

## **TRANSPARENCY REPORT FOR THE YEAR 2019**

**INC** | Rating

March 2020

## **1. Introduction**

**1.1** The company INC Rating Sp. z o.o. (“INC Rating”, “the company”) with its registered office in Poznań (Poland) operates in the area of issuance of credit ratings of Local Government Units.

**1.2** INC Rating Sp. z o.o. was on 27<sup>th</sup> October 2015 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 on credit rating agencies (as amended), hereinafter referred to as “CRA Regulation”. Since then INC Rating 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:

- a) An overview of the legal and ownership structure;
- b) A description of the internal control mechanisms ensuring quality of credit rating activities;
- c) Statistics on the allocation of the staff to new credit ratings, credit rating reviews, methodology or model appraisal and senior management;
- d) A description of the record-keeping policy;
- e) The outcome of the annual internal review of the independent compliance function;
- f) A description of the management and rating analysts rotation policy;
- g) Financial information on the revenue divided into fees from credit rating and non-credit-rating activities;
- h) 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.

Unless otherwise indicated, the information contained in this report relate to the activities of the INC Rating credit rating agency in the financial year ended 31 December 2019 and reflect the situation on that day.

## **2. Legal and ownership structure of the INC Rating credit rating agency**

**2.1** INC Rating limited liability company is a corporation of the Polish law, entered into the National Court Register by the District Court in Poznań – Nowe Miasto i Wilda, VIII Commercial Division of the National Court Register under number KRS 0000535140. The company has been operating as a limited liability company since 22<sup>nd</sup> December 2014 (the date of registration in the National Court Register).

The most important information of legal status is presented below.

Legal status - INC Rating Sp. z o.o.

	<b>INC Rating Sp. z o.o.</b>
Form of legal structure	Limited Liability Company (Spółka z ograniczoną odpowiedzialnością)
National Court Register	VIII Commercial Division of District Court in Poznań – Nowe Miasto i Wilda
Court Register No. (KRS)	0000535140
Tax ID. (NIP)	PL 7811902148
REGON	302860944
Share capital	2.350.000,00 PLN
Paid-in capital	2.350.000,00 PLN

## 2.2 Ownership structure

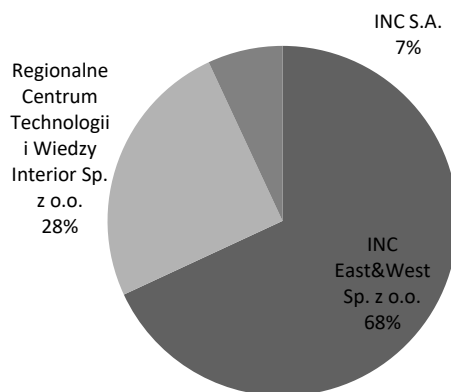
Detailed information about ownership structure is presented below.

Ownership structure – INC Rating Sp. z o.o.

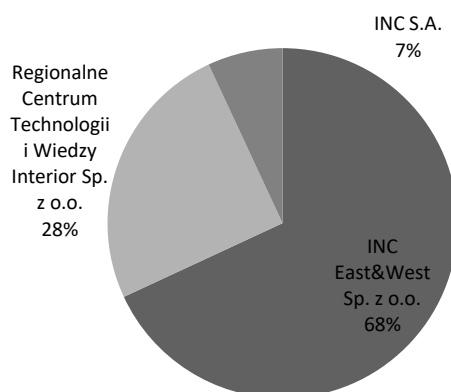
Owners	% of capital	Nature of holding:	% of voting rights	Nature of holding:
INC East&West Sp. z o.o.*	68,08%	direct	68,08%	direct
Regionalne Centrum Technologii i Wiedzy Interior Sp. z o.o.	24,98%	direct	24,98%	direct
INC S.A.	6,94%	direct	6,94%	direct

\* INC East&West Sp. z o.o. is a subsidiary of INC S.A. (INC S.A. holds 100% of capital and voting rights in INC East&West Sp. z o.o.)

**% of capital**



**% of voting rights**



Information regarding parent undertakings:

Name	Country	Information about registration and supervision
INC East&West Sp. z o.o.	Poland	National Court Registry no. 0000335417
INC S.A.	Poland	National Court Registry no. 0000028098, subject to supervision by the Polish Financial Supervisory Authority
Regionalne Centrum Technologii i Wiedzy Interior Sp. z o.o.	Poland	National Court Registry no. 0000328757

**2.3** The Company headquarters is located in Poland, 60-830 Poznań, ul. Krasińskiego 16. INC Rating does not have any subsidiaries or foreign branches.

