

CAPITAL INTELLIGENCE (CYPRUS) LTD

Transparency Report

July 2011

Contents

1	Introduction	3
2	Legal Structure and Ownership	4
3	Internal Control Mechanisms Ensuring the Quality of CI's Credit Rating Activities.....	5
3.1	Supervisory Board	5
3.2	Compliance Function	5
3.3	Documented Policies and Procedures.....	5
3.4	Controls on Conflicts of Interest.....	6
3.5	Determination of Credit Ratings by Rating Committee	6
3.6	Periodic Review and Surveillance of Rated Entities	7
3.7	Pre-Publication Review of Ratings and Rating Rationale by the Issuer	7
3.8	Development of Methodology by the Credit Policy Committee.....	7
3.9	Independent Review of Methodology and Rating Performance	8
4	Allocation of Staff	10
5	Record-Keeping Policy	11
6	Internal Review of Independent Compliance Function	12
7	Description of Management and Analyst Rotation Policy	13
8	Financial Information on the Revenue of CI.....	14
9	Corporate Governance Statement	15
9.1	Compliance with a Corporate Governance Code	15
9.2	Voluntary Compliance with a Corporate Governance Code	15
9.3	Internal Controls in relation to the Financial Reporting Process.....	15
9.4	Shareholdings and Voting Rights.....	16
9.5	Appointment of Board Members and Amendments to the Articles of Association	16
9.6	Powers of Board Members.....	16
9.7	Shareholder Meetings	16
9.8	Composition and Operation of the Board of Directors and Supervisory Board	17

1 Introduction

This is the first Transparency Report prepared by Capital Intelligence (Cyprus) Limited (hereafter “CI” or “the Company”) pursuant to Article 12 of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (“the EU Regulation”).

CI applied for registration as a credit rating agency in September 2010, in accordance with the deadline set under the EU Regulation. As of the date of publication of this Report, the Company’s application is still being assessed by the regulatory authorities.

Unless stated otherwise, this Report reflects the structure and operation of CI’s business and credit rating activities as of March 31st 2011.

2 Legal Structure and Ownership

CI is a private, limited liability company which was established in 1982. Its head office is based in Cyprus. The Company has a representative office in Hong Kong, which will convert to a branch in 2011, and members of staff in the United Kingdom and India. CI has four subsidiaries, all of which are dormant.

The shares of CI are held by three individuals: Afaf Adham; Amine Diab; and Zafer Diab; and by one company: Gulf Injifa Company for General Trading and Contracting. As a private company, the shares of CI are not admitted to trading on a regulated market.

3 Internal Control Mechanisms Ensuring the Quality of CI's Credit Rating Activities

CI has put in place policies, processes and structures that, taken together, help to ensure the objectivity and integrity of the rating process and the reliability of its credit ratings. The main control mechanisms are described below.

3.1 Supervisory Board

CI has established a supervisory board – the Capital Intelligence Supervisory Board – with a sufficiently strong mandate and adequate autonomy to monitor the development of credit rating policy and methodology, assess and propose refinements to measures adopted by the Company to ensure the quality and integrity of its credit ratings, and challenge executive management on business decisions that may potentially impair the independence of the credit rating process (see Section 9.8 for further details).

3.2 Compliance Function

The Compliance Officer is responsible for monitoring the activities of CI staff in order to detect any actual or potential infringements of the Company's policies and procedures, including the Code of Business Conduct and Code of Ethics, and for ensuring that senior management and all staff (including those located overseas) are aware of their obligations under the EU Regulation.

In an effort to avoid any conflicts of interest, the Compliance Officer is not directly involved in credit rating activities and may not perform any other role within the Company that may present a conflict with the compliance function. The compensation of the Compliance Officer is not linked to the business performance of Capital Intelligence.

The Compliance Officer reports directly to the Managing Director and the other members of the Supervisory Board. Compliance audits are carried out by the Compliance Officer on a quarterly basis and presented to the Supervisory Board. The Managing Director does not approve or receive an advance copy of compliance audits prior to their submission to the Supervisory Board.

