ESG Factors to Consider in Due Diligence for M&A Processes Within Grupo SURA

Date prepared: October 2018
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This document is intended as a concept guide to promote the inclusion of environmental, social, and corporate governance ("ESG") aspects in M&A analysis and decision-making. This will help with the appropriate management of risks and opportunities that involve the sustainability of all the businesses.

The following recommendations should be used as a guide to document material findings, or gaps that could be viewed as opportunities for the companies or businesses to improve the way to manage these factors during a possible integration stage, with a special emphasis on documenting the findings.

One recommendation is to evaluate the findings together with the other elements of the due diligence and strategic reasons for the opportunity being evaluated. It is also recommended to include people with ESG training in the due diligence team.

The main ESG criteria to be considered are shown below, together with the main variables that impact them in the financial services sector. This responds to the methodologies proposed by DJSI and SASB. Although many of those criteria may be found in other sections of a due diligence process, the idea is that this document can help complement and enrich the process as a whole. At the end of the day, it is the expert's judgement what defines materiality, depending on the opportunity being evaluated. This manual is not an exhaustive list of issues to consider, and the teams may expand and complement the analysis using additional criteria.

Social and environmental risks

- **Client privacy and information security:** The threats against the security and cybersecurity of the company and their clients involves not only the cost of implementing strategies to prevent and respond to possible attacks. It also includes the external costs for the loss of sensitive information, business interruptions, fines and penalties, damages to the technology infrastructure, loss of clients and damages to the reputation:
  - Check whether the company has adequate processes to identify and protect the information of the company and its clients. Additionally, find out whether the company has contingency plans to mitigate the effects if the risk becomes real.
  - Check whether the company has a Business Continuity plan.

- Find out whether the information security systems are subject to outside verification.

- **Inclusion and financial education:** This is a material aspect for the companies because they promote sustainable local development and increase the potential client base:
  - Find out whether there are inclusion and financial education policies, projects, or initiatives as part of the company's general strategy.

- **Client wellbeing:** Long-term client relationships are a must for the sustainability of the business. This is why it is extremely important to identify potential abusive practices against the consumers that could damage that trust.

- **Responsible advertising and marketing:** Determine whether the company has been recently fined or penalized for reasons involving transparency, information disclosure, or misleading advertising. If such penalties exist, evaluate any corrective actions implemented by the company. It is also important to determine whether the sales force incentives are aligned with the clients' long-term interests.

- **Diversity and inclusion:** This issue is material because studies have shown that companies with diverse teams and inclusive leaders perform better than homogeneous teams. Heterogeneous groups improve market participation and promote success in new markets. They also have a higher degree of cooperation, and increased talent retention rates.

- **Compensation and benefits:** Check whether top management's variable compensation system is aligned with the company's long-term strategy to minimize the risk of conflicts of interest:

- **Integration of ESG factors:** An adequate inclusion of these criteria in the credit, investment, and underwriting risk analysis makes it possible to anticipate risks and opportunities and thus increases long-term business sustainability. This is why it is important to find out whether the company has ESG integration processes in the investment, credit, and product design processes.
  - Identify the company's client and portfolio exposures in high-risk ESG sectors (mining, hydrocarbons, infrastructure, public utilities) and extreme climate events. Generate alerts if an overexposure to these sectors is detected. In the event that, due to the conditions in the area where the company operates, exposure in the sectors is very high (in the analysts' opinion) it is important to demonstrate due diligence processes.
  - Identify the company's ESG product offering (insurance, green investment alternatives, etc.).

Governance, Controls and Leadership:

- **Management of the legal and regulatory environment:** Determine the number of fines and complaints filed by financial regulators. In addition, identify what percentage of those fines or penalties were the result of irregularities reported from inside the company.

- **Controls:** Determine the controls implemented by the company to prevent inappropriate actions by employees intended to obtain personal benefits. For this purpose, it is important i) to identify whether there is an Internal Control System, ii) whether the company has a certified internal audit system or an entity that exercises internal control, and iii) request an internal audit report, and the opinion of the statutory auditor or its equivalent.

- **Relations with the public sector:** Determine how much business the company does with the public sector, and the number of directors with a background in the public sector. Perform an in-depth analysis if there are high levels of either.

- **Managing conflicts of interest:** Evaluate the process implemented by the company to identify and manage conflicts of interest. In addition, identify material transactions with related parties.

- **Corporate governance:** Corporate governance systems ensure that the company is managed according to clear rules and bodies that guarantee transparent decision-making, taking into consideration the interests of all shareholders, including minority shareholders. This is why it is important to analyze the company's governance model through the following:

  - Codes of Good Governance and Conduct, and formal policies. Implementation and training programs:

    - depending on the industry and the size of the company, it is desirable for the company **i)** to have clear internal norms and procedures, **ii)** that are properly implemented, and **iii)** *communicated to employees and stakeholders*.

    - relevant issues that should reflect those norms and procedures: shareholders' rights (including rules for voting during the assembly's, and mechanisms for conflict resolution); appointment, succession, rights and duties of the Board of Directors; clear organizational structure; rules for top management, including a clear assignment of roles and responsibilities; and communication channels between the company and its various stakeholders (mailbox or shareholder relations office, ethics line, or reporting mechanisms, etc.).

  - Board of Directors: structure, including at least 1 or 2 independent directors, separation between top management and board members, and mechanisms to measure the Board's effectiveness (attendance records,

  evaluations, selection process), election periods, specialized committees, or bodies to support the Board of Directors' general functions.
  - Information disclosure: availability of disclosure mechanisms such as a webpage to provide financial and nonfinancial information, including basic aspects of corporate governance. The disclosure of financial performance information must be done on a regular basis.

- **Business ethics:** Proper inclusion of these criteria in the Investment analysis process makes it possible to anticipate risks and, therefore, improves long-term business sustainability. Therefore, it is important to identify the number of fines or penalties associated with fraud, monopolistic or unfair competition practices, market manipulation, or other practices that go against the business ethics. In addition, the corrective measures implemented to respond to the events that gave rise to the fine or penalty.