Nordic Credit Rating

3 October 2025

Request for comment: Corporate Rating Methodology

CONTENTS

INTRODUCTION

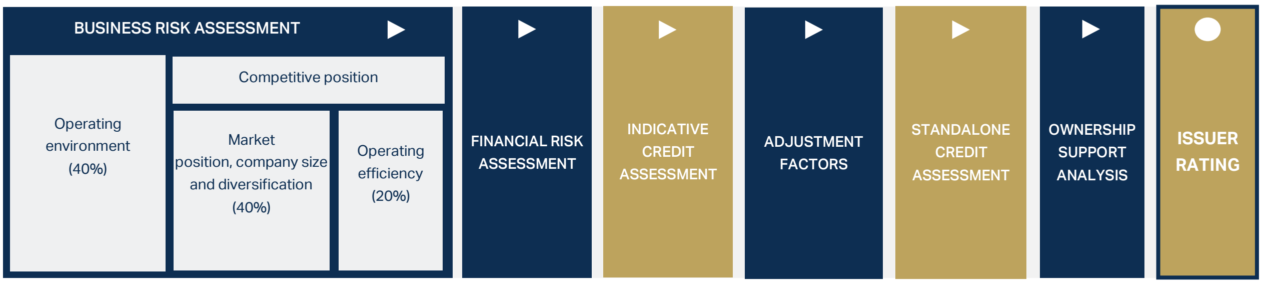
1. This methodology describes the framework within which Nordic Credit Rating AS (NCR) assigns credit ratings to corporate issuers and debt issued by rated entities. We define corporate issuers as non-financial companies, including real estate management companies, utilities and other companies. The methodology is not applicable to project finance entities or corporate securitisations due to the particular characteristics of those sectors and entities. Investment holding companies are rated according to our *Investment Holding Company Rating Methodology*. We apply specific credit factors to our assessment of business and financial risk for real estate management companies, as shown in Appendix 5.

2. Our corporate methodology is designed to be robust, continuous and systematic and produce ratings that are comparable between sectors and subsegments. 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. NCR also assigns short-term ratings, which are assigned to short-term debt instruments with a maturity of up to one year.

3. For a full explanation and definitions of NCR ratings and the rating process, see *Rating Principles*, which can be found at www.nordiccreditrating.com.

FRAMEWORK OVERVIEW

Figure 1. NCR corporate rating framework



4. Our corporate ratings are forward looking and are derived by combining fundamental business and financial risk factors. The business and financial risk scores are combined into an indicative credit assessment. The indicative credit assessment score may then be adjusted ("notched") up or down after taking into account factors that have not been fully considered in the business and financial risk analysis to reach the standalone credit assessment. Adjustments include an analysis of the company's liquidity position, its exposure to environmental, social and governance (ESG) factors, as well as an additional calibration for any factors not otherwise captured in the indicative credit assessment. We then conduct an ownership or support analysis to consider potential positive or negative aspects regarding the shareholder structure.

5. While our analysis is forward looking, we start by a review of historical patterns of the sector as well as of the company performance. Historical patterns in cash-flow can provide an indication of potential future volatility, including that which results from seasonality or cyclicality. This in combination with company-specific capital spending, growth or financial policy are informative in our assessment of future expected credit quality. A history of volatility in either business or financial risk, could result in a more conservative assessment of future cash flow generation or vice versa for a stable history.

6. The business risk and financial risk assessments are performed through estimation, measurement and evaluation of several subfactors and scored at either 'aa', 'a', 'bbb', 'bb' or 'b'. NCR assesses business risk first by analysing the operating environment, which includes the sector risks to

which the company is exposed. We then consider the company's competitive position within its sector, analysing its market position, scale, diversification and operating efficiency.

7. The financial risk assessment is performed by analysing forecast credit ratios, which are mapped to a risk category based on the relative strength and importance of each ratio. Our forecast is based on discussion with management as well as our analytical judgement based on our macroeconomic and sector view, which can deviate from management's view. We then analyse the company's risk appetite to assess to what degree its capital structure and financial policy are aligned to the forecast.

Figure 2. NCR corporate rating factors and subfactors

Factors		Subfactors	Impact	Selected metrics and scoring levels
Business risk assessment		Operating environment	40%	Volatility or cyclicality, sector growth trend and outlook, competitive pressure.
	Competitive position	Market position, company size and diversification	40%	Market share, brand, Technology advantage, scale, geographic and operating diversification.
		Operating efficiency	20%	Cost position, cost flexibility, working capital volatility, profitability.
Financial risk assessment		Ratio analysis	0-100%	Leverage and cash flow metrics
		Risk appetite	0-100%	Financial policy, track record, capital structure, and other financial risk elements
Indicative credit assessment				aa to b-
Adjustment factors				Liquidity ESG Additional calibration
Standalone credit assessment				aa to b-
Support analysis				Ownership Group and government support
Issuer rating				AAA to D

8. The indicative credit assessment combines the business risk and financial risk results using a weighted risk assessment matrix (Figure 4). The matrix gives approximately equal weight to issuers with respective risks at 'a', 'bbb' and 'bb' levels. For weaker business or higher financial risk levels, more weight is applied to the weaker link. In addition, we will consider making adjustments to our liquidity analysis, since a company with a solid business risk assessment result can be forced into default at short notice if it lacks liquidity.

9. Although this methodology could be a seen as step-by-step-guide to rating corporate issuers, the final rating decision is the result of analytical judgment based on the analysts' experiences and expertise, as well as the discussion and outcome of the rating committee.

10. Our rating methodology aims to describe a comprehensive forward-looking view of an entity's exposure to credit risk. However, we recognise that unexpected events could significantly impact the rating. Litigation, fraud, corporate takeovers and unexpected geopolitical events are examples of events that our framework cannot fully project and must be assessed on a case-by-case basis.

NUMERICAL SCORING OF BUSINESS AND FINANCIAL RISK

11. To perform the business risk and financial risk assessment, we first award each business and financial risk subfactor (Figure 2) a score of either 'aa', 'a', 'bbb', 'bb' or 'b' following the guidelines described in this document.

12. In order to arrive at business and financial risk assessments, the scores are translated to number scores between 1 and 14. These number scores are then weighted and averaged according to the impact weights in Figure 2 and then again translated back from a number to a factor risk score (denoted with lower case letters), both translations according to the table in Figure 3. For example, a weighted average score of 7.2 would translate into a business risk or financial risk score of 'bbb'.

Figure 3. Business and financial risk factor scoring

Factor assessment	Weighted	Average	Score
aa	1.00	≤ x <	1.50
aa-	1.50	≤ x <	2.50
a+	2.50	≤ x <	3.50
a	3.50	≤ x <	4.50
a-	4.50	≤ x <	5.50
bbb+	5.50	≤ x <	6.50
bbb	6.50	≤ x <	7.50
bbb-	7.50	≤ x <	8.50
bb+	8.50	≤ x <	9.50
bb	9.50	≤ x <	10.50
bb-	10.50	≤ x <	11.50
b+	11.50	≤ x <	12.50
b	12.50	≤ x <	13.50
b-	13.50	≤ x ≤	14.00

13. For entities with weaker ('bb+' or lower) business risk profiles, we progressively emphasise the business risk profile in our view of overall creditworthiness. This reflects our view that companies with a weaker business risk profile are more likely to have their debt servicing capabilities affected by adverse business conditions.

