

Code of Professional Conduct of „BCRA – Credit Rating Agency”

This Code of Professional Conduct (the Code of BCRA) is part of the public domain, the purpose of which is to facilitate the transparency of the process of awarding credit ratings. The first Code of BCRA was adopted in the month of August 2006. The update of the Code made in 2009 is in compliance with the principles of the CODE OF CONDUCT FUNDAMENTALS FOR CREDIT RATING AGENCIES, updated in 2008 by the International Organization of Securities Commissions (IOSCO).

BCRA shall take no liabilities or responsibilities ensuing from, or related to the Code of BCRA before third parties.

The Code of BCRA is not designed to be, and is not deemed to be part of any agreement with any other party, and no such party shall be entitled (by contract or otherwise) to impose adherence to the provisions of the Code. The Code of BCRA may be changed and/or amended only by BCRA itself.

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Introduction

In December 2004, the International Organization of Securities Commissions (IOSCO) – an organization comprising national and regional securities’ regulatory bodies - issued “Fundamentals of the Code of Professional Conduct of credit rating agencies” (Code of IOSCO). The main goal of the Code of IOSCO is to justify the investors’ trust by guaranteeing the objectivity of the credit rating while, at the same time, it strives to improve the quality of credit ratings and their usefulness for the investors. In order to achieve such goal, the Code of IOSCO offers special manuals. BCRA has followed the spirit of the Code of IOSCO, and has developed and issued this Code of Professional Conduct (Code of BCRA) of its own; the Code has been designed and updated according to the provisions of the Code of IOSCO. Alongside with the Code, BCRA avails of its Internal Rules and business procedures, which come to guarantee that BCRA strictly and fairly applies the ideas and principles for awarding of veracious and creditworthy credit rating. The Internal Rules and procedures mentioned are applied in the fields where BCRA operates, namely – financial institutions, corporations and companies with public finance; they appear mandatory for everyone permanently and/or temporarily employed by the Agency.

Through the adoption and implementation of its “Code”, BCRA, which is the first credit rating agency established in Bulgaria, undertakes to perform its duties in a manner inherent for a credit rating agency.

1. Quality of the appraisals and of the rating process

A. Impartiality

1.1 When BCRA elaborate and assign a credit rating, as well as provide ancillary services, the agency and its employees have to work impartially and fairly with the investors, publishers, the public, and the other market participants.

1.2 In order to contribute to the impartiality of the rating, and based on its past experience, BCRA has developed criteria securing cohesion between the different stages of the rating process. The analysts of BCRA have to use said criteria in their work on each separate credit rating. The criteria of BCRA are based on standards and procedures, which comply with the requirements of all branches and all types of financial documents.

1.3 The teams of BCRA working on ratings are structured in a manner to secure consistency, and to avoid partiality. The teams of employees working on credit ratings consist of the minimum of two analysts, so that they can make an objective appraisal – from different viewpoints.

1.4 BCRA employs as analysts only persons having the adequate knowledge and experience. BCRA carries out seminars and educational programs in order to improve the skills of the analysts in the rating.

1.5 (Amended with a decision of the Board of directors dated back to 25.03.11) The decisions of BCRA for awarding a credit rating are taken unanimously by the Rating Committee of BCRA after the detailed discussion on the proposed rating. The Rating Committee consists of experts possessing the necessary knowledge and experience. The decisions of the RCom are announced by BCRA as final.

1.6 BCRA or its employees must not give any promises or guarantees for a particular rating before the final appraisal of the respective credit rating.

B. Trust-worthiness

1.7 The working out and awarding of credit rating by BCRA is based on approved written methodology. Such methodology has to be reliable, to be applied on a system basis, and to be subject to inspections from time to time, on grounds of past experience.

1.8 In order to award a credit rating as precise as possible, BCRA guarantees that, at all times when performing rating surveys, BCRA will retain a sufficient number of analysts, who possess the adequate knowledge and experience for performing any rating survey and, further, BCRA shall assess whether its employees avail of the information necessary for making a correct rating appraisal.

