fedafin
SWISS QUALITY RATINGS

Disclosure of Conflicts of Interest and other Regulatory Requirements

Documentation, disclosure of conflicts of interest, shareholdings, principles of employee remuneration, principles of remuneration of fedafin, ancillary services, qualified sales shares, credit rating terminology, distribution and withdrawal of credit ratings, change of credit rating criteria and assumptions, possibility of complaints, credit rating scale, time horizon of credit ratings, definition of default, defaults, use of external credit ratings

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Documentation

The following links will take you directly to the relevant regulations and documentation, which also describe the credit rating methodology and validation, including historical transition and default probabilities:

- Code of Conduct (German)
- Organizational Regulations (German)
- Rating Process (German)
- Documentations:
  - Rating Cantons and Municipalities
  - Rating Energy
  - Rating Health Care
  - Rating Transportation
  - Rating Project Financing
  - Rating Corporations
  - Rating Finance
  - Rating Insurances
  - Rating Real Estate Companies
  - Issue Ratings
  - Rating Real Estate Secured Debt
  - Expected Loss Credit Rating Methodology
  - ESG factors relevant to creditworthiness
  - ESG Rating
- Historical migration and default probabilities

Conflicts of Interest

Here, fedafin publishes all factual or potential conflicts of interest. If the factual or potential conflict of interest is singular or relates exclusively to an individual credit rating, it will be declared on the credit rating documentation.

Managing Director Dr. Adrian Oberlin was part-time mayor of Wangen SZ until May 2016 and member and president of the Schwyz cantonal council until June 2016. He waived re-election in both offices, so that his political activity ended in mid-2016. The managing director of fedafin is generally not involved in the preparation and assignment of ratings, thereby ruling out any influence.

Shareholdings

Fedafin does not hold any direct or indirect stakes in rated entities or issuers or issues, and conversely, there are no direct or indirect stakes held by these entities in fedafin. All shareholders or beneficial owners holding more than 5% of share capital serve on the Board of Directors of fedafin.

Principles of Employee Remuneration

The remuneration and evaluation of employees who are involved in or may have an influence on the creation and assignment of credit ratings is independent of the income fedafin receives from an issuer or a debtor, through the evaluation of an issue, or from investors or subscribers to ratings.

Principles of Remuneration of Fedafin

Fedafin does not receive any remuneration from rated issuers, debtors, intermediaries, lead subscribers or arrangers who are independent of the rating activities.

The assignment of ratings on behalf of investors or subscribers to ratings (Investor Solicited Ratings) is generally associated with fees of 0.6-1.5 basis points on the corresponding debt volume (portfolio or claim x maturity, excluding VAT). A minimum fee for accessing the credit ratings is possible.

Rating assignments on behalf of issuers (Issuer Solicited Ratings) are usually subject to fees of 4-6 basis points on the corresponding exposure volume (medium and long-term liabilities and/or issue volume, excluding VAT). The fees for rating surveillance and monitoring are also based on the volume of receivables and are generally associated with annual fees of CHF 8,000 to CHF 18,000 (excl. VAT). A minimum fee is possible.

Ancillary Services

Fedafin is exclusively active in the credit rating business; there are no other business areas and no ancillary activities. In particular, fedafin does not provide consulting and support services.

Qualified Sales Shares

Fedafin receives more than 10% of its annual sales from the following customers (subscribers of ratings): PostFinance AG.

Credit Rating Terminology

Definition and Limitations of Credit Ratings

Credit ratings are forecasts of the probability of future default events. They are not exact measurements but objectified estimations of the probability of a future default. They are established based on a systematic assessment of data and information, and a detailed quantitative and qualitative analysis thereof. Credit ratings are assigned based on data and information that are classified as reliable and trustworthy, and are either available from publicly accessible sources and/or obtained directly from the client or issuer. Audited or revised financial statements are classified as trustworthy and not examined further. Due diligence is not part of the rating process. The rating process is carried out with the utmost care and to the best of fedafin's knowledge and belief. However, fedafin cannot guarantee the accuracy, correctness, and/or completeness of a credit rating. Content and results of a rating assessment only represent the expression of an opinion concerning the creditworthiness of an issuer or issue, and are established without taking into account objectives, financial situation, or requirements of a specific investor. Therefore, credit ratings do not represent an offer, a recommendation, or an advice for financial activities of any kind, and do not acquit users of credit ratings of performing their own assessment. It is also a particular concern of fedafin that market participants themselves are involved in assessing the creditworthiness of an issuer or an issue.

Credit ratings may be used for evaluation, for example as an input factor; however, excessive and uncritical reliance on credit ratings should always be avoided. In accordance with international and national efforts ("Reducing the Reliance on CRAs / CRA Ratings"), fedafin strives to reduce the excessive dependence on (recognized) ratings among investors, rating users, and other market participants and to promote the reflection of credit assessments by them.

