

Creditreform Rating AG

Rating Sub-Methodology

# Government-Related Companies

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*This document (version 1.2) is an update, which contains no material changes to the previous version. Aside from editorial changes, the definitions have been extended, clarifications regarding the application logic and explanatory examples for better comprehensibility have been added. This update is dated May 2026.*

# 1 Introduction

## 1.1 General Background

In order to ensure the transparency and clarity of Creditreform Rating AG (CRA) ratings for companies, investors and the public, this sub-methodology for Government-Related Companies ("GRC") is disclosed. The methodology will be updated in the event of changes to the underlying procedures. The basis for applying the methodology presented here is the availability of a rating for the relevant issuer. We refer to the respective methods in this regard. Each CRA rating is based on defined principles and guidelines. This applies to the rating process, basic procedures, defined rating scales, and add-ons. The methodologies, the principles and guidelines applicable to them for rating preparation, and the CRA Code of Conduct are publicly available on our website [www.creditreform-rating.de](http://www.creditreform-rating.de).

## 1.2 Changes to the Sub-Methodology for Government-Related Companies v1.1

The present sub-methodology "Government-Related Companies" (version 1.2) constitutes the revised version of its predecessor 1.1 from May 2023. The key changes are outlined below:

- Extension of the scope of applicability of the framework to ratings of project companies
- Various additional explanations and clarifications regarding the approach for sovereigns and sub-sovereigns (without an available rating)
- Definition of "extraordinary" government support and distinction from "ordinary/regular" government support
- Substantive changes and additions to sections, including partially revised chapter headings and the introduction of new sections
- Editorial and linguistic revision

## 1.3 Definitions

### 1.3.1 Government-Related Company

We define Government-Related Companies as corporations or project companies whose credit quality is influenced by one or more public sponsors. This may be the case if the public sponsors exercise substantial control over the company and / or has a high degree of systemic relevance and its activities are in conjunction with the public sponsor's strategic goals. Generally, the greater the public sponsor's control over the company and/or the higher the systemic relevance, and the closer the company's activities are to the public sponsor's strategic goals, the closer the GRC's rating is to that of its public sponsor, reflecting the higher likelihood of extraordinary support in times of financial stress. Affiliation with a public sponsor may also arise indirectly through sub-participation or group relationships. For example, a company may be considered government-related if its parent company has been classified as such.

### 1.3.2 Public corporations / Public sponsors

Public corporations / public sponsors are defined as national (sovereign), regional or local (sub-sovereign) governments or authorities and related institutions. These can primarily be states, federal states or provinces, cities and municipalities and their governments, as well as their institutions (e.g. the German "Kreditanstalt für Wiederaufbau (KfW)" or the French "Caisse des dépôts et consignations (CDC)").

CRA may not maintain a rating for the relevant public sponsor. Where an entity's credit quality is considered to be inextricably linked to that of its public sponsor, CRA will rely on publicly available information or perform an internal assessment to evaluate the creditworthiness of the public sponsor. CRA reviews publicly available credit opinions on the relevant sovereign, where available. Where multiple credit opinions exist, CRA determines, where deemed appropriate, the sovereign classification based on the prevailing majority view.

If no credit ratings are available for a sub-sovereign, CRA may, where deemed appropriate, use the rating of a higher level of government to derive the public sponsor's credit quality, applying adjustments to reflect differences in risk exposure.

## 2 Scope of application

The sub-methodology presented here for the rating of Government-Related (Project-) Companies by CRA refers to a specific, economically active company to which CRA attributes affiliation with a public sponsor. This (sub)-rating methodology defines the supplementary framework for methodical analysis in conducting a corporate or project company rating for Government-Related Companies. This (sub)-methodology is always to be used in conjunction with the methodology for corporate ratings or with the methodology for project companies.

We assume that a Government-Related Company may benefit from extraordinary support from its public sponsor in the event of economic or financial stress. This is particularly the case when, in CRA's opinion, the company is likely to receive support for business development, financing, or the timely and full servicing of its payment obligations. Guarantees or sureties may also reflect a close link to the public sponsor, which can influence the company's credit rating. Conversely, the corporate rating may be capped at or downgraded to the level of the public sponsor's rating, if the rating of the public sponsor is lower than that of the Government-Related Company.

## **3 Rating method**

### **3.1 Rating process**

As part of the overall analysis for corporate ratings or project company ratings, it is determined whether there is any potential affiliation between a public sponsor and the company being assessed. If this is the case, the extent of the company's relationship with the public sponsor will be methodically determined and, depending on the result, this relationship is verified. The basis for the GRC methodology is the outcome of the standalone rating according to our Corporate Ratings or Project Companies Methodology. Please refer to the above-mentioned documents, which can be viewed on the CRA website [www.creditreform-rating.de](http://www.creditreform-rating.de).

Within the framework of this methodology, we assess the likelihood that a Government-Related Company will be affected by extraordinary support from its public sponsor in the event of economic and/or financial distress. In doing so, we examine the extent to which the public sponsor exercises control over the company and whether the company's activities are aligned with the public sponsor's strategic objectives (e.g. the provision or maintenance of critical infrastructure). We also consider whether there is a track record of governmental support in past stress situations.