14. For entities with weak financial risk profiles ('bb-' and below), we attach more weight to the financial risk assessment. This reflects our view that companies with weak financial risk profiles are more vulnerable to weak cash flow generation or adverse events caused by high leverage and/or weaknesses in capital structure.

Figure 4. Indicative credit assessment matrix

		Financial risk assessment													
		aa	aa-	a+	a	a-	bbb+	bbb	bbb-	bb+	bb	bb-	b+	b	b-
Business risk assessment	aa	aa	aa	aa/aa-	aa-	aa-/a+	a+	a+	a	a-	a-/bbb+	bbb+	bbb	bbb-	bb+
	aa-	aa	aa-	aa-	a+	a+	a+/a	a	a/a-	a-	bbb+	bbb+/bbb	bbb	bbb-	bb+
	a+	aa-	aa-/a+	a+	a+/a	a	a	a-	a-	bbb+	bbb+/bbb	bbb	bbb-/bb+	bb+	bb
	a	aa-/a+	a+	a+/a	a	a/a-	a-	a-/bbb+	bbb+	bbb+/bbb	bbb	bbb-	bb+	bb+/bb	bb
	a-	a+	a+/a	a	a/a-	a-	a-/bbb+	bbb+	bbb+	bbb	bbb	bbb-/bb+	bb+/bb	bb	bb/bb-
	bbb+	a+/a	a	a/a-	a-	a-/bbb+	bbb+	bbb+/bbb	bbb	bbb/bbb-	bbb-	bb+	bb	bb-	b+
	bbb	a	a/a-	a-	a/bbb+	bbb+	bbb+/bbb	bbb	bbb/bbb-	bbb-	bbb-/bb+	bb+	bb/bb-	bb-	b+
	bbb-	a/a-	a-	a-/bbb+	bbb+	bbb+/bbb	bbb	bbb/bbb-	bbb-	bbb-/bb+	bb+	bb	bb-	bb-/b+	b+
	bb+	bbb+	bbb+	bbb+/bbb	bbb	bbb	bbb-	bbb-	bbb-/bb+	bb+	bb+/bb	bb	bb-	b+	b
	bb	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb+	bb+	bb+/bb	bb	bb/bb-	bb-	b+	b
	bb-	bbb-	bbb-	bbb-	bbb-	bbb-	bb+	bb+/bb	bb	bb	bb/bb-	bb-	bb-/b+	b+	b
	b+	bb+	bb+	bb+	bb+	bb+	bb	bb	bb	bb-	bb-	bb-/b+	b+	b	b/b-
	b	bb	bb	bb	bb	bb	bb	bb	bb-	bb-/b+	b+	b+	b+/b	b	b-
	b-	bb-	bb-	bb-	bb-	bb-	bb-/b+	b+	b+	b+	b+/b	b	b	b-	b-

HIGHEST AND LOWEST RATINGS

15. Our indicative credit assessment or standalone credit assessment cannot result in the highest or the lowest ratings on the rating scale. We believe that these rating levels should be reserved for entities with special characteristics and facing special situations. We therefore have specific criteria for what we expect for these rating levels (see Appendix 1).

BUSINESS RISK ASSESSMENT

Figure 5. Business risk assessment subfactors

Factors		Subfactors	Impact	Selected metrics
Business risk assessment		Operating environment	40%	Volatility or cyclicality, sector growth trend and outlook, competitive pressure.
	Competitive position	Market position, company size and diversification	40%	Market share, brand, technology advantage, scale, geographic and operating diversification.
		Operating efficiency	20%	Cost position, cost flexibility, working capital volatility, profitability.

16. The business risk assessment comprises NCR's forward-looking view of the environment in which the issuer operates, as well as the issuer's competitive position within its sector. The competitive position is our combined assessment of the issuer's market position, company size, diversification and operating efficiency. The cyclicality and competitive dynamics of the sector, in combination with the issuer's competitive position within its relevant markets, are key factors for determining the potential growth, profitability and cash flow generation, and hence its ability to service its debt obligations.

17. The business risk assessment is derived by analysing three subfactors, under which we assess multiple factors specific to each industry sector and subsegment.

OPERATING ENVIRONMENT

(40% impact on business risk assessment)

18. An issuer's creditworthiness, its ability to generate cash flow and service debt, as well as the overall probability of default are closely linked to the sector in which it operates. Issuers in highly cyclical and competitive sectors such as shipping, commodities and construction have historically been more likely to default than those in other, more stable sectors.

19. When assessing the operating environment, we analyse the historical and predicted sector volatility, the competitive pressure (barriers to entry, substitution risk, bargaining power of suppliers and customers) and the sector's growth prospects. Here, we form our view of how likely a sector is to grow compared with the general economy over the next 10–20 years, as well as assessing the risk of short-term disruptions. Sectors that we expect to be in structural decline will receive a low assessment score since cumulative cash flows in that sector will decrease over time, elevating credit risk for the existing players.

20. We include our assessment of country risk in our assessment of a company's operating environment. Country risk captures the risk of having business interests in a certain country. We consider country risk in the Nordic countries to be very low for most sectors, guided by external assessments from international institutions such as the World Bank Economy Rankings. However, if a company has material exposure to countries that we consider to have higher-than-average risk, this will weaken their operating environment assessment.

Figure 6. Operating environment scoring guidelines

Subfactors	aa	a	bbb	bb	b
Operating environment	Very low historical and expected cyclicality. Established industry structure with positive industry dynamics. Very high barriers to entry, limiting new entrants, creating natural (or regulated) monopolies. Very low substitution risk with basically no price competition and solid industry profitability.	Low historical and expected cyclicality. Established industry structure with positive industry dynamics. High barriers to entry, and high degree of consolidation, limiting new entrants. Low substitution risk with little price competition and solid industry profitability.	Low to moderate historical and expected cyclicality. Established industry structure with positive industry dynamics, albeit correlated with general economic activity. Some barriers to entry exist, usually through technological, product and distribution advantage, with some consolidation in certain segments, creating moderate competitive pressure.	Moderate to high historical and expected cyclicality. Fragmented industry structure, demand usually highly correlated to economic activity. Low barriers to entry, and high industry rivalry, making participants mainly price-takers with little or no means, for example, to adjust prices for rises in input costs.	High or very high historical and expected cyclicality. Fragmented industry structure, demand usually highly correlated to economic activity, or declining fundamentals. Very low or non-existent barriers to entry open to entrants and substitution with high industry rivalry, making participants mainly price-takers with little or no means, for example, to adjust prices for rises in input costs.

MARKET POSITION, COMPANY SIZE AND DIVERSIFICATION

(40% impact on business risk)

21. A company's market position determines its ability to derive profits from the sector and is thus an important indicator of its long-term ability to generate profits and cash flow, and hence, its creditworthiness.

22. Within market position, we consider a company's market share, brand reputation and technological advantage important factors. These may be supported by barriers to entry, either natural or from regulation, technology leadership or product and distribution leadership. Leading companies with a history of strong market share, leading brands and preferred products tend to have the capacity and resources to be successful in competitive and/or volatile markets. However, a company's leading market share can decline rapidly if its management fails to manage stakeholder expectations. We therefore focus our analysis on the company's ability to maintain a sustainable strong market position.

