Nordic
Credit
Rating

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Supplementary request for comment:

Corporate Rating Methodology

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CONSULTATION NOTICE

This document is a supplementary request for comment on NCR's proposed updated Corporate Rating Methodology and does not constitute final methodology. The methodology described herein has not been adopted by NCR and is published solely for consultation purposes.

Existing ratings continue to be assigned in accordance with NCR's currently applicable methodologies until any revised methodology is finalised and formally adopted. NCR invites comments on any aspect of the proposal in accordance with the consultation process described in the accompanying press release.

INTRODUCTION

1. This methodology sets out the framework Nordic Credit Rating AS (NCR) applies in assigning credit ratings to corporate issuers and their debt instruments. Corporate issuers are defined as non-financial companies, including real estate management companies, regulated utilities and other industrial or service-sector firms. This methodology excludes project finance transactions, corporate securitisations or other special-purpose vehicles with structurally constrained operations and cash flows. NCR assesses investment holding companies under its *Investment Holding Company Rating Methodology*. NCR supplements the standard corporate framework with sector-specific credit factors for real estate management companies and regulated utility companies, as set out in Appendices 3 and 4.

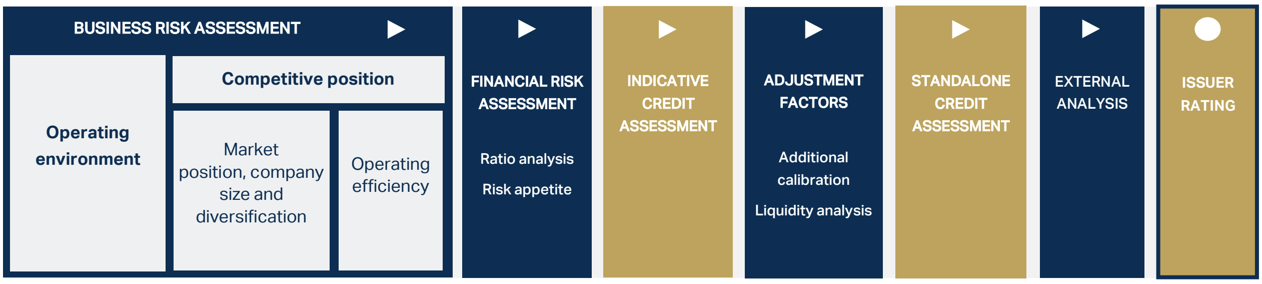
2. NCR's corporate methodology provides a robust, transparent, consistent and systematic framework designed to produce credit ratings that are comparable across sectors and subsegments. NCR assigns both long-term issuer ratings and issue-specific debt instrument ratings on a scale from 'AAA', indicating the strongest credit quality, to 'D', indicating default. NCR also assigns short-term ratings to short-term debt instruments with an original maturity of no more than 365 days, such as commercial paper.

3. The ratings in the 'CCC', 'CC' and 'C' categories typically reflect situations in which an issuer is highly vulnerable to default or is in a distressed condition. In such cases, the standard framework described in this methodology, including the indicative credit assessment and associated risk assessment matrix, is not designed to determine the rating outcome. Instead, the analysis places greater emphasis on a situation-specific assessment of the factors driving credit deterioration, including liquidity constraints, capital structure sustainability, refinancing risk and the likelihood of default or distressed exchange. While the broader analytical framework provides context, the rating outcome at these levels is primarily driven by an assessment of near-term default risk and issuer-specific circumstances.

4. For a detailed description of NCR's credit rating definitions, scales and rating process, refer to *Rating Principles*, published on www.nordiccreditrating.com.

FRAMEWORK OVERVIEW

Figure 1. NCR corporate rating framework



5. NCR's corporate ratings are forward-looking and reflect an integrated assessment of fundamental business and financial risk factors. These assessments form the basis for the indicative credit assessment, which may be adjusted upward or downward to reflect material considerations not fully captured in the initial assessment. Such considerations include an evaluation of the issuer's liquidity profile, exposure to environmental, social and governance (ESG) factors and other credit-relevant factors that may increase or reduce credit risk. NCR also assesses potential external influence to determine whether there are relationships, including links to parent groups or government owners, that could strengthen or weaken the issuer's overall creditworthiness.

6. While NCR's analysis is forward-looking, it starts with a review of historical sector trends and company performance. Historical cash flow patterns help identify potential sources of future volatility, including the effects of seasonality, cyclicality, or structural shifts in demand. Considered alongside company-specific factors such as capital spending, growth ambitions and financial policy, this analysis informs NCR's assessment of expected future credit quality. A history of material volatility in operating or financial performance may influence NCR's assessment across several dimensions, including business risk, financial risk, management's risk appetite and the robustness of the capital structure, while a stable track record may support a more favourable overall credit assessment.

7. Business and financial risk assessments are based on the estimation, measurement and evaluation of a range of subfactors, with assessments expressed on a scale of 'aa', 'a', 'bbb', 'bb' or 'b'. Where relevant, assessments may be further differentiated using plus ('+') and minus ('-') modifiers to reflect relative strength within an assessment category. Peer comparisons serve as an important reference point in this process, providing context for interpreting subfactor performance and supporting consistent assessment across issuers. While each metric considered under a given subfactor contributes to the overall assessment, metrics are not necessarily equally weighted, and in certain cases the strength or weakness of a single subfactor may have a disproportionate influence on the resulting assessment.

8. All components of the analysis involve analytical judgement and peer comparison. While the methodology provides structure and consistency, each factor is assessed through the interpretation of available evidence, issuer-specific circumstances and relevant peer context. This approach ensures that the analytical process remains forward-looking and judgement-based, rather than mechanically determined.

SUMMARY OF THE CRITERIA

Figure 2. NCR corporate rating factors and subfactors

<table>
<tr><th>Factors</th><th></th><th>Subfactors</th><th>Impact</th><th>Output</th></tr>
<tr><td rowspan="3">Business risk assessment</td><td></td><td>Operating environment</td><td>40%*</td><td>'aa' to 'b-'</td></tr>
<tr><td rowspan="2">Competitive position</td><td>Market position, size and diversification</td><td>40%*</td><td>'aa' to 'b-'</td></tr>
<tr><td>Operating efficiency</td><td>20%*</td><td>'aa' to 'b-'</td></tr>
<tr><td rowspan="2">Financial risk assessment</td><td></td><td>Ratio analysis</td><td>25% – 75%</td><td>'aa' to 'b-'</td></tr>
<tr><td></td><td>Risk appetite</td><td>25% – 75%</td><td>'aa' to 'b-'</td></tr>
<tr><td>Indicative credit assessment</td><td></td><td></td><td></td><td>'aa' to 'b-'</td></tr>
<tr><td>Adjustment factors</td><td></td><td>Liquidity
Additional calibration</td><td></td><td>+1 to -3 notches
Up to ±2 notches</td></tr>
<tr><td>Standalone credit assessment</td><td></td><td></td><td></td><td>'aa' to 'b-'</td></tr>
<tr><td>External analysis</td><td></td><td>Group and government influence</td><td></td><td>Notch adjustment</td></tr>
<tr><td>Issuer rating</td><td></td><td></td><td></td><td>'AAA' to 'D'</td></tr>
</table>

**Weights are indicative and may vary modestly (typically ±5–10ppt) where analytically justified, provided that the total weighting remains 100%.*

9. NCR first assesses business risk by analysing the operating environment, including sector- and country-specific risks relevant to the issuer. NCR then evaluates the company's competitive position, focusing on market position, size, diversification, and operating efficiency. This analysis differentiates issuers based on the strength and sustainability of their competitive position, including their ability to benefit from key industry drivers and mitigate sector risks over time.

10. The financial risk assessment is typically based on an analysis of forecast credit ratios, which NCR assigns to a risk category based on the relative strength and relevance of each metric. NCR derives its forecasts from a forward-looking assessment of available information, including public disclosures, discussions with management and other information provided by the issuer when relevant, and broader macroeconomic and sector assumptions.

11. In addition to quantitative measures, NCR assesses the issuer's risk appetite to evaluate how ownership, financial policy, capital allocation decisions and management behaviour may influence the stability and predictability of its financial risk profile over time.

12. The indicative credit assessment combines the business risk assessment and financial risk assessment using the matrix in Figure 4. The matrix maps the interaction of these two dimensions into an indicative credit assessment. In cases where the matrix indicates two indicative credit assessments, NCR will determine the outcome that best reflects the issuer's credit profile based on analytical judgement.

13. The standalone credit assessment is derived by adjusting the indicative credit assessment for factors that are not fully captured in the business risk assessment and financial risk assessment. These adjustment factors include liquidity and additional calibration. Liquidity assesses the issuer's ability to meet near-term obligations using available liquidity sources and funding access, while additional calibration may be used to reflect issuer-specific strengths, weaknesses or transitional circumstances that are not fully or adequately reflected elsewhere in the methodology. The resulting standalone credit assessment represents NCR's view of the issuer's creditworthiness on a standalone basis.