Participation of Issuers (NPCI / PCI)

Under certain circumstances, credit ratings of companies may be based exclusively on the use of publicly available data sources, i.e. they are assigned without the involvement of the issuer. In these cases, the corresponding credit ratings are marked in accordance with international regulatory standards. Labelling is carried out with the suffix NPCI (Non Participating Corporate Issuer), in contrast to PCI (Participating Corporate Issuer).

In this context, the generally high standard of publication of information relevant to the creditworthiness (quantitative and qualitative) of listed companies is worth mentioning. This development is due to the systematic tightening of accounting standards in recent decades with regard to the disclosure requirements for listed companies.

Desktop Rating

A desktop rating reflects the creditworthiness of an issuer or an issue on a specific date (snapshot in time). Desktop ratings are not subject to monitoring, and accordingly no updates are made. It is an "internal" credit rating with no external purpose and no regulatory applicability. Compared to an ordinary credit rating, a desktop rating provides less detail in the analysis. The corresponding rating report is deliberately kept brief. Desktop ratings can deviate from the ordinary or definitive rating.

Distribution and Withdrawal of Credit Ratings

Fedafin publishes non-public credit ratings in a comprehensive and transparent manner on the Internet portal e-Rating for customers or subscribers of ratings (Investor Solicited Ratings) with access authorization. Authorized market participants are informed daily (and/or directly if necessary) about rating assignments in the news section of the Internet portal. This also includes notification of any withdrawal or suspension of credit ratings. Specifically, information is provided on a daily basis, if possible, on whether a credit rating is no longer covered by fedafin and no longer subject to constant monitoring (status "suspended") or whether a credit rating is withdrawn, including information on the reason (status "withdrawn"). Credit ratings that are no longer in demand or credit ratings for which there is no longer an order (from investors or subscribers to ratings or issuers) will be suspended or no longer covered and will no longer be subject to continuous monitoring and will be removed from the portal after three months. When ratings are suspended, this is indicated for each rating and made known to rating users by means of an entry in the news section of the e-Rating Internet portal, including the date on which the rating was last updated or reviewed and the reason why the rating is no longer monitored. If a rating is withdrawn, it is immediately removed. Communication also takes place by means of an entry in the news section of the e-Rating Internet portal, including the reason for the revocation. Public rating reports are published non-selectively on the website in the same way, provided the issuer has given its written consent (no consent is required for the withdrawal or the suspension).

Change of Credit Rating Criteria and Assumptions

Fedafin shall disclose any significant changes in the credit rating methodology on the front page of its website in the news portal before such changes take effect, provided that this does not negatively affect the integrity of a credit rating by unduly delaying the performance of a rating measure.

Possibility of Complaints

All market participants who have questions, suggestions, or other feedback with regard to the Code of Conduct, the present disclosure of regulatory requirements, or in any other matter concerning fedafin are asked to contact the Compliance Officer. He is responsible for receiving, storing, and handling complaints or reports from market participants and the public. Contact may also be made confidentially or, if necessary, anonymously by letter post:

- Phone: +41 71 552 32 00
- Email: beschwerden@fedafin.ch
- Postal address: fedafin AG, Compliance Officer, Galerieweg 8, 9443 Widnau, Switzerland

Credit Rating Scale

Fedafin uses the following scale for all credit rating assignments:

Category	Description
Aaa	Highest credit quality The obligor has extremely strong capacity to meet its financial commitments. Very effective institutional frameworks and/or extensive financial guarantees by third parties.
Aa	Very high credit quality The obligor has very strong capacity to meet its financial commitments. Effective institutional frameworks and/or extensive financial guarantees by third parties.
A	High credit quality The obligor has strong capacity to meet its financial commitments. High earning power and reserves may be susceptible to adverse economic conditions in the long term. Reasonably effective institutional frameworks and/or partial financial guarantees by third parties.
Baa	Adequate credit quality The obligor has adequate capacity to meet its financial commitments. Earning power and reserves may be susceptible to adverse economic conditions in the medium term. Restricted institutional frameworks and/or non-binding financial guarantees by third parties.

Ba	Weak credit quality The obligor has limited capacity to meet its financial commitments. Earning power and reserves may be susceptible to adverse economic conditions in the short term. Unstable institutional frameworks and/or somewhat negative market environment. Selective remediation measures appropriate.
B	Very weak credit quality The obligor has weak capacity to meet its financial commitments. Earning power and reserves in disproportion to current financial commitments. Adverse institutional frameworks and/or negative market environment. Selective remediation measures essential.
C	Extremely weak credit quality The obligor is vulnerable to meet its financial commitments. Insufficient earning power and reserves in a clear disproportion to current financial commitments. Very adverse institutional frameworks and/or highly negative market environment. Extensive remediation measures essential.
D	Default An obligor is in payment default on one or more of its financial obligations.
+ / -	Rating levels from Aa to B can be supplemented with a PLUS (+) or MINUS (-) to indicate their relative position within the relevant rating category.