Figure 7. Market position, company size and diversification scoring guidelines

Subfactors	aa	a	bbb	bb	b
Market position	Leading international market positions, typically in highly consolidated, oligopolistic markets. Globally market leading brands, products and services. Very low risk of substitution, market share loss or price erosion due to very high barriers to entry. **E**xpectations of continued market share gains and higher growth than peers.	Very strong international or regional market positions, typically in consolidated, oligopoly-type, markets. Strong brands, products and services. Low risk of substitution, market share loss or price erosions due to significant barriers to entry. Expectations of market share gains and higher growth than peers.	Strong market position in most product areas in markets with moderate competitive pressure due to moderate barriers to entry and substitution risk. Market share loss and price erosion can be mitigated through above average product, brand, distribution and technological know-how. Expectations of retained market share, and higher growth than most peers in most business areas.	Average market positions in regional and local markets. Limited product, brand or technological advantage compared to competition. Some competitive advantages, but still exposed to market share loss and price erosion due to limited barriers to entry and some substitution risk.	Weak market positions in highly competitive markets, with high risk for new entrants. Very high risk of market share losses and no pricing power. Very few competitive advantages within product, brand, distribution or technology, making the company vulnerable to changes in demand, competitive environment or changes in consumer preferences.
Company size	Large size compared with largest global industry peers.	Large size compared with major international or largest regional peers.	Above-average size compared with regional peers.	Average size compared with regional or local peers.	Small size in a regional and local context.
Diversification	Very well diversified globally across multiple business segments, products/services lines and brands. Very strong customer and contract diversification.	Strong international or regional diversification through several business segments, product/services lines and/or brands. Significant customer and contract diversification.	Adequate diversification in several international and regional markets within several business segments, products/services and/or brands. Solid customer and contract diversification.	Some diversification in regional markets within different business segments, products/services and/or brands. Moderate customer and contract diversification.	Limited geographical and operating segment diversification. Typically dependent on one segment and geographic region, with high dependence on a few products or customers.

23. Large and well-diversified companies are generally less exposed to shifts in the fortunes of single products, markets or regions, and are consequently more able to withstand a difficult economic environment than smaller and less diversified operators. Large companies can generate economies of scale and typically have better resources to meet competitive or economic challenges.

24. A well-diversified company will typically be less affected by downturns in certain regions or subsegments if those regions or subsegments are exposed to different cycles and demand patterns. As an example, diversification across both private and public (and infrastructure) consumption can mitigate cyclicality. A company with a concentrated product/services portfolio, asset base or customer concentration will be vulnerable to fluctuations in demand and production problems, which can have an immediate effect on cash flow generation.

25. While we generally believe that a large size and high degree of diversification is beneficial for a company's business risk assessment, there may be cases where size is of less importance. For example, many small and medium-sized entities hold strong positions in very favourable and insulated niche segments. For such entities, this factor may be assigned a somewhat higher business risk score, even if they are a relatively small company.

26. We assess company size by analysing the company's revenue (or EBITDA when more relevant) and asset base compared with its industry, closest competitors and global peers. For diversification, we analyse the distribution of production facilities, variety of product segments and concentration of customers and suppliers. Generally, we compare a company's size and degree of diversification within the industry it operates in and within its peer group. However, obtaining the highest business risk assessment also requires a comparison with global peers in all industries.

OPERATING EFFICIENCY

(20% impact on business risk assessment)

27. Operating efficiency is assessed as the issuer's ability to transform its market position, company size and diversification into profits and eventually cash flow. Our analysis includes the company's cost position, cost flexibility, working capital management and its profitability.

28. A company's ability to maintain a low cost base compared with its peers enables pricing power and more flexibility when it comes to developing new products and services. A company's cost flexibility is a key factor for companies in volatile industries where demand can fluctuate significantly over the business cycle, resulting in periods of losses unless the cost base can be adapted at short notice. Where relevant, we assess the company's investment in ESG, including its management of greenhouse gas emissions and other environmental impacts, as well as its commitment to fair treatment of employees and suppliers. In our view, neglecting these factors could lead to significant future costs.

29. Working capital management and cash flow volatility are important factors in assessing the stability of a company's cash flow. It is important to analyse seasonality patterns and to what degree cash flow can differ during the year as well as within months, to obtain a more accurate picture of overall liquidity needs.

30. For profitability, we analyse a company's operating margins and how these compare with those of the sector. Although the level of profitability is important, profit and margin stability are of equal importance as it can be high but very volatile for some, mainly commodity-related, industries. It is therefore important to analyse historical patterns and assess whether these are also applicable to future performance.

Figure 8. Operating efficiency scoring guidelines

Subfactors	aa	a	bbb	bb	b
Operating efficiency	Superior and very stable profitability, best-in-class cost position, efficiency and sector-leading margins compared with international peers. Very strong ability to adjust to changes in demand and input costs, thus defending strong operating margins and cash flow generation with very low impact from swings in the general economy, input costs, or competitive pressure.	Strong and stable profitability, strong cost position, efficiency and strong margins compared with international and regional peers. Strong ability to adjust to changes in demand and input costs, thus defending strong operating margins and cash flow generation with low impact from swings in the general economy, inputs costs, or competitive pressure.	Above average to average profitability and cost position, efficiency and strong margins compared with most peers. Good ability to adjust to changes in demand and input costs, thus able to defend operating margins and cash flow generation with moderate impact from swings in the general economy, inputs costs, or competitive pressure.	Average to below average profitability and cost position, efficiency and margins compared with peers. Limited ability to adjust to changes in demand and input costs. Operating margins and cash flow could consequently be impacted significantly by swings in the general economy, input costs, or competitive pressure.	Volatile and weak historical and expected profitability and cash flow generation. Little or no capacity to defend profits or adjust for swings in demand or input costs.

FINANCIAL RISK ASSESSMENT

31. While the business risk assessment is a measure of the strength and sustainability of an issuer's overall business franchise, market position and growth prospects, it is ultimately a company's cash flow that services debt obligations. Although a strong business risk is typically correlated with strong cash flow and a healthy balance sheet, this is not always the case. Large, profitable industrial companies can be highly capital-intensive, reducing free cash flow generation and debt service capacity significantly. Similarly, some highly cash generative companies may carry high levels of debt due to financial policy decisions. This will limit financial and strategic flexibility, which can ultimately affect the company's business position and overall creditworthiness.

32. Our analysis of a company's financial risk assessment starts with a ratio analysis, in which we analyse an issuer's historical and our forecast of the company's credit metrics. We produce a base-case forecast of the issuer's financial performance for the coming three-to-five years to form a view of its future financial risk. We base our forecast on our view of macroeconomic, industry and company-specific factors. We engage in a dialogue with the issuer's management to understand its financial plans and key assumptions of future performance. We do not accept an issuer's financial budgets and issuing plans as certain, but include them as we make our own projections and incorporate predictable future events where appropriate. This process may include access to confidential information, which we will use internally and may rely on as input for our forecast, although we will not disclose it to the market.

33. To gain a more complete picture of an issuer's financial risk, we also analyse and assess issuer risk appetite and capital structure. A company with historically strong credit metrics could, for example, change strategy to become more shareholder friendly, paying out higher dividends or engage in acquisitions, which could quickly increase leverage and eventually result in deteriorating credit ratios. Our view of risk appetite and capital structure also influences our forecast. Our overall assessment of financial risk is influenced to a large extent by analytical judgment and qualitative measures, and therefore does not rely solely on ratio analysis.

RATIO GUIDELINES

34. Our financial forecast results in a set of credit ratios which we believe are strong indicators of an issuer's exposure to financial risk and overall credit quality. The most frequently used credit ratios are described in Figure 9, along with guidance for each category. For further definition and explanation of credit ratios and adjustments, see Appendix 2.

