

**Transparency Report**  
**for the year**  
**2016**

**EuroRating Sp. z o.o.**

March 2017

## 1. Introduction

- 1.1. The company EuroRating Sp. z o.o. ("EuroRating", "the Company") with its registered office in Warsaw (Poland) operates in the area of issuance of credit ratings of companies and financial institutions.
- 1.2. EuroRating Sp. z o.o. was on 7 May 2014 formally registered as a credit rating agency in the European Union in accordance with the Regulation No. 1060/2009 of the European Parliament and Council of 16 September 2009 on credit rating agencies (as amended), hereinafter referred to as "Regulation 1060/2009". Since then EuroRating is a subject to the supervision of the European Securities and Markets Authority (ESMA).
- 1.3. This report has been prepared in accordance with Article 12 and part III of Section E of Annex I of Regulation 1060/2009, according to which credit rating agencies are required to prepare and publish an annual report on the transparency of the credit rating activities, including the following elements:
  - I. An overview of the legal and ownership structure;
  - II. A description of the internal control mechanisms ensuring quality of credit rating activities;
  - III. Statistics on the allocation of the staff to new credit ratings, credit rating reviews, methodology or model appraisal and senior management;
  - IV. A description of the record-keeping policy;
  - V. The outcome of the annual internal review of the independent compliance function;
  - VI. A description of the management and rating analysts rotation policy;
  - VII. Financial information on the revenue divided into fees from credit rating and non-credit-rating activities;
  - VIII. A governance statement within the meaning of Article 46a(1) of Council Directive 78/660/EEC of 25 July 1978 on the annual accounts of certain types of companies.
- 1.4. Unless otherwise indicated, the information contained in this report relate to the activities of the EuroRating credit rating agency in the financial year ended 31 December 2016 and reflect the situation on that day.

## 2. Legal and ownership structure of the EuroRating credit rating agency

- 2.1. EuroRating limited liability company is a corporation of the Polish law, entered into the National Court Register by the District Court in Warsaw, XIII Commercial Division of the National Court Register under number KRS 0000431943.
- 2.2. The company has been operating since March 2007 – initially in the legal form of a limited partnership, and since 7 September 2012 (the date of registration of the transformation in the National Court Register) in the legal form of a limited liability company under the name EuroRating Sp. z o.o.

- 2.3. The Company headquarters is located in Poland, 02-777 Warsaw, Cynamonowa 19/548. EuroRating does not have subsidiaries or foreign branches.
- 2.4. The shareholders of the Company since its inception are two individuals (Miroslaw Bajda – philosophy doctor of economic sciences of the Warsaw School of Economics, and Liliana Teresa Bajda – chartered auditor of financial statements), having a total of 100% of the shares. EuroRating, as a private company, is not admitted to public trading and its shares are not listed on regulated markets.

### **3. Description of the internal control mechanisms ensuring quality of credit rating activities**

3.1. EuroRating credit rating agency has implemented control mechanisms and strict internal procedures to ensure the independence, objectivity and integrity of the rating process, as well as to prevent and eliminate any conflict of interest that could be associated with the Company's credit rating activities. As a result, these mechanisms are aimed at ensuring the highest quality and reliability of credit ratings issued. The most important of them are described below.

#### **3.2. Supervisory Board**

EuroRating has a Supervisory Board, composed of at least three members, of which at least two members are independent.

Specific tasks of the Supervisory Board, in addition to performing standard corporate functions, are as follows:

- ensuring the independence of the Company's credit rating activities, including independence from any influence and political and economic constraints;
- ensuring proper identification and disclosure of potential conflicts of interest in Company's credit rating activities and their management;
- approving the implementation of new and approving significant changes in the Company's previously existing policies and methods (models, methodologies) used by the Company in its credit rating activities;
- ensuring compliance by the Company of the requirements of Regulation 1060/2009;
- giving opinions on proposals and other issues referred to the opinion of the Supervisory Board by the General Meeting of Shareholders or by the Management Board of the Company.

In addition, the independent members of the Supervisory Board shall have the specific task of monitoring of:

- development of policies and methodologies used by the Company in the credit rating activity;
- effectiveness of the internal quality control system in the Company in respect of the credit rating activities;

- effectiveness of measures and procedures established to ensure the identification and elimination of any conflicts of interest or their management and disclosure;
- compliance and governance processes, including the effectiveness of functioning of the Review Unit, responsible for credit rating methodology verifications.

