



Statement on ESG in credit risk and ratings

INTRODUCTION

Nordic Credit Rating (NCR) is a signatory of the Statement on ESG (environmental, social and governance) in credit risk and ratings as set out by the Principles for Responsible Investment (PRI).

PRI is an investor initiative in partnership with the Finance Initiative of the UN's Environment Programme and its Global Compact, a worldwide pact between companies and the UN to make globalization socially and environmentally more responsible. Together with its international network of signatories, the PRI initiative is dedicated to the practical implementation of six principles for responsible investing. The goal is to better understand the impact of investment activities on ESG issues and to help signatories integrate these issues into their investment decisions.

By signing the Statement on ESG in Credit Risk and Ratings, we share the common vision of improving the systematic and transparent consideration of ESG factors in credit ratings.

It is important to note that NCR is an independent credit rating agency whose primary mission is to provide independent and objective credit opinions in the form of forward-looking credit ratings. This is a key distinction from ESG agencies, which assess companies exclusively or mainly on the basis of defined ESG criteria, while the question of credit risk typically plays no or only a minor role.

ESG PHILOSOPHY

NCR is committed to displaying transparency as to how ESG factors are considered in credit analysis.

ESG POLICY

Our rating methodologies incorporate all factors relevant in assessing an entity's credit risk, including ESG factors. The integration of ESG factors into our credit analysis is part of a holistic – not formulaic – approach that we follow throughout our methodologies.

NCR is committed to increasing transparency as to when and how ESG factors are key drivers for a credit rating or outlook. While we already address ESG issues for rated entities, we are now expanding our ESG analysis to increase transparency further. When assessing which ESG factors are relevant for a credit rating, it is not ideological considerations that play the central role, but purely financial ones. The main question is therefore whether and to what extent a certain ESG factor has a material influence on debt repayment capacity and hence the credit rating in the short, medium or long-term.

The actual ESG factors analysed differ between sectors and regions. NCR attempts to highlight the relative importance of ESG factors as well as an entity's standing compared with its sector peers. Further, we will clearly flag triggers that could turn an ESG risk into a credit risk. We further commit to publishing thematic research on topics relating to ESG factors for entities and sectors within our coverage to clarify the relevance of ESG factors.

We recognise that ESG analysis is a dynamic field without a common set of standards. What were regarded as important ESG factors 10 years ago are different today and will continue to evolve over the next 10 years. We therefore commit to engaging in further dialogue with market participants in our work towards establishing credit-relevant standardisation on ESG-related issues.

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