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Rating methodology

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Rating - relevant information

The analyst have to check if the following conditions are met before proceeding with the analysis:

1. The last annual account is not older than 20 months i.e. it is possible until August 20xx+2 to refer to financial figures of 20xx/12/31st.

2. The financial figures (annual accounts) filed for the last two fiscal years are available and updated, and the following financial items are available for both years (minimum requirement):

    a. Shareholder's funds;

    b. Total assets;

    c. Current assets;

    d. Current liabilities;

    e. Sales/Operating revenues;

    f. EBIT;

    g. Profits (losses) for the period.

3. The figures are in thousands of euros. When filed in a different currency, the analyst has to apply the nearest exchange rate to the year end date of the financial accounts using the EUR as a cross-referencing point. The International Monetary Fund is the official source of information.

4. It is clear the main country of the company, the trade description and the sector activity code (NACE code or similar), major shareholders.

5. The financial figures show no sign of probable factual errors or discrepancies such as unbalances between total assets and total liabilities and equity, total revenues and total costs and net profits.

Moreover, the analyst have to respect the following guidelines:

- The consolidated account is preferred when several accounts are available;
- The interim reports are collected and analyzed (quarters) when available.

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According to step f) of modefinance rating process of issuance and review of credit ratings, the analysts are required to "assess some of the characteristics of the entity through a set of balanced scorecards, which imply respectively the taking into consideration of entity's size, longevity, legal status and governance, group, industry and country; this set of assessments, which is enriched by a final overall assessment, require substantial human intervention and lead to a potential change in the entity's overall score, and is actual part of modeFinance RATING Methodology".

According to Rating methodology, the assessment carried out in this phase are grouped in the following substeps:

1. COMPANY AND THE GROUP: considers entity's size, longevity, legal status, governance and group analysis. The main inputs of this phase are the official and public information by the textual texts of the annual accounts (explanatory notes). In those textual parts the analyst must focus the attention on potential source of risk (or risk attenuation) that are not evident merely from a numerical analysis i.e. guaranties, business management reports, audit reports, etc. The assessment includes the analysis of the mutual dependence inside the company's group (if it is applicable).

2. INDUSTRY AND COUNTRY: covers the aspects of industry's creditworthiness and relevant news, influence of macroeconomic conditions, political risk and country- specific relevant news. Concerning country risk, the following aspects are considerate: Scale of the Economy, GDP Growth and Volatility, National Income, Inflation Level and Volatility, General government gross debt, Current account balance and Political risk.

3. FINAL ADJUSTMENT: represents the effect of a final overall assessment of the entity performed by analysts. In this section the analyst is required to perform a fine tuning of the final assessment taking into account all the information regarding the corporate.

The outcome of substep 1. (COMPANY AND THE GROUP) is then the result of an analyst assessment and it consists in a value comprised between -0.1 and +0.1 (negative values reduce the credit score and therefore may lead to a higher rating class, meaning less credit risk is attributed to the entity; and viceversa).

The outcome of substep 2. (INDUSTRY AND COUNTRY) as well is the result of an analyst assessment and it consists in a further value comprised between -0.1 and +0.1 (negative values reduce the credit score and therefore may lead to a higher rating class, meaning less credit risk is attributed to the entity; and viceversa).
The sum of the two values is added to the MORE Scoring obtained in the previous steps of the rating process and then mapped to a provisional modefinance Rating Class.

The outcome of substep 3. (FINAL ADJUSTMENT) will be the basis of the rating proposal of the analysts and will depend on the designated analyst overall assessment of the entity. In substep 3. the analyst is allowed to change the provisional modefinance Rating Class as attributed until substep 2. by maximum one modefinance Rating Class, upwards or downwards. The analyst is also allowed to leave the provisional modefinance Rating Class unchanged from the result of the previous substeps.