By the end of 2016 the composition of the Supervisory Board was as follows:

- Liliana Teresa Bajda – Chairperson of the Board
- Maciej Kowalczyk – independent member of the Board
- Piotr Szczesny – independent member of the Board.

### 3.3. **Compliance Unit**

EuroRating has a separate organizational unit responsible for supervising compliance with the law (hereinafter referred to as "Compliance Unit"). The person in charge at this organizational unit is an employee at the Company at the position of the Compliance Officer.

The tasks of the Compliance Unit are in particular:

- carrying out regular monitoring of the observance by the Company and by all Company's employees of law provisions and internal regulations applicable at the Company;
- carrying out regular monitoring of compliance of internal regulations applicable at the Company with the provisions of national law and the law of European Union;
- carrying out regular monitoring of the effectiveness and adequacy of internal regulations applicable at the Company in terms of the type and scale of activity conducted by the Company;
- carrying out regular monitoring of the effectiveness of measures and procedures to ensure the identification and elimination of any conflicts of interest or their management and disclosure;
- recommending to the Management Board to take appropriate remedial actions in case of violations by the Company or the Company's employees of law or internal regulations, and if necessary take actions to eliminate any conflicts of interest or their management and disclosure;
- recommending to the Management Board changes of internal regulations applicable at the Company in case of their non-compliance with the provisions of national law or the law of European Union, as well as in the case of their inadequacy to the type and scale of the activity conducted by the Company;
- advising employees and the Management Board on matters relating to the fulfillment by EuroRating obligations under the Regulation 1060/2009.

The Compliance Unit is fully independent of the business lines of the Company and of the current rating processes and reports directly to an independent member of the Supervisory Board delegated to perform individual supervision over the area of compliance.

### 3.4. Review Unit

The EuroRating credit rating agency has a separate organizational Review Unit responsible for monitoring and periodic verification of the rating methodologies used in the Company's credit rating activities.

The most important tasks of the Review Unit are:

- monitoring, on an ongoing basis, the appropriateness and adequacy of the methodologies, models and key rating assumptions used for the issuance of credit ratings;
- periodically reviewing the methodologies, models and key rating assumptions used, to determine their appropriateness and adequacy;
- compiling default statistics for the entities for which the EuroRating credit rating agency currently issues credit ratings (or for which it has issued credit ratings in the previous years);
- verification and validation of the methodologies, models and key rating assumptions in use on the basis of historical data;
- initiating changes and modifications to the methodologies, models and key rating assumptions in use, whenever the existing models or assumptions are found to be inadequate;
- preparation of proposals for the implementation of new and modification of already functioning methodologies, models and key rating assumptions used by the EuroRating credit rating agency to issue credit ratings, and transmitting these proposals to the Supervisory Board, which is responsible for approving these methodologies and models.

The Review Unit is fully independent of the business lines of the Company and of the current rating processes and reports directly to the Supervisory Board (or to an independent member of the Supervisory Board delegated to perform individual supervision over the Review Unit).

The person fulfilling the duties of the Head of the Review Unit during the entire year 2016 was an independent expert – Mr. Witold Szczepaniak, philosophy doctor of economics, assistant professor at the Financial Investments and Risk Management Department of the Wrocław University of Economics.

### 3.5. International standards in the credit rating activities

One of the basic internal procedures in the area of credit rating activities at the Company is the implemented "Code of Conduct of the EuroRating credit rating agency", which is in accordance with the guidelines contained in the model code („Code of Conduct Fundamentals For Credit Rating Agencies”) developed for credit rating agencies by the International Organisation of Securities Commissions (IOSCO). The "Code of Conduct of the EuroRating credit rating agency" defines, inter alia, rules for quality and integrity of the process of issuing and monitoring of credit ratings, for ensuring the independence of the EuroRating credit rating agency and of the analysts employed at the agency, as well as rules of conduct to rated entities and to ratings users and the rules for publication of ratings and for ensuring transparency of the credit rating activities. The "Code of Conduct of the EuroRating credit rating agency" is made publicly available on the website of the agency.

