INDEPENDENCE AND CONFLICTS OF INTEREST POLICY

Microfinanza Rating S.r.l.

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1. Purpose and scope

For the purposes of this Policy, an ESG rating means an opinion or a score, or a combination of both, regarding a rated item's profile or characteristics with regard to environmental, social and human rights, or governance factors, or regarding a rated item's exposure to risks or impact on such factors, based on both an established methodology and a defined ranking system of rating categories, as defined in Article 3(1) of Regulation (EU) 2024/3005 (the "ESG Ratings Regulation").

ESG rating activities refer to the activities carried out by MFR in connection with the assessment and issuance of ESG ratings within the meaning of the ESG Ratings Regulation.

The purpose of this Policy is to set out the principles followed by Microfinanza Rating ("MFR") to identify, prevent, manage, mitigate and, where appropriate, disclose actual or potential conflicts of interest that may arise in connection with its ESG rating activities.

MFR aims to ensure that ESG rating activities are conducted independently, objectively and impartially and that commercial, financial, personal or other interests do not improperly influence professional judgement or the outcome of an ESG assessment.

This Policy applies MFR's ESG rating activities and to its personnel and other persons acting on its behalf whose activities may affect the preparation, review, approval or communication of an ESG rating. It addresses conflicts arising from MFR's business relationships, remuneration arrangements, organisational structure and relevant personal or financial interests.

2. Regulatory framework

This Policy is designed for MFR's status as a small ESG rating provider operating under the temporary regime in Article 5 of Regulation (EU) 2024/3005 on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities (the "ESG Ratings Regulation").

Article 5(1) specifies the provisions of the ESG Ratings Regulation applicable to small ESG rating providers under the temporary regime, including Article 15(1), (5) and (7), Articles 23 and 24, and Articles 32 to 37. This Policy is intended to reflect the requirements relevant to independence and conflicts of interest within that applicable framework.

References in this Policy to the ESG Ratings Regulation shall be read in the context of Article 5 and the temporary regime.

3. General principles

A conflict of interest is a situation in which a financial, commercial, personal or other interest may improperly influence, or may reasonably be perceived as influencing, MFR's judgement or the independence and impartiality of its ESG rating activities.

MFR recognises that conflicts may arise in a commercial business providing ESG rating activities. The existence of a commercial relationship, including the receipt of fees from a client or a third party, must not determine or improperly influence the ESG rating activities.

MFR seeks to identify potential conflicts at an early stage and to address them in a manner proportionate to their nature and significance. Where a conflict is identified, MFR considers the circumstances and the measures appropriate to prevent, manage or mitigate the risk.

Information concerning actual or potential conflicts, where disclosed, should be clear, timely, specific and sufficiently prominent to enable the relevant recipient to understand the nature of the conflict and the measures taken.

4. Main sources of potential conflicts of interest

4.1. Remuneration and commercial relationships

MFR's assignments may be paid by the entity being assessed, by a third party, or by both. Such arrangements may create a potential conflict where the interests of the paying party could be perceived as influencing the assessment.

Fees are agreed and documented before the assignment begins and do not depend on the ESG rating activities or their outcome. The remuneration of sales staff may be linked to sales targets, however it is never linked to ESG rating activities outcomes. These arrangements are intended to reduce the risk that commercial considerations influence analytical judgement.

4.2. Consultancy services

MFR may provide different products and services to the same client.

MFR does not provide consulting activities[1]. However, depending on the ESG rating product, MFR may attach recommendations intended to help a client address gaps identified during an assessment (those may be included in the report or offered as an optional service). Recommendations are based on assessment findings and are intended to help clients identify and address gaps in relation to relevant best practices. [2]

The combination of assessment activities with recommendations, optional services or follow-up may give rise to actual or perceived conflicts. The provision of guidance, remarks or recommendations based on assessment findings does not, in itself, constitute a conflict of interest. Moreover, MFR refrains from providing active support in implementing the improvements which emerge to be needed based on MFR's guidance, remarks or recommendations such as to avoid potential conflicts of interest during a follow-up assessment.

In considering these circumstances and the potential conflicts of interest, MFR takes into account the nature and scope of the services provided, the involvement of the persons concerned in any subsequent assessment, and the measures appropriate to preserve the independence and impartiality of its ESG rating activities.

4.3. Organisational arrangements and allocation of responsibilities

MFR maintains an appropriate separation between commercial activities and operational responsibilities relating to ESG rating activities in order to safeguard the independence and impartiality of its assessment activities. Commercial objectives do not influence the professional judgement of persons involved in the preparation, review or determination of the outcome of an assessment.

Such arrangements may include appropriate access controls to systems and documentation, restrictions on access to confidential information and the separation of responsibilities between commercial and operational activities, where appropriate.

[1] Consulting activities intended as developing sustainability strategies and strategies to manage sustainability risks or impacts.
[2] The scope of follow-up activities depends on the product: for example, the ESG Assessment does not include follow-up, while the CPC may include a two-month adjustment phase if the client opts for it. A Pre-CPC may be followed by a CPC that evaluates the gaps identified previously.