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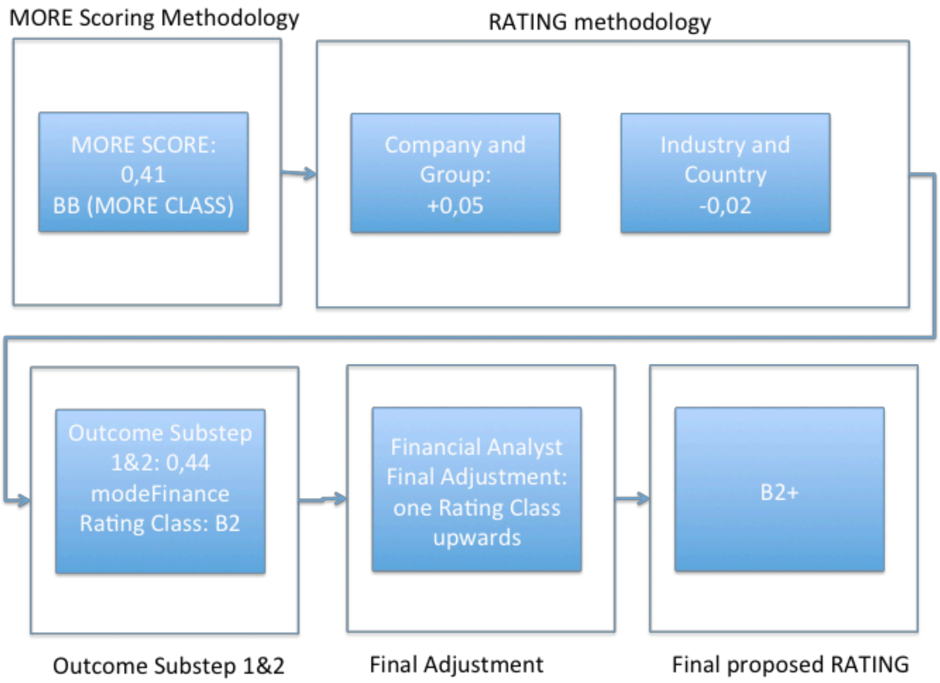
The following diagram is a representation of the process of rating described in the present methodology:



The rating proposed to the Rating Team for approval is based on the entity's final score and final adjustment: step g) of the rating process "based on the entity's final score, the head analyst formally proposes a rating to the Rating Team" should be interpreted that the head analyst will propose a rating class according to the substeps 1,2,3 of the present methodology.

Description of Analyst guideline

General instructions

In Substeps 1. and 2. envisaged in Rating methodology, each analyst is required to perform the analysis of the possible influence to the entity's creditworthiness of certain specific aspects. The outcome of each Substep (consisting respectively of 3 and 5 "micro" factors) is always decided according to the "Direct assignment score table" (see table below), which describes the meaning of each possible outcome of the analysis.

Considering mapping table modefinance uses to convert credit scores [0,1] to (provisional) rating classes, the lower the score the higher the opinion of creditworthiness. Therefore, if qualitative factors are judged by analysts as having credit risk mitigating effects on the entity's overall credit risk, the outcome will have a negative score (from -10% to -2%).

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If, on the other hand, the qualitative effect is judged as a threat which can actually or potentially determine an increase in the entity's overall credit risk, the outcome will have a positive score (from +2% to +10%). When substantial information is missing and a sound analysis is not possible, the score should be set to 0%.

Direct assignment score table:

Value	Meaning
-10%	There are clear and provable evidences the qualitative factor can (or will) positively influence the creditworthiness of the company.
-8%	There are very strong possibilities the qualitative factor can (or will) positively influence the creditworthiness of the company.
-6%	The qualitative factor has a positive effect on the creditworthiness of the company.
-4%	The qualitative factor has a slightly positive effect on the creditworthiness of the company.
-2%	The qualitative factor could have a slightly positive effect on the creditworthiness of the company.
0%	The qualitative factor doesn't have an effect on the creditworthiness of the company OR the factor is not applicable to the analysis.
+2%	The qualitative factor could have a slightly negative effect on the creditworthiness of the company.
+4%	The qualitative factor has a slightly negative effect on the creditworthiness of the company.
+6%	The qualitative factor has a negative effect on the creditworthiness of the company.
+8%	There are very strong possibilities the qualitative factor can (or will) negatively influence the creditworthiness of the company.
+10%	There are clear and provable evidences the qualitative factor can (or will) negatively influence the creditworthiness of the company.

In addition to the general considerations described above, the analysts have always the possibility to detect whether particular and important conditions of the factors under analysis may imply radical and exceptional influence on the entity's creditworthiness and therefore deserve special treatment. In any of these circumstances, the analyst is required to flag an "Important warning", summarizing the relevant factors as well as their influence to the creditworthiness of the entity under rating, and saving the relevant documents and sources of information.

Important warnings are useful to be considered by the Final Rating Team when taking the final decisions on rating as of step h) of processes of issuance and review of credit ratings. In the final meeting of the Rating Team, the team may confirm proposed rating (at majority), override steps of the process and approve a different rating (only with unanimity), or let the rating be not issued or withdrawn (otherwise).

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