



Transparency Report 2018

March 2019

1. INTRODUCTION	3
2. LEGAL STRUCTURE AND OWNERSHIP	3
3. INTERNAL CONTROL MECHANISMS	4
4. PERSONNEL	8
5. RECORD-KEEPING POLICY	8
6. ANNUAL COMPLIANCE REVIEW	9
7. MANAGEMENT AND ANALYST ROTATION POLICY	9
8. FINANCIAL DISCLOSURE	10
9. COPRPORATE GOVERNANCE	10

1. INTRODUCTION

Nordic Credit Rating AS (NCR) is registered with the European Securities Markets Authority (ESMA) and is authorised to perform credit rating activities within the EU and the European Free Trade Association (EFTA). NCR assigns credit ratings to financial institutions and corporate entities based primarily in Denmark, Finland, Iceland, Norway, and Sweden. NCR is independent of any government or financial or corporate entity and its primary focus is to assess credit quality and assign credit ratings.

NCR's ultimate mission is to contribute to steady economic growth in the Nordic region. We believe that independent and objective credit ratings can enhance efficiency and transparency in financial markets, thereby lowering transaction costs for borrowers and investors. More efficient financial markets will enable more companies to access funding outside the banking system. These funds can be used in growth projects that will create jobs and support other objectives such as increasing competitiveness and combating climate change.

This report has been published as defined in Article 12 and part III of Section E of Annex 1 of EU Regulation No. 1060/2009 of 16 Sep. 2009 on credit rating agencies (the CRA Regulation).

2. LEGAL STRUCTURE AND OWNERSHIP

NCR was founded on 26 Aug. 2016 and registered with the Norwegian Business Register on 17 Oct. 2016 (registration number 917 685 991). NCR has its head office at Biskop Gunnerus' gate 14A, N-0185 N-Oslo, Norway, and a branch office in Stockholm, Sweden. The Stockholm branch is not a separate legal entity but is an integral part of the Norwegian legal person (limited liability company), NCR.

The table below sets out a full list of NCR's owners and their respective ownership interest in NCR. NCR does not have any parent undertaking or subsidiaries. No person directly or indirectly owns 5% or more of NCR's capital or voting rights or has a holding which makes it possible to exercise a significant influence over the management of NCR.

Entity	Share of capital and voting rights
Danske Bank A/S	4.99%
DNB Bank ASA	4.99%
Eika Boligkreditt AS	4.99%
Eika Gruppen ASA	4.99%
Gjensidige Forsikring ASA	4.99%
KLP	4.99%
MP Pensjon PK	4.99%
Nordic Trustee Holding ASA	4.99%
OMX Treasury Euro AB	4.99%
Oslo Børs VPS Holding ASA	4.99%
Pareto AS	4.99%

Sparebank 1 Gruppen AS	4.99%
Sparebanken Vest	4.99%
Surfside Holding AS	4.99%
Svenska Handelsbanken AB	4.99%
Swedbank AB	4.89%
Storebrand ASA	4.79%
Trønder Energi	2.50%
Alfred Berg Kapitalforvaltning AS	2.00%
Fana Sparebank	2.00%
Nordenfjelske Bykreditts Stiftelse	2.00%
Danja Invest AS	1.98%
Profond AS	1.98%
Securus AS	1.98%
Sparebanken Møre	1.00%
Total	100.00%

3. INTERNAL CONTROL MECHANISMS

An internal control system provides the foundation of NCR's operation by ensuring the quality and independence of the rating process while managing conflicts of interests. Internal control constitutes multiple organizational layers to meet internal standards set by NCR and the obligations defined in the CRA Regulation. The internal control system is described below.

The Board of Directors

The Board of Directors is responsible for ensuring that NCR has effective and appropriate processes for risk management and internal control mechanisms. It sets objectives and strategies for NCR's credit rating activities, oversees the agency's risk appetite, and determines the principles of its risk management and internal control mechanisms. The directors, including independent non-executive directors (INEDs), are not involved in NCR's daily activities or credit rating activities.

