

# Policies and procedures on conflicts of interest

The purpose of this document is to present policies and procedures used by the INC Rating Sp. z o.o. on conflicts of interest.

Presented policies and procedures apply to all employees of the Agency.

Policies and procedures on conflicts of interest are maintained and approved by the Compliance Officer.

Supervision over a proper conduction of these policies and procedures is done by the Compliance Officer and the President of the Management Board as well as by any employee of the Agency.

The President of the Management Board of the Agency is responsible for efficient enforcement of these policies and procedures.

## **Policies and procedures on conflicts of interest in the rating process**

To maintain a proper level of independency of INC Rating's rating analysts employees of the Agency that are engaged in the rating process are prohibited to discuss or share any aspect of a rated entity or share any information about the rated entity with other analysts.

Credit rating must be subject only to a reliable evaluation of a team of Agency's analysts assigned to the process.

Each team consists of 2 rating analysts – lead analyst and supporting analyst. On the final stage their analysis is subject to an assessment of the Rating Committee (consists of 3 experts in finance) which can approve or dismiss the rating.

Additionally to provide unbiased opinions INC Rating prepared separate offices for rating analysts in a way they are unable to interact with other employees.

### *Procedure of selecting analysts to rate given entity*

Another method of maintaining analysts independence is assigning them to rate entities on the random basis. Each entity has to be analysed by a team of two analysts. After conducting a draw analysts receive basic information about the entity and determine whether they have connections with this entity that might influence their opinion. If there is no factor that might have biased the analysts, they sign a declaration of independency and start the rating process. If either of the analysts declares that a lack of independency occurs, then the drawing is repeated – without this analyst. In the event of lack at least 2 independent (unbiased) analysts the Agency has to reject conducting a rating process for the entity.

### *Lack of independency includes:*

- owning financial instruments of the rated entity, other than holdings in diversified collective investment schemes;
- owning financial instruments of any entity related to a rated entity, the ownership of which may cause or may be generally perceived as causing a conflict of interest, other than holdings in diversified collective investment schemes;

- having had a recent employment, business or other relationship with the rated entity that may cause or may be generally perceived as causing a conflict of interest.

#### *Analysts rotation*

INC Rating employs a total of 4 rating analysts. On every rating issued by the Agency works a team of 2 analysts. Therefore, there are 2 teams 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.

#### *Analysts remuneration policy*

The intention of the Agency's remuneration policy is implementing the strategy of providing the highest level of quality along with ensuring employees independency.

Analysts remuneration policy is based on following rules:

- a. Rules of remuneration are subject to the Management;
- b. Analysts salaries are paid monthly – at the end of each month;
- c. Analysts remuneration is not connected with Agency's financial results;
- d. Analysts are allowed to receive bonus payments based on the quality of their work which is subject to quarterly assessments and their work review conducted by the Review Function;

- e. Bonus payments must be approved by the General Shareholders Meeting and based on the recommendation made by the Management.

INC Rating's Remuneration policies are subject to a yearly review by the Supervisory Board.

#### *Treatment of information*

INC Rating's analysts are obligated to:

- take all reasonable measures to protect property and records in possession of the Agency from fraud, theft or misuse, taking into account the nature, scale and complexity of their business and the nature and range of their credit rating activities;
- do not disclose any information about credit ratings or possible future credit ratings of the Agency, except to the rated entity or its related third party;
- do not share confidential information entrusted to the Agency with rating analysts and employees of any person directly or indirectly linked to it by control, as well as with any other natural person whose services are placed at the disposal or under the control of any person directly or indirectly linked to it by control, and who is directly involved in the credit rating activities;
- do not use or share confidential information for the purpose of trading financial instruments, or for any other purpose except the conduct of the credit rating activities.

Rated entity delivers all of the confidential information directly to analysts assigned to produce this particular credit rating. These analysts are allowed to share this information only with a Rating Committee if they consider it necessary.

#### *Acceptance of gifts*

All employees of INC Rating are forbidden to solicit or accept money, gifts or favours from anyone with whom the Agency does business.

#### *Fees charged by the Agency*

Fees charged by the Agency depend on the amount of work required to produce a credit rating. The amount of work is measured by local government budgets. Fees and payments are

discussed only by the Agency's Management. If the rated entity participates in the rating process it is informed not to discuss any fees-related issues with rating analysts.

Rating analysts are prohibited to discuss fees, which is clearly indicated in their agreements.

#### *Identification of conflicts of interest*

As a conflict of interest, the Agency recognizes a capital or personal relationship between the Agency and the rated entity. Therefore, the Agency will not engage in the rating process with a LGU that holds shares of the INC Rating or any of its parent undertakings. INC Rating's analysts are not allowed to be involved in a rating process of a LGU that is linked to them and may influence their assessment.