### 3.6. **Prevention, management and disclosure of conflicts of interest**

EuroRating takes all necessary measures to ensure that issuance of credit ratings is not affected by any existing or potential conflict of interest or business relationship, in which the agency, its management, employees or any other parties associated with the agency are involved. For this purpose a restrictive procedure called "Conflicts of interest policy" had been implemented, which provides effective prevention of possible conflicts of interest. This procedure is made publicly available on the agency's website.

The main principles for the prevention of conflicts of interest in relation to the rating analysts and Rating Committees members (hereinafter referred to collectively as "rating analysts") are:

- rating analysts are prohibited from participating in negotiations of fees received by the Company from entities rated by EuroRating;
- rating analysts are prohibited from soliciting or accepting money, gifts or any favours from anyone with whom EuroRating has already business relationships or with whom it plans to establish business relationships (this also applies to entities for which the agency issues unsolicited ratings);
- rating analysts and members of their immediate families may not acquire or hold financial instruments (and derivatives of them) issued or guaranteed by the entities in which rating processes those analysts are involved;
- the remuneration of rating analysts is based on a fixed amount and is not dependent on the revenue generated from the rated entities.

At the corporate level to avoid potential conflicts of interest is also dedicated principle in force at the EuroRating credit rating agency, that EuroRating does not provide for the rated entities (this also applies to unsolicited ratings) any other paid ancillary services.

### 3.7. **Rating process**

The rating process of credit rating assignments as well as of monitoring of the existing credit ratings includes the analytical process (performed by the lead analyst and secondary analysts designated for a rated entity) and the process of assignment and publication of the credit rating.

Decisions of the assignment (or later confirmations or change) of a credit rating are taken collectively by the Rating Committees composed of several persons, based on the analytical process performed and on the initial recommendation of the lead rating analyst.

Prior to the publication of information on the rating action taken by EuroRating, this information is transmitted in at least 24 hours advance to the rated entity. This is to enable it to respond to any factual errors contained in the reasoning to the rating action taken. In case of detection of such errors, or when the rated entity delivers additional important information, that may affect the performed credit risk assessment, the analytical process and/or the process of assigning the credit rating may be repeated.

### 3.8. Ongoing monitoring and periodic verifications of the credit ratings

In order to ensure the highest quality, reliability and timeliness of the credit ratings, all public credit ratings issued by the EuroRating credit rating agency are subject to continuous monitoring, as well as to periodic formal verifications (normally carried out on a quarterly basis). A verification of a credit rating may be also performed at any other time, in case of obtaining by the agency of new important information on the rated entity, or that may affect the assigned credit rating.

## 4. Staff allocation

4.1. Data on EuroRating's staff allocation to new credit ratings, credit rating reviews, methodology or model appraisal and senior management, and allocation of the staff to the rating activities in relation to the various classes of assets, as at the end of 2016 are as follows:

	No. of persons
New credit ratings and monitoring and verification of the existing ratings	3
Review and validation of the rating methodologies used	1
Compliance with law and internal regulations	1
Senior management	4
Administrative functions	1
<b>Total no. of staff</b>	<b>10</b>

**Credit ratings** – individual rating analysts are not assigned exclusively to the process of new rating assignments; usually they are involved in the rating processes (including in reviewing of the existing credit ratings) for a portfolio of rated entities.

The team of rating analysts during the year 2016 remained unchanged and consisted of three persons.

**Review and validation of rating methodologies** – this function is performed at the EuroRating credit rating agency by an independent expert, acting as the Head of the Review Unit (see section 3.4).

**Supervision of compliance with the law and internal regulations** – for monitoring of the compliance by the Company with the law and internal regulations in the area of credit rating activities is responsible a person employed in the Company on the position of the Compliance Officer (see section 3.3).

**Senior management** – to that category there is the Management Board and the Supervisory Board classified. Throughout 2016, the Management Board was single – the President of the Management Board was Mr. Miroslaw Bajda. The Supervisory Board was triple – its composition at the end of 2016 is presented in section 3.2.

4.2. Data on staff allocation contained in section 4.1 apply in full to corporate ratings (i.e ratings for companies and financial institutions, as well as for financial instruments issued by them). EuroRating does not issue credit ratings for any other asset classes (eg. structured instruments, municipalities, sovereigns, etc.).