14. NCR then performs an analysis to assess whether ownership, group affiliation, government links or other external considerations affect the issuer's creditworthiness. This analysis considers both positive and negative influences arising from ownership structures, strategic importance, support expectations and structural constraints. The outcome may result in a positive or negative adjustment to the standalone credit assessment and forms the basis for the final issuer rating.

DERIVING BUSINESS AND FINANCIAL RISK ASSESSMENTS

15. NCR assesses business and financial risk by converting subfactor assessments into a numerical scale ranging from 1 to 14. These numerical values are weighted and aggregated to derive business and financial risk assessments, which are then mapped back to a factor risk score (denoted in lower case), as illustrated in Figure 3. For example, a weighted average score of 7.2 corresponds to a business or financial risk assessment of 'bbb'. The resulting business risk assessment and financial risk assessment form the inputs to the indicative credit assessment matrix in Figure 4.

Figure 3. Mapping of weighted average scores to business and financial risk assessments

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

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

16. The indicative credit assessment and standalone credit assessment do not, on their own, result in the assignment of the highest ('AAA' and 'AA+') or lowest ('CCC', 'CC' and 'C') rating categories. NCR reserves these rating levels for issuers with characteristics or circumstances

that require additional analytical considerations beyond those captured by the standard framework. Appendix 1 sets out the criteria for assigning these rating categories.

BUSINESS RISK ASSESSMENT

Figure 5. Business risk assessment subfactors

Factors		Subfactors	Impact*	Selected metrics
Business risk assessment		Operating environment	40%	• Sector volatility, cyclicality, seasonality, growth prospects and outlook • Barriers to entry, substitution risk and competitive pressure • Country risk • Regulatory factors
	Competitive position	Market position, size and diversification	40%	• Market share, brand and competitive advantages • Scale, scope and diversification (geographic and business) • Customer and supplier concentration
		Operating efficiency	20%	• Cost position and flexibility • Profitability • Working capital volatility and management

**Weights are indicative and may vary modestly (typically ±5–10ppt) where analytically justified.*

17. The business risk assessment comprises two primary components:
    - Operating environment, which reflects industry and country risk that are generally common to entities operating within a given sector and geography and the resulting effect on operating stability and cash flow predictability.
    - Competitive position, which reflects the issuer's relative strength compared with peers and comprises assessments of market position, size and diversification and operating efficiency.

18. Operating environment captures NCR's assessment of the structural risk characteristics of the industries and countries in which the issuer operates. Competitive position captures the issuer's relative strength compared with industry peers. The business risk assessment reflects how these factors interact to influence the sustainability and predictability of profitability and cash flow. While supported by a structured scoring framework, the assessment ultimately reflects NCR's analytical judgement in calibrating subfactor assessments and ensuring consistent and comparable rankings of issuers' overall business risk.

19. NCR generally applies the weighting structure in Figure 5. These weightings are indicative and may be adjusted where industry characteristics or issuer-specific factors result in certain subfactors being more relevant to the assessment of business risk. The relative importance of operating environment, market position, size and diversification, and operating efficiency varies across industries and business models. Weighting adjustments are typically modest and should reflect the relative importance of the relevant subfactors. Any adjustment to individual factor weights must be offset by corresponding adjustments to other factors such that the total weighting remains 100%.

20. NCR may assign greater weight to the subfactors that best differentiate credit risk within a particular industry. For example, operating environment may carry greater weight in industries where regulation, country risk or market structure largely determine cash flow stability. Operating efficiency may carry greater weight in commodity or other price-taking industries where cost position is a key determinant of profitability and resilience. Market position, size and diversification may carry greater weight where brands, technology, customer relationships, scale or diversification are the primary drivers of competitive advantage and cash flow stability.

OPERATING ENVIRONMENT

(Typically 40% weight in the business risk assessment)

21. An issuer's creditworthiness, cash flow generation and debt service capacity are closely linked to the risk characteristics of the sectors and jurisdictions in which it operates. Issuers exposed to higher-risk sectors or weaker economic, institutional or regulatory environments face greater uncertainty and volatility in operating conditions than issuers operating in stronger environments.

22. When assessing the operating environment, NCR considers sector volatility and cyclicality, competitive pressures, including barriers to entry, substitution risk and the bargaining power of suppliers and customers, and growth prospects. NCR assesses whether the sector is expected to grow faster or slower than the broader economy over the medium to long term and the likely volatility of revenues, profitability and cash flow.

23. NCR assesses sectors on a relative basis, positioning them along a continuum based on their risk characteristics. For issuers operating across multiple business lines, NCR applies a weighted assessment based on EBITDA, revenue or another relevant measure, typically including segments representing 20% or more of the business. In determining the overall operating environment assessment, NCR considers both the relative contribution of each business line and the extent to which weaker or more volatile sectors influence the issuer's overall risk profile.

24. Sectors in structural decline typically receive weaker assessments due to the expectation of declining cumulative cash flows. Emerging industries with limited track records, lower predictability or unproven business models are also generally viewed as higher risk despite potentially strong growth prospects.

25. NCR incorporates country-related risks into the operating environment assessment. Country risk reflects the economic, institutional, financial and regulatory conditions, including the effectiveness of legal enforcement and business practices, that affect operating stability, cash flow predictability and access to funding in a given jurisdiction. For most Nordic-focused issuers, these risks are generally very low, reflecting the strength of economic and institutional frameworks in these jurisdictions. However, material exposure to countries with weaker conditions may reduce the operating environment assessment, with the impact reflecting the scale, nature and relevance of the exposure.

26. Country risk primarily serves to identify jurisdictions that may constrain operating performance, cash flow predictability or access to funding. Exposure to countries with strong economic, institutional and legal frameworks does not, in itself, result in a strong operating environment assessment. As a result, issuers operating primarily in such jurisdictions are typically differentiated by other operating-environment factors and issuer-specific characteristics.

27. For entities exposed to multiple jurisdictions, NCR assesses country risk by considering the relative importance of revenues, assets or cash flows across countries. The assessment reflects the overall risk profile of the jurisdictions in which the issuer operates, while recognising that exposure to higher-risk countries may have a disproportionate influence on operating stability, cash flow predictability and access to funding.

Figure 6. Operating environment scoring guidelines

Subfactors	aa	a	bbb	bb	b
Cyclicality and earnings volatility	• Very low sector cyclicality. • Very stable earnings with very low variability.	• Low sector cyclicality. • Stable earnings with low variability.	• Low to moderate cyclicality. • Generally stable earnings with some earnings variability.	• Moderate to high cyclicality. • Volatile earnings and pronounced short-term variability.	• High or very high cyclicality. • Highly volatile earnings with significant short-term variability.
Barriers to entry and competitive pressure	• Very high barriers to entry. • Highly consolidated industry structure. • Low competition.	• High barriers to entry. • Generally consolidated industry structure. • Low to moderate competition.	• Moderate barriers to entry. • Balanced industry structure. • Moderate competition.	• Relatively low barriers to entry. • Fragmented industry structure. • High competition.	• Very low or no barriers to entry. • Highly fragmented industry structure. • Intense competition.
Growth trends and outlook	• Structurally above-average sector growth relative to the broader economy. • Strong resilience of growth drivers.	• Moderately above-average growth. • Solid and sustainable growth drivers.	• Growth broadly in line with the economy. • Stable growth drivers.	• Below-average growth. • Weakening or less reliable growth drivers.	• Weak or declining growth. • Structural decline or negative growth in sector demand.
Substitution risk and pricing power	• Very low substitution risk. • Very strong pricing power.	• Low substitution risk. • Strong pricing power.	• Moderate substitution risk. • Some pricing power.	• Moderate to high substitution risk. • Limited pricing power.	• High or very high substitution risk. • Price taker.
Country risk	Operating primarily in jurisdictions with: • Very strong and highly stable economic fundamentals. • Very stable and predictable political and institutional environments. • Very strong and resilient financial systems. • Strong legal frameworks and reliable payment practices.	Operating mainly in jurisdictions with: • Strong and stable economic fundamentals. • Stable and predictable political and institutional environments. • Strong financial systems. • Reliable legal frameworks and established payment practices.	Operating in jurisdictions with: • Adequate and stable economic fundamentals. • Adequate political and institutional environments. • Financial systems with some vulnerabilities • Sound legal frameworks and payment practices.	Operating in jurisdictions with: • Weaker and less stable economic fundamentals. • Elevated political or institutional risk and uncertainty. • Less resilient financial systems. • Inconsistent legal frameworks or payment practices.	Operating in jurisdictions with: • Weak and unstable economic fundamentals. • High political, institutional, or geopolitical risk. • Fragile financial systems. • Unreliable legal frameworks and weak payment practices.

