

Rating process policies

The purpose of this document is to present policies used by the INC Rating Sp. z o.o. during the credit rating process.

Presented policies apply to all employees involved in the rating process.

Supervision over a proper conduction of these policies is done by the Compliance Officer, the Review Officer and executed by the Chief Rating Analyst and Chairman of the Rating Committee.

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Methodology development, validation and review

INC Rating’s methodology is being constantly developed. First of all, Chief Rating Analyst and Chairman of the Rating Committee compile quarterly reports with their assessment of the methodology. These reports are verified by the Review Officer his/her own quarterly review process. If any of them notifies an error in the methodology they inform each other (Chief Rating Analyst, Chairman of the Rating Committee and Review Officer) about the findings and they conduct a meeting to resolve the issue. Review Officer compares credit ratings issued by the Agency with credit ratings issued by other CRAs where applicable. If any serious discrepancies occur, he discusses them with both Chief Rating Analyst and the Chairman of the Rating Committee to find out what is the basis for these discrepancies.

A formal methodology review meetings take place at least twice a year. These meetings are attended by the Review Officer who is responsible for setting it up and Chief Rating Analyst and Chairman of the Rating Committee who is responsible to support this process with all their knowledge, information and resources. If any of them finds it suitable they are allowed to invite one of other employees that are engaged in the rating process to the meeting.

INC Rating at this stage of Agency’s development does not find it adequate to create a special Rating Methodology Committee.

INC Rating’s analysts monitor rated entities, therefore in many cases they are the first to notice any factors that have occurred and which have not been included in Agency’s credit rating methodology. Therefore they are allowed to make suggestions regarding the rating methodology. Moreover, to encourage and motivate them to do so, the Agency may reward the Analyst with a proper bonus whenever his suggestion has been introduced to the methodology.

Any changes to the rating methodology must be tested and validated by Review Officer. Before introducing a new (or updated) methodology it has to be approved by the Independent Members of the Supervisory Board.

Mechanism of assigning weights of the input variables

The model uses 20 independent variables picked by the Random Forest Classifier algorithm. The variables employed consist of:

Ratios Group	Ratios
Liquidity and solvency ratios	Short-term Liabilities / Assets - mean
	Short-term Liabilities / Assets – relation to industry
	Quick Ratio – relation to industry
Profitability	EBITDA / Assets – mean
	Net Profit / Assets (ROA) – mean

Ratios Group	Ratios
	ROA – relation to industry
	Net Profit / Equity (ROE) – mean
	ROE – relation to industry
	Earnings After Taxes / Sales - mean
	Net Profit / Sales – mean
	Net Profit / Sales – relation to industry
Efficiency	Working Capital / Assets – mean
	Payables Conversion Period – relation to industry
Debt and financial structure	Equity / Assets – mean
	Equity / Assets – relation to industry
	Equity / Assets – standard deviation
	Financial Leverage – mean
	Financial Leverage – relation to industry
	Financial Leverage – standard deviation
	Liabilities / Equity – mean

Due to the high volatility of the indicators employed in the model, in the neural network training process, the necessity for the analysed data transformation arose. The transformation consists in 99,5% winsorization. What is more, every variable has been standardised to the <0,1> interval. The standardisation has been conducted using the following formula:

$$X_T = \frac{X_i - Min_x}{Max_x - Min_x}$$

where:

XT – the value of the variable after the normalisation

Minx – minimal value of the variable in the whole dataset

Maxx – maximal value of the variable in the whole dataset.

Values of the extreme quantiles, Minx and Maxx for the particular variables were shown in the following table:

	Quantile 0,005	Quantile 0,995	Min	Max
Equity/Assets – mean	- 13,15	30,94	- 13,15	30,94
Equity/Assets - relation to industry	- 6,70	4,24	- 6,70	4,24
Short-term liabilities/Assets – mean	- 259,17	6,47	- 259,17	6,47
Liabilities/Equity – mean	- 255,66	5,38	- 255,66	5,38
EBITDA/Assets – mean	- 5,04	5,85	- 5,04	5,85
Short-term liabilities/Assets – relation to industry	- 1,08	0,39	- 1,08	0,39
Net profit/Assets (ROA) – mean	- 0,99	0,42	- 0,99	0,42

Equity/Assets – standard deviation	- 2,71	0,82	- 2,71	0,82
Working Capital/Assets - mean	0,02	3,15	0,02	3,15
ROA – relation to industry	- 2,66	0,96	- 2,66	0,96
Net Profit/Equity (ROE) – mean	- 6,29	7,59	- 6,29	7,59
Financial Leverage (Assets/Equity) – standard deviation	0,00	3 381,78	0,00	3 381,78
Earnings after taxes/Sales – mean	0,00	27,79	0,00	27,79
Payables conversion period – relation to industry	- 6,78	14,52	- 6,78	14,52
Net Profit/Sales – mean	- 6 714,59	158,33	- 6 714,59	158,33
Net Profit/Sales – relation to industry	- 134,85	102,95	- 134,85	102,95
Financial Leverage – relation to industry	- 36,48	15,94	- 36,48	15,94
Quick Ratio – relation to industry	0,08	17,35	0,08	17,35
ROE – relation to industry	- 5,08	2,04	- 5,08	2,04

Transformed variables can be then installed in the model as an input array.