MFR allocates responsibilities in a manner that minimises the risk of conflicts of interest and ensures that assessments are conducted objectively and independently. Where a person is involved in both commercial and operational activities, MFR adopts appropriate measures to preserve the independence and impartiality of the assessment. Such measures may include limiting the person's involvement in the assessment, assigning the relevant tasks to another suitable person, or arranging an independent review of the work performed.

MFR assesses the adequacy of safeguards in light of the specific circumstances of each assignment, ensuring that commercial considerations do not improperly influence the assessment process or its outcome. The operational arrangements for allocating responsibilities and managing potential conflicts of interest are set out in MFR's internal procedures.

4.4. Ownership, group and other business relationships

Ownership links, group relationships and other commercial arrangements involving MFR or related entities may create conflicts where they could affect, or be perceived to affect, MFR's independent judgement. Such circumstances should be considered in light of their nature and potential impact on the assessment.

4.5. Personal and financial interests

Personal, financial or other interests of persons involved in ESG rating activities may create conflicts where they could interfere with their professional judgement. Persons within the scope of this Policy are expected to bring relevant circumstances or concerns to the attention of the Operations Director, designated by MFR to handle conflicts of interest. MFR's internal procedures specify how relevant interests must be reported, assessed and documented. Persons within the scope of this Policy must report any relevant circumstances or concerns to the Operations Director. MFR assesses such circumstances in light of the activity concerned and takes appropriate measures to prevent, manage or mitigate any identified conflicts of interest.

4.6. Gifts, benefits, hospitality and external pressure

Gifts, hospitality, benefits or other inducements, as well as commercial, contractual or other external pressure intended to influence an assessment, may create actual or perceived conflicts. MFR's professional judgements should remain based on relevant information and the applicable assessment approach, rather than improper influence.

4.7. Confidential information

The use or disclosure of confidential or non-public information may create conflicts or compromise the integrity of ESG rating activities. Such information shall be handled in accordance with MFR's confidentiality requirements and internal procedures. Access shall be restricted to authorised persons on a need-to-know basis, and appropriate confidentiality obligations and access controls shall be applied to prevent unauthorised access, use or disclosure. Confidential information shall only be used for the purposes for which it was obtained.

5. Safeguards and management of conflicts

When an actual or potential conflict is identified, MFR assesses its nature, significance and possible effect on the independence or impartiality of the ESG rating activity concerned. Measures are selected in a manner proportionate to the circumstances.

Depending on the case, safeguards may include:

- restricting or avoiding a person's participation in the relevant assessment;

- assigning particular tasks to another suitable person or arranging an additional review;
- limiting access to confidential or non-public information where appropriate;
- clarifying responsibilities or separating activities to the extent practicable;
- providing relevant disclosures where required; or
- refraining from the relevant activity where the conflict cannot be adequately managed.

Where a conflict of interest cannot be adequately prevented, mitigated or eliminated, MFR may decide to refrain from undertaking or continuing the relevant ESG rating activities.

MFR ensures that the outcomes of ESG rating activities are based on the applicable methodologies, assessment approach and relevant information and is not determined by the identity of the paying party, the existence of other commercial relationships or the purchase of additional services, or other constraints.

6. Responsibilities and reporting

Any person within the scope of this Policy is expected to remain alert to circumstances that may create an actual or potential conflict of interest and to promptly report relevant concerns to the attention of the Operations Director.

Before starting ESG rating activities, MFR's staff involved in the provision of the ESG rating activities shall disclose any actual or potential conflict of interest relating to the rated entity/item to the Operations Director.

The Operations Director is responsible for assessing reported conflicts of interest, coordinating the implementation of appropriate mitigating measures and maintaining relevant records. Material conflicts of interest, conflicts that cannot be adequately managed, or conflicts involving the designated person are escalated to the Board of Directors (BoD), excluding any member directly concerned by the conflict, for consideration and appropriate action.

MFR aims to retain appropriate records of material conflicts identified, the assessment performed and the safeguards or other measures adopted.

MFR's internal arrangements and procedures specify the process for reporting and assessing conflicts, escalation where necessary, documentation of material cases and monitoring of the measures adopted.

7. Public disclosure

In accordance with the regulatory requirements, this Policy shall contain information on the main risks of conflicts of interest arising from MFR's activities, services and organisational arrangements, together with information on the measures used to address those risks.

MFR updates this Policy and maintains it publicly available (on the website).

8. Awareness, monitoring and review

MFR seeks to promote awareness of the principles of independence and impartiality among its staff involved in ESG rating activities. This Policy and its implementation shall be reviewed where appropriate, including when MFR's activities, business relationships, organisational arrangements or applicable regulatory requirements materially change.

Where a material weakness or a breach of this Policy is identified, the circumstances should be assessed and appropriate corrective measures considered. This Policy shall be reviewed and approved in accordance with MFR's applicable internal procedures.

MFR promotes awareness of conflicts of interest through appropriate internal communication and training activities for staff involved in ESG rating activities.