COMPETITIVE POSITION

MARKET POSITION, COMPANY SIZE AND DIVERSIFICATION

(Typically 40% weight in the business risk assessment)

28. NCR assesses market position as a key determinant of an issuer's ability to generate and sustain profitable operations and stable cash flow over time, including through varying market and economic conditions. The assessment is conducted relative to the issuer's operating environment and peers to capture its competitive position within the sector.

29. NCR evaluates market position based on the factors most relevant to the issuer's competitive position, including market share, brand strength, technological or product leadership, and the sustainability of competitive advantages. The assessment also considers barriers to entry, including regulatory, structural, product and distribution advantages. Companies with strong and defensible market positions typically demonstrate greater resilience during periods of adverse conditions and an ability to generate more stable profitability and cash flow than peers over time. NCR focuses on the sustainability of a company's market position rather than its current strength alone.

30. NCR assesses company-specific characteristics in the context of the broader industry, rather than focusing narrowly on a niche or subsector. This approach helps ensure that competitive position assessments remain comparable across issuers and reflect the wider market environment in which they operate. Leading positions in narrowly defined market segments may not necessarily translate into stronger competitive positions if the segment represents a relatively small or higher-risk part of the broader industry. When relevant peers or robust data are unavailable, NCR may draw comparisons with adjacent industries. For example, automotive retailers may be benchmarked against the wider retail sector when more direct peer data are limited, as they share similar competitive dynamics.

31. NCR assesses the relative importance of market-position drivers holistically. Subfactors do not carry equal weight in all cases, and a single strength or weakness may influence the overall assessment when it materially affects the issuer's competitive position.

32. NCR assesses company size relative to the issuer's operating environment, competitors and the broader industry. The assessment considers revenue (or EBITDA, where more relevant) and asset base, as well as the issuer's scale relative to regional and global peers where appropriate. Size can support stronger creditworthiness where it contributes to greater market influence, operational flexibility or resilience. However, the significance of size depends on the structure of the market in which the issuer operates and the extent to which scale translates into competitive advantages. For example, a local pulp and sawn wood producer may be large in a national context but remain a price taker in a global commodity market. In contrast, a national grocery retail chain may benefit from its local scale relative to domestic competitors in a more insulated market.

33. Diversification generally reduces exposure to adverse developments affecting individual products, markets, regions, counterparties or assets. Companies with broader diversification typically benefit from greater operating stability, while concentrated business activities increase vulnerability to adverse events that may quickly affect cash flow generation.

34. Not all forms of diversification improve an issuer's business risk assessment. Expansion into higher-risk industries, markets or geographies may increase business risk if the new exposures raise cash flow volatility, weaken competitive positioning or dilute management focus. Diversification supports credit quality only when it demonstrably reduces concentration risk and contributes to more stable and predictable cash flow generation.

35. While size and diversification generally support a stronger business risk assessment, their importance varies by sector. Some small or medium-sized companies maintain strong positions in favourable and insulated niche segments and may achieve relatively strong business risk assessments despite limited scale.

36. Environmental and social factors may influence market position when they materially affect regulatory compliance, cost structure, reputation or competitive dynamics. NCR incorporates such factors within the relevant assessment drivers when they are material to creditworthiness and expected to have a measurable impact.

37. The scoring guidelines in Figure 7 describe typical characteristics for each category and are indicative rather than exhaustive. Issuers do not need to exhibit every characteristic listed in a category, and the relative importance of individual factors may vary. The overall assessment reflects NCR's analytical judgement as to which category best represents the issuer's overall market position, size and diversification.

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

Subfactors	aa	a	bbb	bb	b
Market position	• Leading or dominant market position within the broader industry. • Strong brands, products or services with significant customer preference. • Very high and durable barriers to entry and minimal substitution risk support market share stability and strong pricing power. • Ability to maintain or increase market share while delivering stronger and more resilient operating performance than peers.	• Strong market position. • Well-established brands, products or services with clear customer recognition. • Significant barriers to entry and limited substitution risk support good pricing power and the ability to defend pricing. • Track record of market share gains and growth above peer average.	• Solid market position. • Competitive strengths in brand, distribution, technology or customer relationships help maintain market share. • Moderate barriers to entry and substitution risk support market share stability and some ability to influence pricing. • Ability to maintain market share, with growth broadly in line with, or slightly above, the peer group average.	• Limited market position. • Competitive advantages in brand, distribution, technology or customer relationships are limited. • Limited barriers to entry and identifiable substitution risk lead to exposure to price pressure and largely price-taking behaviour. • Market share may come under pressure as demand conditions change or competitive intensity increases.	• Weak or untested market position. • Few defensible advantages in brand, distribution, product or technology. • Low barriers to entry and high substitution risk, resulting in limited pricing power. • Market share stability is weak and sensitive to changes in demand conditions or competitive dynamics.
Size	• Among the largest entities in the industry globally. • Scale provides significant advantages in cost efficiency, purchasing power and operational flexibility. • Operating scale and leverage reduce the impact of adverse operating conditions on profitability across economic cycles.	• Large relative to major international or leading regional peers. • Scale provides clear advantages in cost efficiency and purchasing power, though below the global top tier. • Operating leverage supports resilience but is somewhat less pronounced than for the largest peers.	• Above-average size relative to regional or national peers. • Scale provides some advantages in cost efficiency and purchasing power. • Operating leverage supports resilience but remains moderate compared with larger industry participants.	• Average size relative to peers in the relevant market. • Scale provides limited advantages in cost efficiency, purchasing power or operational flexibility. • Operating scale and leverage provide only modest protection against adverse operating conditions.	• Small relative to peers. Any regional or niche leadership is insufficient to offer meaningful benefits. • Scale provides minimal advantages in cost efficiency, purchasing power or operational flexibility. • Limited operating scale and leverage.
Diversification	• Extensive diversification across multiple business segments, product and service lines and brands. • Broad geographic presence with minimal concentration in any single market. • Very low concentration among customers, suppliers and contractual counterparties.	• Strong diversification across several business segments, product and service lines or brands. • International geographic exposure without reliance on any single region. • Low concentration among customers, suppliers and contractual counterparties.	• Adequate diversification across several business segments, products and services or brands. • Presence in multiple regional markets with some geographic concentration. • Moderate concentration among customers, suppliers and contractual counterparties.	• Some diversification across a limited set of business segments, product or service lines. • Clear reliance on a primary region or a limited number of regional or local markets. • Meaningful concentration among customers, suppliers or contractual counterparties.	• Limited diversification across business segments, product or service lines. • Dependence on a single region, local market or business line. • High concentration among customers, suppliers or contractual counterparties.

OPERATING EFFICIENCY

(Typically 20% impact on business risk assessment)

38. NCR assesses operating efficiency as an issuer's ability to convert its market position, size and diversification into profitability and cash flow. Strong operating efficiency enables issuers to defend margins and cash flow through changing operating conditions through a

competitive cost position and the ability to adjust costs in response to shifts in demand and input prices. The importance of cost position varies across sectors and business models and may be less significant where profitability is primarily driven by product differentiation, intellectual property or pricing power.

39. NCR compares the issuer's cost structure, cost flexibility, working capital management and profitability with those of relevant peers to assess its relative operating strength. Operating efficiency is particularly important in commodity and other price-taking industries, where producers with lower break-even costs can maintain positive margins and continue operating profitably for longer when prices decline. In contrast, higher-cost producers may incur losses and be forced to curtail or suspend production. Operating efficiency may also support stronger assessments where the issuer demonstrates a sustained ability to generate profitability and cash flow above peer levels through superior execution, cost management or operational flexibility.

40. Cost flexibility is particularly important in industries with volatile or seasonal demand patterns, where profitability depends on the issuer's ability to adjust production and its cost base. Cost flexibility reflects both the structure of the cost base, including the balance between fixed and variable costs, and the flexibility of the asset base to adapt capacity and utilisation levels. A higher proportion of variable costs, or the ability to reduce fixed costs, enables issuers to mitigate the impact of weaker demand on profitability. The speed and effectiveness of cost adjustments further support margin resilience, particularly in industries characterised by rapid changes in demand or pricing.

41. NCR assesses an issuer's working capital requirements, volatility and management to evaluate the stability and predictability of cash flow. Seasonality and other short-term variations influence the timing of cash inflows and outflows and therefore liquidity needs. Effective working capital management enables the timely conversion of earnings into cash through disciplined management of receivables, inventories and payables. Weak working capital management may result in delayed cash collection, inventory build-ups and more volatile cash flows, increasing liquidity requirements.