Model architecture

The model consists of the two hidden layers, one input layer and one output layer. The input layer is an array of 20 independent variables. In the first hidden layer there are 15 neurons. Every neuron in that layer has weight attributed to the adequate variable from the input layer. The weights had been determined with the backpropagation algorithm. The weights attributed to the first hidden layer form a 20x15 matrix. The activation function installed in every neuron is a logistic sigmoid profiled with the formula:

$$v_n = \frac{1}{1 + e^{-input}}$$

where:

v_n – neuron value

input – input data array, multiplied by the adequate weights.

The second hidden layer consists of 15 neurones and its' construction is analogue to the first hidden layer neurons. The input data in this hidden layer consists of the output of the previous hidden layer.

The output layer of the model is a single neuron, where input data consists of the second hidden layer output data. Activation function in this neuron is a logistic function as well. One of the key properties of the logistic function is that its outcome can be interpreted as a

probability of the classification issuer to the second risk class, therefore it can be interpreted as a default probability.

Input vector present in the logistic function equation contains also intercept, called bias. Biases for every neurons and layers are presented in the following table (L1 – L3 refer to layers):

Part 1 – testing the methodology by the Review officer (in cooperation with Chief Rating Analyst and the Chairman of the Rating Committee).

First part of validation process is testing of a new or adjusted methodology.

Each of them can test the methodology on its own based on the specific rules. Sample of companies on which the methodology is tested can't be less than representative sample. Selected sample have to be proportionate to whole population.

During methodology testing they implement false data to some of the companies and check whether the methodology identify this entities.

After that, Review Officer should meet and discuss his/her opinions about the methodology with Chief Rating Analyst and the Rating Committee.

If all of them agree that the methodology is accurate, Review Officer passes it to the analysts for testing.

Part 2 – testing the methodology by Rating Analysts

Rating Analysts work with the methodology on the daily basis and monitor companies, therefore it is essential to include them in the validation process. They receive an adjusted methodology from the Chief Rating Analyst and test it to find any errors or discrepancies.

When they reach a proper level of confidence that the methodology is accurate or if they find any errors, they pass their feedback to the Review Officer.

Part 3 – validation by the Review Officer

If there are no reservations by analysts the Review Officer is allowed to validate. If not, the process is repeated.

Part 4 – reporting the outcome of the methodology validation to the Independent members of the Supervisory Board.

The Independent members of the Supervisory Board receive the report from validation of the methodology after the end of the process. If the Independent members of the Supervisory Board do not agree with implemented changes they can restart the whole process. If not, they approve it and send the report to the ESMA. Independent members of the Supervisory Board pass the decision to the Review officer and Rating Committee. Then Review officer

