

## Credit rating descriptions for sole proprietors

### **SB1**

SB1 is the highest score on the credit rating scale. A sole proprietor which receives this rating has the best ability to settle its liabilities. The credit rating score is determined depending on its financial standing and creditworthiness. In companies with a credit rating score of SB1 the indicators showing the risk factors for occurrence of a payment default event suggest that the probability of a payment default event occurring, assessed by applying the model, is at the lowest level.

### **SB2**

The sole proprietor's ability to settle its obligations is very high. A sole proprietor with an SB2 score is only slightly different from an SB1-rated sole proprietor in terms of creditworthiness. Indicators showing the risk factors for the occurrence of a payment default event suggest that the probability of a payment default event occurring, assessed by applying the model, is very low, yet still higher than that in the first credit rating category.

### **SB3**

The sole proprietor's ability to settle its obligations is high. In companies with a credit rating of SB3 indicators showing the risk factors for the occurrence of a payment default event suggest that the probability of a payment default event occurring, assessed by applying a model, is low, yet still higher than that in the second credit rating category. Compared to companies with higher credit ratings, it is more sensitive to adverse changes in the business environment.

### **SB4**

The sole proprietor's ability to settle its obligations is still high, but lower than companies in the third credit rating category. Sole proprietors with a credit rating score of SB4 present indicators showing the risk factors for occurrence of a payment default event, which suggest that the probability of a payment default event occurring, assessed by applying the model, is still low. Regardless, on average, the probability of a payment default event in sole proprietors with a SB4 rating is higher than with those with a SB3 credit rating.

### **SB5**

The sole proprietor's ability to settle its obligations is still above average, but lower than sole proprietors in the fourth credit rating category. Adverse changes in the business environment or other unexpected events (shocks) can bring the sole proprietor in a position where it will be unable to settle its obligations. Sole proprietors with a credit rating score of SB5 present indicators showing the risk factors for occurrence of a payment default event, which suggest that the probability of a payment default event occurring, assessed by applying the model, is lower than the overall average for Slovenian sole proprietors.

### **SB6**

The sole proprietor's ability to settle its obligations is still above average, however, due to exponential increasing of the probability of payment default, about 60% of all Slovenian sole proprietors are ascribed a higher credit rating score. The sole proprietor is still able to settle its obligations under normal market conditions, but is highly sensitive to changes in the business environment. Adverse changes in the macroeconomic environment or in the industry can put the sole proprietor in a position where it will be unable to settle its obligations. Sole proprietors with a credit rating score of SB6 present indicators showing the risk factors for occurrence of a payment default event, which suggest that the probability of a payment default event occurring, assessed by applying the model, is still lower than the overall average for Slovenian sole proprietors, however, exponential increasing of the probability of payment default place it at a significantly higher risk than sole proprietors belonging to the fifth credit rating category.

### **SB7**

The sole proprietor's ability to settle its obligations is average, however, due to exponential increasing of the probability of payment default, about 75% of all Slovenian sole proprietors are ascribed a higher credit rating score. Sole proprietor with a credit rating score of SB7 present indicators showing the risk factors for occurrence of a payment default event, which suggest that the probability of a payment default event occurring, assessed by applying the model, does not deviate significantly from the overall average for Slovenian sole proprietor. The sole proprietor's business performance and its ability to settle obligations depend significantly on favourable conditions in the macroeconomic environment and the relevant industry, and the sole proprietor can quickly find itself in trouble.

**SB8**

The sole proprietor's ability to settle its obligations is very low and is significantly dependent on the conditions in the business environment. Any adverse changes in the circumstances are very likely to lead to a payment default event. Sole proprietors with a credit rating score of SB8 present indicators showing the risk factors for occurrence of a payment default event, which suggest that the probability of a payment default event occurring, assessed by applying the model, is high and it is at a significantly higher risk than sole proprietors belonging to the seventh credit rating category due to exponential increasing of the probability of payment default.

**SB9**

The sole proprietor's ability to settle its obligations is very low. Sole proprietors with a credit rating score of SB9 present indicators showing the risk factors for occurrence of a payment default event, which suggest that the probability of a payment default event occurring, assessed by applying the model, is very high and it is at a significantly higher risk than sole proprietors belonging to the eighth credit rating category due to exponential increasing of the probability of payment default. In normal circumstances in a business environment a sole proprietor with a credit rating of SB9 is barely able to settle its obligations.

**SB10**

The sole proprietor's ability to settle its obligations is at the lowest level across all Slovenian sole proprietors. Sole proprietors with a credit rating score of SB10 present indicators showing the risk factors for occurrence of a payment default event, which suggest that the probability of a payment default event occurring, assessed by applying the model, is at the highest level and it is at a critically higher risk than sole proprietors belonging to the ninth credit rating category due to exponential increasing of the probability of payment default. Sole proprietors with a credit rating score of SB10 present the greatest probability among all Slovenian sole proprietors that the sole proprietor will face insolvency during the 12-month period following the date of the financial statements.

**SB10d**

A credit rating score of SB10d is assigned to sole proprietors to whom a payment default event has actually occurred, i.e. personal bankruptcy or compulsory composition proceedings.