The Supervisory Board is charged with undertaking an annual review of the compliance function and may propose changes to safeguard the independence and effectiveness of the function.

3.3 Documented Policies and Procedures

CI's Code of Business Conduct and Code of Ethics and related policies and procedures – including written mandates for rating committees and the Credit Policy Committee – form a key control mechanism as they provide clear guidelines to members of staff and provide a framework for effective management. As part of the process of promoting a compliance culture in which staff act ethically and comply with applicable laws and Company rules, senior management and staff are required to read and certify on an annual basis that they have understood and are adhering to all policies and procedures relevant to their position.

3.4 Controls on Conflicts of Interest

A number of policies and procedures have been designed to mitigate the risk of rating analysts developing conflicts of interest vis-à-vis the entities they rate, and to manage the potential trade-off between quality standards and profitability. For example:

- Rating analysts are prohibited from participating in fee negotiations or bringing in new business, and accounting and marketing staff are prohibited from discussing rating fees with analysts.
- Rating analysts are prohibited from soliciting or accepting money, gifts or favours from anyone with whom CI does business.
- Rating analysts and persons closely associated with them (such as their immediate family) are not permitted to trade in financial instruments issued or guaranteed by any rated entity within the analyst's area of primary analytical responsibility.
- Rating analysts who own financial instruments of the rated entity or related third party, or have recently been employed by the entity, may not participate in rating committee meetings or vote on any rating action related to that specific rated entity.
- A rating analyst may not serve as primary analyst for the same rated entity for more than four consecutive years.
- The remuneration of a rating analyst is based on a fixed amount and is not dependent on the revenue generated from the rated entity.

At the corporate level, CI does not offer any type of advisory or consultancy services to the entities it rates. As a further check against undue influence, CI is committed to disclosing publicly the names of the rated entities or related third parties from which it receives more than 5% of its annual revenue. This commitment is backed by the Company's Code of Business Conduct and Code of Ethics and is in accordance with the EU Regulation.

3.5 Determination of Credit Ratings by Rating Committee

CI's credit ratings are determined by the vote of the relevant rating committee and not by any individual analyst. There are currently two rating committees: the Bank and Sovereign Rating Committee, and the Corporate Rating Committee. These determine credit ratings pursuant to a majority vote of the rating committees' voting members.

The responsibilities of the rating committees include:

- Assigning credit ratings and other ratings, such as support ratings;
- Assigning outlooks to credit ratings;
- Reviewing credit ratings and rating outlooks and deciding upon the appropriate rating action;

- Ensuring that CI's methodologies and criteria are applied consistently across each type of credit rating (bank, corporate, sovereign etc);
- Determining whether there is sufficient information to assign or maintain a credit rating; and
- Reviewing a rating action that has been appealed by the rated entity.

The rating committee is the main institutional mechanism for ensuring that CI's methodologies are applied and implemented consistently across credit ratings (within each type) and regions. The rating committee is attended by analysts with a range of experience, cutting across geographic regions and rating grades (from high investment grade to low speculative grade). This approach helps to mitigate the risk of differing criteria subsets evolving unintentionally – which would more likely be the case were the committee to be composed of analysts with exposure to the same country or region. This approach also facilitates peer analysis, which is an important element of the rating process.

The rating committees are composed of rating analysts only and exclude any persons involved in fee negotiations with rated entities. The quorum for rating committee meetings is three voting members, at least two of which must be rating analysts with a 'senior' designation (senior analysts typically have at least 10 years experience in credit ratings or in a credit-related field).

3.6 Periodic Review and Surveillance of Rated Entities

CI monitors credit ratings on an ongoing basis to ensure that they continue to provide a credible opinion of the rated entity's creditworthiness. All credit ratings are reviewed at least once every 12 months and whenever the primary analyst becomes aware of any information that might reasonably be expected to result in a rating action, consistent with the applicable rating methodology. The rating committee ultimately decides whether the rating and/or rating outlook should be revised.