1.9 BCRA shall award its ratings only based on a profound analysis of the necessary information collected from a broad range of sources and factors important for the appraisal.

1.10 The process of appraisal requires that the analyst undertakes investigation on-site: by taking interviews, with the Assignor's management inclusive.

1.11 In order to guarantee opportunities for the Assignor to clear out any erroneous interpretations, before the issuing of the respective credit rating, BCRA explains to the Assignor and/or to the authorized Agent the essentials and grounds of the rating.

1.12 In order to avoid the awarding of credit rating, which contains erroneous implications or is misleading, before announcing the rating and the grounds thereto, the documentation and information related to the credit rating, on which the credit rating is based, is revised by two qualified experts from the team.

C. Monitoring and update

1.13 After the rating has already been awarded and announced, BCRA shall continually monitor the changes in the creditworthiness of the Assignor. The monitoring of BCRA consists of survey of the Assignor, inclusive through working meetings with the Assignor's management.

1.14 In addition to the periodical surveys described above, BCRA shall initiate the review of a given rating, and update the rating, if necessary, as soon as BCRA becomes informed (in its own discretion) that it has enough grounds to do this. The information entitling a review of the rating includes, for example, big fluctuations in the financial results because of mergers and acquisitions, changes of the market environment, dropping-out of basic facilities caused by average or act of God, deterioration of the corporate image and goodwill due to public scandals. In case such events occur, BCRA applies a review called "Rating Monitoring". After carrying out timely and precise analysis of the impact of such events on the Assignor, and if the respective grounds exist, BCRA announces the new rating of the Assignor. Rarely, in case the performance of an adequate appraisal becomes impossible owing to factors such as major unfavorable changes in the operation environment of the Assignor, lack of data and information or refusal of the Assignor to submit them, and other similar factors, the agency, at its own discretion, can withdraw the credit rating.

1.15 BCRA has developed procedures to guarantee security, correctness, and consistency in carrying out of the activities for awarding, monitoring, and update of the credit rating.

1.16 The Rating Committee of BCRA is responsible for reviewing and correcting of the above procedures, when necessary.

2. Independence in taking decision

A. Independence of the teams

2.1 The rules of the Rating Committee of BCRA stipulate that this Committee ignores any and all internal and/or external pressures or interference, so that it is able to take an independent and objective decision for the respective rating. The Rating Committee should not consider any effects (be they positive or negative) on the Assignors, Investors, the BCRA itself, and/or on the business relations (already existing or prospective), which effects can occur due to the decision for a respective rating.

2.2 The shareholders of BCRA shall not attempt to influence the decisions for the ratings.

2.3 BCRA must maintain its credit rating units independent from its other units, as far as the information control and management organization are concerned.

B. Prevention of conflict of interests

2.4 BCRA shall prevent the occurrence of conflicts of interests through its adoption of, and compliance with the written Internal Rules for identification, management and disclosure of all (existing or potential) conflicts of interests.

2.5 The Internal Rules of BCRA consist of practical measures for the prevention of any potential conflict of interests. The Compliance officer watches for, and identifies every present and/or potential conflict of interests, which may have impact on the employees participating in the taking of decisions on ratings. BCRA must timely reveal the specific nature of the (existing or potential) conflict to arise.

2.6. BCRA declares the cases when its income from a single client reaches or exceeds 5 % of the annual income of the Agency. BCRA shall publicly announce the general principles of formation of the fees, which BCRA has received for the elaborating and awarding credit ratings.

2.7. BCRA shall not provide to the Assignor or to its Agent any consulting services, which could serve to the Assignor as an advice how to get higher rating.

2.8. In its Internal Rules, BCRA shall regulate the manners of preventing its employees from securities trading, which could bring to conflict of interests in the activities of BCRA for awarding credit ratings.

