大公欧洲资信评估有限公司
DAGONG EUROPE CREDIT RATING

Dagong Europe Credit Rating Definitions

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Credit Ratings

Dagong Europe’s credit ratings are forward looking opinions regarding an entity's ability to meet its financial obligations (bonds, preferred dividends, insurance claims or other debt obligations). These opinions are the result of the application of Criteria for Rating Financial Institutions and Non-Financial Corporates, published and available at www.dagongeurope.com.

Dagong Europe’s credit ratings are aimed at measuring the likelihood of default of an entity (or its debt obligations) by analysing its credit risk profile. Dagong Europe’s credit ratings do not include any indication related to the market price, liquidity or any risk other than credit risk.

Dagong Europe uses two scales for credit ratings:

- Long-Term Credit Rating Scale: Assigned to issuers (debt obligations) with tenors exceeding 12 months.
- Short-Term Credit Rating Scale: Assigned to issuers (debt obligations) with tenors below 12 months. Under certain circumstances this time limit could be extended due to the characteristics of the debt obligation or regulatory or country-specific factors affecting it.

Dagong Europe’s credit ratings are applicable to financial and non-financial corporates. These credit ratings do not apply to asset managers, exchanges, clearinghouses, regional securities brokers, securitisations, structured and project finances, municipalities, any government bodies or supranationals.

Long-Term Credit Rating Scale

Dagong Europe’s Long-Term Credit Ratings consist of ten categories, ranging from ‘AAA’ – denoting the highest credit quality, to ‘D’ – which reflects an actual default context. Each rating category represents a relative ordinal order, with different expectations of default risk in terms of each entity’s capacity to fulfill its financial obligations.

Each category (with the exception of ‘AAA’ and credit ratings below ‘CCC’) can be further divided into three sub-categories, which identify the relative position of an entity’s credit risk (or debt obligation) within a specific rating category. The sub-categories are identified using two symbols: (+) indicating the highest position within the category and (-) indicating the lowest position within the category. If there is no symbol present, the credit rating is positioned in the middle of the category, between the (+) and (-) positions.

Exhibit 1: Long-Term Credit Ratings

Category	Definition
AAA	Highest Credit Quality: “AAA” ratings denote the lowest expectation of default risk. It indicates that the issuer has exceptionally strong capacity to pay its financial commitments. Although the debt protection factors may change, this capacity is highly unlikely to be adversely affected by any foreseeable event.
AA	Very High Credit Quality: 'AA' ratings denote expectations of very low default risk. It indicates that the issuer has very strong capacity to pay its financial commitments, with no significant vulnerability to any foreseeable event.
A	High Credit Quality: 'A' ratings denote expectations of relatively low default risk. The capacity to pay its financial commitments is considered adequate. However, this capacity may be more vulnerable to adverse business or economic conditions than those of higher rating categories.
BBB	Medium Credit Quality: 'BBB' ratings indicate that expectations of default risk are moderate. In normal conditions, the capacity to pay financial commitments is considered sufficient, whereas under adverse business or economic conditions the risk of default is more likely to exist.
BB	Speculative Credit Quality: 'BB' ratings indicate that the issuer faces major ongoing uncertainties and if exposed to adverse business, financial, or economic conditions, its capacity to meet financial commitments could be potentially affected.
B	Highly Speculative Credit Quality: 'B' ratings indicate that expectations of credit default risk are relatively high but a limited margin of safety remains. Adverse business, financial, or economic conditions will likely impair the issuer's capacity to meet its financial commitments.
CCC	High Credit Risk: 'CCC' ratings indicate very high credit risk. The issuer is vulnerable, and is highly dependent upon favorable business, financial, and economic conditions to meet its financial commitments. Default risk is highly probable.
CC	Very High Credit Risk: 'CC' ratings indicate that the issuer is currently highly vulnerable and faces a very high probability of defaulting on its debt obligations.
C	Highest Credit Risk: 'C' ratings indicate the highest credit default risk. The issuer is in a position of imminent credit default on its debt obligations.
D	Default:
	§ Failed or delayed payment of interest and/or principal on any financial obligation except for the missed payment of interest on the due date provided that is remediated within the agreed grace period.
	§ The issuer files for bankruptcy or legal receivership occurs or other legal impediment to the timely payment of the obligations.
	§ The creditors are forced to accept a distressed debt exchange with new security or package of securities that leads to a less valuable financial obligation (such as debt/equity swap or debt with a lower coupon or face value, lower seniority or with longer maturity) or the exchange seems aimed at avoiding the default of the issuer.

Short-Term Credit Rating Scale

Dagong Europe's Short-Term Credit Ratings consist of six categories, ranging from 'A-1' – denoting the highest financial capacity to fulfill short-term debt obligations, to 'D' – which reflects an actual default context. Each rating category incorporates different expectations in terms of the liquidity capacity of an entity and takes into account certain macroeconomic conditions.