3.7 Pre-Publication Review of Ratings and Rating Rationale by the Issuer

In order to avoid issuing any credit analyses that contain misrepresentations or are otherwise misleading as to the general creditworthiness of an issuer or issue, CI provides rated entities with advance notice of its rating decisions and of the rationale on which those decisions are based. Rated entities may appeal the rating committee's rating decision before it is published, irrespective of whether or not the rating has been solicited.

3.8 Development of Methodology by the Credit Policy Committee

All CI credit ratings are assigned in accordance with the credit rating methodologies of the Company which are established by a two-thirds vote of the Credit Policy Committee (CPC).

The CPC is responsible, *inter alia*, for developing methodologies, updating rating criteria to ensure that methodologies remain pertinent in light of changes in accounting standards, disclosure, regulation, supervision, or other factors, and evaluating the likely impact of changes in methodology on existing credit ratings.

Changes made to the rating methodologies by the CPC are reviewed by the Internal Review Officer and Supervisory Board, who can both propose changes to the methodologies but cannot overrule the decisions of the CPC.

CI reviews its methodologies at least annually to ensure they remain relevant and appropriate and continue to underpin a high level of rating performance.

Membership of the CPC consists of four permanent members – all of which are senior rating analysts – and no more than four participating members, one of whom may be the Managing Director. The number of participating members, and hence the size of the CPC, varies with the scale, complexity, and type of methodological issue being considered. All members have equal voting rights.

3.9 Independent Review of Methodology and Rating Performance

CI is committed to using rating methodologies that are rigorous and systematic and, where possible, result in credit ratings that can be subjected to some form of objective validation based on historical experience (for example, through back-testing).

The validation of CI's credit ratings is carried out by the Internal Review Officer and the Quantitative Research and Validation Unit.

The Internal Review Officer is primarily responsible for examining whether the methodologies are used consistently in practice by the members of the rating committee, as well as for evaluating qualitative aspects of the rating methodology. However, the members of CI's credit rating committees – as the principal users of the methodologies – also play a role in reviewing rating criteria.

The Quantitative Research and Validation Unit assess the performance of CI's ratings with the use of appropriate statistical techniques and reports the results of its assessment to the Internal Review Officer and the Managing Director.

The Quantitative Unit is responsible for, among other things, calculating and periodically updating (at least every six months) transition rates and default rates for CI's credit ratings for each sector (financial institutions, corporate issuers and sovereigns), and for producing annual rating performance assessments of all CI's ratings, focusing on relative accuracy and rating stability.

The Internal Review Officer reports periodically to the Supervisory Board on the nature and outcome of rating validation activities, including any conclusions or recommendations made by the Officer or the Quantitative Unit.

The Internal Review Officer and Quantitative Unit work independently of rating analysts but may consult with rating analysts during the validation process.

Where the validation process indicates that a potential change in rating methodology (including rating practice) may be appropriate, the need for such a change will be communicated by the Internal Review Officer to the members of the relevant credit rating committee. The members of the rating committee shall decide whether a change in methodology is warranted and, if so, shall refer the

matter to the Credit Policy Committee, which is the body responsible for developing, revising and updating CI's credit rating methodologies.

In the event that the credit rating committee determines that further examination is not required, the Internal Review Officer may request the Supervisory Board to appeal to the chairman of the CPC and senior management to pursue the matter further.

4 Allocation of Staff

Statistics on the allocation of CI staff to new credit ratings, credit rating reviews, methodology and model appraisal, and senior management are given below:

Allocation of rating analysts and other staff as of March 2011:

New credit ratings and credit rating reviews:	11
Methodology appraisal:	1
Senior management:	3

Credit Ratings – No rating analysts are assigned exclusively to new ratings. Rating analysts are responsible for analysing the creditworthiness of a portfolio of rated entities, usually on a continuous basis. The primary analyst who prepares the first credit rating report on a rated entity is usually responsible for maintaining surveillance over that entity and for reviewing its ratings at least annually for a period of up to four years (see Section 7).