35. We consider net debt to EBITDA, funds from operations (FFO) to net debt and EBITDA interest coverage as the most relevant ratios for assessing a corporate entity's ongoing financial risk. However, our assessment includes a combination of financial ratios, which may vary across industry sectors and rating levels. For instance, in the case of technology and capital-intensive issuers, we place greater emphasis on cash flow after capital expenditure, such as free operating cash flow (FOCF) to net debt. For more vulnerable entities, free cash flow ratios carry greater importance. In certain cases, other metrics may be relevant for a fair assessment of financial risk. For example, for less capital-intensive issuers, where working capital is critical, we may consider using cash flow from operations (CFO) to net debt.

36. The ratio guidelines below should be viewed as such and not as absolute ranges. In exceptional cases, for issuers with a strong business risk assessment in very stable sectors, we may allow higher leverage for a given assessment than is indicated in Figure 9. Contrarily, our financial ratio scoring may be more conservative for issuers with a weak operating environment or business risk assessment. For some industries we have established alternative scoring guidelines for financial ratios that are more suitable than for those of an industrial entity in the table below. For alternative industry credit factors, refer to Appendix 5.

Figure 9. General corporates financial ratio scoring guidelines

	aa	a	bbb	bb+/bb	bb-/b+	b/b-
Primary ratios						
Net debt to EBITDA (x)	< 1.0	1.0 – 2.0	2.0 – 3.0	3.0 – 3.75	3.75-4.5	>4.5
EBITDA to net interest (x)	> 15	15 –10	10 – 6	6 – 4	4-2	< 2
FFO to net debt (%)	> 60	60 – 45	45 – 30	30 – 20	20-12	< 12
Supplementary ratios						
CFO to net debt (%)	> 50	50 – 35	35 – 25	25 – 15	15-10	< 10
FOCF to net debt (%)	> 40	40 – 25	25 –15	15 – 10	10- 5	< 5
DCF to net debt (%)	> 30	30 –15	15 – 10	10 – 5	5-2	< 2

CFO (cash flow from operations); FOCF (free operating cash flow); DCF (discretionary cash flow).

FINANCIAL ADJUSTMENTS

37. The aim of our ratio analysis is to fully capture a company's exposure to financial risk. The financial analysis is based on reported financial statements. We adjust reported financials to reflect underlying economic conditions and enhance comparability among entities in the same sector. While most companies in our coverage report under International Financial Reporting Standards (IFRS), differences in interpretation and optionality under accounting rules can result in different outcomes for the same underlying risks. We apply transparent adjustments that are applicable to the vast majority of Nordic companies. We recognise that there might be special situations that are not described below, and the committee can always consider ad-hoc adjustments where these are applicable.

38. Net debt adjustments:

- Surplus cash: we generally deduct a company's full cash position, other than any portion of cash that is not freely available (e.g. cash trapped in a project or high-risk country). In some instances, we might adjust for material working capital swings during a year.
- Pensions: we add any unfunded pension deficit to debt.
- Operating lease commitments: for companies that do not use IFRS accounting, we add the net present value of non-cancellable operating lease commitments. If available, we use the lease rate paid by the issuer for its operating leases as the discount rate, otherwise we apply a relevant discount rate, in line with the company's incremental borrowing rate.
- Hybrid debt instruments (including preferred stock and shareholder loans): we can assign 0%, 50%, or 100% equity treatment to hybrids depending on our assessment of an instrument's deferability, subordination and permanence.
- Other items: we may add to debt any other debt-like obligations such as factoring, securitisation facilities, capitalised interest, asset retirement obligations, captive finance activity, supply-chain financing arrangements and financial guarantees.

39. EBITDA adjustments:

- Non-recurring items: we adjust for one-off items, positive or negative, that we believe are non-recurring and not a part of ongoing operations.
- Capitalised development costs: if material, we deduct these from EBITDA (common for IT, tech and other research and development (R&D)-intensive companies).
- Operating lease cost: for companies that do not use IFRS accounting, we add back the yearly operating lease cost to EBITDA.
- Dividends received: we add to EBITDA any dividends received from associates and joint ventures if these are considered recurring.
- Other items: we may perform other adjustments if necessary.

40. Interest adjustments:

- The interest component of operating lease costs: for companies that do not use IFRS accounting, we add the estimated interest cost for the estimated operating lease commitment.
- Interest on hybrid debt: we adjust interest cost to align with our assessment of equity treatment of hybrid debt (see 39. Debt adjustments).
- Fees for new, or re-financed, debt if not included in net interest: we include finance fees paid.
- Interest hedging derivatives: we adjust interest cost for pre-paid interest swaps and caps entered into at non-market rates. We also include cap premia in our calculations. We may perform other adjustments as deemed necessary, depending on the terms of the derivative.
- Capitalised interest: we include capitalised interest in our calculations of interest costs to reflect actual interest payments on debt assumed.
- Other items: we may add to interest adjustments any interest-like payments such as factoring discounts, payments for extension of trade payables or other items with interest-like characteristics if these are deemed material.

41. FFO adjustments:

- Pay out of provisions: if not included in EBITDA, we will adjust for payments of earlier accounted provisions.
- Other items: we may adjust for other non-cash items as necessary.

RISK APPETITE

42. Our analysis of risk appetite includes assessing an issuer's financial policy, its track record and capital structure alongside other financial risk elements.

43. While our ratio analysis indicates NCR's base-case projections for the near to medium term, a thorough assessment of a corporate entity's risk appetite is just as important. NCR's view is that management's risk appetite dictates the long-term financial risk of a company and provides a more thorough forward-looking view of financial risk than a purely quantitative assessment of a set of ratios. For example, where a company regularly engages in acquisitions or has strong, but cyclical metrics that are inflated by benign economic conditions, it might report financial ratios that do not fully reflect its ultimate financial risk.

44. If we conclude that a company's risk appetite is more aggressive than indicated by the level of our forecast credit metrics, we may adjust the financial risk score downwards to reflect this. For example, if our ratio analysis indicates that a company will perform in line with a 'bb' financial risk assessment, but we think its risk appetite is in line with a 'b' financial risk assessment. In these instances our financial risk assessments likely to be lower than the ratios indicate, and could be as low as ’b’ in exceptional cases.

45. We believe a company's financial policy dictates its risk appetite. We consider the transparency and comprehensiveness of the stated financial policy and how well it has been communicated to the market. We analyse the company's views on leverage levels, shareholder remuneration, funding alternatives, debt maturity schedule, liquidity management, acquisitions and divestments and hedging policies. We also analyse its track record with regard to its previously stated financial policy in order to assess its credibility.

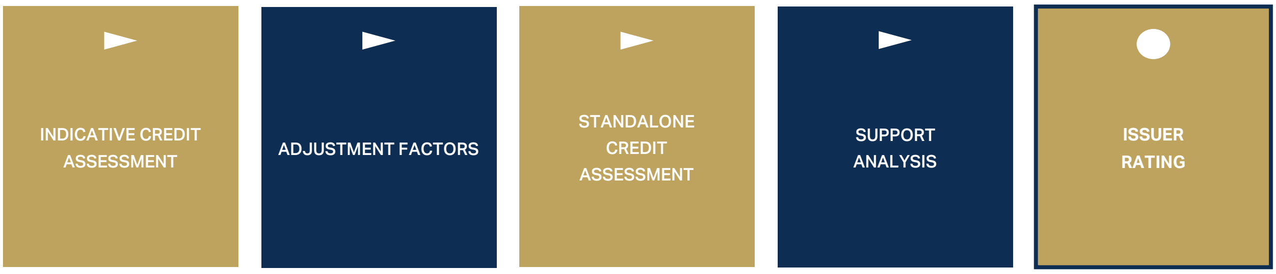
46. For capital structure, we assess whether there is an element in a company's balance sheet not fully captured in our ratio analysis. For example, a company might have a short debt maturity profile of less than 1.5 years, indicating high reliability on short-term funding. This can lead to a negative adjustment of the financial risk assessment unless we consider that this is temporary. There might also be positive elements in a company's capital structure, such as a non-core asset that can easily be disposed of and whose proceeds would be used for debt repayment, resulting in a positive adjustment of the financial risk assessment.