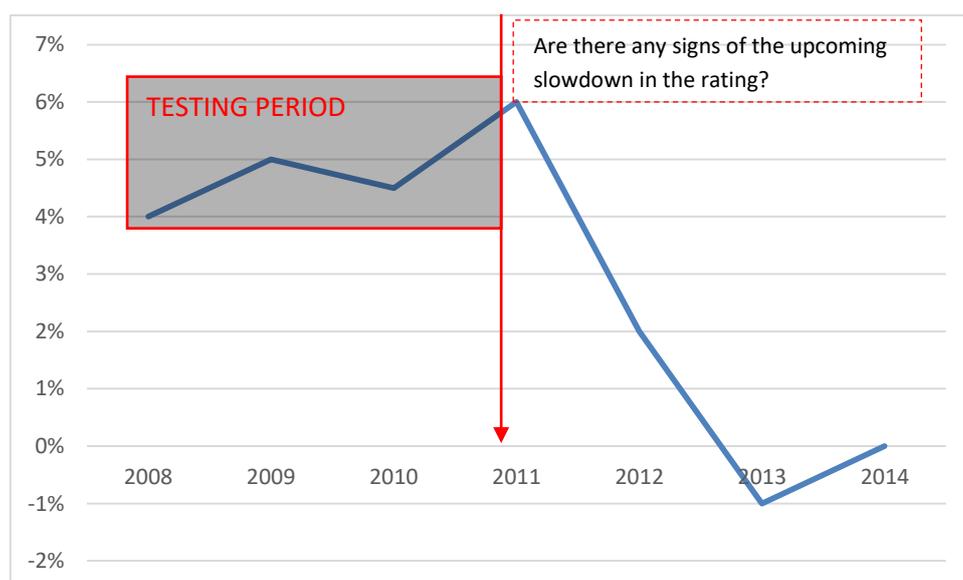
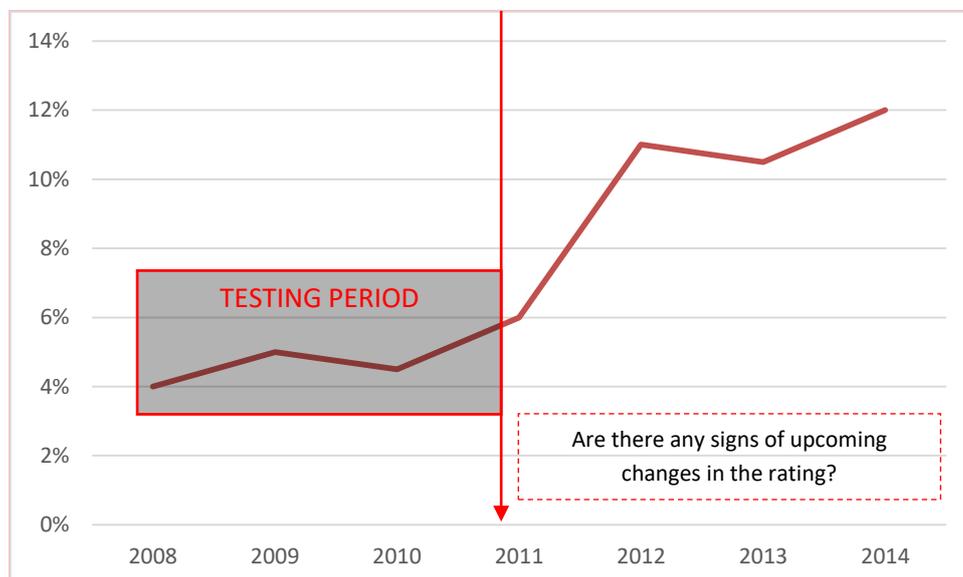
carry out training and exam of all employees involved in the rating process. All staff is responsible individually to implement new methodology in his/hers work activity.

During the validation process review officer uses the back-testing process. Back-testing process is presented below.

1. Selecting representative sample of companies known very well by the Agency's analysts (Agency's clients).
2. Selecting a testing period for each company. This should be a period prior to serious change of the company's finance. It may be deterioration or improvement of financial conditions.

For example if one of the key indicators substantially rises or falls after a period of remaining on stable level, the period prior to the rise/fall should be tested.

This situation has been depicted below.



3. Results of test are later compared with the actual shift in the company's financial situation.
4. The acceptable model should show signs of the coming change in at least 85% of time.
5. If the accuracy of the methodology is lower than the acceptable, the methodology has to be reviewed again, until the acceptable model is developed.

Introducing new (or updated) methodology

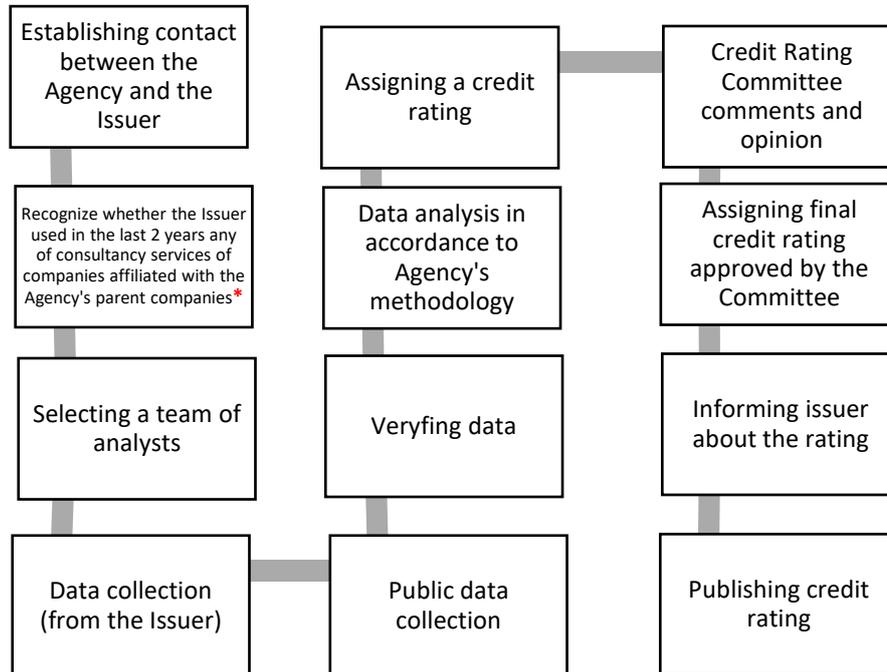
When implementing a change in the methodology, INC Rating:

- Immediately, using the same means of communication as used for the distribution of the affected credit ratings, disclose likely scope of credit ratings being affected (decision to do this is made by the Chairman of the Rating Committee);
- Review the affected credit ratings as soon as possible and no later than six months after the change, in the meantime placing those ratings under observation (decision to do this is made by the Chief Rating Analyst); and
- Re-rate all credit ratings that have been based on those methodologies, models or key rating assumptions if, following the review, the overall combined effect of the changes affects those credit ratings (re-rating done by analysts' teams).