Methodology or Model Appraisal – Rating methodologies are evaluated by one independent Internal Review Officer (indicated in the table above) but are also reviewed by the Credit Policy Committee, which is primarily composed of rating analysts.

Senior Management – Senior management, defined in accordance with the EU Regulation, consists of the Managing Director and other members of the Capital Intelligence Supervisory Board.

5 Record-Keeping Policy

Record-keeping processes are governed by the Credit Rating Document Retention Policy (DRP). The goals of the DRP are to:

- Retain important documents for reference and future use;
- Delete documents that are no longer necessary for the proper functioning of CI;
- Organise important documents for efficient retrieval; and
- Ensure that CI employees know which documents should be retained and the duration of their retention (at least five years, in most cases).

The DRP lists the types of documents which must be kept, who is responsible for retaining them, and indicates where they should be filed or saved electronically. Records retained include, but are not limited to, the following:

- Credit rating decisions – including the names of the primary and secondary analysts, the names of the members of the rating committee, the name of the committee chair and the date of the meeting;
- Information used by analysts to determine credit ratings – including correspondence with rated entities and records of conversations, as well as financial and other information received;
- Credit rating reports and credit rating announcements;
- Documents relating to the credit policy committee – including minutes of meetings, memoranda and working papers;
- Policies, procedures and methodologies;
- Fee records;
- Subscriber records; and
- Letters of engagement with rated entities.

Access to sales, marketing and other commercial information is restricted to the Marketing Department and Managing Director.

6 Internal Review of Independent Compliance Function

The Capital Intelligence Supervisory Board is charged with undertaking an annual review of the compliance function and may propose changes to safeguard the independence and effectiveness of the function.

The annual review shall consider at least the following:

- The independence of the compliance function;
- The mandate and resources of the compliance function;
- The adequacy of monitoring arrangements;
- The adequacy of mechanisms for reporting actual or potential infringements of CI's Codes, policies and procedures; and
- Staff awareness of key policies and procedures.

The first annual review, covering the period to end-September 2011, shall be completed by December 31st 2011 and the outcome of that review shall be included in CI's next Transparency Report, for the financial year ending 31st March 2012.

7 Description of Management and Analyst Rotation Policy

The daily management of the Company is carried out by the Managing Director, appointed by the Board of Directors. The Managing Director has substantial operational autonomy and is responsible for ensuring that the Company fulfils all obligations arising from the EU Regulation.

CI has requested an exemption from complying with some of the provisions of the EU Regulation requiring the establishment of a rotation mechanism for rating analysts and persons approving credit ratings, on the basis that the requirement is disproportionate to the size and scale of CI's operations and may impair the quality of the ratings.

CI has, however, introduced a rotation policy for primary (or lead) analysts, whereby a rating analyst may not serve as primary analyst for the same rated entity for more than four consecutive years and may not be re-assigned as the primary analyst to that rated entity for a period of at least two years. This policy is currently being phased in and will take full effect by September 2014. As an interim measure, the independent Internal Review Officer will periodically examine the credit ratings of entities that have been covered by the same primary analyst for an extended period of time.

Other measures to safeguard the objectivity of the rating process and minimise the risk of conflicts of interest arising from long-lasting relationships with the same rated entity are referred to in Section 3 above.

8 Financial Information on the Revenue of CI

Most of CI's revenue is derived from fees and payments for the sale of products and services relating to the credit rating process.

Rating fees are currently the single largest source of revenue and are paid by a large number of bank and corporate issuers. Subscription payments for credit ratings, credit rating reports and related research are the other main source of revenue. Subscriptions include two products – Country Banking Reports and Spreadsheets and Ratios (financial data and key financial ratios for rated banks) – that may be sold separately, but are typically provided as part of a subscription package to credit rating reports and so are considered as part of revenue from credit rating activities (CI receives an insignificant amount of revenue from individual sales).