As a potential conflict of interest can also be seen a fact that many of the credit ratings issued by INC Rating are assigned on the basis of an agreement between the Agency and a rated entity, and paid by this entity. INC Rating effectively manages this kind of potential conflicts of interest by separating business actions (including in particular the negotiation of fees for the rated entities) from analytical activities and the rating process. Therefore, the level of a particular rating is never in any way influenced by the amount of payment made by the rated entity

#### *Disclosure of conflicts of interest*

INC Rating discloses and publicly announces on its website ([www.incrating.pl](http://www.incrating.pl)) existing conflicts of interest regarding the credit rating activities.

INC Rating publicly discloses information about rated entities or other clients that contributed to at least 5% of the Agency's revenues for the last accounting period.

If any valid reasons for undermining an outstanding rating occur the Agency conducts a review of the given rating immediately.

#### *Informing employees about the policies regarding the conflicts of interest*

Every employee of INC Rating is obligated to read the policies on conflicts of interest and confirm in writing the familiarity with these policies.

#### *Breach of policies and procedures*

Exertion of adopted policies is controlled by the Compliance Officer as well as by all of the employees of the Agency. 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 that may be necessary, 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.

*Responsibilities in the process of identifying and managing potential (future) conflicts of interest*

Internal Audit – responsible for detecting any conflicts of interest and reporting to the Compliance Officer.

Compliance Officer – responsible for analyzing the situation and reporting simultaneously to the Supervisory Board and the Management Board. The report should contain recommendation of actions to be undertaken. In the event of breaking the law, the Compliance Officer is responsible for taking a proper legal actions and notifying relevant authorities.

President of the Management Board – responsible for executing proper actions whenever a conflict of interest arises. If necessary, responsible for taking adequate legal steps. If the conflict of interest applies to the President of the Management Board, then the responsibility of managing such conflict lies on the Supervisory Board.

*Process of identifying and managing potential (future) conflicts of interest*

The table below presents potential (future) conflicts of interest identified by the Agency and methods of preventing these situations from occurring.

Type of conflict	Method of prevention
<b>Between the Agency and the Client</b>	
Issuer pays model	INC Rating separates its business functions (negotiating fees) from rating activities. Analysts are not aware of the amount paid by the rated entity. Analysts of the Agency are required to conduct the rating process in accordance with a rating methodology adopted by the Agency. Analysts contracted by the Agency are experienced professionals and are required to conduct in compliance with professional standards. Therefore INC Rating and its analysts always maintain independence and objectivity of its credit ratings.
Owning a securities issued by the rated entity	INC Rating does not conduct any investment activities, therefore the Agency is not in a possession of any securities; INC Rating receives information from its parent undertakings regarding their investments in any securities issued by the local government units and refrain itself from rating these LGUs.
<b>Between Analysts and the Client</b>	
Owning a securities issued by the rated entity	Before attempting to the rating process of a selected entity Analysts of the Agency are required to do a self-check and declare lack of the conflict of interest, in this case not owning securities issued by the entity.
Personal connection with the rated entity's employees	Before attempting to the rating process of a selected entity Analysts of the Agency are required to do a self-check and declare lack of the conflict of interest, in this case not having a personal relations with the entity's employees.
Obtaining material gains from the client	Analysts of the Agency are prohibited to accept any additional remuneration or gifts from the rated entity. This have been clearly stated in their contracts.
Having had a recent employment, business or other relationship with the rated entity	Before attempting to the rating process of a selected entity Analysts of the Agency are

Type of conflict	Method of prevention
that may cause or may be generally perceived as causing a conflict of interest	required to do a self-check and declare lack of the conflict of interest, in this case not having any personal relationship with the entity that might have been perceived as a conflict of interest.
<b>Between the Client and the Rating Committee</b>	
Owning a securities issued by the rated entity	Before attempting to the Rating Committee meeting, Members of the Rating required to do a self-check and declare lack of the conflict of interest, in this case not owning securities issued by the entity.
Personal connection with the rated entity's employees	Before attempting to the Rating Committee meeting, Members of the Rating Committee required to do a self-check and declare lack of the conflict of interest, in this case not having a personal relations with the entity's employees.
Having had a recent employment, business or other relationship with the rated entity that may cause or may be generally perceived as causing a conflict of interest	Before attempting to the Rating Committee meeting, Members of the Rating required to do a self-check and declare lack of the conflict of interest, in this case not having any personal relationship with the entity that might have been perceived as a conflict of interest.

### *Current conflicts of interest*

Currently the only conflict of interest that the Agency has is with the City of Nowa Sól, which is the major shareholder of Regionalne Centrum Technologii i Wiedzy Interior Sp. z o.o. that holds significant share in INC Rating's capital and is allowed to appoint two members of the Agency's Supervisory Board.

Therefore, INC Rating will not be rating the City of Nowa Sól as long as the city will be direct or indirect shareholder of the Agency.

At present, there are no other existing conflicts of interest in the Agency.