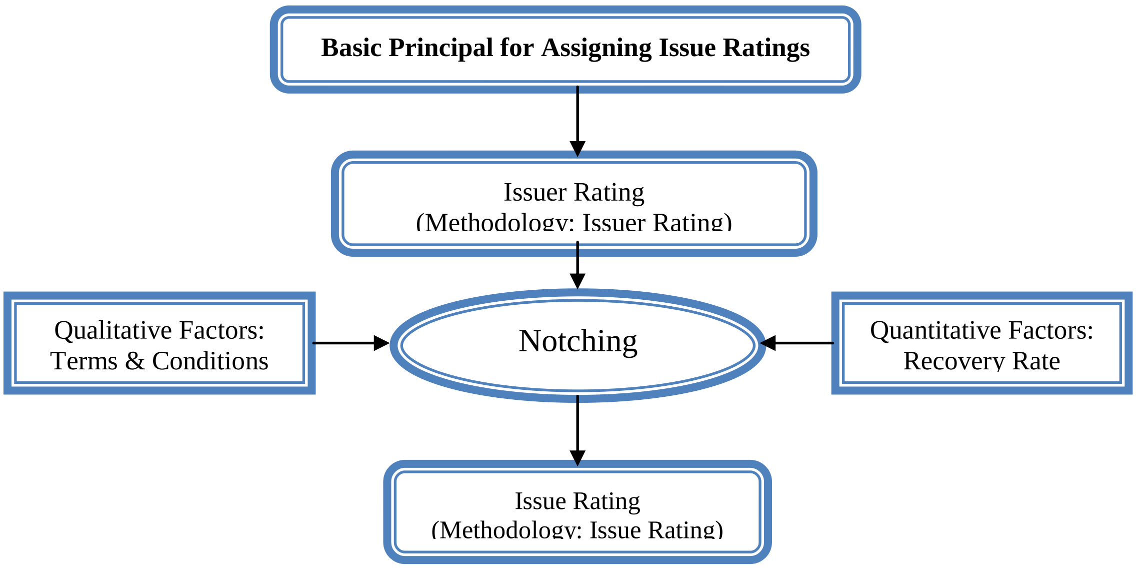
Issue Rating Methodology

Issuer & Issue Ratings:

National Credit Ratings Ltd. assigns two types of credit ratings: one to issuers and other to specific debt issue or other financial obligations of the issuer. Issue rating is conditional to issuer rating. Issuer credit ratings depict the ability and willingness of the issuer to repay the financial obligations. These include interest and principal payment on its long term and short term debts. On the other hand, issue rating is based on the issuer rating along with additional factors specifically related to the instrument issued like, the contractual and structural elements of an issue and the expected recovery rate. The issue rating methodology is divided into two core analytic areas, namely the qualitative factors or issue terms & conditions and the quantitative factors or the recovery rate.



Felicitousness/ Appropriateness/Applicability:

The issue rating methodology can be applied for subordinate bond, promissory note, subordinate loans, preferred capital securities, and preferred shares issuable by a company or the issuer.

Rating assumptions:

The rating assumptions are as follows:

1. The level of creditworthiness (rating level) of the debt instrument and the qualitative & quantitative factors of the issue have positive correlation.
2. The diversity in terms of subordination, which influences the order of creditors' claim fulfillment in case of the entity's default, is a special characteristic of debt instruments. The presence of subordination means that the debt issue can be assigned with a lower rating, as compared to the issuer rating or guarantor of this issue. If debt issue is backed by collateral/assets, it can have a positive impact on issue rating.
3. All macro risks are covered by the relevant assessment of the systematic risks for the specific type of entity.

Qualitative Assessment / Issue terms

Issue terms generally comprise all the provisions of the corresponding issue contract. The key aspects considered from the issue terms are as follows:

- Issue volume
- Issue tenor
- The coupon
- Any redemption arrangements
- The terms and conditions for disbursement
- Collateral arrangement: The existence of collateral for backing the issue places the issuer in a better position as in the event of the issuer's default, the proceeds from the liquidation of the collateral provider can be directly applied to redeeming the issue, with only surplus proceeds entering the in-solvency estate. Discounts are also applied to physical collateral to calculate the recovery rate.

- Types of collateral:
  - Mortgage
  - Transfer by way of security
  - Hypothecations
  - Pledge of Bank account

- Personal Undertakings
  - Guarantees
  - Sureties
  - Letter of Comfort

- Guarantees issued by parent companies or affiliates: Value of these guarantees depends on the rating of the guarantor as well as the interconnections within the Group, e.g. the extent to which the issuer's business performance affects or is influenced by other group companies.

- Third-party collateral: Third parties grant collateral may increase the expected recovery rate in a liquidation scenario. In these cases it is possible to dispense with the notching process particularly if the collateral comprises liquid assets with a sustained recoverable value and top-ranking rights are granted to the assets. If the collateral does not have a senior ranking, it may be necessary to factor in the amount and maturity structure of the corresponding senior liability. If the conditions for deviating from the noticing process are satisfied, it can be assumed that for the issue to have an investment-grade rating repayments can be covered at short notice solely by recourse to the expected recovery contribution from the third-party collateral provided.