A small part of the Company's revenue comes from educational seminars on bank credit analysis.

CI does not provide any ancillary services.¹

The main sources of revenue as a percentage of total revenue for the financial year ending March 31, 2011 are given below:²

Credit rating activities:	97.65%
<i>of which</i> rating fees:	55.57%
subscriptions:	42.08%
Non-rating activities:	2.35%
<i>of which</i> seminars:	2.35%

No rated entity or related third party accounted for more than 5% of CI's total revenue in 2010/11.

¹ Ancillary services are described in the EU Regulation as services that are not part of credit rating activities; they comprise market forecasts, estimates of economic trends, pricing analysis and other general data analysis as well as related distribution services.

² The data is based on unaudited accounts for the financial year 2010/11.

9 Corporate Governance Statement

The Corporate Governance Statement which follows is in accordance with the requirements of Article 46 (a) of Council Directive 78/660/EEC.

9.1 Compliance with a Corporate Governance Code

CI is not subject to any corporate governance code in Cyprus as it is a private limited company and does not have any securities admitted to trading on a regulated market.

9.2 Voluntary Compliance with a Corporate Governance Code

CI has adopted a Code of Business Conduct and Code of Ethics based on the International Organization of Securities Commissions' Code of Conduct Fundamentals for Credit Rating Agencies published in May 2008 (the "IOSCO Code"). The IOSCO Code is internationally recognised and offers a set of robust, practical measures that increase transparency and provide guidance for the preservation of the integrity of the credit rating process. As such, the IOSCO Code, and ultimately CI's Code of Business Conduct and Code of Ethics, aims to improve the quality of credit ratings and promote investor protection. CI has adopted all of the provisions of the IOSCO Code, with the exception of those relating to structured finance instruments, which are not applicable.

CI's Code of Business Conduct and Code of Ethics, as well as various rating policies and general disclosures required by the EU Regulation on credit rating agencies, are available on the Company's website.

The recently established Capital Intelligence Supervisory Board is responsible for evaluating, reporting and disclosing on an annual basis the Company's adherence to the provisions of the IOSCO Code. The first such assessment, covering calendar year 2011, is due to be completed by March 31, 2012.

9.3 Internal Controls in relation to the Financial Reporting Process

The Accounting Department operates within the Company's policies and procedures and is responsible for financial reporting and financial risk management. However, CI's management and the Board of Directors are ultimately responsible for the ongoing assessment of the Company's financial reporting framework and for establishing the Company's risk management programme.

The Board of Directors performs periodic reviews of CI's financial performance and evaluates any findings. In addition, the Board of Directors must approve any policy that defines the financial reporting framework and the audited financial statements of the Company. CI's internal control system with respect to financial reporting rests on a centralized model of operation, where accounting staff report directly to the Managing Director, and on a clear segregation of duties between those carrying out the accounting procedures and those approving them.

9.4 Shareholdings and Voting Rights

Capital Intelligence (Cyprus) Limited is a Limited Liability Company owned directly by three individuals and one company. The Company has no significant direct or indirect shareholdings within the meaning of Article 85 of the Council Directive 2001/34/EC.

CI's share capital consists of ordinary shares. All shareholders have the right to receive notice of and to be present and vote at general meetings of the Company; there are no restrictions on their voting rights. CI has not issued any securities offering special rights, including control rights. None of the shareholders has majority or voting control.

9.5 Appointment of Board Members and Amendments to the Articles of Association

The Company may by ordinary resolution appoint any person as director, determine the period for which such a person is to hold office and remove any director before the expiration of his/her period of office, notwithstanding anything in any agreement between the Company and the relevant director.