Information about each credit rating review outcome is published on the Agency's website (www.incrating.pl) in the news section ('Aktualności'), by the Chief Rating Analyst.

Issuance of credit ratings

Sequence of steps followed for the production of ratings



Process for reviewing the documentation of issuer to be rated

*The Agency is required to identify whether a potential issuer has not used in the last two years any of consultancy services from companies affiliated with Agency’s parent companies.

If the issuer does not use these services, the Agency may sign a contract and initiate rating process. Furthermore, due to agreement with the Agency, a rating entity will be obliged to immediately notify the Agency in a situation in which this entity will use any of consultancy services from any of Agency’s parent companies. In such a situation, the Agency suspends the rating or its update and informs all interested parties (including ESMA). The person responsibility for this action is Chief Rating Analyst.

In addition, the Agency will be on a quarterly basis to ask questions to rating entities whether they used such consultancy services or not. If so it will suspend the rating or its update and inform all interested parties (including ESMA). The Agency will inform about that situation by the appropriate information channels. The person responsibility for this action is Chief Rating Analyst.

Solicited ratings

During the solicited rating process it is mandatory that INC Rating’s analysts conduct a meeting with the issuer’s management.

Before the meeting, the company’s management is asked to send its financial statements and other relevant financial information to the Agency. Analysts examine the financial statements

and look for any discrepancies or anomalies to prepare specific questions for the interview. Also analysts look up information that may look suspicious and should be audited.

During the meeting at the company's headquarters it is common that one of the analysts conduct an interview with the CEO while the other interviews the CFO. Later on both analysts conduct an audit on selected files. Usually these are the files that brought suspicious while analyzing company's statements before the meeting. If none suspicions were raised, analysts should check documents that our experience showed that are most commonly falsified.

Minimum information required to initiate and maintain a rating

The most important data for the Agency are full financial statements. It is also the minimum information required to produce a credit rating. The Agency obtains these statements from the Company or other specialized sources.

The controls mechanisms for the issuance of credit ratings

INC Rating's analysts are obligated to follow the Agency's Code of Conduct. Moreover, the analysts are mostly professionals with an extensive experience in the financial sector. That indicates their knowledge of commonly used ethics and rules of conduct.

Each credit rating produced by the Agency reflects a work of at least two analysts. That means they control each other during the rating process.

Every credit rating has to be later approved by the Rating Committee, which operates independently from the analysts.

Including third parties in the rating process always brings a risk that the information provided by the third party may be inaccurate or misleading. That is why, INC Rating's analysts always use several sources of information to verify obtained data. Also the limited trust rule is applied within the Agency. Whenever we find any discrepancy between the information provided by the third party and the information that we have obtained from the other source we do everything we can to verify the actual state.

Important thing about involving a third party to the rating process is that usually we do not invite them to the Agency's headquarters but conduct all of the meetings at this entities place.

Information used in the process of credit rating production

INC Rating's analysts use different sources of information. The sources are divided into 3 tiers by their reliability level.

Tier 1 The Ministry of Finance in Poland, the Central Statistical Office of Poland, the

National Bank of Poland, International Monetary Fund, the World Bank Group

Tier 2 The Markit Group, Credit Rating Agencies

Tier 3 Company's financial data

Tier 1 contains sources of information which are of the highest level of reliability. These are mainly national institutions and recognized international institutions. These entities are obligated to follow strict rules of conduct and are verified on different levels.

Tier 2 contains entities from the private sectors that publish significant information and are qualified as reliable due to their history. These are usually entities that are present on the market for a long time and are usually subject to supervision by the market regulators.

Tier 3 contains information obtained directly from the rated entities. These information sources are of the lowest reliability level due to the limited trust rule. These mean that every piece of information gathered by the Agency has to verify with an external source. The most important inputs obtained from the company are financial data. These are relatively easy to assess regarding the Agency's analysts experience in the field.

Please note that these are sources of information used by the Agency's analysts in the everyday work. However, it is possible that an entity that is not mentioned above, issues information which may be significant for determining a situation of a rated entity. In this case INC Rating trusts its analysts' judgement, whether or not to include this information in their analysis. However, prior to including the information from the other source, INC Rating's analysts have to verify this source and make sure that the information is reliable.

[The rating approval processes](#)

Every credit rating issued by INC Rating has to be approved by the Rating Committee.

The Rating Committee consists of 3 experts with voting rights. At the moment of filing the application there is only one Rating Committee in INC Rating. Along with the Agency's development it is likely that in the future there will be another Rating Committee. There are three permanent members of the committee (the Chairman of the Rating Committee and two members).