The INEDs

The INEDs have the specific task of monitoring:

- (i) the performance of credit ratings in accordance with NCR's policies and methodologies;
- (ii) the effectiveness of NCR's internal quality control system;
- (iii) the effectiveness of measures and procedures to ensure that any conflicts of interest are identified, eliminated or managed, and disclosed; and
- (iv) compliance and governance processes, including the efficiency of the Review Function.

The Compliance Function

The Compliance Function is responsible for monitoring compliance with applicable rules and regulations and assessing the effectiveness of NCR's measures and procedures. Responsibility for managing operational and compliance risk lies with the Compliance Function. It also advises and assists the agency in complying with all applicable internal and external obligations.

The Compliance Function makes quarterly reports that are distributed to the Board of Directors and the CEO, in addition to a yearly assessment summarizing the compliance work of the past year. In addition, the Compliance Function carries out ad-hoc controls and reviews relating to NCR's operations, policies, and procedures, and reports to senior management and the INEDs on an ongoing basis to ensure compliance with applicable internal and external rules and regulations.

The Review Function

The Review Function is responsible for reviewing NCR's rating activities and ensuring that they are based on methodologies, models and key rating assumptions, such as mathematical and correlation assumptions, that are rigorous, systematic and continuous, as well as appropriate for the respective Rated Entities.

The Review Function makes quarterly reports that are distributed to the Board of Directors, Chief Rating Officer, and the CEO, in addition to a yearly assessment summarizing the compliance work of the past year. The Review Function must approve all new methodology and criteria, or changes to existing methodology and criteria. The Review Function acts as an independent second-line-of-defence control function and as such does not take part in the development of methodologies, criteria, and may not vote in credit rating committees.

The Internal Audit

The Internal Audit function monitors and evaluates the adequacy and effectiveness of NCR's systems and internal control mechanisms, as well as arrangements established to safeguard compliance with the regulatory framework, including the CRA Regulation, and take appropriate measures to address any deficiencies. The initial internal audit is planned for the start of 2019.

Issuance of credit ratings

NCR assigns forward-looking, independent credit ratings based on objective, independent analysis incorporating all relevant credit risks as defined in its methodologies and communicates this to the market in a transparent and comprehensible manner. The agency follows a transparent process in assigning new public ratings to corporate entities and financial institutions. NCR's credit rating process follows a strict internal control framework to ensure quality and integrity. This is further defined on NCR's website (<https://nordiccreditrating.com/governance>).

NCR follows a transparent process in assigning new public ratings, as outlined below:

- An engagement letter is signed with the issuer
- The analytical process is initiated paired with a management meeting

- A draft report is drawn up and a rating committee determines the final rating
- The draft report is communicated to the issuer
- A final rating report is completed by the analytical team
- The final rating report is published
- Ongoing monitoring commences

Rating methodology

NCR assigns a rating after a thorough analysis of quantitative and qualitative factors and an in-depth dialogue with the rated entity to understand all relevant factors impacting default risk. NCR's methodology for corporate entities and financial institutions aims to capture all relevant factors in the most transparent way possible. Ratings methodologies are reviewed annually and continually updated and adjusted to achieve the best possible assessment of credit risk for any given asset class. NCR continually reviews its ratings and assessments with the aim of providing the best possible forward-looking analysis and reserves the right to adjust its methodology in response to market and regulatory developments.

NCR assigns outlooks to issuer ratings to indicate where they could move in the near term (normally 12–18 months). A stable outlook indicates that the rating is unlikely to move within the near term. A positive or a negative outlook indicates that a rating could be raised or lowered, respectively, in the near term. NCR assigns long-term credit ratings on a scale comprising several categories ranging from 'AAA', reflecting the strongest credit quality, to 'D', reflecting the lowest. The rating is an ordinal ranking of credit quality, whereby we consider default risk to rise exponentially as we move down the rating scale. Short-term ratings are assigned to instruments that are considered short term in the market, usually corresponding to an original maturity of not more than one year. This includes commercial paper, which is a common source of funding for Nordic corporate entities. The short-term rating is assigned on a separate scale, which is correlated to the long-term rating, indicating short-term credit quality.

