EuroRating™

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EuroRating credit rating agency

About the company

EuroRating is a **fully independent international credit rating agency**, operating since 2007, specialized in credit risk assessment of corporations and financial institutions. The agency's activities are focused on emerging markets, but it offers professional and reliable credit ratings for companies and investors worldwide.

EuroRating's mission is **to provide cost-effective services in the area of an independent and professional assessment of financial credibility of enterprises** and provision of the information to all financial and capital market participants.

Credit ratings

Credit ratings assigned by the EuroRating credit rating agency are **accurate measure of risk** of insolvency of a company in a long term and in its consequences of a loss of company's creditors. A credit rating determines the financial credibility and the company's ability to meet its financial commitments in the perspective of up to 3 years.

A credit rating is valid indefinitely – until it is changed (or withdrawn) by EuroRating. With the frequent periodical verification (based on quarterly financial statements of the rated entities and other information obatained by the agency from various sources), credit ratings assigned by the EuroRating credit rating agency are always up to date and reflect the current financial situation and the credit risk of the rated entities.

Assigned ratings

EuroRating currently rates over 50 companies from various industries. By the number of the issued public credit ratings EuroRating is the leading credit rating agency in Poland. Among the rated entities are the largest corporations listed on the Warsaw Stock Exchange, the largest Polish banks and credit guarantee funds cooperating with banks. Current public ratings are presented continuously in the agency's website at: www.eurorating.com/en/ratings.

International standards of professionalism

EuroRating has a **formal registration as a credit rating agency in the European Union** (in accordance with the Regulation No. 1060/2009 of the European Parliament on credit rating agencies) and is a subject to a direct supervision of the European Securities and Markets Authority (https://www.esma.europa.eu/supervision/credit-rating-agencies/risk).

The EuroRating credit rating agency holds the **ECAI status** (External Credit Assessment Institution) pursuant to the Regulation of the European Parliament and of the Council No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms. Credit ratings assigned by EuroRating are valid throughout the European Union and can be used for regulatory purposes under EU legislation by all financial institutions or any other entities and are entirely equal to credit ratings issued by other credit rating agencies recognized by ESMA, without territorial or any other limitations.

The basic principle that guides the EuroRating credit rating agency is to provide independent, objective and of the highest quality and reliability credit ratings. This purpose serve rigorous procedures and internal regulations in force in the agency, to which must comply both the agency's staff and the agency itself.

EuroRating has in force the **Code of Conduct**, compliant with the guidelines contained in the model Code of Conduct Fundamentals For Credit Rating Agencies developed by the International Organisation of Securities Commissions (IOSCO). The Code of Conduct of the EuroRating credit rating agency determines, inter alia, rules concerning the quality and integrity of the process of issuing and monitoring of credit ratings, independence of EuroRating and of the agency's employees and rating analysts, rules of conduct to the rated entities and to the users of ratings, as well as the transparency of the agency's credit rating activities.

EuroRating takes all necessary measures to ensure that the issuing of credit ratings is not affected by any existing or potential conflict of interest or business relationship, in which are involved the agency, its management, employees or any other parties associated with the agency. EuroRating has implemented for this purpose a restrictive procedure called "**Policy on conflicts of interest**", which provides effective prevention of any possible conflicts of interest.

Rating methodology

In the process of issuing and verifying of a credit rating the analysis of financial and economic situation of a company has a very wide range, because the assessment of credit risk applies in this case a long-term perspective (up to three years) and in addition it is necessary to accurately estimate the level of risk in order to determine the appropriate level of the credit rating. When assessing the financial credibility of a rated entity EuroRating uses quantitative and qualitative analytical methods.

Quantitative assessment includes mainly an analysis of financial statements of the company (preferebly for the past ten years, taking into account the most recent quarterly reports and forecasts for the future), conducted using, among others, scoring models for credit risk assessment tailored for specific industries. An important element of quantitative analysis is an assesment the stability of financial indicators, as well as the dynamics and direction of changes in fundamental values characterizing the condition of the rated company. EuroRating attaches great importance to the analysis of cash flows, which are particularly important from the point of view of a solvency of the company.