Each director may, from time to time and by power of attorney, appoint any person to be an alternative director in his/her place. An alternate director shall (except as regards power to appoint an alternate director and remuneration) be subject in all respects to the terms and conditions existing with reference to the other directors, and shall be entitled to receive notices of all meetings of the directors and to attend, speak and vote at any such meeting at which his/her appointer is not present.

Any appointment or removal of an alternate director may be made by letter, email or facsimile, or in any other manner approved by the directors. Any email or facsimile shall be confirmed as soon as possible by letter but may be acted upon by the Company meanwhile.

Unless otherwise determined by a shareholder resolution, the number of directors shall not be more than five.

The Articles of Association of Capital Intelligence (Cyprus) Ltd may be amended by a special resolution at a general meeting of shareholders.

9.6 Powers of Board Members

The Board of Directors oversees the activities of the Company and may exercise all the powers of the Company subject to its Articles of Association, any relevant legislation and any directions given by the Company by passing a resolution at a general meeting.

The Company has the power to issue or buy back shares subject to its Articles of Association and the authorisation of shareholders.

9.7 Shareholder Meetings

The operation of shareholder meetings, the key powers of shareholder meetings, shareholders' rights and how they can be exercised is provided for in Cypriot law and in the Company's Articles of Association.

9.8 Composition and Operation of the Board of Directors and Supervisory Board

The Board of Directors consists of four members appointed by virtue of a resolution of the General Meeting of the Company. The board members are: Zafer Diab (Chairman), Hamad Al Wazzan (Deputy Chairman), Amine Diab (member) and Petros Livanios (member).

CI has also established the Capital Intelligence Supervisory Board to advise on, and monitor the implementation of, policies, procedures and other measures adopted by the Company to maintain the quality and integrity of its credit rating process, safeguard the independence of its credit rating activities, avoid conflicts of interest, and ensure the transparency and timeliness of ratings disclosure.

The Supervisory Board members are: the Managing Director (Zafer Diab) and two non-executive members (Elisabeth Jackson-Moore and Ramin Habibi). All the members of the Supervisory Board have extensive experience in financial services and credit rating industries, allowing them to assess the quality of the credit rating process and the risks involved.

The responsibilities of the Supervisory Board include, but are not limited to:

- Monitoring the design and effectiveness of internal control mechanisms, reporting arrangements and other measures adopted by the Company to ensure the independence of rating analysts and persons approving credit ratings.
- Monitoring the development and application of policies, methodologies and criteria used by the Company to assign and update credit ratings.
- Evaluating measures adopted by the Company to identify any actual or potential conflicts of interest, or business relationships, which could possibly impair the Company's ability to provide impartial and objective credit ratings that are independent of all political, economic and commercial influences or constraints.
- Examining any actual or potential conflicts of interest identified by the Company and assessing whether such conflicts are adequately managed or have been eliminated.
- Monitoring the Company's compliance with statutory regulations and internal policies, in particular the EU Regulation on credit rating agencies and CI's Code of Business Conduct and Code of Ethics.
- Reporting any material breach of statutory regulations to the appropriate regulatory authorities and evaluating any remedial action taken by the Company in the event of a breach.

- Evaluating, reporting and disclosing, on an annual basis, the Company's adherence to the Code of Conduct Fundamentals for Credit Rating Agencies issued by the International Organisation of Securities Commissions (IOSCO Code).
- On an annual basis, re-evaluate the compliance function and suggest changes to safeguard the independence and integrity of the function.

The Supervisory Board is required to meet at least twice a year, or more if requested by one of its members. Resolutions of the Supervisory Board are in the form of an opinion or recommendation and are non-binding on the Company. For a resolution to be valid, it must be approved by a majority vote of the members of the Supervisory Board in a meeting to which all members have been invited. The quorum for Supervisory Board meetings is two members. While the Company is not obligated or constrained by the vote of the Supervisory Board, it is required to explain to the Supervisory Board the reason for not adopting or implementing any valid resolution.