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

**3.1** INC Rating 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** - The Supervisory Board of INC Rating is a permanent surveillance authority over the Agency's activities. The Supervisory Board consists of at least three and maximum five members appointed by the shareholders during the General Meeting. At least two members of the Board are independent members, which do not participate in rating activities.

Scope of Supervisory Board responsibilities are as follows:

a) Chairman of the Supervisory Board – responsible for:

- Responsible for maintaining relations between the Supervisory Board and the Management Board and Shareholders meeting,
- Guiding the work of the Supervisory Board,
- And all duties as regular Members of the Supervisory Board.

b) Members of the Supervisory Board – responsible for:

- Appointing the Management Board,
- Determining duties of the Management Board,
- Permanent supervision over the Agency's activities,
- Supervising the work of the Compliance Officer,
- Approving the Organisational structure of the Agency,
- Setting or approving policies and procedures within the Agency,

c) Independent Members of the Supervisory Board – responsible for:

- Same responsibilities as regular Members of the Supervisory Board,
- Monitoring of the development of the Agency and of the methodologies used by the Agency in its credit rating activities,
- Monitoring of the effectiveness of the internal quality control system of the Agency;
- Monitoring of the effectiveness of measures and procedures instituted to ensure that any conflicts of interest are identified, eliminated or managed and disclosed;
- Monitoring of the compliance and governance processes, including the efficiency of the review function,
- Periodic reporting of the monitoring outcome to the Management Board,
- Supervision over the Review Function Department.

By the end of 2019 the composition of the Supervisory Board was as follows:

- Donat Marcin Pieniążek – Chairman of the Board,
- professor Justyna Światowiec-Szczepańska – member of the Board,
- Wiesław Ocytko – independent member of the Board,
- Michał Zieliński – independent member of the Board.

**3.3 Compliance Department** - INC Rating has a separate organizational department responsible for supervising compliance with the law – Compliance Function Department. The person in charge at this organizational department is an employee at the Company at the position of the Compliance Officer. Compliance Officer controls fulfilling credit rating agency's duties by the Agency and its employees and presents reports regarding the situation.

Compliance Officer on a regular basis is responsible for:

- monitoring and evaluating adequacy and efficiency of measures and procedures implemented in accordance with legal regulations;
- monitoring and assessing the adequacy and effectiveness of the actions taken to address any deficiencies in the Agency's compliance with its obligations;
- advising and supporting the Supervisory Board, Management Board, rating analysts and other Agency's employees in proper fulfilling regulatory duties.
- advising and assisting the managers, rating analysts, employees as well as any other natural person whose services are placed at the disposal or under the control of the credit rating agency or any person directly or indirectly linked to it by control who is responsible for carrying out credit rating activities, to comply with the Agency's obligations under CRA Regulation.
- regular reporting to ESMA, monitoring, review and evaluation of the effectiveness of implemented legal procedures and management, and the avoidance of conflicts of interest.

The Compliance Function Department is fully independent of the business lines of the Company and of the current rating processes and reports directly to an independent members of the Supervisory Board.

The person fulfilling the duties of the Compliance Officer during the entire year 2019 was an independent expert - Mrs Danuta Stankiewicz as a Compliance Officer. The Agency finds her adequate for the job (with proper education and experience) and provide her conditions for co-operation with all employees from the Agency.

**3.4 Review Function Department** - The INC Rating credit rating agency has a separate organizational Review Function Department responsible for monitoring and periodic verification of the rating methodologies used in the Company's credit rating activities. The

person in charge at this organizational department is an employee at the Company at the position of the Review Officer.

Basic responsibility of the Review Function is conducting regular, periodical reviews of methodologies, models, key rating assumptions used by the Agency, back testing and validation of methodologies and any significant changes or modifications thereto as well as their adequacy to be used in rating new financial instruments.

That review function is independent of the business lines which are responsible for credit rating activities and report to the independent members of the Supervisory Board and Rating Committee.

The person fulfilling the duties of the Review Officer during the entire year 2019 was an independent expert - Mr Roman Błaszkiwicz as a Review Officer. The Agency finds him adequate for the job (with proper education and experience) and provides him conditions for co-operation with all employees from the Agency.