Person responsible for select and establish a group of independent experts is Chairman of the Rating Committee.

If one of the Rating Committee members can't participate in the Meeting (because of lack of independency or other personal reasons), his post is filled by the independent experts selected by the Chairman of the Rating Committee (preferably Chief Rating Analyst; the

analyst that participated in the rating process of the given entity can't be selected for the Rating Committee fill-in).

The Rating Committee approves or rejects credit ratings in a voting. It is also allowed for the Committee to send inquiries to the analysts before making a decision.

Each of the members of the Committee has one vote. Votes are equivalent. Decisions are taken with the majority of votes.

Credit ratings are verified and approved by the Rating Committee. Rating analysts prepare initial credit rating with their opinion and important information and pass it to the Committee.

The Committee can ask rating analysts for additional information. Afterwards they analyse obtained data and conduct voting. If differences in opinions emerge and not all members of the Committee accept the rating then the Chairman of the Committee asks members if the minority is willing to accept the opinion of majority. If they do not accept it then they are obligated to draw a written justification of their opinion. In this case a credit rating is issued but the discrepancies protocol from the Rating Committee is attached to it.

If the difference of opinions between the Rating Committee and the analysts is too significant, the Agency declines to assign a rating. If such situation emerges during the rating review, the reviewed rating is being withdrawn.

The confidentiality of the information is ensured by proper confidentiality agreements signed between the Agency and Members of the Committee.

The information is sent electronically (by e-mail). The e-mail box is located on the Agency's internal server. E-mails are encrypted and passwords are sent separately via text messages.

Moreover, the Agency selected experienced professionals with very good reputation that have demonstrated in the past that they are eligible to deal with confidential files.

Role and responsibilities of the Rating Committee

Rating Committee is the final link of the rating process. Members of the Committee decide whether to approve or dismiss the rating. Due to above, it is essential to select proper Chairman of the Rating Committee.

Responsibilities of the Chairman:

1. Choosing time and place of the meeting in a way ensuring that all Members are present;
2. Establish a group of external independent experts for Rating Committee;
3. If necessary: choosing the independent expert from the established group of experts to the Rating Committee to replace absent member;

4. Presenting rating analysts opinion to the Members;
5. Ensuring that the discussion is led smoothly and in a proper manner;
6. Contacting the analysts team;
7. Conducting a vote;
8. Announcing a decision made by the Committee.

INC Rating requires that the Chairman of the Rating Committee has a proper education (a graduate of second-level degree studies from a field of finance, economy or law) and experience (at least four years in the field of risk analysis, risk management or alike). Chairman of the Rating Committee is appointed by the Supervisory Board. Person who is appointed for this position has to present good repute and comply with generally accepted principals and standards.

Publishing a credit rating

INC Rating discloses any credit rating or rating outlook, as well, as any decision to discontinue a credit rating, on a non-selective basis and in a timely manner. In the event of a decision to discontinue a credit rating, the information disclosed includes full reasons for the decision. This also applies to credit ratings that are distributed by subscription.

Until disclosure to the public of credit ratings, rating outlooks and information relating thereto, they are considered as inside information. The Agency maintains a list of persons who have access to its credit ratings, rating outlooks or related information before disclosure. This list is limited to persons identified by each rated entity for that purpose.

INC Rating does not use the name of ESMA or any competent authority in such a way that would indicate or suggest endorsement or approval by ESMA or any competent authority of the credit ratings or any credit rating activities of the credit rating agency.

INC Rating ensures that any credit rating and rating outlook states clearly and prominently the name and job title of the lead rating analyst in a given credit rating activity and the name and position of the person primarily responsible for approving the credit rating or rating outlook.

Prior to publishing the rating, INC Rating informs rated entity about the decision and key assumption, at least a full working day before releasing the decision. Moreover, the Agency sends the information to a rated entity during the rated entity's working hours.

The information includes the principal grounds on which the credit rating or rating outlook is based in order to give the rated entity an opportunity to draw attention of the Agency to any factual errors.

Rated entities are notified simultaneously by e-mail or by fax.

INC Rating ensures that at least:

All substantially material sources, including the rated entity or, where appropriate, a related third party, which were used to prepare the credit rating or rating outlook are indicated together with an indication as to whether the credit rating or rating outlook has been disclosed to that rated entity or related third party and amended following that disclosure before being issued;

The principal methodology or version of methodology that was used in determining the rating is clearly indicated, with a reference to its comprehensive description; where the credit rating is based on more than one methodology, or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, the Agency explains this fact in the credit rating and indicate how the different methodologies or these other aspects are taken into account in the credit rating;

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained;

The date at which the credit rating was first released for distribution and when it was last updated including any rating outlooks is indicated clearly and prominently;

Information is given as to whether the credit rating concerns a newly issued financial instrument and whether the Agency is rating the financial instrument for the first time; and

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected.

When publishing credit ratings or rating outlooks, INC Rating will include a reference to the historical default rates published by ESMA in a central repository together with an explanatory statement of the meaning of those default rates.