## 5. A description of the record-keeping policy

- 5.1. Policy on keeping by the EuroRating credit rating agency data registers and documents defines the applicable internal procedure called "Document storage rules". It is consistent with the requirements in this area contained in the Regulation 1060/2009 and with the national legislation in the field of financial record keeping.
- 5.2. According to the above mentioned procedure the official documentation shall be stored in such a way as to prevent access by unauthorised persons.
- 5.3. The most important types of documents should be archived for the period of at least five years. It applies in particular to:
  - all internal regulations and procedures (including, in particular, those relating to the methodologies used for issuance of credit ratings);
  - records concerning every credit rating decision (including: the identity of the rating analyst involved in setting the credit rating; the identities of the persons who approved the credit rating; information whether the credit rating was solicited or not; date of the rating action);
  - rating reports and analyses (including source documents) and reports on rating assessments (both for solicited and unsolicited ratings and for public and private ratings);
  - internal records and documents, including non-public information and work documents used as a basis for every credit rating decision;
  - copies of internal and external notifications, including those sent electronically, sent by EuroRating and/or by its employees and, in particular, those relating to credit ratings;
  - information sent and received by the agency's employees by e-mail, where this relates to the rating proces;
  - records containing the rights and responsibilities of EuroRating and rated entities or related third parties under agreements for providing credit rating services;
  - accounting documentation concerning payments made by every rated entity or related third parties or any ratings user;
  - records concerning any conflict of interest (and avoidance, identification, elimination, disclosure or management of such conflicts), including those relating to EuroRating's shareholders and individual employees;
  - records relating to significant threats to the independence of EuroRating's credit rating activities;
  - for internal audits and controls: reports and records relating to audit paths (including, in particular, activities relating to credit rating);
  - reports on procedures and measures introduced by EuroRating to ensure compliance with law provisions concerning registration and supervision of rating agencies.



## **6. The outcome of the annual internal review of the independent compliance function**

- 6.1. Direct oversight of the unit responsible at the EuroRating credit rating agency for compliance with the law ("Compliance Unit") performs the independent member of the Supervisory Board delegated by the Board to carry out individual supervision over that area.
- 6.2. In addition to ongoing supervision and cooperation with the person employed in the Compliance Unit at the position of the Compliance Officer, the independent member of the Supervisory Board shall conduct an annual review of the performance and independence of the Compliance Unit.
- 6.3. The review covering the activities of the Compliance Unit in 2016 was carried out in February 2017. The review included an assessment of the independence of the Compliance Unit, the supervisory powers of the unit within the Company's organizational structure, the resources for the fulfillment of the tasks performed by the unit, the adequacy of the mechanisms of reporting of possible violations of law or internal regulations, as well as the staff awareness of the Company's key policies and procedures. The review included also an evaluation of the periodic reports prepared by the Compliance Unit, and a cooperation of the unit with the supervision authority (ESMA).
- 6.4. The conducted annual review of the performance and independence of the Compliance Unit referred to in Section 6.3 confirmed the independence of that unit, as well as the compatibility of its operations with the law and internal regulations. The Compliance Officer played throughout the year 2016 an active role in the reporting process and in the Company's cooperation with the supervisory authority, and closely cooperated with the Management Board and the employees of the Company in the area of ensuring of the compliance with the Regulation 1060/2009 and internal regulations, and when it was required – in reporting on possible violations of law or internal regulations.

## **7. A description of the management and rating analysts rotation policy**

- 7.1. According to the Company's Articles of Association, the term of office of the Supervisory Board members is three years. The term of office of the independent members of the Supervisory Board is not renewable and can not exceed five years.
- 7.2. The term of office of the Management Board members shall be three years and may be renewed (with the exception of the independent members of the Management Board).
- 7.3. Due to the fact, that the requirements of Article 7(4) of the Regulation 1060/2009 are disproportionate to the nature, scale and complexity of the Company's activities (including the number of employees below 50 persons) and to the type and scope of the issued credit ratings, EuroRating obtained during the registration process in the European Union an exemption from the requirement of rotation of rating analysts and persons approving credit ratings (in accordance with the provisions of Article 6(3) of the Regulation 1060/2009).

The measures and procedures implemented at the Company aimed at ensuring the independence of rating analysts and persons approving credit ratings, as well as at ensuring objectivity and quality of the rating process, ensure effective compliance by EuroRating with the objectives of the Regulation 1060/2009 in this regard.