47. In exceptional instances we may consider stable ownership and/or committed capital from an ownership group as a positive factor in our risk appetite assessment, where the support is not meaningful enough to be considered group support as defined in the Support Analysis section below.

48. Our assessment of risk appetite considers a company's progress, or lack thereof, in managing ESG risks, with particular focus on governance and access to funding. For example, highly complex ownership and legal structures, along with opaque financial reporting, can undermine transparency, while weak internal controls may result in costly fines or financial losses.

ADJUSTMENT FACTORS AND SUPPORT

Figure 10. The path from indicative credit assessment to issuer rating



LIQUIDITY ANALYSIS

49. A company's liquidity position is an important component of financial risk across the rating spectrum. An otherwise healthy company with a lack of liquidity can trigger a default situation at short notice. Conversely, a highly leveraged company in one of the lower rating categories can be supported by strong liquidity. As a result, a company's liquidity position is measured on an absolute basis rather than relative to its industry context. We consider quantitative as well as qualitative factors.

50. We measure a company's liquidity position over a 12-month horizon. The analysis considers how well a company can cover its future liquidity commitments using internal sources of liquidity. We expect a company rated in the investment-grade area ('BBB-' and above) to cover all liquidity needs with limited need for external funding over the next 12 months. As liquidity sources, we take into account freely available cash at hand, marketable securities, unrestricted access to committed bank facilities with maturities longer than 12 months, operational cash generation under a stress scenario (generally 75% of our base-case projections) and any other committed funding sources. As liquidity commitments, we include short-term debt maturities, committed capital expenditure, dividend payments under a stress scenario and other cash commitments such as contracted acquisitions.

51. We acknowledge that a relatively strong banking sector, close banking relationships and a sophisticated commercial paper market have all contributed to relatively short debt maturity profiles for Nordic companies compared with those in other markets. We therefore consider that a purely quantitative assessment of a company's liquidity position can misstate the real liquidity risk. As a result, we analyse a company's relationship and track record with its main banks closely. A superior and long-term relationship with a highly creditworthy bank can mitigate a high reliance on short-term funding, in our view. If well managed, this can be supportive for lower rated issuers ('bb-' or below) and even qualify for upward notching support, see Figure 11 below. We also consider the company's access to debt capital markets, as well as its previous track record in managing its liquidity position during times of market stress.

52. We assess liquidity as Strong, Adequate, Weak or Negative based on the liquidity analysis. We allow for up to three notches downgrade if liquidity is less than adequate combined with a financial policy that does not sufficiently address this. In our view, a shortage of liquidity combined with a weak financial policy amplifies default risk. If an entity consistently operates with a liquidity shortage (i.e. high reliance on short-term funding), has relatively weak standing in the credit markets and an absence of strong banking relationships, the standalone credit assessment will be 'b-' or below. Conversely, for a company with a weak financial risk assessment and indicative credit assessment of 'bb-' or below, typically due to high leverage, we may allow for up to one notch upgrade if liquidity is strong and supported by its financial policy.

Figure 11. Impact from liquidity assessment

Assessment	Description	Impact
Strong	Liquidity commitments are well covered through internal liquidity sources and the company has strong banking relationships and a solid track record of market funding access.	Issuers with an indicative credit assessment of 'bb-' or below and a sound financial policy could receive one notch upgrade.
Adequate	Liquidity commitments are generally covered through internal liquidity sources. Any shortage is mitigated through strong banking relationships and a solid track record of market funding access.	No impact.
Weak	Liquidity commitments are not fully covered through internal liquidity sources and while the issuer generally has banking relationships and access to market funding, we see a risk to viable alternatives for refinancing.	Can be adjusted up to three notches down if its financial management does not sufficiently address the weak liquidity.
Negative	Liquidity commitments are not covered through internal liquidity sources and a material shortage is projected. The issuer has average or weak banking relationships and mixed track record from capital markets funding.	Standalone credit assessment is capped at 'b-'

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ASSESSMENT

53. We integrate ESG factors into our credit analysis where relevant and material, assessing their potential financial impact on an issuer's creditworthiness. When ESG factors are important, we highlight them in our credit rating reports as they can influence ratings, outlooks and rating headroom. In particular, ESG factors can directly impact our view of the operating environment, competitive position and/or financial risk assessment. We do not separate ESG factors from other non-financial factors in our analysis of an issuer's creditworthiness.

54. Where ESG factors are not sufficiently captured in the criteria factors used in the indicative credit assessment, we can adjust an issuer's rating based on comparisons to relevant peers. We include a non-exhaustive list of ESG-related factors considered in our assessment in Appendix 3.

55. If we assess that an issuer is negatively exposed to excessive ESG risk, which has a material impact on its creditworthiness, we use a negative adjustment for ESG factors. We compare an entity's exposure to, and management of, ESG matters with its closest peers in order to consider industry standards and to avoid double-counting any factors that have already been considered in our business risk assessment.

56. In exceptional instances, a very strong ESG assessment can improve an issuer's creditworthiness more than is already reflected in the indicative credit assessment.

Figure 12. Impact from ESG assessment

Assessment	Description	Impact
Positive	Exceptional ESG factors, not adequately captured elsewhere in the analysis.	Plus one notch
Adequate	There are no significant ESG issues	No effect
Negative	There are significant concerns relating to ESG issues that could impair the company's credit quality over the long term	Minus one notch

ADDITIONAL CALIBRATION

57. An additional calibration can raise or lower the rating by one notch, and in exceptional cases by two notches, to arrive at the final standalone credit rating. We expect this calibration will be applied to differentiate between entities within the same industry with similar, but not identical, characteristics, or where risk factors are not fully captured in the subfactor assessments. We may also consider this additional calibration when there are other uncertainties, for example for entities that have special characteristics or are going through a transitional period that could either support or constrain their credit quality.

SUPPORT ANALYSIS

58. NCR's support analysis assesses an entity's ownership structure and other material credit enhancements that are not already reflected in the standalone credit assessment. A company's ownership can have a pronounced impact on its credit quality. Strong owners will be highly likely to provide support to important entities and/or have a track record of supporting the rated entity during financial distress. Conversely, weak owners may be viewed as negative.

59. The principles for assessing and notching for ownership support are defined by our *Group and Government Support Methodology*.

RATING INDIVIDUAL DEBT INSTRUMENTS

60. While the long-term issuer rating is our assessment of an issuer's overall capability to meet its financial obligations, issue ratings rank different debt instruments relative to each other, considering the recovery prospects for debtholders in the event of default.