Exhibit 2: Short-Term Credit Ratings

Category	Definition
A-1	The issuer enjoys superior short-term financial strength, which is adequate to repay all short-term debt obligations.
A-2	The issuer has strong short-term financial strength to repay all short-term obligations. However, such capacity could be affected, at a limited level, by the adverse macro environment.
A-3	The issuer has sufficient ability to pay its short-term obligations. However, this ability could be impaired by an adverse macro environment.
B	The issuer has an acceptable ability to repay its short-term obligations. However, a substantial level of speculative characteristics is present.
C	The ability to pay short-term obligations is questionable and a default is plausible.
D	Default:
	§ Failed or delayed payment of short-term financial obligations except for the missed payment of interest on the due date provided that is remediated within the agreed grace period.
	§ The issuer files for bankruptcy or legal receivership occurs or other legal impediment to the timely payment of obligations.
	§ The creditors are forced to accept a distressed exchange with new security or package of securities that leads to a lower financial obligation (such as debt/equity swap or debt with a lower coupon or face value, lower seniority or with longer maturity) or the exchange seems aimed at avoiding the default of the issuer.

Long-Term and Short-Term Credit Rating Relationship

The strong correlation between Long-Term and Short-Term Credit Ratings represents the fundamental basis for the analysis of liquidity and other short-term financial strength concerns included in the assessment of the Long-Term Credit Rating. The relationship may be subject to a degree of asymmetry in some cases, e.g. when an entity presents a low default risk in the short-term due to temporary support provided by third parties. In this case, the relatively lower short-term credit risk will be associated with a higher credit risk in long-term assessment.

The relationship between Short-Term and Long-Term Credit Ratings is shown in the table below. Note that this is an indicative comparison only and changes may apply in line with Dagong Europe's applicable Criteria for specific Industry Sectors.

Exhibit 3: Long-Term and Short-Term Credit Ratings Relationship

Long-Term Credit Rating	Short-Term Credit Rating
AAA	**A-1**
AA+	
AA	
AA-	
A+	
A	
A-	**A-1 or A-2**
BBB+	**A-2**
BBB	**A-2 or A-3**
BBB-	**A-3**
BB+	**B**
BB	
BB-	
B+	
B	
B-	
CCC+	**C**
CCC	
CCC-	
CC	
C	
D	**D**

‘Foreign Currency’ and ‘Local Currency’ Credit Ratings

Dagong Europe assigns ‘Foreign Currency’ credit ratings in cases where the entity issues debt instruments in a currency different from the local currency. These credit ratings are not independent and are obtained through the ‘Local Currency’ credit rating. Any debt obligation that an issuer commits in ‘Foreign Currency’ is subject to “notching” adjustment (up or down) based on the ability of the rated entity to access the specific foreign currency. The adjustments will take into account the specific features of the foreign currency issuance and any other factor Dagong Europe considers could constrain the entity’s access to foreign currency, and therefore, reduce the ability of the entity to fulfill its obligation accordingly.

In addition, a ceiling on the possible rating on ‘Foreign Currency’ applies if Dagong Europe believes that the access to that currency is considerably restricted within the country in which the entity operates or if a government restriction exists which limits access to foreign currency. In these cases, the ‘Foreign Currency’ credit ratings are mainly dependent upon the analysis of the external restrictions; therefore tend to be misaligned from the ‘Local Currency’ credit rating. The notching difference is evaluated on a case-by-case basis, depending on the strength of the rated entity to ring-fence the specific ‘Foreign Currency’ debt obligation.

Other Definitions Used by Dagong Europe

Notching

Notching is the general practice of assigning differentiated credit ratings to various sets of debt obligations pertaining to an entity as characterised by distinct default expectations.

Upgrade

Upgrade denotes an improvement in the issuer/debt obligation on a long-term or short-term credit rating.

Downgrade

Downgrade denotes a deterioration in the issuer/debt obligation on a long-term or short-term credit rating.

Rating Outlook

Rating Outlook can be 'Positive', 'Stable' or 'Negative'. It indicates the direction a long-term credit rating is likely to move over a period of one- to two-year maximum. 'Positive' or 'Negative' Outlooks do not inevitably result in a rating change. Ratings with Stable Outlooks can be upgraded or downgraded without a prior revision of the Outlook.

Rating Watch

Rating Watch can be 'Positive', 'Negative' or 'Evolving'. It indicates a high probability of a rating change and the potential direction of such change. 'Positive' Watch indicates a potential upgrade and 'Negative' Watch a potential downgrade. In the case of 'Evolving' Watch, the direction of the change is uncertain and therefore ratings could be upgraded, downgraded or affirmed. Ratings that do not have a rating Watch assigned could be raised or lowered without previously being placed on a Watch status.

Dagong Europe aims to resolve a Rating Watch within a period of 6 months from the date of the initiation of the Watch status. For Dagong Europe, assigning a Rating Watch is a rating action typically driven by special events. The Rating Watch covers the time period in which the event would potentially trigger changes in an entity's credit risk profile. In cases of conflicting positive and negative elements, the Rating Watch is indicated as 'Evolving'.

Affirmation

Affirmation denotes that the current credit rating has not changed compared to the one previously assigned.

Withdrawn

A credit rating is withdrawn by Dagong Europe when the information available to continue a rating process is deemed insufficient for the purpose of analysis, or:

i. The issuer is no longer in existence;
ii. The debt obligation was refinanced;
iii. The debt obligation was called;
iv. The debt obligation expired.