42. NCR assesses profitability by analysing operating margins relative to sector peers and over time. The level and stability of margins indicate the issuer's ability to generate sustainable earnings. Historical margin development is reviewed to assess resilience under varying market conditions and its relevance for future performance. Return-based measures, such as return on capital, provide additional insight into the efficiency with which the issuer generates earnings relative to its asset or capital base.

43. Profitability should generally be consistent with the issuer's assessed competitive position. Stronger market positions, greater scale and diversification and superior operating efficiency should typically translate into stronger, more stable and resilient profitability and margins relative to peers. Where this relationship is not evident, NCR revisits the assessment of the underlying competitive factors to determine whether they provide meaningful support to the issuer's competitive position.

44. Environmental and social factors may influence operating efficiency when they materially affect cost structures, operational flexibility, revenue stability or competitive position. NCR considers an issuer's exposure to, and management of, such factors, including greenhouse-gas emissions, broader environmental impacts, and the treatment of employees and suppliers, where these factors are expected to have a measurable impact on long-term profitability, cash flow generation or business sustainability.

Figure 8. Operating efficiency scoring guidelines

Subfactors	aa	a	bbb	bb	b
Operating efficiency	• Consistently high and resilient profitability relative to peers. • Leading cost position and margins. • Very strong cost flexibility. • Efficient working capital management supporting strong cash conversion.	• Stable above-average profitability relative to peers. • Strong cost position and margins. • High cost flexibility. • Strong working capital management.	• Average profitability, with moderate volatility versus peers. • Competitive cost position and margins. • Good cost flexibility. • Generally adequate working capital management.	• Below-average profitability with elevated volatility versus peers. • Weaker cost position and margins. • Limited cost flexibility. • Weaker working capital management.	• Weak and highly volatile profitability versus peers. • Weak cost position and margins. • Little or no cost flexibility. • Very weak working capital management.

FINANCIAL RISK ASSESSMENT

45. NCR assesses financial risk by evaluating the strength, stability and predictability of an issuer's cash flow generation, capital structure, liquidity management and financial policies on a forward-looking basis. Financial risk reflects how operating performance, investment requirements and capital allocation decisions affect the issuer's financial profile over time.

46. NCR normally assigns equal weight to ratio analysis and risk appetite. NCR may assign a weight of 25%-75% to either component, totalling 100%, where equal weighting would not provide a representative assessment of the issuer's forward-looking financial risk. This may occur when forecast credit metrics are significantly influenced by cyclical peaks or troughs, temporary events, ownership characteristics, non-profit-maximising objectives or other factors that reduce the representativeness of the base-case ratio assessment. Conversely, NCR may place greater weight on ratio analysis where forecast financial metrics are considered more representative of future financial risk than the issuer's historical financial policy or risk appetite.

47. Ratio analysis combines an issuer's historical credit metrics with NCR's forward-looking projections. NCR adjusts financial data and credit metrics in accordance with its own definitions to ensure consistency and comparability across issuers.

48. NCR typically develops a base-case view of the issuer's financial performance over the next one to three years, incorporating macroeconomic conditions, industry dynamics and company-specific assumptions. The assessment period may be shorter for issuers with higher financial risk and greater uncertainty regarding future performance, while more stable and predictable financial profiles may support a longer forecast horizon. NCR also assesses the degree of uncertainty surrounding its base-case projections, considering factors such as earnings volatility, industry cyclicality, financial flexibility and visibility over future performance, which may affect the reliability of projected credit metrics.

49. When NCR expects a clearly identifiable and material credit event to occur beyond the base-case horizon, it may incorporate the expected impact into its analysis where relevant. Examples may include the expiry of key contractual arrangements, regulatory changes, major asset developments or other circumstances expected to materially affect the issuer's future credit profile.

50. NCR assesses an issuer's risk appetite through its financial policies and management decisions, including those related to capital structure, shareholder distributions, acquisitions and liquidity management, which can materially influence financial performance. An issuer with historically strong credit metrics may increase financial leverage through higher shareholder distributions or expansionary strategies. Ownership structure may also influence financial strategies, for example where private-equity sponsors pursue higher

leverage and more aggressive shareholder distributions. NCR's assessment of financial policy complements ratio analysis by evaluating the likelihood that future financial metrics diverge from the base case.

51. NCR bases its financial analysis on reported financial statements but may adjust the scope of consolidation where accounting treatment does not adequately reflect the issuer's economic exposure. Where material, NCR may proportionately consolidate or deconsolidate debt, earnings, cash flow and assets relating to subsidiaries, joint ventures, associates or other affiliated entities to better reflect the risks borne by the issuer. Factors considered include ownership share, governance rights, economic incentives, guarantees and support arrangements, the recourse nature of debt, dividend distribution policies, and the extent to which the issuer relies on an entity's cash flow or assets or is exposed to its liabilities, funding requirements or potential support needs. Additional adjustments and metric definitions are described in Appendix 2.

RATIO GUIDELINES

52. NCR applies its forecast credit metrics to the ratio guidelines as a reference point and applies analytical judgement to reflect uncertainty, volatility and the potential for future credit metrics to materially diverge from NCR's base case. Figure 9 outlines the primary and supplementary ratios NCR uses, together with indicative guidelines for each category. Definitions and ratio-adjustment methodologies are provided in Appendix 2.

53. NCR considers net debt to EBITDA, funds from operations (FFO) to net debt, and EBITDA net interest coverage as the primary ratios for assessing a corporate issuer's financial risk. These ratios capture key dimensions of financial risk, including financial leverage, cash flow coverage and interest-servicing capacity.

54. NCR typically applies a combination of ratios, with the relative weight varying by industry, business model and rating level. NCR may place greater emphasis on specific ratios where they are more representative of an issuer's financial risk profile. For example, for capital-intensive issuers, greater emphasis may be placed on cash flow after capital expenditure, such as free operating cash flow (FOCF) to net debt. For issuers with weaker financial profiles, free cash flow measures may carry greater weight as they provide a clearer view of internally generated cash available for debt reduction and essential funding needs. NCR may also consider additional metrics where relevant. For example, for issuers with material working capital movements, cash flow from operations (CFO) to net debt may provide additional insight into cash flow generation and debt-servicing capacity.

55. NCR places greater emphasis on projected ratios than on historical performance, reflecting the forward-looking nature of its ratings. NCR applies judgemental weighting across recent historical years, the current year and future projections, with projected periods typically receiving the highest weight. Historical years provide insight into performance stability and trend consistency, while forecast periods, particularly the next 12-36 months, serve as the primary indicators of future financial risk. The precise weighting depends on NCR's visibility over the issuer's future financial performance, the reliability of forecasts and the volatility of the operating environment.

56. The effective forecast horizon may be shorter than the base-case period where longer-term projections are subject to greater uncertainty. NCR also considers the position of the industry cycle, as cyclical conditions may influence the likelihood of outcomes materially diverging from the base case. Factors considered may include earnings volatility, cyclicality, event risk, limited disclosure and other constraints on forecast visibility.

57. The ratio guidelines serve as benchmarks rather than absolute thresholds. No single ratio determines the financial-risk assessment. NCR may assess credit metrics differently from the

indicated category where the issuer's debt-servicing capacity, cash flow stability or financial resilience differ materially from those implied by the benchmark ratios. Industry-specific ratio guidelines for real estate management companies and regulated utilities illustrate sectors where different credit metric guidance is applied, see Appendix 3 and 4.

58. While ratio analysis is anchored in NCR's base-case forecast, the assessment is not determined solely by the forecast outcome. NCR considers the reliability and predictability of projected credit metrics, including the likelihood and magnitude of outcomes diverging materially from the base case. Where forecast visibility is limited or downside risk is elevated, NCR places greater emphasis on downside resilience, historical stress performance and financial flexibility. As a result, the ratio analysis assessment may differ from that indicated by the base-case forecast alone.

59. For certain not-for-profit entities, the ratio-analysis assessment may take into account structural features that enhance debt-servicing capacity but are not adequately reflected in reported earnings, debt and cash flow metrics. Such features may include contractual protections, predictable funding arrangements and recurring support from owners or members. Where NCR concludes that the absence of a profit objective materially understates underlying debt-servicing capacity, it may assign a stronger ratio-analysis assessment than would otherwise be indicated by reported credit metrics alone. NCR may also reflect the effect of recurring support from owners or members separately in its assessment of risk appetite where such support enhances financial flexibility beyond what is reflected in projected credit metrics.

Figure 9. Indicative corporate financial ratio assessment guidelines*

	aa	a	bbb	bb+/bb	bb-/b+	b/b-
Primary ratios						
Net debt to EBITDA (x)	<1	1 – 2	2 – 3	3 – 4	4 – 5	>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). NCR-adjusted.