INC Rating accompany the disclosure of rating methodologies, models and key rating assumptions with guidance which explains assumptions, parameters, limits and uncertainties surrounding the models and rating methodologies used in credit ratings, including simulations of stress scenarios undertaken by the Agency when establishing the credit ratings, credit rating information on cash-flow analysis it has performed or is relying upon and, where applicable, an indication of any expected change in the credit rating.

INC Rating states clearly and prominently when disclosing credit ratings or rating outlooks any attributes and limitations of the credit rating or rating outlook. In particular, the Agency prominently states when disclosing any credit rating or rating outlook whether it considers satisfactory the quality of information available on the rated entity and to what extent it has verified information provided to it by the rated entity or a related third party. If a credit rating

or a rating outlook involves a type of entity or financial instrument for which historical data is limited, the Agency makes clear in a prominent place such limitations.

In a case where the lack of reliable data or the complexity of the structure of a new type of financial instrument or the quality of information available is not satisfactory or raises serious questions as to whether the Agency can provide a credible credit rating, the Agency refrains from issuing a credit rating or withdrawn an existing rating.

When announcing a credit rating or a rating outlook, the Agency explains in its press releases or reports the key elements underlying the credit rating or the rating outlook.

Where the information laid down above would be disproportionate in relation to the length of the report distributed, the Agency makes a clear and prominent reference in the report itself to the place where such disclosures can be directly and easily accessed, including a direct web link to the disclosure on an appropriate website of the Agency.

INC Rating disclose on its website, and notify ESMA on an ongoing basis, information about all entities or debt instruments submitted to it for their initial review or for preliminary rating. Such disclosure will be made whether or not issuers contract with the Agency for a final rating.

INC Rating trusts its analysts to determine which elements were key to the assigned rating and allows them to include them in the report.

Analysts should analyze especially impact of a specific element on the outcome of credit rating. Analysts should specify at least 3 key elements for each rating in the rating report.

Credit Ratings issued by the INC Rating are being constantly monitored. Analysts of the Agency begin a rating review whenever they identify any significant factor affecting directly or indirectly rating entity that might influence the entity's credit abilities. The decision to review a credit rating is made by a team of analysts assigned to a given entity. Apart of constant monitoring, credit ratings are subject to periodical review.

Monitoring of a credit rating

Monitoring of a single entity is conducted by the Review Officer and analysts. Whether they notify any discrepancies, a team of analysts signed to a given entity conducts a rating analysis. If the outcome of the analysis is different than the outstanding rating, analysts pass their opinion to verification by the Rating Committee. Based on the Rating Committee's opinion rating of a given entity is changed or left at the existing level. Rating approval process is the same as during rating issuance. When publicly disclosing a change in given entity's rating INC Rating maintains arrangements adopted for disclosing a rating decision.

If there is not enough sufficient information available to produce a credit rating or if there is a valid suspicion that an outcome of a credit rating does not reflect real situation of a given entity, the Credit Rating Committee is allowed to formally suspend or withdraw this rating.

If a given entity is rated by another credit rating agency and this agency’s rating is different than the one assigned by INC Rating, Agency’s analysts investigate this situation to recognize why the differences appeared. In this investigation analysts should work with the Review Officer and Chairman of the Rating Committee.

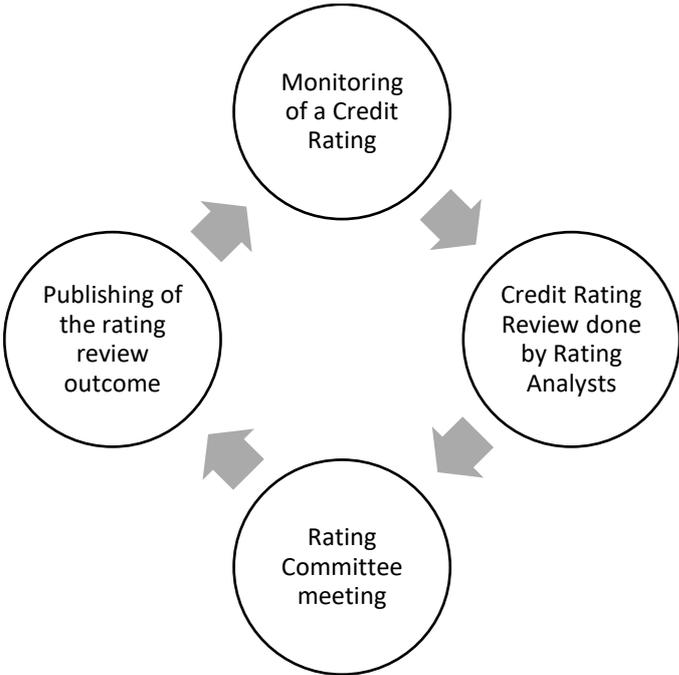
Review of a credit rating

INC Rating’s analysts monitor all the information about the economy that is published by the news agencies, central banks, statistical offices, consulting companies and alike. The same applies to information issued by Polish Regulatory Bodies, the European Commission, Financial Supervisory Authorities and ESMA itself.