Separation of activities

NCR keeps its analytical activities fully separated from its commercial and administrative activities to avoid conflicts of interest and ensure the independence and quality of its ratings

Code of Conduct

NCR has adopted a Code of Conduct to enhance market understanding of and confidence in its credit ratings and to promote the objectivity and integrity of its business and the transparency of its operations. The Code of Conduct emphasizes NCR's commitment to conducting its business in an ethical manner in line with applicable rules and regulations. The code follows the Code of Conduct Fundamentals for credit rating Agencies issued by the International Organisation of Securities Commissions. NCR adheres to the following principles to ensure the quality and integrity of the rating process and to mitigate conflicts of interest.

Quality of the credit rating process

NCR adheres to the following general principles to fulfil requirements related to the quality of the credit rating process:

- (i) NCR applies a strict credit rating methodology for each class of entity for which it issues credit ratings.
- (ii) NCR's credit ratings reflect all information known by and believed to be relevant to the agency, consistent with the applicable credit rating methodology.
- (iii) NCR takes reasonable measures to ensure that it has the appropriate knowledge and expertise, and that the information it uses in determining credit ratings is of sufficient quality and obtained from reliable sources to support high quality credit ratings.
- (iv) NCR determines its ratings through a rating committee structure. This structure ensures that rating decisions reflect a collective opinion rather than the view of individual analysts.
- (v) NCR ensures that it has sufficient resources to assign and maintain high quality credit ratings.

Integrity of the credit rating process

NCR adheres to the following general principles to fulfil requirements related to the integrity of the credit rating process:

- (i) NCR and its employees undertake to deal fairly and honestly with Rated Entities, the agents of Rated Entities, and users of credit ratings.
- (ii) NCR's employees are held to the highest standards of integrity and ethical behavior, and individuals with demonstrably compromised integrity are not employed by the agency.
- (iii) NCR and its employees, either implicitly or explicitly, give no assurance or guarantee to an entity subject to a credit rating or Rating Action, originator, underwriter, arranger, or user of NCR's credit ratings about the outcome of a particular credit rating Process or Rating Action.
- (iv) NCR and its employees do not make promises or threats about potential credit ratings or credit rating Actions to influence Rated Entities, the agents of Rated Entities, or users of NCR's credit ratings to obtain payment for credit ratings or ancillary services.
- (v) NCR and its employees do not make proposals or recommendations about the activities of Rated Entities that could impact a credit rating on the respective Rated Entity.

Conflicts of interest

NCR adheres to the following general principles to fulfil requirements related to independence and avoidance of conflicts of interest when conducting its business:

- (i) NCR does not delay or avoid taking a credit rating Action based on the potential effect (economic, political, or otherwise) of such an action on NCR, NCR's shareholders, a Rated Entity, originator, underwriter, arranger, investor, or other market participant.

- (ii) NCR and its employees exercise care and professional judgment in maintaining both the substance and appearance of their independence and objectivity.
- (iii) NCR’s determination of a credit rating is influenced only by factors relevant to assessing the creditworthiness of the respective Rated Entity.
- (iv) Any credit rating assigned by NCR to an entity is not affected by any existing or potential business relationship between NCR and the Rated Entity, NCR’s shareholders, originators, underwriters, arrangers (or any of their affiliates), or any other party.
- (v) NCR operationally and physically separates its credit rating business and its analysts from any other of its businesses that could create a conflict of interest.

Financial audit

NCR’s financial records are audited annually by an external auditor for the financial year ending 31 December. The audit is conducted using best practice auditing standards and is approved by the Board of Directors and submitted to ESMA.

