assessment of Shareholder Rights and Treatment within the ESG framework evaluates how effectively an organization protects and balances the interests of all shareholders, including minority and institutional investors. This dimension emphasizes fairness, transparency, and accountability in shareholder relations as fundamental indicators of governance quality.

The methodology evaluates whether companies provide equitable voting rights, transparent decision-making processes, and mechanisms that prevent the concentration of power among controlling shareholders. Structures such as dual-class share arrangements, excessive use of anti-takeover defenses, or unequal access to information are viewed as weaknesses, while practices that safeguard minority shareholder rights and enable active participation are assessed more positively.

Disclosure and communication form another key element. The evaluation assesses whether companies provide timely, accurate, and comprehensive information to shareholders, particularly regarding financial performance, strategic decisions, and sustainability commitments. Mechanisms that facilitate shareholder engagement—such as annual meetings, consultations, or proxy voting—are assessed as important indicators of inclusivity and accountability.

Shareholder treatment is also assessed through responsiveness to investor concerns, including transparency in dividend policies, fair treatment in capital raising, and accountability in cases of disputes or grievances. Companies that foster trust by addressing shareholder issues openly and fairly are regarded as stronger performers.

Organizations that demonstrate equitable treatment, transparency, and responsiveness in managing shareholder rights are assessed more positively. Strong performance in this dimension reflects a governance culture that upholds fairness, reduces conflicts of interest, and builds long-term investor confidence and trust.

C.5 Audit & Financial Oversight

The assessment of Audit and Financial Oversight within the ESG framework evaluates the strength of an organization's mechanisms for ensuring financial integrity, risk management, and accountability to stakeholders. This dimension emphasizes the role of internal controls, external assurance, and board-level oversight in safeguarding transparency and credibility.

A core element of the evaluation is the independence and effectiveness of the audit function. The methodology evaluates whether external auditors are independent, rotated regularly, and free from conflicts of interest, as well as whether their scope includes material ESG-related disclosures. The strength of internal audit systems, risk management frameworks, and compliance monitoring is also assessed as indicators of governance maturity.

The role of the board and its audit committee is central to effective oversight. The assessment reviews whether the audit committee is composed predominantly of independent directors with appropriate financial expertise, whether it meets regularly, and whether it has clear authority over auditor appointments, financial reporting, and risk oversight.

Transparency and disclosure are further considered through the quality, timeliness, and completeness of financial statements, as well as the integration of non-financial information, such as ESG risks and opportunities, into reporting frameworks. Companies that obtain third-party assurance on sustainability disclosures demonstrate stronger commitment to accountability.

Robust audit practices, independent oversight, and credible financial and ESG reporting make organizations assessed more positively. Strong performance in this dimension signals financial discipline, effective risk management, and enhanced trust among investors and stakeholders.

C.6 Business Ethics & Compliance

The assessment of Business Ethics and Compliance within the governance framework of ESG ratings assesses the extent to which an organization embeds ethical conduct and regulatory compliance into its operations. The analysis evaluates the presence of a comprehensive Code of Conduct, supported by policies addressing corruption, conflicts of interest, fair competition, confidentiality, human rights, and workplace integrity. Emphasis is placed not only on the formal existence of such policies but also on their communication, training, and application across the organization and its business partners.

The evaluation further reviews the robustness of compliance management systems, including the independence and effectiveness of oversight functions, the conduct of risk assessments, and alignment with recognized international standards. The adequacy of whistleblowing and grievance mechanisms is also assessed, with particular focus on accessibility, protection against retaliation, and transparency in the resolution process. Anti-bribery and anti-corruption safeguards, due diligence of third parties, and disclosure of any material breaches are key indicators of performance.

Overall, scoring distinguishes between organizations with minimal, reactive measures and those demonstrating proactive, transparent, and globally benchmarked practices. Strong performance reflects not only the establishment of ethical frameworks but also their effective enforcement, disclosure, and integration into corporate culture, thereby mitigating governance risks and strengthening stakeholder confidence.

C.7 ESG Integration & Reporting

The assessment of ESG Integration and Reporting evaluates how effectively an organization embeds environmental, social, and governance factors into its strategy, risk management, and decision-making processes, and the extent to which it discloses related performance to stakeholders. Evaluation emphasizes the alignment of ESG objectives with corporate strategy, the presence of governance structures to oversee sustainability initiatives, and the integration of material ESG risks and opportunities into business planning.

The quality of reporting is assessed with reference to recognized frameworks such as GRI, SASB, TCFD, or Integrated Reporting. Emphasis is placed on the consistency, completeness, and reliability of disclosures, the use of measurable performance indicators, and evidence of independent assurance. Companies that demonstrate structured integration of ESG into governance and provide transparent, comprehensive, and balanced reporting are considered stronger, while those with limited or superficial disclosures are rated weaker.