CRA distinguishes between extraordinary support and day-to-day/ongoing support. The day-to-day support a company receives from the public sponsor will already be integrated in its standalone rating, whereas the likelihood of extraordinary support will be factored in within the scope of this methodology. CRA considers governmental support to be "extraordinary" when it goes beyond routine measures, is provided on a temporary and exceptional basis, and is directly aimed at preventing a default on the company's debt obligations. Such support would not be expected under normal operating or market conditions. All other governmental support is generally treated as "day-to-day" or "regular" support. It may, however, at times be challenging to distinguish between "extraordinary" and "regular" governmental support. CRA makes this distinction on a case-by-case basis.

### **3.2 Criteria for verifying government relation**

#### **3.2.1 Basic procedure**

Once the analysts have determined that a company is to be classified as potentially government-related, the extent of its relationship or the likelihood of extraordinary support is determined based on two quantitative and three qualitative criteria.

CRA assesses each of the five criteria on the basis of four intensity levels (low, moderate, high, and very high). The assessments are weighted and combined into a GRC score. The level of the score determines

the affiliation to the public sponsor. In accordance with the tables set out below, this score may subsequently lead to potential rating uplift or downward notching.

This methodology is always applied in conjunction with either the methodology for corporate ratings or that for project company ratings. The Corporate Rating or Project Companies Methodology first establishes the company's stand-alone rating. The GRC score, once calculated to reflect the influence of the public sponsor, is subsequently translated into notches, which may have a positive, neutral, or negative impact on the stand-alone rating of the rated entity.

### 3.2.2 Quantitative and qualitative Criteria

#### 3.2.2.1 *Quantitative factor: Ownership and control*

The relative share of business interests held by the public sponsor in a company is an important factor in assessing affiliation. We generally assume that a higher ownership stake increases the sponsor's ability to influence strategic decisions, strengthens co-determination, and reflects greater economic and political interest in the entity. We also consider factors that could limit this influence. For example, we assess whether ownership translates into effective control, including board representation, voting rights etc.

#### 3.2.2.2 *Quantitative factor: Total share of public sponsor (day-to-day) support*

The contribution of the public sponsor to the company's cash flows (e.g., through grants, government contracts, etc.) is another indicator of the sponsor's interest in the company being assessed and its willingness to support the company (financially) if necessary. CRA also examines whether regulations or laws exist which oblige the public sponsor to make payments (e.g. in the form of subsidies) or to maintain solvency.

We believe these factors are a strong indicator of a public sponsor's willingness to provide extraordinary support. A high share of revenue from government contributions shows a close relationship with the sponsor and that the entity's activities align with the sponsor's strategic objectives. It also suggests the sponsor has a clear interest in keeping the entity operating, which makes extraordinary support more likely if the entity runs into financial difficulties.

#### 3.2.2.3 *Qualitative factor: Probability of guarantees in relation to debt*

CRA looks at to what extent the public sponsor provided guarantees and/ or other forms of extraordinary support for the company's debt in the past. Also, if guarantees currently exist, and if so, to what extent.

Past guarantees or extraordinary support provided by a public sponsor are considered to be a strong indicator of the likelihood of potential future support. Such a track record demonstrates both the sponsor's willingness and capacity to intervene during periods of financial stress and reflects the strategic or political importance of the company to the sponsor. Where a history of guarantees or financial interventions exists, CRA believes it is reasonable to assume that similar support could be forthcoming in the future.

If the public sponsor has provided any current, unconditional, and legally binding guarantees on the company's outstanding debt, this will most likely have a direct positive impact on the company's creditworthiness, as such guarantees reduce the probability of default. These guarantees also signal the sponsor's continued willingness and capacity to support the company, reflecting its strategic or political importance.

CRA believes that if more than three-quarters of the company's outstanding debt is covered by such guarantees, this would generally result in raising the rating up to that of its public sponsor, as the company's credit risk becomes closely aligned with that of the sponsor.

#### 3.2.2.4 *Qualitative factor: Systemic relevance of the company*

The importance of the company's products and services for the public sponsor (e.g., state, city or local authority), the economy, or the population—together with its size and market position—determines its systemic relevance. The rate of systemic relevance is assessed based on the degree of dependency of the respective population on the company's products and / or services, and the potential impact in case of a disruption in the event of ceasing business activities.

In particular, the importance of the company's products and services for maintaining essential supply to the state, the population, the economy, and public institutions is considered. This includes, for example, electricity grids, gas and water supply systems, the supply and storage of raw materials, higher-level transport systems (e.g. railway and road networks), and energy generation.

#### 3.2.2.5 *Qualitative factor: Substitutability / replaceability of the company*

The question here is whether the company's products and services can be substituted or replaced by other market participants. Substitutability is assessed based on various criteria, including the type and number of relevant competitors, specific market conditions, and market entry barriers such as the time required to implement the business model, capital requirements, or regulatory approvals/concessions. The assessment also considers the time frame over which substitution would be possible, as delayed replacement could still lead to significant short- to medium-term disruption.