**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 "INC Rating – Code of Conduct", 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 "INC Rating – Code of Conduct" defines, inter alia, rules for quality and integrity of the process of issuing and monitoring of credit ratings, for ensuring the independence of the INC Rating 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 "INC Rating – Code of Conduct" is made publicly available on the website of the agency (<http://incrating.pl/kodeks-postepowania> ).

**3.6 Prevention, management and disclosure of conflicts of interest** - INC Rating 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 "Policies and procedures on conflicts of interest" had been implemented, which provides effective prevention of possible conflicts of interest. This procedure is made publicly available on the agency's website (<http://incrating.pl/zarzadzanie-konfliktami-interesow> ).

**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 rating 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 changes) of a credit rating are taken collectively by the Rating Committees, based on the analytical process performed and on the initial recommendation of the rating analysts. Prior to the publication of information on the rating action taken by INC Rating, 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 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 INC Rating 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 INC Rating'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 2019 are as follows:

	No. of persons
New credit ratings and monitoring and verification of the existing ratings	2*
Rating Committee	3
Review and validation of the rating methodologies used	1
Compliance with law and internal regulations	1
Senior management	6*
Administrative functions	1
<b>Total no. of staff</b>	<b>13</b>

\*Mr Krzysztof Grybionko works both as a Chief Rating Analyst and Vice President of the management board

**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 number of analysts has decreased from 4 to 2 in 2019.

The Rating Committee involves the Chairman of the Rating Committee – dr Marcin Wiśniewski, and two members of the Rating Committee: dr Piotr Zygmanski CFA and dr Michał Łukowski.

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

**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 2019, the Management Board consists of two

members – the President of the Management Board (Mr Jacek Mrowicki) and Vice-president (Mr Krzysztof Grybionko). The Supervisory Board at the end of 2019 consists of four members – its composition at the end of 2019 is presented in section 3.2.

**4.2** Data on staff allocation contained in section 4.1 apply in full to sub-sovereign ratings (ratings for Local Government Units and municipal companies). INC Rating does not issue credit ratings for any other asset classes (e.g. structured instruments, ratings for companies and financial institutions, etc.) right now, despite having an approved methodology and rating process for companies and their debt securities.

## **5. Description of the record-keeping policy**

**5.1 Record keeping** - INC Rating arranged adequate records and audit trails of its credit rating activities to be kept. Those records include:

- for each credit rating and rating outlook, the identity of the rating analysts participating in the determination of the credit rating or rating outlook, the identity of the persons who have approved the credit rating or rating outlook, information as to whether the credit rating was solicited or unsolicited, and the date on which the credit rating action was taken;
- the account records relating to fees received from any rated entity or related third party or any user of ratings;
- the account records for each subscriber to the credit ratings or related services;
- the records documenting the established procedures and rating methodologies used by the credit rating agency to determine credit ratings and rating outlooks;
- the initial internal records and files, including non-public information and work papers, used to form the basis of any credit rating and rating outlook decision taken;
- credit analysis reports, credit assessment reports and private credit rating reports and internal records, including non-public information and work papers, used to form the basis of the opinions expressed in such reports;
- records of the procedures and measures implemented by the credit rating agency to comply with the CRA Regulation;

- copies of internal and external communications, including electronic communications, received and sent by the credit rating agency and its employees, that relate to credit rating activities.

Records and audit trails referred above are kept in the INC Rating headquarters for at least five years and are available upon request to the European Securities and Markets Authority. Where the registration of INC Rating is withdrawn, the records will be kept for an additional term of at least three years.

Records which set out respective rights and obligations of the credit rating agency and the rated entity or its related third parties under an agreement to provide credit rating services are retained for at least the duration of the relationship with that rated entity or its related third parties.

INC Rating adopted adequate measures for keeping all of the agreements that the Agency signed for at least five years, in the Agency's headquarters.

INC Rating adopted adequate measures for keeping all of the accounting documents of that the Agency has for at least five years in the Agency's headquarters. In case of outsourcing accounting INC Rating makes sure that the outsourcer has adopted proper measures for the internal record keeping, that are in accordance with Agency's policies.

INC Rating records all instances where in its credit rating process it departs from existing credit ratings prepared by another agency with respect to underlying assets providing a justification for the differing assessment.

All records are kept in the Agency's headquarters for at least five years and are available upon request to the competent authorities of the Member States if it is not stated otherwise in relevant sections.

INC Rating implemented a system of data-digitalization, therefore all the documents are scanned and stored on the Agency's server.