The assessment of the financial situation of a company includes also a comparative analysis, involving the assessment of both the individual parameters as well as the overall risk profile of the company in relation to other entities constituting its reference group.

Qualitative analysis includes an evaluation of a number of factors which are not easy to quantify and which require in each case an expert evaluation. These include i.a.: the risk of the industry and the economic environment, vulnerability to changes in exchange rates and/or in commodities prices, dependence on suppliers or customers, market position, business model, quality and innovation of products, experience and qualifications of the management, the accounting principles used, quality and market value of assets, as well as the ownership structure and a likelihood of support from the owners in case if needed.

A combination of the results of the two areas of analysis allows the agency to make a final assessment of economic and financial situation of the rated company and of its ability to meet financial obligations in a long term and to **assign a credible credit rating**.

Type of risk assessed

Credit ratings assigned by the EuroRating credit rating agency are overall assessments of the credit risk of the rated entities. In making that assessment, EuroRating defines the risk in absolute categories – the ratings assigned for specific entities are not dependent on that of other entities. The ratings given by the EuroRating rating agency are therefore not comparative rankings, but rather ratings assigned on the basis of a constant scale of credit risk.

The ratings assigned by the EuroRating credit rating agency represent an overall estimate of the risk of losses (that is to say, the ultimate loss of part or all of the sums owed, together with any interest payable) by creditors of the entity in the event of default. The ratings issued by EuroRating therefore represent a combination of the estimated probability of default (PD) of the rated entity and an estimate of the ultimate losses likely to be incurred by its creditors if it should actually default (Loss Given Default - LGD).

Rating for issuer / rating for issue

EuroRating, depending on the needs of the rated entity, can assign both: a rating for the issuer and a separate ratings for each series of bonds issued (if the profile of the credit risk assiociated with the bonds is different from the overall credit risk profile of the issuer).

Rating scale

The credit risk expressed by ratings issued by EuroRating is determined in a **20-point scale**, analogous to the traditional rating scale used widely by international credit rating agencies. This ensures comparability of ratings and facilitates users to use ratings issued by several agencies.

The ratings issued by EuroRating determine the financial credibility and the risk of insolvency of the company in a long term (up to three years). Thus, they are **long-term ratings**.

When analyzing the credit risk of corporates and banks, EuroRating takes into account the risk of the macroeconomic environment (including current and forecasted overall economic situation, balance of payments, the state budget and economic policy), as well as takes into account the sensitivity of the rated entities to changes in exchange rates. The ratings issued by EuroRating therefore include factors related to the overall country risk and the currency risk. Thus, they are **fully comparable with ratings in the international scale** issued by other credit rating agencies.

Description of credit risk determined by the EuroRating's rating scale

The following table presents a description of the credit risk associated with the different classes of the credit ratings assigned by the EuroRating credit rating agency:

Rating	Risk description
AAA	Negligible credit risk. Highest level of financial credibility. Rating assigned exclusively where an entity has extremely strong capacity to meet financial commitments.
AA+ **AA** **AA-**	Very low credit risk. Very high level of financial credibility. Very strong capacity to meet commitments. Low susceptibility to adverse economic conditions.
A+ **A** **A-**	Low credit risk. High financial credibility and capacity to meet commitments. Average resistance to long-term unfavourable economic financial conditions.
BBB+ **BBB** **BBB-**	Moderate credit risk. Good financial credibility and adequate capacity to meet commitments in the long term. Increased susceptibility to long-term adverse economic conditions.
BB+ **BB** **BB-**	Increased credit risk. Relatively low financial credibility. Adequate capacity to meet commitments under average or favourable economic conditions. High or medium level of debt recovery in case of a default.
B+ **B** **B-**	High credit risk. Capability of meeting financial commitments largely conditioned on favourable external conditions. Medium or low level of debt recovery in case of a default.
CCC **CC** **C**	Very high credit risk. Very low capability to meet financial commitments even under favourable economic conditions. Low or very low level of debt recovery in case of a default.
D	Extremely high credit risk. Complete lack of capability to meet financial commitments. Without additional external suport the level of debt recovery is very low or close to zero.