2.9 BCRA forbids its employees to take part in decisions for credit rating, whenever their family members are associated with the Assignor or with the authorized Agent subject to the assigned credit rating by BCRA. Employees engaged with the taking of rating related

decisions, have to report to their manager whenever they, in person, or the members of their families are in a relation, which may cause a problem. The employees of BCRA are also forbidden to take part in the surveys of assignors, with which they have had business relations for a period of 12 months before the assignment.

2.10 In the cases, where the rated organizations (such as government institutions, for example) have, or mean to have controlling functions over BCRA, BCRA shall disallow its employees, which are subject to such control, to take part in the decisions for rating of the above organizations.

2.11 The work of the analysts of BCRA and their remuneration shall be settled in a manner such, as to prevent any potential conflict of interests. The remuneration of the analysts of BCRA shall not be based on the remuneration, which BCRA receives from the Assignor or from the authorized Agent. BCRA shall assess the work of its analysts based on the positions they occupy in BCRA and in the separate projects, as well as on the quality of their analyses, the level of clarity and intelligibility of their reports, the impartiality and diligence in their relations with the Investors, the Assignors, and the authorized Agents.

2.12 BCRA shall forbid that the analysts take part in any negotiations for remunerations under ratings, apart from cases when a financial analyst (commonly a senior analyst having sufficient understanding in conflicts of interests) has large experience and knowledge for the complexity and sophistication of the rated organization.

2.13 BCRA shall forbid that its employees occupied with credit ratings receive money and/or presents from the Assignor or from its Agent, and/or be granted any special privileges – apart from what relates to on-site surveys.

3. Liability before the Investors and Assignors

A. Announcing the credit rating

3.1 Whenever BCRA issues or updates a rating, it should publish its results on the public website of BCRA, as soon as possible. The information should also be accessible through other vehicles. BCRA must not publish a rating, provided that this has not been settled in an agreement with the Assignor or its authorized Agent (as in the cases of a private order).

3.2 A summary of the grounds of the credit rating of BCRA shall be published on the website of BCRA, unless the Assignor expressly rejects such option.

3.3 On its public website BCRA should reveal its latest overviews, together with the date of updating of all publicly accessible credit ratings.

3.4 Whenever BCRA annuls a credit rating, which has entered the public domain, BCRA must announce such act, as well as the symbols of the latest rating. Any related

information (such as the date of last rating update) should be accessible on the website of BCRA.

3.5 BCRA possesses consistent policy and procedures for announcing its ratings, reports and updates as mentioned in the preceding provisions. BCRA must publicly announce any and all changes of said policy and procedures on its public website.

B. Transparency

3.6 BCRA reveals information about the definitions, the principles of its methodology and other applicable standards for performance of the rating. Such information is provided free of charge on the public website of BCRA, so that it can help consumers in their understanding of the meaning of all rating symbols and of the process of taking decisions for the rating.

3.7 BCRA will annually reveal on its public website, free of charge, the updated values of the “default rates”, as well as the current changes in all rating categories, so that market participants are capable of objectively assessing the reliability of the ratings of BCRA.

3.8 Only first-time ratings, including those resumed after being withdrawn, may be assigned without being published. When a credit rating is being updated, it is possible that the rated entity does not wish the rating to be published. In such cases, BCRA aims to undertake an on-site review of the rated entity. In case the rated entity does not allow BCRA’s team to undertake such an on-site review, BCRA retains its right to award “unsolicited” rating, without carrying out an on-site review. In this and every other case of an unsolicited rating, BCRA shall clearly distinguish ratings which have not been solicited by the rated entity by marking it with the symbol “**H**” or “**ns**”¹ respectively to the Bulgarian and the English versions of the rating and adding explanatory text to the public rationale for the rating. This text will also include a statement as to the possible participation of the rated entity or a related third party in the rating process and whether the agency has had access to the accounts, management and other relevant internal documents for the rated entity or a related third party. BCRA’s complete policy for assigning and publishing unsolicited credit ratings is made publicly available on the agency’s website.

3.9 Whenever BCRA makes a significant change in its rating methodology and procedures, and before starting to apply such modification, BCRA must announce the respective changes on its public website – assuming the form of announcement or press release.

