INBONIS CREDIT RATING METHODOLOGY

November 2024

The present policy is disclosed in accordance with Point 1 of Section E of Annex 1 to Regulation (EC) 1060/2009 of the European Parliament and of the Council of 16 September 2009 on Credit Rating Agencies (the "CRA Regulation").

This document is an abstract of Inbonis Rating Methodology and Inbonis Rating Process.

Any material changes to Inbonis Rating Methodology shall be approved, implemented and disclosed in accordance with the CRA Regulation and Inbonis Policy on Developments in Inbonis Rating Methodology.

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1 Introduction

This document provides Inbonis updated approach to assigning credit ratings to non-financial corporates.

Key changes to the methodology:

- Update of the rating scale with the introduction of rating modifiers (+/-).
- Update of the cycle adjustment model.
- Included mention on how ESG factors are considered.

2 Data collection

Inbonis uses publicly accessible sources of information such as trade company registers, credit bureaus, national statistical institutes or central banks. Most of this information can be aggregated automatically.

In addition, and in order to initiate the analysis and evaluation phase, Inbonis Rating Analysts carry out research to collect further data including recent financial statements and other qualitative, sectorial, strategical, financial forecast, governance and geographical data on the prospective rated entity.

In case of a solicited rating, in addition to the research and analysis referred to above, the lead Rating Analyst shall collect information from the rated entity or related third party, such as:

- Activity report defining the business operations & strategy and key markets trends
- Company governance and shareholdership.
- Detailed description of the debt position (including potential new debt)
- Most recent financial statements (Balance sheet, P&L, cash-flow statement) covering at least a 2-year period
- Business and financial forecast with supporting evidence of the main hypothesis

Inbonis Rating Analysts record the source of the gathered information and assess its coherence and reliability.

Where the available data on a rated entity does not meet the minimum information requirements, no credit rating is issued until minimum information is gathered.

3 Rating Model

According to its Methodology, Inbonis assesses four main types of risks that will be subject to a thorough analysis within the Rating Report:

- The Business risk aims at estimating the company's performance by measuring sales trends and profitability and evaluates the attractiveness of the activity in terms of business model, entry barriers, trends, growth, competitive positioning among others.

- The Financial risk evaluates various financial aspects and the key underlying drivers of the company's indebtedness, financial structure, liquidity and profitability.
- The Corporate and Governance risk is analyzed in the light of the shareholdership and the management structure of the rated entity. Other criteria to assess the stability and ethics of the company are also analyzed.
- The Economic Environment Risk assesses the sector in which the entity operates including a peer comparison and the relevant Macroeconomic trends.

Figure 1. Description of evaluated risk factors:

A rating notch is calculated through the assessment of the 4 types of risks mentioned earlier, and according to the following to two modules:

- The micro-economic model, that provides an automated score on key areas of the rated entities, based on SME demographics and eco-financials inputs, mainly in a "vs. group" basis.
- The qualitative assessment conducted by the Rating Analyst that provides opinion in a structured way on each of the key areas.

Environmental, Social, and Governance (ESG) factors are taken into account when they have the potential to materially affect a company's creditworthiness. Analysts consider ESG-specific rating drivers as part of the criteria to answer the questions that conform the qualitative assessment, based on their positive or negative effect on the creditworthiness of the rated entity. These factors can impact on all three key areas of the rated entities: business risks, financial risks and, especially, corporate risks.

An adjustment to the rating notch can be made based on the rating analyst opinion on the quality of data used for the analysis.

The resulting rating is adjusted to consider the situation of the country and the sector in which the rated company operates. This cycle adjustment uses data from the Eurostat Quarterly Declaration of Bankruptcies and is estimated by comparing the values of the index from recent quarters with the reference values. The result of the adjustment is applied to the probability of default assigned to the rated companies after the quantitative and qualitative analysis.

Rating Analysts perform a rating sensitivity assessment pointing towards potential events that might negatively impact the rating notch of any given credit rating.

It is considered that a company is in default when one of the following occurs:

- The company is in default with respect to any financial obligation whose economic impact is of a significant amount.
- The company has been declared insolvent or in a similar situation.

Inbonis monitors default information from public registers and credit bureaus

The European Securities and Markets Authority (ESMA) publishes historical default rates for each registered credit rating agencies available via http://cerep.esma.europa.eu/cerepweb/statistics/defaults.xhtml.

4 Rating process & Rating decision

The Rating Process starts once the conflict-of-interest checks have been duly carried out as per Inbonis Conflict of Interest Policy.