RISK APPETITE

60. NCR's analysis of risk appetite focuses on factors that may influence an issuer's future financial risk profile but are not fully reflected in ratio analysis. The assessment considers financial policy, management's track record, governance practices, ownership characteristics and other factors that may affect future financial risk. The objective is to assess the likelihood that future management and owner decisions result in a financial profile that differs from that implied by NCR's base-case forecast, and the extent to which management and owners have demonstrated financial discipline and support for a sustainable credit profile.

61. NCR assesses the issuer's approach to financial leverage, shareholder distributions, acquisitions, investments and other financial policy decisions. The assessment considers both stated objectives and observed behaviour, with particular emphasis on whether management's actions have been consistent with communicated financial targets and financial policies over time. NCR also considers governance practices, transparency, internal controls and decision-making processes insofar as they influence the predictability of future financial decisions and the issuer's financial risk profile.

62. NCR's assessment may reflect ownership by financial sponsors, such as private-equity firms, where projected credit metrics appear more conservative than is consistent with the likely financial policies of such owners. This reflects the typically shorter investment horizon of financial sponsors and the potential for recapitalisations, increased leverage, acquisitions, shareholder distributions or the use of hybrid instruments to enhance equity returns. NCR may also consider the sponsor's ownership share, governance influence and historical financial-policy track record. NCR considers an issuer to be financial sponsor-owned typically when sponsors control at least 40% of common equity or voting rights, although listed structures, shared-control arrangements or transitioning ownership may mitigate these considerations.

63. NCR considers whether an issuer's capital structure introduces financial risks or financial flexibility that are not fully reflected in the ratio-analysis assessment. Relevant considerations may include the maturity profile of debt relative to the nature and duration of the assets financed, material debt-maturity concentrations, refinancing risk and other liquidity-related risks. NCR also assesses the use of complex or unconventional financing structures, including layered or structurally subordinated debt, off-balance-sheet or SPV-based obligations, and derivative arrangements that create financing exposures, defer cash obligations or obscure leverage. Such structures may introduce additional refinancing, structural or cash flow risks. Conversely, readily monetisable non-core assets or other sources of balance-sheet flexibility may support the assessment.

64. NCR may reflect the availability of ongoing shareholder, owner or member support in its assessment of risk appetite where such support is expected to enhance the issuer's financial flexibility beyond what is reflected in projected credit metrics. Relevant considerations include the willingness and ability to provide support, the history of supporting the issuer, ownership horizon, governance influence and the permanence and predictability of such support. This assessment focuses on support available in the ordinary course of business and does not address extraordinary support in a stress or distress scenario, which is considered separately under support analysis.

65. NCR may also consider other financial risk factors that are not fully reflected in the preceding assessment areas. Relevant considerations may include disclosure quality, access to funding, financial reporting complexity and other factors that may affect transparency, financial flexibility or financial risk. Deficiencies in these areas may reduce transparency, increase financial risk or impair the issuer's access to capital.

66. Where ratings are based solely on publicly available information, NCR assesses risk appetite based on observable governance characteristics, historical financial decisions and demonstrated financial discipline. The absence of direct access to management may limit NCR's ability to assess financial policy, governance practices and future strategic intentions. In such cases, NCR places greater emphasis on evidence derived from publicly available information, including historical behaviour, ownership characteristics, public disclosures and financial performance.

67. Limited disclosure, reduced transparency or less formalised governance structures may constrain NCR's ability to assess risk appetite. This consideration may be particularly relevant for smaller or privately owned issuers, which often have less extensive governance, disclosure and financial-management resources than larger peers. NCR considers these characteristics when assessing financial policy, governance and other non-ratio-related financial risk factors. Evidence of strong governance, transparency and financial discipline may mitigate these considerations.

INDICATIVE CREDIT ASSESSMENT

68. The indicative credit assessment combines the business risk assessment and financial risk assessment using the matrix in Figure 4. The matrix reflects NCR's view of how business risk and financial risk interact in determining overall credit quality and serves as the starting point for the standalone credit assessment.

69. In general, stronger assessments in either dimension support a stronger indicative credit assessment, while weaker assessments constrain the outcome. The matrix places greater emphasis on exceptionally strong ('aa') or weak ('b') business-risk or financial-risk assessments, reflecting NCR's view that strengths and weaknesses at the extremes of the risk spectrum have a disproportionate influence on overall creditworthiness.

70. When selecting between two adjacent outcomes, NCR considers the relative strength of the underlying business-risk and financial-risk assessments, including where each assessment sits within its category, and whether the issuer's overall credit characteristics are more consistent with the higher or lower assessment. NCR may also consider the degree of confidence in its forward-looking assessment, the extent of rating headroom or downside pressure implied by its forecasts, and the consistency of the issuer's credit profile relative to peers. This approach helps ensure that the indicative credit assessment appropriately reflects differences in credit quality within each assessment category and avoids disproportionate changes in outcome resulting from marginal differences in the underlying assessments.

71. The indicative credit assessment serves as an intermediate step in the rating process and is not intended to capture all aspects of credit risk. Factors that are not fully reflected in the business-risk and financial-risk assessments are considered subsequently through the liquidity assessment and additional calibration, which together determine the standalone credit assessment.

ADJUSTMENT FACTORS AND SUPPORT

Figure 10. The path from Indicative Credit Assessment to Issuer Rating

72. Adjustment factors refine the indicative credit assessment by incorporating credit considerations that may not be fully reflected in the business-risk or financial-risk assessments. Following any adjustment, NCR derives the standalone credit assessment. NCR then applies any external analytical factors to determine the final issuer rating.

LIQUIDITY ANALYSIS

73. A company's liquidity position is a critical component of credit risk. Even issuers with otherwise sound financial profiles may face financial distress if liquidity is inadequate, while strong liquidity can support highly leveraged issuers through periods of stress. NCR therefore assesses liquidity on an absolute basis rather than relative to peers, using both quantitative and qualitative factors to evaluate the issuer's capacity to meet obligations as they fall due.

74. NCR typically assesses an issuer's liquidity position over a 12-month horizon, focusing on its ability to meet upcoming obligations through internally generated and readily available sources of liquidity. Where liquidity risk is elevated, refinancing requirements are imminent or financial distress appears more likely, NCR may place greater emphasis on shorter-term liquidity needs and available funding sources.

75. Liquidity sources include freely available cash, marketable securities, unrestricted access to undrawn portions of committed bank facilities with maturities beyond 12 months, to the extent such facilities remain available under relevant covenant conditions, and funds from operations under a stress scenario (typically 75% of NCR's base-case projections). Liquidity uses comprise short-term debt maturities, committed capital expenditures, expected working-capital needs and dividend payments under a stress scenario, and other material cash obligations, including contracted acquisitions, collateral requirements arising from derivative exposures, deferred purchase-price obligations and similar commitments where relevant.

76. NCR assesses liquidity as strong, adequate, weak or negative based on its quantitative and qualitative liquidity analysis. The assessment reflects the extent to which expected liquidity sources cover projected liquidity uses under a stress scenario, as well as the reliability and accessibility of those sources. Strong and adequate liquidity assessments are characterised by an issuer's ability to meet obligations through internally generated cash flow and readily available liquidity sources, while weak or negative liquidity assessments indicate greater reliance on refinancing, external funding or uncertain liquidity sources to meet upcoming obligations.

77. Where liquidity is assessed as weak or negative, the indicative credit assessment may be adjusted to reflect the extent to which liquidity risk increases the issuer's overall credit risk. The degree of adjustment depends on the severity and expected duration of any liquidity shortfall, the issuer's dependence on refinancing or external funding and the credibility and timing of remediation measures. Conversely, liquidity that materially strengthens NCR's assessment of credit quality may support a positive adjustment to the indicative credit assessment. The potential impact of liquidity assessments on the indicative credit assessment is illustrated in Figure 11.

78. In exceptional cases, liquidity risk may become the primary constraint on credit quality. This may occur when an issuer faces persistent structural liquidity weaknesses, such as ongoing dependence on short-term funding because longer-dated financing is unavailable, combined with limited access to reliable and affordable bank or market funding. In such cases, NCR may cap the standalone credit assessment or apply a larger negative liquidity adjustment than would otherwise be indicated by the liquidity assessment.

79. Liquidity is assessed using both quantitative and qualitative factors. In certain circumstances, a purely quantitative assessment may not fully reflect actual liquidity risk, particularly for small- and mid-sized issuers operating in funding markets characterised by shorter bank tenors and limited availability of long-term committed facilities. NCR therefore considers the depth and quality of an issuer's banking relationships, its demonstrated access to funding, and its ability to maintain liquidity through periods of market stress. Relevant considerations may include the credit quality and stability of lending relationships, access to multiple funding sources, historical refinancing performance, and access to debt capital markets. Strong and established funding relationships may mitigate refinancing risk for lower-rated issuers where such support has proven reliable over time. These factors may support a stronger liquidity assessment where they provide evidence that liquidity risk is lower than implied by quantitative measures alone.