61. Ratings on individual long-term debt instruments can be higher or lower than the issuer rating, depending on their position in the capital structure and our expectations of recovery prospects in a restructuring process following default. Typically, issues would be notched up if the debt is well secured and debtholders could expect substantial recovery in insolvency. Conversely, they would be notched down if the debt is subordinated, contractually or structurally, to prior-ranking debt, reducing debtholders' recovery prospects. The issue ratings are reviewed when actual developments vary from expectations, for example when there is a material change in an issuer's capital structure that we expect will be sustained over a prolonged period. Changes in issue ratings do not necessarily follow changes in the issuer rating if a change in the issuer's overall credit quality is offset by a change in recovery prospects.

62. NCR's approach for assigning issue ratings focuses on simplicity and transparency. Our notching guidelines differ between issuers with long-term issuer ratings of 'BB-' and above, and issuers with long-term issuer ratings of 'B+' and below. This is because we find it especially relevant to assess recovery prospects in detail for entities further down the rating scale where default is more likely.

63. Our approach for assigning issue ratings to issuers rated 'BB-' and above is based on a set of principles (see Figure 13). Instrument ratings for issuers rated 'B+' or below are based on the outcome of a recovery analysis (see Figure 14). The guidelines are intended to be applied in conjunction with analytical judgement, which can result in deviations if there are specific features that might impact recovery prospects.

Figure 13. Notching guidelines for issuer ratings of 'BB-' and above

Debt type	Notching guidelines
Contractually or structurally subordinated debt (secured or unsecured debt)	At least one notch below the issuer rating.
Secured debt	Typically rated equal to the issuer rating for investment grade issuers. 'BB+' issuers may receive up to a one-notch uplift on the issuer rating. 'BB' and 'BB-' issuers may receive up to a two-notch uplift on the issuer rating.
Unsecured debt	Typically rated equal to the issuer rating if gross secured debt to EBITDA is below 2.0x, or one notch below the issuer rating if gross secured debt to EBITDA exceeds 2.0x.
Unsecured debt (real estate management, investment holding companies and other asset-heavy sectors)	Typically rated equal to the issuer rating if gross secured LTV is below 40%, or one notch below the issuer rating if gross secured LTV exceeds 40%.
Subordinated debt (such as hybrids)	Generally two notches below the issuer rating.

Note: All metrics are based on our expectation of an issuer's long-term capital structure, typically over a 12–18 month horizon.

64. The metrics considered when notching unsecured instruments for asset-heavy sectors (such as utilities, shipping and real estate development) could differ from the guidelines in Figure 13 if there are qualities that could impact the recovery prospects of debt instruments. For example, our assessment could consider the issuer's pool of unencumbered assets and asset quality, which could have a strong impact on recovery prospects.

65. For issuers with an issuer rating in the 'BB' category, we might consider secured debtholders' recovery prospects to be stronger than reflected in the issuer rating due to material or high recovery prospects (see Figure 14). Where relevant, we may apply a one-notch uplift to secured instruments of 'BB+' issuers and a two-notch uplift for 'BB' and 'BB-' issuers.

66. Our recovery analysis for issuers rated 'B+' and below does not attempt to predict specific recovery values, which would involve knowing the exact asset mix and values at a point well into the future. Instead, the analysis is based on broad guidelines that attempt to signal the potential severity of loss for specific instruments in a default scenario. To calculate the recovery value, we first determine whether the business should be valued as a going concern or based on its potential value at liquidation. The choice of approach depends on which outcome we believe to be the more likely from a debt restructuring process, which is typically the option that can bring bondholders the highest value. The liquidation value approach is usually used in asset-heavy sectors, such as real estate and utilities.

67. If the business is valued as a going concern, we calculate its enterprise value by multiplying estimated EBITDA at default with an EBITDA multiple that we believe is relevant to the sector, the current phase of the business cycle and the expected market environment at the hypothetical time of default. Consequently, the EBITDA multiple used in the valuation can be substantially lower than that of the overall sector in a benign market.

68. If we base the enterprise value on the business's liquidation value, we perform a sum-of-the-parts calculation, which involves valuing the company's assets. We typically stress the asset values to simulate an expected market environment at the hypothetical time of default. The haircut used depends on, among other things, the severity of assumed market turbulence, asset type, location and quality of assets and liquidity.

69. After determining the enterprise value, we typically deduct a 5% administration cost from the value to simulate the often substantial costs associated with a restructuring. We then distribute the value to debtholders based on a waterfall approach according to the debt instruments' relative ranking. Lastly, we notch the specific debt instruments according to their expected recovery prospects, as described in Figure 14.

Figure 14. Notching guidelines for debt instruments issued by issuers rated 'B+' and below

Recovery description	Expected recovery prospects	Notching guidelines
Material recovery	Over 90%	+ 2
High recovery	70–90%	+ 1
Average recovery	30–70%	No notching
Low recovery	10–30%	- 1
Negligible recovery	Below 10%	- 2

70. For subordinated and junior debt instruments, such as hybrid debt, issued by issuers rated 'B+' or below, we typically assign a 'B-' issue rating. This reflects our expectations of negligible recovery prospects combined with the issuer's option to postpone coupon payments at its own discretion.

71. Unless characterised by the definitions of 'CCC', 'CC' and 'C' rating in Figure 16, issue ratings are floored at the 'B-' level.

SHORT-TERM DEBT RATINGS

72. The short-term rating scale and mapping between long- and short-term ratings are defined by our *Rating Principles* methodology. The short-term rating is derived from a combination of the issuer rating, the issuer's long- and short-term credit quality, and the issuer's liquidity profile.

APPENDIX 1: HIGHEST AND LOWEST RATINGS

Figure 15. Definitions of highest ratings

Rating	Description
AAA	'AAA' is the highest possible rating and indicates extremely strong credit quality. This rating level is reserved for entities with extremely strong credit characteristics, with the entity expected to have very low sensitivity to external events in the long term. In practice, we expect there to be extremely few, if any, corporate entities that could qualify for this rating without close alignment with a government where financial support is expected to be timely under all foreseeable circumstances.
AA+	'AA+' is the second-highest rating and indicates very high credit quality and very low default risk over the long term. While we expect this rating to be very rare among corporates, it could be reached by an entity with extremely strong business risk characteristics and very low financial risk or by an entity that is very closely aligned with a government and could expect financial support in a distress scenario under almost all circumstances.

Figure 16. Definitions of lowest ratings

Rating	Description
CCC	'CCC' is assigned in specific scenarios if we assess that a corporate is distressed to the extent that its capital structure is unsustainable. The 'CCC' rating will be relevant if we think there is a strong likelihood of a conventional default or a distressed exchange, although it might not materialise within the next 12 months. At the 'CCC' level, the issuer might have liquidity to meet short-term obligations but poor operating prospects raise doubts over the long-term sustainability of the financial situation.
CC	We assign the 'CC' issuer rating if we think it highly likely that the company will default in the near term, i.e. within the next 12 months.
C	We assign the 'C' issuer rating if an issuer has announced that it will default on its debt, but the default has not yet materialised. This can be the case if an issuer has announced a distressed debt exchange that has yet to take place.