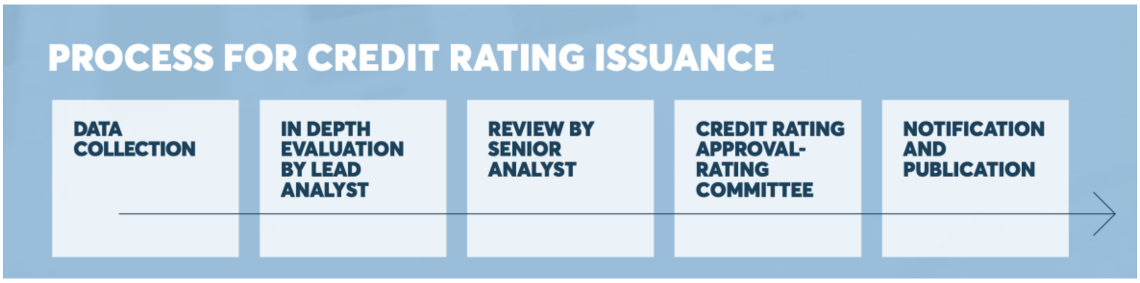
The primary step of Inbonis rating process is the collection of information, which is divided into an automatic process through Inbonis system and supplementary searches carried out by the Rating Analyst.

Guided by Inbonis proprietary tools, the Rating Analyst subsequently performs the risk analysis taking into consideration the typology of risks mentioned above. The Rating Analyst finalises the drafting of the credit rating report by providing an overall rating rationale, the key elements underlying the credit rating, and a rating sensitivity assessment about potential factors that might negatively affect the rating note.

The Rating Analyst credit rating report is revised and requires senior approval – which might include Rating Committee – before credit rating issuance.

The publication of the rating is done in accordance with Inbonis policy on publication of credit ratings and other related communication available on Inbonis website. As such, a published credit rating includes a list of mandatory requirements such as the methodology used, the information on the data gathered etc.

Figure 2. Inbonis Rating Process for credit rating issuance:



5 Rating scale

Inbonis rating model is calibrated to assess the long-term credit worthiness of the rated entity, with an initial assessment for the 12 months immediately following the publication date of the credit rating report or any of its following reviews. Monitoring of the assessment is to be done according to the Regulation and a review after those 12 months, if and when deemed appropriate.

The final rating assigned to the issuer (in rating categories A-CCC) may include a modifier (+/-) to represent the relative position within the rating range and relative differences in the probability of default:

- If the rated entity is in the higher part of the range, a “+” sign is to be added to the rating notch.
- If the rated entity is in the lower part of the range, a “-“ sign is to be added to the rating notch.
- Finally, if the entity is within the middle part of the range, no modifier is to be added to the notch.

The following table expresses the meaning of each major rating category:

Table 1. Inbonis Rating categories:

Rating categories		Creditworthiness Level
AAA	AAA	An entity rated 'AAA' demonstrate excellent capacity to meet its financial commitments.
AA	AA	An entity rated 'AA' has very strong capacity to meet its financial commitments. It differs from the highest-rated entity only to a small degree.
A	A+	An entity rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than entity in higher-rated categories.
	A	
	A-	
BBB	BBB+	An entity rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to weaken the entity's capacity to meet its financial commitments.
	BBB	
	BBB-	
BB	BB+	An entity rated 'BB' is less vulnerable in the near term than other lower-rated entities. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions that could lead to the entity's inadequate capacity to meet its financial commitments.
	BB	
	BB-	
B	B+	An entity rated 'B' is more vulnerable than the entities rated 'BB', but the entity currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the entity's capacity or willingness to meet its financial commitments.
	B	
	B-	
CCC	CCC+	An entity rated 'CCC' is currently vulnerable and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments.
	CCC	
	CCC-	
CC	CC	An entity rated 'CC' is currently vulnerable to nonpayment that would result in an 'D' issuer rating and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments.
C	C	An entity rated 'C' is currently highly vulnerable. The 'C' rating is used when a default has not yet occurred but Inbonis expects default to be a virtual certainty, regardless of the anticipated time to default.
D	D	An entity rated 'D' has failed to pay one or more of its financial obligations (rated or unrated), excluding hybrid instruments classified as regulatory capital or in nonpayment according to terms, when it came due. An entity is considered in default unless Inbonis believes that such payments will be made within any stated grace period.

6 Changes and review of Inbonis Rating Methodology

Any change to Inbonis Methodology shall follow a pre-determined procedure and be submitted to the approval of Inbonis Rating Methodology Committee, which is composed of two Independent Non-Executive Directors and Inbonis Review Officer. Should a change in Inbonis Methodology occur, the information will be made available publicly on Inbonis Website prior to the date of the effective change.

In addition, Inbonis Rating Methodology shall be reviewed on a yearly basis by Inbonis Review Officer.