3.10 BCRA shall publish an annual transparency report.

¹ „ns“ = not solicited (in English), „H“ = не поискан (in Bulgarian).

C. Confidentiality

3.11 BCRA shall undertake, by virtue of the agreements signed with its clients and the effective legislation, not to disseminate any confidential information received from the Assignor. The employees of BCRA may use the confidential information received from the Assignor or from the authorized Agent only for the purposes of the appraisals, and in compliance with the confidentiality clauses.

3.12 BCRA shall undertake to adequately instruct its employees with the purpose of protection of the confidential information received from the Assignor or from its Agent, as well as of the information for taking decisions for the rating (before its official dissemination). In addition, BCRA has applied measures for securing the safety of the information in its computer system.

3.13 BCRA shall forbid that its employees, engaged in the credit rating, disclose any confidential information to employees, who are not retained for the specific project, as well as to outer parties, legal entities inclusive. Retired employees are bound to comply with their confidentiality obligation – for all non-public information, which they have accessed while being employed by BCRA.

3.14 The Agency shall forbid that its employees selectively disclose to any parties different from the Assignor or its authorized Agent any information for the taking of rating decisions before their official dissemination. BCRA shall also forbid the disclosure of information for the time schedule of the rating process (e.g. the date of the session of the Rating Committee and the schedule for review of the rating).

3.15 (Amended with a decision of the Board of directors dated back to 25.03.11) With the purpose of protection of the confidential information in the BCRA working process, all employees of BCRA shall undersign a “Declaration for confidentiality”, namely that they shall not disclose data or documents, which they have acquired while performing their duties within the Company.

4. Openness and communication with the market

BCRA shall publicly declare this Code of Professional Conduct, and shall explain its correlation with the international principles for operation of the rating agencies, as adopted by IOSCO.

4.1 In the process of its daily work, BCRA shall exchange views and opinions with the Investors, the Assignors and their authorized Agents. BCRA sees such exchange as extremely valuable for its credit ratings and organizational policy and, consequently, BCRA has established its own public relations policy in order to facilitate such exchange of views and opinions. The person responsible for said policy is the Office Manager.

4.2 BCRA and its employees (Directors are also included in the definition of an “employee”) shall adhere to the Code of BCRA. At the start of their employment, the

employees of BCRA shall undersign a Declaration for Adherence to the Code of Professional Conduct.

BCRA has assigned a Compliance officer, who is responsible for the compliance of the activities of BCRA with the Regulation 1060/2009, effective legislation, with the Internal Rules, and with the “Code of BCRA”. Compliance officer must perform the above duties and, in addition, must also streamline the efforts of the employees to adhere to said standards on a regular basis. In order for the independence of the Compliance officer to be guaranteed, he/she shall directly report to the Board of Directors and shall prepare an annual statutory report.

4.3 Compliance officer executes his/her duties by following actions:

- Require needed information from all employees and executives of BCRA. All employees and executives are obligated to provide the information in due course;
- Execute control by document revision or by on cite check ups (during working time) to review the compliance of the internal rules with the Regulation 1060/2009, effective legislation;
- (Amended with a decision of the Board of directors dated back to 25.03.11) Attends the Rating Committee and Advisory Council meetings;
- Delegates tasks to the executives or selected employees to carry out specific assignments.

4.4 In case an employee of BCRA becomes aware of the conduct of another employee, which purports to be illegal, non-ethical, and contradicting the Code of BCRA, such employee shall immediately report his/her information to the Compliance officer, and the latter shall undertake action in compliance with the laws and with the Internal Rules. The management of BCRA shall forbid any reprisals against such employee on part of any other employee, as well as on part of the management of BCRA itself.

4.5 When engaged in operations relating to the credit rating business, BCRA and its employees must comply with the effective laws and by-laws of Bulgaria and of the other legislations, where BCRA operates.

Additional provisions

Any and all amendments to **the Code of Professional Conduct of BCRA** have to be approved by the Board of Directors.

Amended in May 2014