

Rating scales and definitions

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INTRODUCTION

1. This document provides a specific description of Nordic Credit Rating's (NCR) rating terms and definitions. These terms apply across NCR's rating activities.
2. NCR's ratings reflect forward-looking, independent opinions of credit risk. They are based on objective, independent analysis incorporating all relevant credit risks. The analysis is based on a methodology specific to each sector, specifying the relevant credit drivers of that sector.

MAIN RATING DEFINITIONS

Term	Definition
Long-term issuer rating	Issuer ratings assigned on NCR's long-term scale provide a forward-looking opinion of the relative ranking of an issuer's overall credit quality and take into account its ability to service financial debt obligations (with an original maturity of one year or more), in full and in a timely manner, according to agreed terms and conditions.
Short-term issuer rating	Short-term ratings assigned on NCR's short-term scale provide a forward-looking opinion of the relative ranking of an issuer's ability to service instruments with original maturity of no more than one year. The short-term rating is assigned on a separate scale, which is correlated to the long-term rating, indicating short-term credit quality.
Issue ratings	<p>Issue ratings assigned on NCR's long-term rating scale are forward-looking opinions of the credit quality of individual debt instruments with an original maturity of one year or more.</p> <p>Issue ratings assigned on NCR's short-term rating scale are forward-looking opinions of the credit quality of individual debt instruments with an original maturity of no more than one year.</p>

RATING SCALES

LONG-TERM RATING SCALE

3. NCR assigns long-term credit ratings on a scale ranging from 'AAA', reflecting the strongest credit quality, to 'D', reflecting the lowest. Rating categories from 'AA' to 'B' are modified by plus (+) and minus (-) where required to show their relative position within the rating category. This result in a rating scale with 20 levels (notches) in total.

Rating	Description
AAA	'AAA' rated entities and instruments demonstrate exceptional credit quality and lowest expectation of default risk.
AA	'AA' rated entities and instruments demonstrate very high credit quality with a very low default risk.
A	'A' rated entities and instruments demonstrate high credit quality with a low default risk.
BBB	'BBB' rated entities and instruments demonstrate medium credit quality with a moderate default risk.
BB	'BB' rated entities and instruments demonstrate speculative credit quality with a slightly increased default risk.
B	'B' rated entities and instruments demonstrate highly speculative credit quality with an increased default risk.
CCC	'CCC' entities and instruments demonstrate very low credit quality with a high default risk.
CC	'CC' rated entities and instruments demonstrate very low credit quality and an event of default is very likely.
C	'C' rated entities and instruments demonstrate the lowest credit quality and an event of default is imminent.
D/SD	'D' rated entities and instruments have defaulted, as defined by NCR. 'SD' (selective default) rated entities have only defaulted on certain debt obligations.

DEFAULT DEFINITION

4. Unlike other ratings, the 'D' rating is not forward looking and is only used when a default has actually occurred and not when it is merely expected. NCR defines default as any scenario whereby an issuer has failed to fulfil its original commitment on a debt obligation. Specifically, NCR changes ratings to 'D':
- following the failure to make principal or interest payments in accordance with the contractual terms of a rated financial instrument (after a contractual grace period, if applicable);
 - upon bankruptcy filing or similar action that will likely cause a miss or delay in future contractually required debt service payments;
 - upon completion of a distressed exchange, whereby existing debt obligations are replaced with a new obligation with a lower value than the original commitment (such as a swap of debt with lower coupon or face value, lower seniority, or with longer maturity) or the exchange is carried out in order to avoid a near-term default of the issuer; and
 - the rated entity is under a significant form of regulatory supervision owing to its financial condition, which is likely to prohibit its ability to fulfil contractual debt service payments.

5. NCR does not consider a technical default (i.e. a covenant violation) as sufficient for assigning a 'D' rating unless it is accompanied by a bankruptcy filing.
6. With respect to issuer ratings, failure to meet a financial obligation – rated or unrated – leads to an issuer rating of either 'D' or 'SD' (selective default). In situations where an issuer defaults on all of its obligations, the issuer is rated 'D'. The 'SD' issuer rating is assigned when an issuer defaults on selective debt obligations but continues to fulfil its original commitment on other obligations. A common example is a targeted distressed exchange offer, whereby an issuer restructures part of its capital structure in order to avoid a general bankruptcy.
7. Debt instruments which contractually allow the deferment or non-payment of coupons and/or the permanent or temporary write-down of principal, such as hybrid debt or preferred shares, are an exception. For these instruments, the use of non-payment or write-down features will result in an issue rating of 'D'. However, due to the intended loss-absorbing nature of such instruments, the issuer rating 'SD' does not necessarily have to be applied to the issuer when the action taken adheres to the instrument's terms.

SHORT-TERM RATING SCALE

Rating	Description
N1	The issuer has exceptional capacity for the timely payment of short-term debt obligations.
N2	The issuer has high capacity for the timely payment of short-term debt obligations.
N3	The issuer has satisfactory capacity for the timely payment of short-term debt obligations.
N4	The issuer has moderate capacity for the timely payment of short-term debt obligations.
N5	The issuer has weak capacity for the timely payment of short-term debt obligations.
N6	The issuer has weak capacity for the timely payment of short-term debt obligations and has an increased risk compared with higher-rated instruments.
D/SD	'D' rated entities and instruments have defaulted, as defined by NCR. 'SD' (selective default) rated entities have only defaulted on certain debt obligations.

METHODOLOGIES

8. NCR's methodologies are available on its website. The applicable methodology is always referred to in published rating reports. Rating methodologies are reviewed annually and continuously developed and adjusted to achieve the best possible assessment of credit risk for any given asset class. For larger revisions of a methodologies the public will be invited to provide comments before finalization.

OTHER DEFINITIONS

Term	Definition
Outlook	NCR assigns outlooks to issuer ratings to indicate where they could move in the near term (normally 12–18 months). An outlook can be stable, positive, negative or developing.
Watch	A rating could be put on 'watch' if we think the rating could move in the immediate near term. The watch placement substitutes the outlook and the probable direction of the rating change is expressed either positive, negative, or developing.
Confidential rating	A confidential rating is not disclosed to the public and for the issuer's internal purposes only. The issuer can choose to convert the rating into a public one at any time. A public rating cannot be made confidential.
Preliminary rating	A preliminary rating is assigned to new issuers and is contingent a successful debt placement. After successful debt placement the rating will be finalized following a review of the final documentation. If the debt placement does not take place, the rating will be withdrawn. A preliminary rating will be followed by the suffix '(P)', e.g. 'BBB(P)'

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