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

**6.1** Direct oversight of the Compliance Function Department at the INC Rating credit rating agency is conducted by independent members of the Supervisory Board

**6.2** In addition to ongoing supervision and cooperation with the person employed as the Compliance Function Department at the position of the Compliance Officer, the independent members of the Supervisory Board (INEDs) shall conduct an annual review of the performance and independence of the Compliance Function Department.

**6.3** The review covering the activities of the Compliance Function Department in 2019 will be carried out in 2020 (covered in INEDs report for 2019). The review included an assessment of the independence of the Compliance Officer, the supervisory powers of the Compliance Function Department within the Company's organizational structure, the resources for the fulfilment of the tasks performed by the Compliance Function Department, 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 Officer, and a cooperation of the Compliance Function Department with the supervision authority (ESMA).

**6.4** The conducted annual review of the performance and independence of the Compliance Function Department referred to in section 6.3 confirmed the independence of that Department, as well as the compatibility of its operations with the law and internal regulations. The Compliance Officer played throughout the year 2019 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.

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

**7.1** Regarding the Company's Articles of Association The Supervisory Board consists of at least three and maximum five members appointed by the shareholders during the General Meeting. At least two members of the Board are independent members, which do not participate in rating activities. Cadence of the Supervisory Board lasts maximum three years and is common for all Members. Cadence of the independent members is not renewable. Dismissal of independent members takes place only in the event of serious transgression or infringement. Other members of the Supervisory Board may be re-appointed for further cadences.

**7.2** The Management Board of INC Rating consists of at least one and maximum three members of which at least one does not participate in rating process. Members of the Management Board are appointed and dismissed by the Supervisory Board. Term of the Management Board lasts maximum three years and is common for all Members. Term of the independent members is not renewable. Dismissal of independent members takes place only in the event of serious transgression or infringement. Other members of the Management Board may be re-appointed for further terms.

**7.3** Concerning the analyst rotation policy INC Rating employs a total of 2 rating analysts. On every rating issued by the Agency works a team of 2 analysts. Therefore, there are one team of analysts at the Agency. The lead rating analyst can be involved in credit rating activities related to the same rated entity or a related third party for a maximum period of time of four years. After this period of time, the lead rating analyst shall not be involved in credit rating activities related to this rated entity or a related third party within two years of end of this period. The rating analyst can be involved in credit rating activities related to the same rated entity or a related third party for a maximum period of time of five years. After this period of time, the rating analyst shall not be involved in credit rating activities related to this rated entity or a related third party within two years of end of this period.

A maximum period of time during which the Credit Rating Committee is allowed to approve ratings regarding the rated entity is seven years. After this period of time another Rating Committee should be assigned to this given entity.

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 INC Rating with the objectives of the Regulation 1060/2009 in this regard.

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

**8.1** INC Rating has issued 1 new solicited credit rating. INC Rating has also issued actualizations of 12 solicited ratings issued in the previous years.

**8.2** The sales revenues for the year 2019, broken down by income from credit ratings and from non-rating activities are as follows:

	<b>Net amount (PLN)</b>	<b>Share (%)</b>
<b>Total sales revenue in 2018</b>	<b>266.682</b>	<b>100%</b>
- of which revenues from credit rating activities	200.182	75,06%
- of which revenues from non-rating activities	66.500	24,94%

**8.3** In 2019 the total sales revenue was derived from services provided to customer 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** - INC Rating 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 INC Rating 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** - INC Rating, 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 field of credit rating activities, INC Rating voluntarily implemented a "INC Rating - Code of Conduct", 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 INC Rating 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. "INC Rating - Code of Conduct" is made publicly available on the website of the agency (<http://incrating.pl/kodeks-postepowania> ).

**9.4 Internal controls in relation to the financial reporting process** - The accounting and financial reporting is outsourced and carried out by the Denarius Kancelaria rachunkowa with office in Poznań, Wenecjańska street 7/1. Mrs Sonia Pietrzyńska is a highly experienced expert (Chartered accountant). Financial statements of the Company are prepared in accordance with the Polish accounting standards and with the Accounting Act. Audited financial statement for 2019 was submitted to the Supervisory Board and to the Management Board of the Company and has been sent to ESMA – as the supervisory authority of the Company.

**9.5 Shareholding and voting rights** - INC Rating is a limited liability company based in Poland, which shares are held by the companies mentioned in the section 2.2. 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. INC Rating does not have any 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 2019 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. 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.

Krzysztof Grybionko

Vice President of the Management Board

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