Figure 11. Impact from liquidity assessment

Assessment	Description	Impact
Strong	• Liquidity uses over the coming 12 months are generally fully covered with a material surplus by available liquidity sources. • Strong access to committed bank facilities and/or established market funding, including under stressed conditions. • Well-established and diversified banking relationships with creditworthy financial institutions.	• Issuers with an indicative credit assessment of 'bb-' or below may receive a one-notch positive adjustment where strong liquidity materially strengthens NCR's assessment of the issuer's credit profile.
Adequate	• Liquidity uses over the coming 12 months are generally fully covered by available liquidity sources. • Reliable access to committed bank facilities and/or established market funding under normal and moderately stressed conditions. • Stable, ongoing banking relationships.	• No impact.
Weak	• Liquidity uses over the coming 12 months are not fully covered by available liquidity sources, or liquidity coverage relies on refinancing or other less certain sources. • Limited or vulnerable access to bank or market funding, particularly under stressed conditions. • Concentrated, untested or potentially vulnerable banking relationships.	• The indicative credit assessment may be lowered by up to three notches, depending on the severity and expected duration of the liquidity shortfall and the credibility and timing of remediation measures, if any. • Adjustments are generally larger where liquidity weaknesses are more severe, expected to persist for a prolonged period or where remediation measures are less certain.
Negative	• A material liquidity shortfall is expected over the coming 12 months. • Access to bank or market funding is impaired or highly uncertain, with few realistic refinancing alternatives. • There is a material risk that the issuer will be unable to meet obligations as they fall due without asset disposals, external support or other extraordinary measures.	• The indicative credit assessment is typically capped at 'b-'.

ADDITIONAL CALIBRATION

80. NCR may raise or lower the indicative credit assessment by one notch and, in exceptional circumstances, by two notches. Additional calibration is the final step in deriving the standalone credit assessment. It provides a holistic review of the issuer's credit profile and addresses the limitations of numerical scoring, factor weighting and aggregation. Additional calibration may result in a positive, negative or neutral adjustment.

81. NCR considers each assessment factor to represent a range of credit characteristics rather than a precise outcome. Additional calibration may therefore be applied where an issuer's overall credit profile appears stronger or weaker than implied by the indicative credit assessment. This may reflect the issuer's position within the assessment ranges or material strengths, weaknesses or circumstances that are not otherwise adequately reflected in the methodology.

82. Additional calibration may be applied in circumstances including:
    - An issuer positioned at the upper or lower end of a business-risk or financial-risk assessment range;
    - an issuer whose forecast financial metrics are close to a threshold between assessment categories;
    - situations where the combined effect of multiple strengths or weaknesses is not adequately reflected in the indicative credit assessment; or
    - material strengths, weaknesses or circumstances that are not otherwise adequately reflected in the methodology.

83. NCR incorporates environmental, social and governance (ESG) factors into the relevant business-risk, financial-risk, liquidity or support assessments where they materially affect credit quality. NCR highlights material ESG considerations in the rating rationale.

84. NCR may apply additional calibration where material ESG factors are not adequately reflected in those assessments and materially influence the issuer's forward-looking credit quality. Any such adjustment will normally be limited to one notch.

EXTERNAL ANALYSIS

85. NCR's external analysis applies the principles in NCR's *Group and Government Support Methodology* to adjust the standalone credit assessment for external support or constraints. Ongoing benefits from ownership and group membership are generally reflected in the business-risk, financial-risk and liquidity assessments. The external analysis focuses on the likelihood of extraordinary financial support or constraints in a stress scenario. Where a parent, group or government owner has stronger credit quality and a credible willingness and ability to provide timely support, the issuer rating may be raised above the standalone credit assessment. Conversely, where a parent, group or government owner has weaker credit quality than the issuer's standalone credit assessment, the issuer rating may be constrained by the credit quality of the supporting entity in accordance with the support analysis.

RATING INDIVIDUAL DEBT INSTRUMENTS

86. While the long-term issuer rating reflects NCR's assessment of an issuer's overall credit risk, issue ratings assess the credit risk of specific debt instruments or classes of debt. Issue ratings are derived from the issuer rating and reflect instrument-specific characteristics, including structural subordination, collateral, guarantees and the priority of claims within the capital structure. These characteristics may affect the position of creditors in a default or restructuring and may result in issue ratings that differ from the issuer rating.

87. In most cases, issue ratings are aligned with the issuer rating. However, ratings on individual debt instruments may be higher or lower than the issuer rating depending on their position in the capital structure and expected loss severity in a restructuring or default.

88. Instruments may be notched up when they benefit from collateral, guarantees, contractual seniority or other features that are expected to improve creditor recoveries. The presence of collateral does not, by itself, result in positive notching. Positive notching generally requires recovery prospects that are materially stronger than those of the issuer's other debt obligations.

89. Instruments may be notched down when they are contractually or structurally subordinated to other creditors or otherwise have weaker recovery prospects. Negative notching generally requires recovery prospects that are materially weaker than those of the issuer's other debt obligations.

90. NCR applies the notching guidelines in Figure 12 together with analytical judgement. Differences between debt instruments are generally less important for issuers with high credit quality because the likelihood of default is low. For issuers with weaker credit quality, the position of creditors in the capital structure becomes more important because differences in expected losses can be greater in a restructuring or default. NCR may deviate from the guidelines where structural features, guarantees, collateral arrangements or other factors are expected to materially affect losses in a restructuring or default.

91. Recovery prospects are generally weaker where creditors of the rated debt instrument would rank behind other creditors in a restructuring or default, have limited access to operating assets or cash flows, or are structurally or contractually subordinated. Recovery prospects for unsecured creditors may also be weaker where a large proportion of the issuer's assets are pledged as collateral or where other features of the capital structure reduce the value available to unsecured creditors. For real estate management companies and investment holding companies, NCR may place greater emphasis on asset encumbrance and secured loan-to-value ratios when assessing recovery prospects for unsecured creditors.

92. Hybrid and other deeply subordinated instruments are generally rated two notches below the issuer rating. The notching reflects contractual subordination and, where relevant, loss-absorbing features. NCR may apply different notching where the structural characteristics of the instrument are expected to materially affect its relative credit risk. Additional guidance on hybrid instruments is set out in Appendix 6.

93. Where an issuer rating incorporates uplift for expected group or government support, NCR assesses whether the same support is likely to extend to subordinated or hybrid instruments. Where support is expected to be directed primarily towards senior debt or critical operating liabilities, NCR may derive instrument ratings from the issuer's standalone credit assessment rather than the supported issuer rating. NCR applies this assessment in accordance with its *Group and Government Support Methodology*.

94. Issue ratings are generally not notched into the 'CCC', 'CC' or 'C' categories solely because of capital structure, recovery prospects or other instrument-specific characteristics. Ratings in these categories are typically associated with issuers whose credit risk is already consistent with distressed rating levels. As a result, recovery-based notching would not normally result in an instrument being rated in the 'CCC' category where the issuer rating is 'B-' or higher. This does not preclude lower issue ratings where an instrument contains non-payment, write-down or other loss-absorption features that materially increase its credit risk.

Figure 12. Notching guidelines

Debt type	Investment-grade issuers	Non-investment grade issuers
Senior secured debt	• Generally equal to the issuer rating; or • In exceptional cases, +1 notch where recovery prospects are exceptionally stronger than reflected in the issuer rating.	• Equal to the issuer rating; • +1 notch where recovery prospects are materially stronger; or • +2 notches where recovery prospects are exceptionally strong. • Positive notching based on recovery prospects would not normally result in an issue rating above 'BBB-'.
Senior unsecured debt (not materially contractually or structurally subordinated)	• Generally equal to the issuer rating.	• Generally equal to the issuer rating.
Senior unsecured debt* (contractually or structurally subordinated debt)	• Equal to issuer rating; or • -1 notch, depending on the materiality of prior-ranking obligations.	• Equal to issuer rating; or • Up to -2 notches, depending on the materiality of prior-ranking obligations.
Senior unsecured debt (real estate management and investment holding companies)	• Generally equal to the issuer rating where gross secured LTV is below 40%. • Typically rated one notch below the issuer rating where gross secured LTV exceeds 40%.	• Generally equal to the issuer rating where gross secured LTV is below 40%. • Typically rated one notch below the issuer rating where gross secured LTV exceeds 40%.
Hybrid or other deeply subordinated instruments	• Typically 2 notches below the issuer rating.	• Typically 2 notches below the issuer rating.
Fully guaranteed debt instruments	• Aligned with comparable obligations of the guarantor.	• Aligned with comparable obligations of the guarantor.

