

CREFO SCORE

CrefoScore – easy to use and efficient early-stage credit risk indicator, providing immediate assessment of credit applicant's solvency. CrefoScore corresponds to an estimate of expected probability of default over time horizon of 12 months. The higher the CrefoScore, the higher is the probability of default.

CREDITREFORM LATVIJA daily updates CrefoScore for all enterprises registered in the Commercial Register. CrefoScore calculation methodology has been developed by CREDITREFORM LATVIJA in cooperation with CREDITREFORM Risk Management (Germany).

Classification of CrefoScore:

- | | |
|-----------|--|
| 1 | Excellent creditworthiness CrefoScore 100-150 |
| 2 | Very strong creditworthiness CrefoScore 151-200 |
| 3 | Strong creditworthiness CrefoScore 201-250 |
| 4 | Above-average creditworthiness CrefoScore 251-300 |
| 5 | Average creditworthiness CrefoScore 301-350 |
| 6 | Below-average creditworthiness CrefoScore 351-400 |
| 7 | Weak creditworthiness CrefoScore 401-450 |
| 8 | Very weak creditworthiness CrefoScore 451-499 |
| 9 | Payment default or removal from VAT payer Register - CrefoScore 500 |
| 10 | Insolvency/Liquidation CrefoScore 600 |

How to use CrefoScore?

In daily credit risk management practice assessment and classification of client into risk classes is highly useful for allocation of appropriate cooperation conditions.

CrefoScore scale can be divided, for example, in three intervals depending on company's credit risk policy (see below).

Example:

- | | |
|-------------------------|----------------------------|
| CrefoScore from 100-400 | credit accepted |
| CrefoScore from 401-499 | individual decision |
| CrefoScore from 500-600 | credit rejected |

In example above CrefoScore index 500 has been set as threshold for automated rejection of credit transactions. Depending on company's risk management strategy, it is advised to perform individual cut-off points' optimization.

Advantages and opportunities

- Even-handed and secure assessment of your customer's, business partner's or new client's default risk;
- Easy interpretation;
- Automation of customers assessment and centralized credit risk control;
- A basic index for classification of clients in risk classes, implementation of risk based pricing and allocation of individual payment conditions;
- Application in international scoring. Rating and risk management systems.

DATA AND DATABASES USED

CrefoScore is built using the results of extensive CREDITREFORM research. The following insolvency predictive data listed below are included in estimation procedure and daily update of CrefoScore:

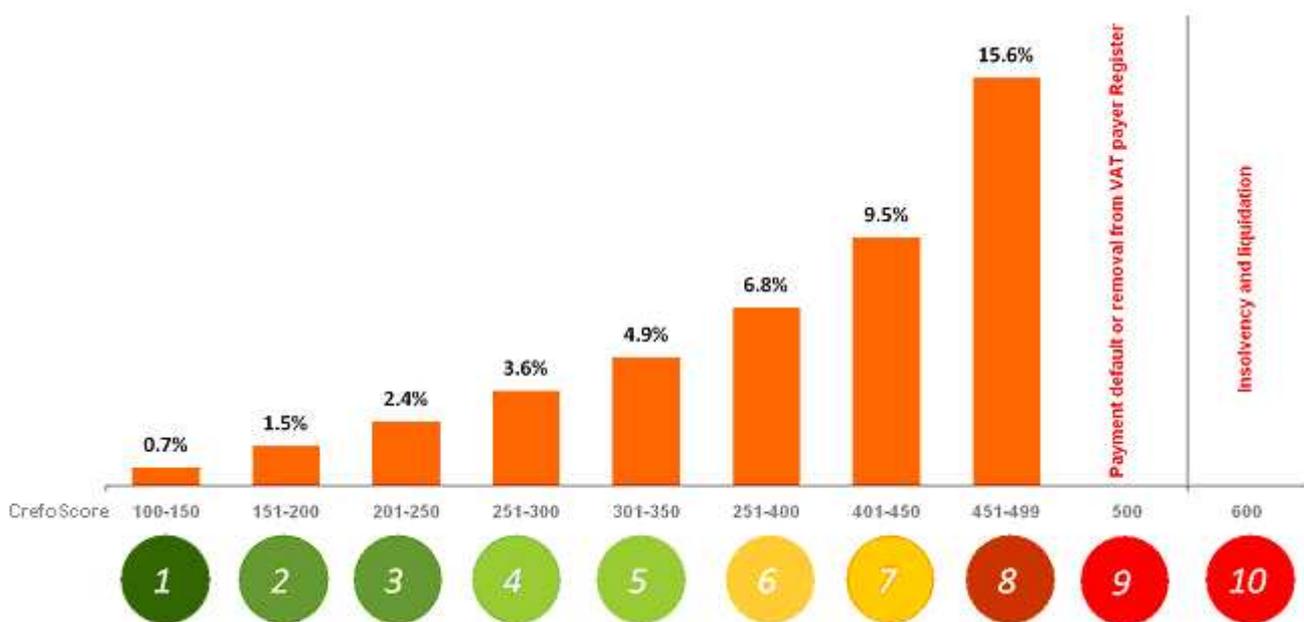
- Financial data;
- Latvia's largest payment history database of CREDITREFORM;
- Structural data of companies (i.e. number of employees, legal form, age);
- Industry default risk indicators;
- VAT Payer's Register of Latvia.

How does CrefoScore depict credit risk?

The uniform calculation procedure of CrefoScore and analyses of companies' movements (improvement or deterioration of creditworthiness) within particular time periods provide an opportunity to determine probability of default for each credit risk class.

Exponentially increasing default rates document CrefoScore's feature to separate low-risk credit transactions from those with high default risk. Through this discrimination power CrefoScore proves to be a highly valuable indicator for credit risk management.

Observed default rates for risk classes (12 months)



* **Default** - debtor or business partner fails to fulfill credit obligation towards the creditor in 90 days after due date and (or) debtor has been declared insolvent by a court judgement.