If a company provides products or services that can be easily replaced by other market participants without major disruption, its failure would likely have only a limited effect on markets or public services. Conversely, if products or services are difficult or impossible to replace in the short to medium term, the company's failure could cause significant disruptions to markets, public services, or critical infrastructure.

Products or services that are essential for public safety, critical infrastructure, financial stability, or social welfare are particularly important when replacement is difficult. For example, key energy supplies, public payment systems, or specialized IT infrastructure are typically low-substitutability services.

### **3.3 Classification of a Government-Related Company**

#### 3.3.1 Rating approaches

We dispose over two different approaches. The first approach deals with the situation where the credit quality of the public sponsor is better than that of the rating object. The second approach deals with a public sponsor with a lower credit quality than that of the rating object. The GRC-score, once calculated with respect to the integration of the public sponsor, is then converted into notches, which can have a positive, neutral, or negative impact on the standalone rating of the rating object.

The first approach deals with the situation when the public sponsor's credit quality is higher than the company's credit quality and could benefit from having a close bond to the public sponsor. Generally, in this case; the closer the bond between the corporate and the public sponsor, the more the corporate's issuer rating could benefit from the stronger public sponsor. Although this effect could be limited if CRA deems it likely that certain legal, financial or other factors could prevent a public sponsor to offer timely and full support to the rating object.

If the credit quality of the public sponsor is higher than the rating object's standalone rating, its rating can, at most, be raised to that of the public sponsor. However, we generally refrain from equalising the ratings unless there are direct or indirect guarantees covering a substantial portion of the company's debt, or the sponsor is legally obligated to maintain liquidity or service the debt, or the company has a special legal status that implies significant intrinsic support from its sponsor.

The second approach deals with a rating object, which has a stronger standalone rating than that of the public sponsor. In this case the lower rated public sponsor could have a limiting, or even a negative effect on the rating object. Generally speaking, if the GRC's standalone rating is higher than the sovereign (or sub-sovereign) rating, then the higher GRC score could become a limiting factor. In effect, this means that a closer bond could become a constraining factor, leading to a cap of the rating. This could particu-

larly be the case when a corporate is dependent on (ongoing) subsidies or otherwise is financially dependent on the government for its day-to-day activities. The creditworthiness of the public sponsor therefore becomes a limiting factor for the GRC, as it may encounter financial difficulties if the public sponsor is unable to provide the necessary financial support for its operations.

### 3.3.2 Rating scorecard and notching table

CRA translates the criteria described under 3.2 to a scorecard which then is translated into a GRC-score. This score is meant to indicate the level of integration between the company and the public sponsor and to what extent it would be prepared, within the scope of its possibilities, to provide the company with (financial) support under extraordinary circumstances. The score from the scorecard ranges from 10 to 40 which then is translated into four different intensity levels of government affiliation from 0 – III, which translate into a specific number of rating notches. These are then applied to the stand-alone rating through upward or downward movements, in accordance with the relevant criteria. The corresponding notching criteria can be found in the tables underneath.

Notching Table – Sovereign / public sponsor rating is better than the corporate rating (stand-alone)		
Intensity, State affiliation (ascending)	Notches Upgrade on Corporate Rating	Constraints
0	0	none
I	up to 2	Max. up to the Rating of the Sovereign / Public Sponsor
II	up to 4	Max. up to the Rating of the Sovereign / Public Sponsor
III	up to the rating of the Sovereign / Public Sponsor	none
Notching Table – Sovereign / public sponsor rating is lower than the corporate rating (stand-alone)		
Intensity, State affiliation (descending)	Notches Upgrade on Sovereign / Public Sponsor Rating	Constraints
0	no limit	Rating of the sovereign / Public Sponsor not lower than BB+ and / or company is internationally positioned
I	up to 3	Max. up to the Corporate Rating (stand-alone)
II	up to 2	Max. up to the Corporate Rating (stand-alone)
III	0 Sovereign / Public Sponsor Rating limited Corporate Rating	none

If the rating of the public sponsor is above the determined stand-alone corporate rating, the corporate rating may, depending on the level of integration, be raised up to the rating of the public sponsor. However, in the absence of guarantees, we generally refrain from doing so.

Conversely, if the rating of the public sponsor is below the stand-alone corporate rating, the corporate rating may, again depending on the level of integration, be capped at or downgraded to the level of the public sponsor's rating. In the case of companies that have not been identified as affiliated with a public sponsor, but whose headquarters is in a country with a sovereign rating of BB or lower, and which have no significant international presence, the company rating may be adjusted downwards. CRA reviews this on a company-by-company basis and provides reasons for its assessment.

In some cases, the degree of notching applied to the stand-alone corporate rating also depends on the ratio of the public sponsor's size to that of the company.

## **4 Additional Notes**

CRA may deviate from the above criteria and calculation method or use other/additional criteria for the assessment of public sponsor affiliation, if it is convinced that this will ensure a more plausible rating assessment. The share of foreign shareholders and business generated abroad, legal provisions, or other framework conditions may, for example, induce this. The CRA will justify this and disclose it in the published documents. The classification of a potentially Government-Related Company as such is verified and approved by the rating committee.