Note: All assessments are based on NCR's expectation of an issuer's long-term capital structure, typically over a 12–18-month horizon. *Priority-ranking debt exceeding 2.5x NCR-adjusted EBITDA or 40% of total assets is typically indicative of material subordination.

SHORT-TERM DEBT RATINGS

95. The short-term rating scale and the general mapping between long- and short-term ratings are defined in NCR's *Rating Principles methodology*. While short-term ratings are anchored in the long-term issuer rating, they place greater emphasis on the issuer's liquidity profile and short-term credit quality. Where multiple short-term rating outcomes are possible, NCR uses its forward-looking liquidity assessment to determine the appropriate rating.

APPENDIX 1: ASSIGNING THE HIGHEST AND LOWEST RATING CATEGORIES

96. The highest ('AAA' and 'AA+') and lowest ('CCC', 'CC' and 'C') rating categories require additional analytical considerations beyond those captured by the standard framework. The criteria below

supplement the indicative credit assessment and standalone credit assessment when assigning these rating categories and help ensure consistent treatment of issuers exhibiting exceptional credit strengths or weaknesses.

Figure 13. Definitions of highest ratings

Rating	Description
AAA	• 'AAA' is the highest possible rating and is reserved for issuers with extremely strong credit quality and negligible long-term sensitivity to adverse events. • Assignment of a 'AAA' rating requires characteristics that are not fully captured by the standard framework. In practice, very few, if any, corporates are expected to qualify for this rating without close alignment to a highly creditworthy government that is expected to provide timely support under all foreseeable circumstances.
AA+	• 'AA+' reflects exceptionally strong credit quality and very low long-term default risk. • This rating may be assigned to issuers with exceptionally strong business and financial characteristics, or to issuers that benefit from a very high likelihood of extraordinary support from a government or parent entity.

97. The 'CCC', 'CC' and 'C' rating categories are reserved for issuers experiencing actual or impending financial distress. For issuers in these categories, the criteria below take precedence over the standard framework. Ratings in these categories are driven primarily by NCR's assessment of liquidity pressure, refinancing risk, restructuring risk and other factors that may result in a default event. While these ratings indicate a heightened likelihood of default, they do not preclude a successful refinancing, restructuring or other development that improves credit quality.

Figure 14. Definitions of lowest ratings

Rating	Description
CCC	• 'CCC' may be assigned when NCR assesses that a corporate is distressed to the point that its capital structure appears unsustainable without corrective action. • The rating applies when there is a strong likelihood of a conventional default or distressed exchange, even if this may not occur within the next 12 months. • At the 'CCC' level, the issuer may have sufficient liquidity to meet near-term obligations, but weak operating performance, elevated leverage or limited financial flexibility raise concerns about the long-term sustainability of its financial position.
CC	• 'CC' may be assigned when NCR assesses that a default or distressed exchange is highly likely within the next 12 months.
C	• 'C' may be assigned when NCR assesses that a default or distressed exchange is imminent. • This rating may be assigned when an issuer has announced that it will default on its debt, but the default has not yet occurred, including where a distressed debt exchange has been announced but not yet completed.

APPENDIX 2: FINANCIAL DEFINITIONS AND ADJUSTMENTS

FINANCIAL ADJUSTMENTS

98. NCR's ratio analysis seeks to assess an issuer's underlying financial risk by capturing economic substance and improving comparability across peers and sectors. NCR bases its analysis on reported financial statements but applies adjustments where accounting standards, interpretations or policy choices result in differing treatment of economically similar risks. NCR applies standard adjustments consistently where relevant and may make additional adjustments in specific circumstances to ensure a fair and representative assessment. NCR may decide not to make an adjustment where its impact is immaterial, cannot be estimated reliably or is already reflected elsewhere in the analysis.

99. NCR applies four categories of financial adjustments: adjusted debt, adjusted earnings, adjusted cash flow and adjusted interest. These adjustments seek to reflect underlying economic substance, improve comparability across issuers and sectors and support the calculation and interpretation of credit ratios used in the financial risk assessment.

100. Debt adjustments include the following:

- **Surplus cash**: NCR typically deducts an issuer's full cash balance, except for amounts not freely available (e.g., cash restricted in projects, held in escrow, or in jurisdictions with transfer or exchange restrictions). NCR may also adjust for material intra-year working capital swings where temporary changes result in period-end cash balances that overstate available surplus cash. NCR may also limit the amount of cash netted against debt if it does not provide durable financial flexibility, for example where cash is expected to be distributed or drawn down in the near term.
- **Liquid financial investments**: NCR may net liquid financial investments against debt where they are readily realisable, held primarily for liquidity management purposes, and not required to support ongoing operations. NCR may apply discounts or exclude investments with significant market-value volatility, liquidity constraints or strategic characteristics.
- **Pensions**: NCR generally adds net unfunded pension and other long-term post-employment benefit obligations to debt. NCR bases the adjustment on the excess of pension obligations over pension assets and may make further adjustments where the reported pension position does not adequately reflect the issuer's underlying economic exposure.
- **Operating leases**: For issuers that do not recognise lease liabilities on the balance sheet under the applicable accounting framework, NCR capitalises material operating lease commitments as debt-like obligations. NCR generally estimates the lease liability using a present value approach based on the expected lease term and an appropriate discount rate. Where the contractual lease term is not representative of the expected economic duration of the underlying obligation, NCR may adjust the estimated lease liability accordingly.
- **Hybrid instruments** (including preferred stock and shareholder loans): NCR may assign 0%, 50% or 100% equity treatment to hybrid instruments based on the assessment of the instrument's deferability, subordination and permanence. Higher levels of equity treatment reflect the extent to which the instrument resembles permanent equity rather than conventional debt. (See Appendix 6 for further details).
- **Earn-outs and deferred consideration**: NCR may add material contingent or deferred purchase-price obligations arising from acquisitions to debt where these effectively finance the transaction. Such obligations are treated as debt-like when they represent future payments for acquired assets or businesses rather than ongoing operating expenses.
- **Receivables financing and supply-chain finance**: NCR may add factoring, securitisation, reverse factoring or similar arrangements to debt where these

arrangements effectively finance working capital or extend payment terms beyond normal trade credit. NCR may also adjust cash flow measures to reverse material distortions from the initiation, expansion or repayment of such arrangements.

- **Other debt-like obligations:** NCR may add other material obligations to debt where their economic substance resembles debt financing and they are not fully reflected in reported financial debt. Examples include asset retirement obligations, captive finance exposures, financial guarantees and other obligations that NCR considers debt-like and reasonably quantifiable.

101. Earnings adjustments may include the following:

- **Non-recurring items**: NCR may adjust for material one-off gains or losses that are not part of ongoing operations.
- **Capitalised development costs**: Where material, particularly for R&D-intensive companies, NCR may deduct capitalised development costs from earnings, as these expenditures represent a current economic cost regardless of whether they are expensed or capitalised under the applicable accounting framework.
- **Operating leases**: For issuers not reporting lease liabilities on balance sheet under the applicable accounting framework, NCR may adjust EBITDA by adding back the annual operating lease expense. An imputed interest component may be included in interest expense to better reflect the financing nature of the lease obligation.
- **Dividends received**: NCR generally adds recurring dividends received from associates and joint ventures where these represent a sustainable source of cash available to the issuer.
- **Other items**: NCR may make additional adjustments where necessary to better reflect economic substance, ongoing earnings capacity or comparability between issuers.

102. Interest adjustments include the following:

- **Net interest**: NCR generally calculates net interest as interest expense less recurring interest income from accessible cash and liquid investments.
- **Operating lease interest**: For issuers that do not recognise lease liabilities on the balance sheet under the applicable accounting framework, NCR may estimate and include the financing component of operating lease commitments based on an imputed interest.
- **Hybrid instruments**: NCR adjusts interest expense to reflect the debt-equity classification of hybrid instruments.
- **Financing fees**: NCR includes recurring financing fees related to new or refinanced debt where these are not reflected in reported interest expense.
- **Interest rate hedging**: NCR adjusts interest expense for the effects of interest rate derivatives, including pre-paid swaps, caps entered at non-market rates and option premia, where these materially affect the issuer's effective cost of debt.
- **Capitalised interest and payment-in-kind interest**: NCR includes capitalised interest, including payment-in-kind interest, in NCR's calculations of interest costs to reflect actual interest payments on debt assumed.
- **Other interest-like items**: NCR may include other payments or accretion costs with interest-like characteristics, such as factoring discounts, extended-payment charges, the interest component of asset-retirement obligations or similar items, where material.