APPENDIX 2: FINANCIAL DEFINITIONS

Figure 17. Definitions of financial measures

Key measure	Definition	Explanation
Net debt	Reported financial debt less surplus cash plus present value of operating leases plus pension provisions plus hybrid capital plus other potential debt-like adjustments.	A measure of an issuers total interest-bearing debt and debt-like obligations.
EBITDA	Earnings before interest, taxes, depreciation, and amortisation, plus operating lease cost plus dividends received from associates and joint ventures., including other potential noncurrent adjustments.	Good and widely used measure of a company's underlying profit.
EBIT	Earnings before interest and tax.	The most widely used measure of operating profitability used in financial reporting and analysis. Often distorted by accounting issues.
Net interest	Interest expense (including non-cash interest such as payment-in-kind interest) less interest income, including adjustments.	Interest expense associated with debt and debt-like obligations. Captures an issuer's total interest cost.
Funds from operations (FFO)	EBITDA less net interest and current tax expense, including adjustments such as non-recurring cash items.	Measures underlying cash flow generation, before changes in working capital. Good measure of long-term cash generation capability, as it is not distorted by swings in working capital and capital expenditures.
Cash flow from operations (CFO)	FFO +/- changes in working capital (including adjustments for factoring).	Measures underlying cash flow generation after swings in or rapid growth of working capital. Relevant for fast-growing companies.
Free operating cash flow (FOCF)	CFO less capital expenditures.	Gives a more complete picture of the cash flow left for debt service, including swings in working capital and capital expenditures. Often more critical for weaker issuers and important for capital intensive sectors with high maintenance or growth capex. Overall a good differentiator for issuers in lowest rating categories.
Discretionary cash flow (DCF)	FOCF less dividends and share repurchases.	Gives a good measure of the issuer's financial policy and shareholder friendliness.

Figure 18. Definitions of credit metrics

Key credit metrics	Definition	Explanation
Net debt/EBITDA	Net debt to EBITDA	Key credit metric. Used as an indicator of an issuer's underlying debt service capability. More frequently used for non-investment-grade issuers ('bb+' and below).
EBITDA/net interest	Interest coverage ratio	Simple, transparent and easily comparable ratio, mainly used for non-investment-grade issuers. Widely used in loan documentation and useful as a differentiator in the lower range of the rating scale.
Loan to value (LTV)	Net debt to value of tangible assets	A commonly used credit metric for real estate management companies. Widely used and reported in the real estate sector. Good differentiator when comparing similar issuers.
FFO/net debt	Funds from operations to net debt	Key credit metric to measure underlying debt service capacity. Underlying cash flow (after tax and interest) available to service debt amortisation.
CFO/net debt	Cash flow from operations to net debt	Supplementary ratio for issuers with lower levels of capex but where working capital needs can be either volatile or increasing due to strong growth.
FOCF/net debt	Free operating cash flow to net debt	More frequently used for weaker issuers as the free cash flow is typically weaker and more volatile, making the issuer even more dependent on free cash flow to service debt.
DCF/net debt	Cash flow after dividends and share repurchases to net debt	Supplementary ratio captures an issuer's risk appetite, as there could be little cash flow left after investments and shareholder remuneration to service debt maturities.
EBITDA/revenues	EBITDA margin	The most common profitability measure in credit analysis. Indicative of an issuer's underlying profitability. Can be distorted, but to a lesser degree than EBIT measures, for example.
EBIT/revenues	Operating profit margin	Widely used profitability measure in all financial analysis. Good as a supplement as it is widely used by corporates globally, despite it possibly being relatively easily distorted by accounting differences.

APPENDIX 3: ESG ASSESSMENT FACTORS

73. The following table includes a non-exhaustive list of ESG factors considered in our credit analysis.

Figure 19. ESG assessment factors

Factor	Description
Environmental	• Greenhouse gas emissions or other pollution • Degree of land and energy use • Degree of water use and contamination • Climate-related impact on operations • Dependence and impacts on natural resources • Management of biodiversity risks
Social	• History of labour issues and disregard of trade unions • Conflicts with local communities, e.g. over land use • Disputes with tax authorities • Reputation risk • Community and social impact • Human rights violations • Exposure to controversial industries
Governance	• Lack of transparency • Complex ownership and legal structure • High levels of senior management turnover • Unbalanced management compensation • Concentrated board structure • Regular legal or regulatory interventions • Opaque financial reporting • Lack of internal controls and a history of control issues • A track record of underperformance

APPENDIX 4: DATA SOURCES

74. Our analysis of corporate issuers includes all available public disclosures of the rated entity as well as select confidential information related to risk governance, forecasting, strategy and other areas of interest to the credit assessment that are provided to NCR as part of our ongoing surveillance of each entity.

75. NCR also uses various public data sources in its market and macroeconomic analyses, including (but not limited to) national and regional statistical bureaus, the European Central Bank, national central bank and supervisory authorities' analyses, and commonly used asset price indices. International sources, such as the Organisation for Economic Co-operation and Development (OECD), Eurostat or similar data providers providing reliable and comparable cross-border macroeconomic data are used. Furthermore, NCR considers the views, projections and analytical reports of other market participants in its market oversight and surveillance.

76. NCR also keeps abreast of market data and developing trends associated with credit spreads, asset pricing, market capitalisation and similar using market-standard data aggregation services.

APPENDIX 5: INDUSTRY CREDIT FACTORS

77. The following is a collection of credit factors applied to specific industries. These criteria provide additional information and guidance for evaluating business risk, financial risk, liquidity and other relevant factors which may differ or complement the general corporate methodology. These criteria may also outline differences from the standard corporate rating framework in Figure 2 and/or differences in ratings of subfactors for a given industry.

78. Where not otherwise specified, the general corporate methodology is applied.

REAL ESTATE MANAGEMENT COMPANIES

79. Our industry factors for real estate management companies describe the framework within which we assign ratings to companies with the primary purpose of owning, selling and managing a portfolio of properties. Although a real estate management company may have property development operations, we do not typically apply these criteria to companies with most of their operations and/or EBITDA from property development.

BUSINESS RISK ASSESSMENT

80. The business risk assessment comprises NCR's view of the environment in which the issuer operates, as well as the issuer's competitive position within its sector. The competitive position is our combined assessment of the issuer's market position, company size, diversification, portfolio assessment and operating efficiency. The cyclicality and competitive dynamics of the sector, in combination with the issuer's competitive position within its relevant markets, are key factors for determining the potential growth, profitability and cash flow generation, and hence the issuer's ability to service its debt obligations.

81. Our business risk assessment is forward looking, based on historical observations and our view of future development for the sector and the issuer. The business risk assessment is derived by analysing four subfactors, under which we assess multiple factors specific to each subsegment.

Figure 20. Business risk assessment subfactors for real estate management companies

Factors		Subfactors	Impact	Selected metrics
Business risk assessment		Operating environment	40%	Volatility, outlook, competitive pressure
	Competitive position	Market position, company size and diversification	25%	Portfolio size, market and brand position, geographical diversification, tenant diversity.
	Competitive position	Portfolio assessment	25%	Asset quality, location, average lease term, development exposure.
	Competitive position	Operating efficiency	10%	Occupancy rate, profitability.

OPERATING ENVIRONMENT

82. In our operating environment assessment, we analyse real estate management company's exposure to historical and expected cyclicality, industry structure and correlation to general economic activity and fundamentals. We also consider barriers to entry and industry characteristics such as competitive pressure and degree of consolidation. Most of the corporate guidelines for operating environments in Figure 6 are relevant for real estate management companies.

83. We generally regard community service and residential properties as lower-risk markets, supported by stable demand. Office properties in prime locations with creditworthy tenants are typically viewed as more resilient compared to industrial office properties in less favourable locations with weaker tenants. Real estate development is considered inherently riskier than traditional property management due to factors such as project timing, subcontractor dependencies, cost uncertainties and volatile cash flow profile. Specialised property types, strong tenants, and central locations are generally associated with lower volatility, sustained demand, and reduced cyclicality.