- The termination rights
  - Ordinary termination by the issuer
  - Extraordinary termination by the creditor (default, insolvency, liquidation, breach of contractual obligations and similar circumstances)

- Cross-Default Clause

- Acceptance of further financial liabilities
- Sales of assets
- Distribution to the shareholders

Quantitative Assessment / Recovery Rate

The expected recovery rate plays a key role in determining the risk of loss for creditors. For this purpose, in addition to the issuer's creditworthiness measurements some other financial aspects are considered along with an assumption that assets can be sold at substantial discounts in a liquidation scenario with distress sales. The following factors are considered for recovery rate:

- Financial ratios:
    - Projected Cash Flow for the tenor of the instrument
    - Debt Service Coverage Ratio estimation form the projected Cash Flows
    - Repayment capabilities of the principal amount at the stated time period
    - Expected Leverage position of the issuers for the tenor of the instrument

- Valuation of assets
    - Estimation of the value of the existing pledged as collateralized assets (as recent and realistic as possible).
    - The types of assets which are considered for calculating the recovery rate are as follows:
        - Land and buildings
        - Machinery
        - Vehicle
        - Trade receivables
        - Inventories (raw materials, supplies and consumables, finished goods, assets under construction, merchandise)
    - Discounts of different sizes are applied depending on the type of asset. These discounts are based on historical data gained from the financial sector. The following assumptions are applied in this connection:
        - Buyers are in a stronger bargaining position in a distress sale, meaning that they offer correspondingly low prices.
        - As a rule, bids in distress sales fall well short of the market value of the asset in question.
        - Distress or other types of sales cause costs which must also be taken into account.
        - In the case of receivables, legal defenses or unwillingness to pay may reduce recovery rates substantially.
        - In addition, the state or condition of a given asset may result in lower proceeds from a sale.

Notching

To assign a credit rating grade to specific debt instruments/issue, NCRL uses adjustments (notching) for the baseline credit rating (issuer's or guarantor credit rating). A key principle is that ratings of BBB- and above focus more on timeliness of payment, while ratings below BBB- or speculative grade should have given additional weight to recovery. For example, regular subordinated debt is usually rated two notches below a counterparty (issuer) credit rating that is below BBB-, but one notch below a counterparty (issuer) credit rating that is BBB- or above. Conversely, a very well-secured senior or first mortgage bond will be rated one notch above a counterparty (issuer) credit rating in the BBB or A rating categories, but the enhancement could be two notches in the case of a 'BB' or 'B' corporate credit rating. In the same vein, for an issuer with an issuer credit rating in the AAA' rating category, subordinated debt need not be notched at all, while at the 'CCC' level, the gaps between debt types may widen.

NCR follows notching guidelines for subordinate bonds as depicted below:

If the issuer rating is *BBB-* or above (Investment grade)		
	Secured	Unsecured
Convertible	0	-1
Non-convertible	0 or -1	-1 or-2
If the issuer rating is *BB+* or lower (Speculative grade)		
	Secured	Unsecured
Convertible	-2 or -3	-3 or -4
Non-convertible	-3	-4

NCR uses this framework as a general guide to rate the bond based on the issuer adjusted rating. The actual ratings may differ depending on the terms and conditions of the bond issue. Since rating depicts the risk to creditor, the more favorable the terms are for the creditor, higher the rating will be.

DEFAULT:

According to NCR's definition, failure to pay legal obligation on due time constitute default. Also, any conversion in accordance with predetermined terms is not regarded default. Default on bond occurs when the firm is forced into bankruptcy.

Information & Screening:

While assigning a rating, the following sources and procedures are used for information collection and screening thereof:

1. Information to be collected from the issuer:
   - Bond issuance prospectus (if any) / preliminary bond prospectus.
   - Report on the bond issuance (if any).
   - Presentation for investors (if any)
   - Plan for the using of funds, raised through the debt instrument issuance

- Issuer's statute
- Contracts/ agreements for the guarantee, which covers the fulfillment of financial liabilities of the debt issue (if any)
- Financial outlook or financial model of the rated entity (if any)
- Credit rating of the issuer / guarantor or their rating grade, which are used as a basis for the assignment of the credit rating to the debt issue.
- NCRL can request and use other information, necessary for deeper analysis of the debt instrument's reliability

2. NCRL uses the current methodologies applicable for specific type of entity (which performs as an issuer / guarantor of the rated debt instruments) for the assessment of the issuer's creditworthiness, as well as all sources of information listed in such methodologies.

3. NCRL, if necessary, can reclassify some accounting entries, on the basis of their economic meaning while conducting rating.

4. NCRL can changes the financial statements on the basis of the forecasts plans of the issuer / guarantor, as well as cash flow. In this case, NCRL can recalculate the ratios and financial indicators taking into account potential / expected changes.

5. If the information provided by the rated entity is not enough for the analysis, NCRL has to refuse from assignment / maintaining current credit rating. If the rated entity has existing rating in this situation, this rating is withdrawn without confirmation.

6. If the mentioned criteria are satisfied, but NCRL was not provided with the full set of information requested, NCRL has a right to assign a rating taking into account adjustments for the score of some factors, which are approved by the rating committee. As a general rule, such adjustments are conservative (have negative influence).

7. If NCRL detects signs of minor manipulation with the financial statements and other information provided by the issuer / guarantor, NCRL can reduce the score for some factors (for instance, the score for corporate governance), or assign "other" stress-factor.

8. If two or more sources of information contradict each other and the issuer / guarantor does not provide proper explanation of these contradictions, the source of information that better and more conservatively reflects the risks of the rated object is used.

9. If the issuer / guarantor has radical changes in its business model and there is no representative information about risks of the new business model, NCRL refuses the assignment / maintenance of the current rating. If the company has current rating in this situation, this rating is withdrawn without confirmation.

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