Regarding the specific rated entity, analysts are obligated to follow its financial statements, other public information published (published by the specific company), news agencies and other business sources.

Analysts have to use a quantitative model to check how the specific changes can influence the given unit. If the analyst discovers any significant differences between the actual state of the entity and the outstanding rating, a review of the rating is conducted in accordance with INC Rating’s policies.

The process of monitoring and reviewing an outstanding rating is presented below.



Back testing

INC Rating credit rating methodology is subject to validation based on historical experience, including back-testing.

Back testing and validation are conducted quarterly and whenever Agency makes a change in methodology, introducing significant changes in the macroeconomic data, error detection and application of the repair procedure.

INC Rating use credit rating methodologies that include:

- methods of financial analysis examined entities used from a minimum of 3 years and tested on a representative sample of 1239 companies,
- the degree to which the assumptions used in the rating model deviate from the actual default and loss rates.

The validation of a INC Rating credit rating methodology ensures:

- examination of the sensitivity of a credit rating methodology to changes in any of its underlying assumptions, including qualitative or quantitative factors. We check in analyzing the impact of changes in 20 key indicators and targets both qualitative and quantitative having the largest weight in the rating,
- performing an adequate and appropriate assessment of historic credit ratings produced by means of that credit rating methodology,
- using only reliable inputs, including appropriate size of the representative data samples,
- taking appropriate account of the main geographical areas of the rated entities or financial instruments for each of the credit rating categories rated such as structured finance, sovereign, corporates, financial institutions, insurances, public finance. The methodology that Agency uses at the Polish companies was created specifically for the conditions influencing companies in Poland.

In the process of reviewing credit rating methodologies, INC Rating include:

- regular credit rating and performance reviews on rated entities and financial instruments (conducted quarterly),
- Agency exams are based on a representative sample,
- The final report of this verification is subjected to comparative analysis with a reports from the previous year for changes in methodologies in the history of the agency, which allows agency to create trending analysis.

Suspending and withdrawing a credit rating

Credit ratings issued by the Agency can be formally withdrawn in 3 situations. These situations are:

- A) The contract between the Agency and the rated entity expires (solicited ratings) or the Agency decides to terminate assigning credit ratings for the given entity (unsolicited ratings)
- B) It is impossible to obtain a sufficient amount of information or there is justified doubt about the reliability of the information
- C) There is a disagreement between the Rating Committee and Credit Rating Analysts about the outcome of a given rating and reaching an agreement is not possible

Regarding the situation A – decision about withdrawing a credit rating is taken by the Lead Analyst.

Regarding the situation B – decision about withdrawing a credit rating is taken by the Lead Analyst.

Regarding the situation C – decision about withdrawing a credit rating is taken by the Chairman of the Rating Committee.

Credit ratings may also be suspended. Decision about suspending credit ratings is based on one of the following:

- A) Analysts discovered an error in data input used in the analysis
- B) Errors in the methodology occurred
- C) A new (or updated) methodology has been adopted by the Agency and the given rating has not been reviewed yet
- D) In connection with the use of advisory services and/or consulting services by a company associated with INC rating or its parent companies.
- E) Detection of a conflict of interest between rated entity and the team carrying out the rating process or its revision

Regarding each of these situations, the decision about suspending the credit rating is made by the Chief Rating Analyst.

Regarding each of these situations, the processes following the suspended ratings are as follows:

- A. (Analysts discovered an error in data input used in the analysis)
 - The suspension of all credit ratings that have used the data, which proved to be wrong. The person responsible for this activity is Chief Rating Analyst (There will be a publication of information on this topic with the appropriate press releases).
 - Updating data and verifying its correctness. The person responsible for this activity is Lead Analyst.

- Review of the suspended ratings. People responsible for those activities are Analyst Team chosen by the Chief Rating Analyst.
- Approval of the ratings that had been given or make a change as a result of the elimination of a data error. People responsible for those activities are Rating Committee - based on work of Analyst Team.
- Publication of updated ratings. The person responsible for that activity is Chairman of the Rating Committee.
- Submit a report to the Supervisory Board and to the ESMA concerning the actions taken and solutions made to fix the problem. The person responsible for this activity is Compliance officer on the basis of a report created by the Rating Committee.