MAPPING ESG RATING WITH GREEN-AMBER-RED SPECTRUM

The VIS ESG rating scale is mapped onto the Green–Amber–Red (GAR) spectrum to facilitate regulatory interpretation of relative ESG performance, as tabulated below. Under this mapping, ESG 1 and ESG 2 are classified as **Green and Light Green** respectively, reflecting strong to very strong ESG practices consistent with the regulatory expectations for entities demonstrating robust governance, proactive risk management, and meaningful sustainability integration. ESG 3 and ESG 4 fall within the **Amber and light Ambe**r categories respectively, indicating performance that meets baseline regulatory expectations but exhibits moderate to material gaps requiring structured improvement. ESG 5 is assigned **Red**, signaling weak ESG performance, significant deficiencies, or unmanaged sustainability risks that may pose concerns from a regulatory and stakeholder perspective.

VIS ESG Rating	Mapping with G-A-R Rating Spectrum
ESG 1	Green
ESG 2	Light Green
ESG 3	Amber
ESG 4	Light Amber
ESG 5	Red

RATING SCALE & DEFINITIONS

Rating scale and Definitions may be accessed at (https://docs.vis.com.pk/docs/VISRatingScales.pdf)

CCX Green Finance International Limited (CCXGFI) is a third-party service organization under China Chengxin International Credit Rating Co., Ltd. (CCXI) that specializes in green and sustainable finance-related businesses and focuses on business development in Hong Kong and overseas regions. In June 2023, CCXGFI was the first to obtain the external review qualification of the Hong Kong Monetary Authority's Green and Sustainable Finance Funding Program. The services currently provided by CCXGFI include green bond and green loan assessment and certification services, green financial services for financial institutions, comprehensive green financial development services for local governments, ESG reports, ESG ratings and data services.

ISLAMIC INTERNATIONAL RATING AGENCY IIRA has been set up to provide independent assessments to issuers and issues that conform to principles of Islamic finance. IIRA's special focus is on development of local capital markets, primarily in the region of the Organization of Islamic Countries (OIC) and to provide impetus through its ratings to ethical finance, across the globe. IIRA was founded as an infrastructure institution for the support of Islamic finance as conceived by the Islamic Development Bank (IDB). This puts IIRA in league with system supporting entities like AAOIFI and IFSB. The IDB remains a prominent shareholder, and maintains oversight through its nominee, as Chairman to the Board of Directors. Headquartered in the Kingdom of Bahrain, IIRA commenced operations in 2005 and launched its series of conceptually distinctive methodologies, beginning 2011. IIRA believes that the strength of Islamic finance lies in its commitment to fairness. This renders the manner in which a transaction is carried out, as important as the transaction itself. IIRA's specialized focus on organizational governance and conduct of Shariah, augments the rating process, and incorporates the unique features of Islamic finance in a way that broadens the quality perspective.

VIS

VIS Credit Rating Company Limited (VIS) has been operating in Pakistan since 1997. VIS is licensed by the Securities & Exchange Commission of Pakistan (SECP) and recognized as an External Credit Assessment Institution (ECAI). Promoters of VIS include Vital Information Services Pvt. Ltd. (VISPL), Pakistan Stock Exchange and ISE Towers REIT Management Company Ltd. VISPL was incorporated in 1994 and commenced publishing financial and capital market data of all the listed companies. The unique publication, F&J Almanacs, also introduced Financial Strength Rankings based on its indigenously developed models. VISPL has been developing, testing, and validating credit assessment models for over 30 years. These models determine probability of default for large, medium, and small entities across various industrial sectors. VIS is the founder shareholder of the Islamic International Rating Agency, Bahrain (IIRA) which is an Islamic Finance infrastructure institution founded by Islamic Development Bank, with a view to develop Islamic Financial capital markets in OIC countries. IIRA is recognized by the regulatory authorities in multiple jurisdictions including Pakistan, Turkey, Bahrain etc. VIS has also played a pivotal role in the development of credit rating industry in Bangladesh by establishing the first credit rating company, Credit Rating Information and Services Limited (CRISL). VIS is also the only rating agency in Pakistan enjoying international collaborations. Japan Credit Rating Agency, Japan (JCR), is a technical partner of VIS. China Chengxin Credit Rating Agency (CCXI) and China Chengxin Credit Rating Asia Pacific (CCXAP) are also collaborating partners of VIS. VIS has also entered into collaboration with CCX Green Finance International Limited (CCXGFI) to introduce sustainable finance related assessments in Pakistan.

DISCLAIMER