Categories Aaa to and including Baa are generally referred to as "investment grade", below that "sub-investment grade".

The following concordance table ("mapping") shows the categories in comparison with international credit rating agencies. It is also available on the FINMA website.

Rating Classes	***fedafin***	***S&P***	***Moody's***	***Fitch***
1 & 2	Aaa – Aa-	AAA – AA-	Aaa – Aa3	AAA – AA-
3	A+ – A-	A+ – A-	A1 – A3	A+ – A-
4	Baa+ – Baa-	BBB+ – BBB-	Baa1 – Baa3	BBB+ – BBB-
5	Ba+ – Ba-	BB+ – BB-	Ba1 – Ba3	BB+ – BB-
6	B+ – B-	B+ – B-	B1 – B3	B+ – B-
7	C	CCC+ – C	Caa1 – C	CCC+ – C

Time Horizon of Credit Ratings

For the definition of the time horizon of a rating assignment, fedafin follows market best practice. The market standard corresponds to a calendar year for the time horizon of a rating assignment within the framework of statistical validation. The market standard for the time horizon of monitoring a rating after it has been assigned is usually one year from the rating release. In the economic sense, when a rating is assigned to an issuer, it is a rating for more than one year, as opposed to ratings with a specific rating notation for less than one year. It can happen that an ordinary rating update is not possible within one year of the last rating assignment, for example because the publication of an issuer's new annual report is delayed. However, Fedafin always declares whether a rating assignment is current (note "current" or status "Current Rating / Under Monitoring"), so that the rating recipients know whether the rating is up to date in terms of its information content, even if the last release date is more than a year ago.

Definition of Default

For a default event to occur, at least one of the following conditions must be met:

- The occurrence of a material (> CHF 20,000) and persistent (> 90 days after the contractual payment date) default in respect of the contractually agreed debt and interest repayments;
- Initiation of bankruptcy proceedings or similar official and parliamentary proceedings due to payment difficulties (forced administration, forced takeover, forced merger, etc.);
- Execution of a capital restructuring due to payment difficulties (reduction of debt service or ranking, extension of deadlines for debt and interest repayment, exchange for riskier receivables with equity character, etc.).

Default events serve as the basis for statistical model validation (forecast quality) and for the statistical estimation of default probabilities at the different rating levels. According to Anglo-Saxon tradition, credit risk describes the probability that a counterparty will not meet its contractual payment obligations to creditors in full or on time due to its own de facto inability or unwillingness to do so. In other words, the occurrence of a loss to investors necessarily triggers a default event. On the other hand, the occurrence of a default event does not necessarily result in a loss for investors.

Defaults

The following companies have been defined by fedafin as defaults for statistical validation since 2010: OC Oerlikon Corporation AG, Swissmetal Holding AG, Petroplus Holdings AG. There have been no defaults of banks since 2010. Defaults of municipalities are disclosed to fedafin's customers through the e-Rating Internet portal.

Use of External Credit Ratings

In exceptional cases, the inclusion of external credit ratings is useful and necessary for economic reasons in order to adequately reflect the implicit and/or explicit support by respective guarantors. External credit ratings (excluding the Swiss Confederation) must be taken into account if, cumulatively, no adequate credit assessment would otherwise be possible, the guarantor in question has no rating from fedafin, and this guarantor has a current rating from a credit rating agency recognized by FINMA and specified below. Otherwise, the rating assignment is to be waived. The use of non-recognized external credit ratings is excluded. If external credit ratings are used for rating purposes, they must always be subjected to a plausibility check by the rating team. An unintended use is excluded. In justified cases, the external credit rating can be adjusted by a maximum of +/- two notches. If there are different external credit ratings, the following final prioritization applies: 1) Standard & Poor's, 2) Moody's, 3) Fitch. On the rating report, Fedafin transparently declares the use of recognized external ratings when assigning ratings, stating the rating agency concerned, the specific rating, including the date of assignment, information on any adjustment of the external credit rating, and information on robustness.

The plausibility of external country ratings, including the federal rating, is checked by comparing selected key figures of different countries. Switzerland performs excellently in comparison with both the other Aaa states and the other European countries. In terms of creditworthiness, the Confederation is therefore rated as an excellent debtor with the highest rating of Aaa. There is a broad consensus about this result among the international credit rating agencies. On this basis, fedafin also considers a rating of Aaa for the Swiss Confederation to be appropriate. The federal rating is reviewed at least every six months and also in the event of any change in the assessment by the international agencies. This review is also submitted to fedafin's supervisory committee. A possible change in the federal rating would have an impact on other credit ratings (mainly cantons, municipalities, public sector companies) in line with the anchor function.

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