B. (Errors in the methodology occurred)

- The suspension of all credit ratings that have used the methodology, which proved to be wrong. The person responsible for this activity is Chief Rating Analyst (There will be a publication of information on this topic with the appropriate press releases).
- Preparing a solution to the problem and prepare adjustments to the methodology or create a new one. The person responsible for this activity is Chief Rating Analyst and the Rating Committee.
- Back testing and validation of the methodology. The person responsible for this activity is Review Officer.
- Approval of the adjustment or a new methodology. The persons responsible for this activity are Independent Members of the Supervisory Board.
- Review suspended ratings with reference to the current adjusted methodology. People responsible for those activities are Analyst team chosen by Chief Rating Analyst.
- Approval of the ratings that had been given or make a change as a result of the adjusting the methodology. People responsible for those activities are Rating Committee - based on work of analyst team.
- Publication of updated ratings. The person responsible for that activity is Chairman of the Rating Committee.
- Submit a report to the Supervisory Board and to the ESMA concerning the actions taken and solutions made to fix the problem. The person responsible for this activity is Review officer on the basis of a report created by the Rating Committee.

C. (A new (or updated) methodology has been adopted by the Agency and the given rating has not been reviewed yet)

- The suspension of all credit ratings that have used the old version of the methodology. The person responsible for this activity is Chief Rating Analyst (There will be a publication of information on this topic with the appropriate press releases).

- Review suspended ratings based on the new adopted methodology. People responsible for those activities are Analyst Team chosen by Chief Rating Analyst.
- Approval of the ratings that had been given or make a change as a result of the new adopted methodology. People responsible for those activities are Rating Committee - based on work of Analyst Team.
- Publication of updated ratings. The person responsible for that activity is Chairman of the Rating Committee.
- Submit a report to the Supervisory Board and to the ESMA concerning the actions taken. The person responsible for this activity is Review officer on the basis of a report created by the Rating Committee.

D. (In connection with the use of advisory services and/or consulting services by a company associated with INC rating or its parent companies.)

- The suspension of all credit ratings that were made for the entities that used any of advisory services and/or consulting services by a company associated with INC rating or its parent companies.
- submit a report to the Supervisory Board and to the ESMA concerning the actions taken. The person responsible for this activity is Compliance Officer on the basis of a report created by the Rating Committee

E. (Detection of a conflict of interest between rated entity and the team carrying out the rating process or its revision)

- The suspension of credit rating of a particular entity on a basis of a notification of conflict of interest reported by the Compliance Officer. The person responsible for this activity is Chief Rating Analyst.
- Compliance Officer conducts actions in order to solve the conflict of interest in cooperation with interested people. The person responsible for that activity are Compliance Officer and interested people that are involved in the conflict of interest.
- Review suspended ratings. People responsible for those activities are Analyst Team chosen by Chief Rating Analyst.
- Approval of the ratings that had been given or make a change as a result of the solving a conflict of interest. People responsible for those activities are Rating Committee - based on work of Analyst Team.
- Publication of updated ratings. The person responsible for that activity is Chairman of the Rating Committee.
- Submit a report to the Supervisory Board and to the ESMA concerning the actions taken. The person responsible for this activity is Compliance Officer on the basis of a report created by the Rating Committee.

The processes and controls with respect to credit rating reviews

INC Rating's analysts are obligated to follow the Agency's Code of Conduct. Moreover, the analysts are professionals with an extensive experience in the financial sector. That indicates their knowledge of commonly followed ethics and rules of conduct.

Each credit rating review is conducted by a team of two analysts. That means that they control each other during the rating review process.

Every credit rating as well as its review has to be later approved by the Rating Committee, that operates independently from the analysts.

The policies, procedures and controls for the involvement of the issuer or arranger within the process

INC Rating's analysts are obligated to follow the Agency's Code of Conduct. Moreover, the analysts are mostly professionals with an extensive experience in the financial sector. That indicates their knowledge of commonly used ethics and rules of conduct.

Each credit rating produced by the Agency reflects a work of at least two analysts. That means that they control each other during the rating process.

Every credit rating has to be later approved by the Rating Committee, that operates independently from the analysts.

Including third parties in the rating process always brings a risk that the information provided by the third party may be inaccurate or misleading. That is why, INC Rating's analysts always use several sources of information to verify obtained data. Also the limited trust rule is applied within the Agency. Whenever we find any discrepancy between the information provided by the third party and the information that we have obtained from the other source we do everything in our power to verify the actual state.

Important thing about involving a third party to the rating process is that usually we do not invite them to the Agency's headquarters but conduct all of the meetings at this entities place.

Breach of rating process policies

Exertion of adopted policies is controlled by the Compliance Officer and the Review Officer, as well as, by all of the employees involved within the process. However, if the situation of breach of the policies occurs, the Compliance Officer is obligated to notify the President of the Management Board about it and give him a recommendation of actions that he should undertake.

Apart of the legal consequences, the President of the Management Board is allowed to apply one of the following:

- A) Reprimand – a written reprimand with an entry to the professional work file.
- B) Suspension – suspending an employee from their duty for a period of 1-3 months.

C) Disciplinary dismissal.

However, regarding the disciplinary dismissal, the President of the Management Board should discuss undertaking this measure with the Compliance Officer, and draw a written justification for it, that will be presented to the Supervisory Board.