COUNTRY RISK METHODOLOGY

The Country Risk Rating by Euler Hermes Economic Research measures the risk of non-payment by companies in a given country. This risk is due to conditions or events outside any company's control.

The overall evaluation is made of two elements:

- **Country Grade is a medium-term assessment ranging from AA to D (highest risk)**
- **Country Risk Level provides a short-term rating from 1 to 4 (highest risk level)**

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Country Risk Level
short-term rating

AA → A → BB → B → C → D

Macroeconomic Risk (ME)
Political Risk (P)
Structural Business Environment (SBE)

Country Grade
medium-term rating

1 → 2 → 3 → 4

Commercial Risk (CRI)
Financing Risk (FFI)

"Due to our top-notch country risk rating, companies that trade internationally benefit from a clear and up-to-date assessment of non-payment risks"

The Medium-Term Rating (Country Grade) measures economic imbalances, the quality of the business climate, and the likelihood of political hazards. It is on a six-level scale running from AA to D, in which AA is the lowest risk level and D is the highest risk level.

The Medium-Term Rating is the combination of three scores:

- The Macroeconomic Rating (ME) based on the analysis of the structure of the economy, budgetary and monetary policy, indebtedness, the external balance, the stability of the banking system and the capacity to respond effectively to (emerging) weaknesses;
- The Structural Business Environment Rating (SBE) measures the perceptions of the regulatory and legal framework, control of corruption and relative ease of doing business; and
- The Political Risk Rating (P), which is based on the analysis of mechanisms for transferring and concentration of power, the effectiveness of policy-making, the independence of institutions, social cohesion, and international relations.

The Short-Term Rating (Country Risk Level) identifies more immediate threats by focusing on the direction of economic output in the next 6 -12 months and those macroeconomic indicators that can signal imminent financial crisis as a result of a disruption to financing flows.

It is measured on a four-level scale running from 1 to 4, in which 1 is the lowest risk level and 4 is the highest risk level. Those four levels of risk are also labelled as low medium sensitive and high in our country risk map. The Short-Term Rating is the combination of two indicators:

- The Financial Flows Indicator (FFI), a measure of short-term financing risks for an economy that can impact payments of trade receivables between companies; and
- The Cyclical Risk Indicator (CRI) which measures the short-term disruptions in demand. It includes our macroeconomic and insolvency forecasts.