## 8. Revenue on credit rating activities and and non-credit-rating activities

- 8.1. The main activity of the Company is the issuance of credit ratings. In the area of credit rating activities EuroRating specializes in assessing the credit risk of companies and financial institutions. The Company issues both public ratings and private (not put to the public), and in the scope of issuance of public ratings – both solicited ratings (carried out on behalf of rated entities) and unsolicited (issued on EuroRating’s own initiative, on the basis of publicly available information).
- 8.2. In addition to the credit rating activities, in 2016 the Company carried out to a small extent also ancillary activities, which included mainly: preparation of various types of financial analyses for customers and valuations of companies.
- 8.3. The sales revenues for the year 2016, broken down by income from credit ratings and from non-rating activities are as follows:

	Amount [PLN]	Share [%]
<b>Total sales revenue in 2016</b>	<b>381 600</b>	<b>100.0%</b>
- of which revenues from credit rating activities	261 500	68.5%
- of which revenues from non-rating activities	120 100	31.5%

- 8.4. As EuroRating specializes in credit ratings for companies and financial institutions and it issues only ratings in the corporate class, all of the revenues from the credit rating activities in 2016 were revenues from issuing ratings for this asset class.
- 8.5. In 2016 the total sales revenue was derived from services provided to customers from the European Union area.

## 9. Corporate governance statement

- 9.1. The statement contained in this section have been prepared in accordance with the Article 46a(1) of Council Directive 78/660/EEC of 27 July 1978.
- 9.2. **General information**

EuroRating Sp. z o.o. is a company registered in Poland and operates in accordance with the provisions of the Polish Code of Commercial Companies and in accordance with the Company’s Articles of Association.

As EuroRating is involved in the issuance and publication of credit ratings, which is an activity that requires registration in the European Union in accordance with the Regulation 1060/2009, the activity of the Company is also compliant with the provisions of that Regulation.

### **9.3. Code of corporate governance**

EuroRating, as a private company, which shares are not subject to a public trading on regulated markets, is not obliged to adhere to a code of corporate governance.

In order to ensure compliance with the highest international standards in the the field of credit rating activities, EuroRating voluntarily implemented a "Code of Conduct of the EuroRating credit rating agency", which is one of the basic internal procedures applicable in the Company. This code is in line with the guidelines contained in the model code (Code of Conduct Fundamentals For Credit Rating Agencies) developed for credit rating agencies by the International Organisation of Securities Commissions (IOSCO). It sets out, inter alia, rules for the quality and integrity of the process of issuing and monitoring of credit ratings, for ensuring independence of the EuroRating credit rating agency and of the rating analysts employed, as well as rules of conduct to rated entities and users of ratings, publication of ratings and transparency of credit rating activities carried out by the agency. "Code of Conduct of the EuroRating credit rating agency" is made publicly available on the website of the agency.

### **9.4. Internal controls in relation to the financial reporting process**

The accounting and financial reporting is carried out within the organizational structure of the Company by a designated exclusively for this purpose employee of the Company. Financial statements of the Company are prepared in accordance with the Polish accounting standards and with the Accounting Act.

Starting with the financial statements for 2014 all annual financial statements of the Company are subject to an audit by an independent chartered auditor of financial statements. The results of the audit shall be submitted to the Supervisory Board and to the Management Board of the Company, and are sent to ESMA – as the supervisory authority of the Company.

### **9.5. Shareholdings and voting rights**

EuroRating is a limited liability company based in Poland, which shares are held by two individuals (see section 2.4). There are no preferred shares in the Company or restrictions on the exercise of voting rights. Decisions of the General Meeting of Shareholders shall be according to the Polish Code of Commercial Companies.

EuroRating does not have any parent company or subsidiaries, nor any significant direct or indirect shareholdings in other entities.

#### **9.6. Composition and operation of management and supervisory bodies**

The composition of the Supervisory Board as of the end of 2016 is in accordance with the information provided earlier in section 3.2, while the composition of the Management Board in accordance with the information provided in section 4.1.

The Supervisory Board operates in accordance with the provisions of the Polish Code of Commercial Companies, in accordance with the Company's Articles of Association, as well as in accordance with the Regulations of the Supervisory Board.

The Management Board operates in accordance with the provisions of the Code of Commercial Companies and in accordance with the Company's Articles of Association.