4. PERSONNEL

As of the 31 Dec. 2018, NCR had the following personnel:

Function	Number of Staff
CEO	1
Chief Rating Officer	1
Analysts	4
Chief Compliance Officer	1
Review Officer	1

5. RECORD-KEEPING POLICY

NCR has record-keeping policies and procedures to manage all relevant information and records resulting from its services as a credit rating agency. In the course of NCR’s operations, information is generated internally through analytical activities and obtained externally from third parties and issuers. In compliance with the CRA Regulation, NCR keeps relevant records and audit trails at its premises or relevant service providers for at least five years. These are made available upon request to ESMA. Record keeping related to personal data is always handled and stored in compliance with relevant data protection regulations and applicable guidelines.

To safeguard NCR’s record-keeping, information and records are treated in accordance with their sensitivity and confidentiality levels. Each employee has a separate personal account in NCR’s information processing system, and these accounts have defined parameters for information access. Any information that relates to credit rating activities is kept separately and is available only to

authorised personnel. NCR's objectives in terms of its record-keeping and information security process are:

- (i) Confidentiality – information is always treated with the highest attention to security, and no information is made available to unauthorised persons or third parties.
- (ii) Integrity – all information is always up to date, complete, and correct, and the highest attention is paid to data and information quality at all times.
- (iii) Availability – all information is always available to authorized persons or third parties at all times.

6. ANNUAL COMPLIANCE REVIEW

NCR has initiated formal work on its compliance programme. The most recent annual compliance review covered the latter part of 2018 and detected no material breaches of the CRA Regulation. The agency's compliance programme for 2018 focused on assisting NCR in launching and monitoring its rating process, internal control, and the initial work made by the independent Review Function. Initial compliance work covered areas such as risk assessment, internal controls, reviews, training, reporting, and policies. The Compliance Function produces quarterly reports, in addition to ongoing reporting to the board, CEO and the agency itself, as well as a yearly assessment. The INEDs have been in ongoing communication with the Compliance Function and have reviewed the initial compliance work including the compliance reports and recommendations for 2018. The INEDs have also reviewed the work and the reports from the Review Function in 2018. The INEDs support the initial and ongoing work by the Compliance Function and the Review Function.

7. MANAGEMENT AND ANALYST ROTATION POLICY

Management

NCR is headquartered in Oslo, Norway, and has a branch in Stockholm, Sweden. All employees are employed by the entity in the country in which they reside. The CEO manages day-to-day administrative and commercial activities and also functions as the branch manager for the Stockholm branch. The CEO is not involved in analytical activities. These are managed by the Chief Rating Officer (CRO). All analytical employees report to the CRO.

Analyst Rotation

CRA regulation establishes, with respect to any EU rating agency with 50 or more staff, a maximum permissible time period for covering a rated entity. NCR maintains an exemption from applying these requirements due to its current limited size. To avoid conflicts of interest arising from this exemption, NCR has taken mitigating actions as defined in its Conflicts of Interest Policy.

8. FINANCIAL DISCLOSURE

The table below provides the revenue (in Norwegian kroner) derived within EU and EFTA from rating activities during the 12 month fiscal year ended 31 Dec. 2018.

Revenue type	NOK
Credit rating Services	858,750
Ancillary services	78,690

9. COPRPORATE GOVERNANCE

The following governance statement falls within the meaning of Article 46a (1) of Council Directive 78/660/EEC of 25 Jul. 1978.

Corporate governance code (Article 46a section a-b)

The Corporate governance code is described under "Code of conduct" in this report. NCR's policies including its Code of Conduct are available at: <https://nordiccreditrating.com/governance>.

Internal control (Article 46a section c)

NCR's internal control and risk management system relating to financial reporting is defined in section 3 (Internal control mechanisms) in this report.

Information about major holdings (Article 46a section d)

This section is not applicable to NCR.

Shareholders (Article 46a section e)

NCR is a legal entity (Aksjeselskap) under Norwegian law. Shareholder rights are governed by NCR's Articles of Association.

The Board (Article 46a section f)

The composition and operation of the Board of Directors is defined under section 3 Internal Control Mechanisms.

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