COMPETITIVE POSITION

84. Real estate companies are usually more locally focused but can benefit from strong local or regional presence, tenant diversification and solid market position. Our analysis also considers the company's asset quality, the location of the portfolio, occupancy rates and lease structures. In addition, we evaluate the exposure to and risk in the issuer's development portfolio. Typically, higher exposure to development projects results in a lower competitive position assessment score, although we acknowledge that risk levels can vary significantly among development portfolios.

85. When assessing an issuer's market position, company size and diversification, we examine its standing within the segment in which it operates, along with its tenant, property and geographical diversification. A strong presence in target markets indicates a solid market position, while a diversified portfolio reduces reliance on specific tenants and properties. Portfolio size is assessed in relation to peers, providing insight into the company's competitive standing within its target market.

86. The portfolio assessment focuses on the attractiveness of asset locations, lease contract structures and exposure to development risk. High-quality assets in prime locations with long remaining lease terms and low development risk indicate strong portfolio quality. If the portfolio is mixed in terms of property types and the properties are in a variety of locations, we typically consider the location of the properties in relation to regional city centres, transport routes or transit hubs to assess the attractiveness of a typical property for the specific property type. The assessment factors in our view of the broader sector when considering the asset quality as it is influenced by our expectations of cyclicality of cash flows, strength of tenants and lease terms alongside access to capital, transaction market volumes and risk of prolonged vacancies if contracts are terminated. We consider the average portfolio yield in relation to peers and the broader property market, as a higher yield could indicate lower market liquidity and higher-risk assets in the portfolio.

87. The assessment of an issuer's operating efficiency considers operating margins and occupancy rate. A high proportion of triple-net leases – where tenants cover most operating costs, including maintenance, property taxes, and insurance – typically supports stronger margins. We also view a high degree of index-linked contracts favourably, enabling rental adjustments in response to inflationary pressures.

Figure 21. Competitive position scoring guidelines for real estate management companies

Subfactors	aa	a	bbb	bb	b
Market position, company size and diversification	Leading market position internationally. Operating in several geographical regions. Vast tenant diversification (location and industry exposure), top 10 tenants account for less than 10% of leasable area or revenues.	Leading regional market position. Operating in several regions. Strong tenant diversification (location and industry exposure), top 10 tenants account for less than 15% of leasable area or revenues.	Above-average market position regionally. Solid tenant diversification (location and industry exposure), top 10 tenants account for less than 20% of leasable area or revenues.	Average market positions regionally or locally. Moderate tenant diversification, top 10 tenants account for less than 50% of leasable area or revenues.	Weak market positions regionally or locally. Limited tenant diversification. Top 10 tenants account for more than 50% of leasable area or revenues.
Portfolio assessment	Very strong, high-quality assets in prime locations in liquid property markets with very high-quality tenants. Very long average remaining lease term above 7 years. Development pipeline <5% of gross assets and very low risk exposure.	Strong, high-quality assets in prime locations in liquid property markets with high quality tenants. Long average remaining lease term 5-7 years. Development pipeline <7.5% of gross assets and low risk.	Solid asset quality mainly located in prime locations in liquid property markets with quality tenants. Average remaining lease term 4-5 years. Development pipeline <10% of gross assets and generally low risk.	Solid to below average asset quality located mainly in secondary locations in less liquid property markets with lower share of quality tenants. Average remaining lease term is below 4 years. Development pipeline <15% of gross assets with some speculative elements.	Below average to low asset quality located mainly in secondary locations in illiquid property markets with a low share of quality tenants. Short average remaining lease term. Development pipeline >15% of gross assets and largely speculative.
Operating efficiency	EBITDA margin above 75%. Occupancy rate > 95%.	EBITDA margin above 65%. Occupancy rate > 95%.	EBITDA margin above 55%. Occupancy rate > 90%.	EBITDA margin above 50%. Occupancy rate > 80%.	EBITDA margin below 50%. Occupancy rate < 80%.

FINANCIAL RISK ASSESSMENT

88. Our analysis of a real estate management company's financial risk profile begins with a ratio analysis, in which we analyse a real estate company's historical and forecasted NCR-adjusted credit metrics. We also consider the adherence to and level of the financial policy, covenant-related risk, ownership commitment and the maturity of financing in our view of risk appetite.

RATIO GUIDELINES

89. Due to the defensive characteristics of the real estate sector, we have identified a distinct set of financial ratios that we consider more appropriate for assessing financial risk compared to those of industrial entities. Due to the long-term nature of real estate assets and lease contracts, we believe that real estate management companies can maintain relatively stronger creditworthiness than other corporates, even with higher leverage.

90. Our assessment of a real estate management company's financial risk typically focuses on four ratios: net loan to value, EBITDA to net interest, net debt to EBITDA and FFO to net debt. These metrics provide insight into financial leverage, debt-servicing capabilities and cash flow generation. Metric guidelines are presented in Figure 22. These ratio guidelines should be viewed as such and not as absolute ranges. We may also consider potential volatility in the metrics as a result of capital structure choices, for instance short interest-fixing periods.

91. In addition to financial adjustments covered for general corporates (see §37-41), we typically adjust real estate company credit metrics for capitalised interest, pre-paid interest rate hedges at non-market rates and may choose to consider pro rata consolidation of joint ventures and associated companies, if necessary, for a more complete analysis. For further definitions and explanations of credit ratios and adjustments, see Appendix 2.

Figure 22. Credit metrics scoring guidelines

Key credit metrics	aa	a	bbb	bb+/bb	bb-/b+	b/b-
Net loan to value (%)	< 20	20 - 35	35 - 50	50 - 55	55 - 60	> 60
EBITDA to net interest (x)	> 5.0	5.0 - 3.5	3.5 - 2.2	2.2 - 1.7	1.7 - 1.3	< 1.3
Net debt to EBITDA (x)	< 3.5	3.5 - 5.0	5.0 - 7.0	7.0 - 9.0	9.0 - 13.0	> 13
FFO to net debt (%)	> 20	20 - 15	15 - 9	9 - 7	7 - 5	< 5

RISK APPETITE

92. Our evaluation of risk appetite is primarily anchored in financial ratio analysis, as we consider it a key indicator of an entity's financial risk. However, we also recognise that additional factors not captured in this analysis may influence the overall risk profile, which we capture in our risk appetite assessment.

93. The assessment of a real estate management company's risk appetite includes several factors, including its financial policies, historical financial performance, capital structure, debt maturity profile, interest rate hedging strategies and growth ambitions. In certain cases, we may also consider the ongoing commitment of long-term owners and any associated contractual commitments.

94. The weighting of risk appetite and financial ratio assessment is typically balanced. However, we may apply analytical judgment to assign greater emphasis to either factor if we determine that it is more significant or has a dominant influence on the company's overall financial risk.

LIQUIDITY ANALYSIS

95. We recognise that access to longer-dated financing in the Nordic banking system is limited and that many Nordic real estate companies operate with comparatively short debt maturity profiles, resulting in many companies having a shortfall in committed sources of capital to expected outflows. Typically, we see strong banking relationships as a good mitigator of near-term refinancing risk as Nordic banks are very relationship-oriented and are expected to address real estate issuers' refinancing proactively.

96. In our view, however, short-dated financing and a shortfall of committed sources to uses increases sensitivity to adverse funding conditions relative to issuers with committed sources of capital exceeding uses. We expect stronger investment grade issuers to have liquidity coverage for both bank and bond maturities. We assess that bonds have higher refinancing risk in the Nordic market and expect investment grade issuers to have back-up facilities for covering maturities and other committed outflows.

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