103. Cash flow adjustments include the following:

- **Payout of provisions**: NCR adjusts for cash payments related to provisions previously recognised in earnings where these payments affect the issuer's current cash-generating capacity.
- **Non-recurring cash flows**: NCR may exclude material non-recurring cash inflows or outflows that do not reflect ongoing cash-generation capacity.

- **Other non-cash items**: NCR may adjust for other non-cash items where necessary to ensure that cash flow reflects recurring operating cash generation.
- **Cash flow classification**: NCR may reclassify items between operating, investing and financing activities where necessary to better reflect economic substance and improve comparability between issuers. Examples may include receivables financing, supplier financing arrangements, acquisition-related payments or other items where reported classification obscures the underlying nature of the cash flow.

FINANCIAL METRICS

Figure 15. Definitions of adjusted financial metrics

Key measure	Definition	Explanation
Net debt	Reported financial debt less surplus cash, plus lease liabilities, pension obligations, hybrid instruments and other debt-like adjustments.	A measure of an issuer's debt and debt-like obligations after adjusting for surplus cash.
EBITDA	Earnings before interest, taxes, depreciation and amortisation. NCR may add operating lease cost, cash dividends received from associates and joint ventures and other adjustments where relevant.	Measures underlying operating earnings before financing costs, tax and depreciation.
EBIT	Earnings before interest and tax.	Measures operating profitability after depreciation and amortisation.
Net interest	Interest expense (including non-cash interest such as payment-in-kind interest) less interest income, including adjustments.	Measures the net financing cost associated with an issuer's debt and debt-like obligations.
Funds from operations (FFO)	EBITDA less net interest and cash tax paid, including adjustments for material non-recurring cash items. Where cash flow data is unavailable, NCR may use net interest expense and current tax expense from the income statement as a proxy.	Measures recurring operating cash flow generation before working-capital movements and capital expenditure.
Cash flow from operations (CFO)	FFO adjusted for changes in working capital (including adjustments for factoring and similar financing arrangements).	Measures recurring operating cash flow after working-capital movements. Particularly relevant for issuers with volatile or rapidly growing working-capital requirements.
Free operating cash flow (FOCF)	CFO less capital expenditures.	Measures cash flow available for debt service after working-capital movements and capital expenditures. Useful measure of an issuer's capacity to reduce debt and fund maturities.
Discretionary cash flow (DCF)	FOCF less dividends and share repurchases.	Provides insight into an issuer's financial policy, shareholder distributions and capacity to reduce debt.
Gross secured debt	Reported financial debt secured by pledged collateral or otherwise benefiting from priority claims on assets.	Relevant measure of structural subordination and recovery risk for unsecured creditors.
Regulated asset base (RAB)	For utility companies, the regulatory-defined value of assets on which the company is allowed to earn a regulated return.	Key measure of leverage for regulated utility companies. Represents the asset base used to determine the allowed return and revenues from regulated activities.

Figure 16. Definitions of credit metrics

Key credit metrics*	Definition	Explanation
Net debt/EBITDA (x)	Net debt to EBITDA	Key credit metric. Measures leverage relative to operating earnings and serves as a primary indicator of debt-servicing capacity.
EBITDA/net interest (x)	Interest coverage ratio	Measures interest coverage based on operating earnings. Useful differentiator among weaker-rated issuers.
Loan to value (LTV; %)	Net debt to value of tangible assets	Key leverage measure for real estate management companies. Measures debt relative to the market value of the property portfolio.
FFO/net debt (%)	Funds from operations to net debt	Key credit metric used to assess debt-servicing capacity. Measures recurring cash flow available to repay debt over time.
CFO/net debt (%)	Cash flow from operations to net debt	Supplementary ratio. Measures operating cash flow generation after working-capital movements. Particularly relevant for issuers with volatile or growing working-capital requirements.
FOCF/net debt (%)	Free operating cash flow to net debt	Supplementary ratio. Measures cash flow available for debt service after working-capital movements and capital expenditures. Useful indicator of an issuer's capacity to reduce debt and meet future maturities.
DCF/net debt (%)	Discretionary cash flow (cash flow after dividends and share repurchases) to net debt	Supplementary ratio. Provides insight into an issuer's financial policy, shareholder distributions and capacity to reduce debt.
EBITDA/revenues (%)	EBITDA margin	A profitability measure indicative of an issuer's underlying operating earnings generation before depreciation and amortisation.
EBIT/revenues (%)	Operating profit margin	A supplementary operating profitability measure that takes the issuer's capital intensity and ongoing reinvestment requirements into account.
Return on capital employed (%)	EBIT divided by average invested capital (net debt + equity)	Measures operating profitability relative to invested capital. Useful indicator of competitive position and capital allocation efficiency.
Gross secured debt/EBITDA (x)	Gross secured debt to EBITDA	Indicator of asset encumbrance and the amount of debt ranking ahead of senior unsecured bondholders. Useful in assessing recovery prospects for senior unsecured debt instruments.
Gross secured LTV (%)	Gross secured debt to value of tangible assets	Indicator of an issuer's asset encumbrance and/or debt with higher priority than bondholders. Used in assessing recovery prospects and determining notching for senior unsecured debt instruments issued by companies primarily associated with real estate management, investment holding companies and other asset-heavy sectors.
Net debt/RAB (%)	Net debt to the regulated asset base of utility companies.	Key leverage metric for regulated utility companies. Measures debt relative to the regulatory asset base on which regulated returns are earned.

*All numbers and metrics are NCR-adjusted, where applicable.

APPENDIX 3: INDUSTRY-SPECIFIC CREDIT FACTORS: REAL ESTATE MANAGEMENT COMPANIES

104. The following industry-specific credit factors apply where sector characteristics warrant supplementary analytical considerations. These factors provide additional guidance for assessing business risk, financial risk, liquidity and other relevant rating considerations, and may modify or complement the standard framework in Figure 2 or the assessment of individual subfactors.

105. Unless otherwise specified, the general corporate methodology applies. Where industry-specific considerations differ from the general methodology, the industry-specific guidance takes precedence.

REAL ESTATE MANAGEMENT COMPANIES

106. NCR's industry factors for real estate management companies apply to companies primarily engaged in owning, managing and transacting in income-generating property portfolios. While such companies may undertake property development activities, NCR generally does not apply these criteria to companies whose primary source of earnings, cash flow or value creation is property development, regardless of whether they retain certain completed assets for investment purposes.

BUSINESS RISK ASSESSMENT

107. Unless otherwise specified, NCR applies the business-risk assessment framework described in the general corporate methodology. For real estate management companies, property portfolio characteristics are a key component of the competitive-position assessment. NCR therefore supplements the standard framework with a portfolio assessment that considers factors such as asset quality, tenant quality, occupancy, lease structure, development exposure and portfolio diversification.

Figure 17. Business risk assessment subfactors for real estate management companies

Factors		Subfactors	Impact	Selected metrics
Business risk assessment		Operating environment	40%	• Sector volatility • Market outlook • Competitive pressure • Supply-demand balance • Regulatory and tax environment
	Competitive position	Market position, size and diversification	25%	• Portfolio size • Market position • Geographic diversification • Tenant diversification • Segment and property diversification
	Competitive position	Portfolio assessment	25%	• Asset quality • Property attractiveness • Tenant quality • Lease maturity profile and rollover exposure • Occupancy rate • Rental reversion risk • Development exposure
	Competitive position	Operating efficiency	10%	• Profitability • Property management efficiency

OPERATING ENVIRONMENT

108. In its operating-environment assessment, NCR analyses the attractiveness and resilience of the property sectors and markets in which a real estate management company operates. NCR bases its assessment on factors including sector volatility, competitive pressure, supply-

demand dynamics, market outlook, economic and demographic trends, long-term tenant demand, and the regulatory and tax environment. In certain markets, regulatory frameworks may materially influence rental growth, pricing flexibility and cash flow predictability. For example, Swedish residential properties are subject to a regulated rent-setting framework that may constrain rental growth while supporting stable occupancy and demand. However, the impact of such regulation varies depending on local market conditions, including demographic trends and housing supply-demand dynamics.

109. Residential and community-service properties are generally viewed as more attractive operating environments than most commercial property segments due to stable underlying demand, relatively predictable occupancy and rental levels, and generally lower cyclical volatility. Commercial property segments, including logistics, retail and office properties, are typically more exposed to shifts in economic activity, tenant demand, supply-demand imbalances and changing occupier preferences. Risk levels vary across property types and markets depending on factors such as barriers to entry, supply-side discipline and long-term demand trends. Property development is generally associated with higher risk than property ownership and management due to construction risk, project execution risk, cost inflation and cash flow volatility, although these risks may be mitigated through pre-letting agreements, turnkey contracts and strong project management.

COMPETITIVE POSITION

MARKET POSITION, SIZE AND DIVERSIFICATION

110. NCR assesses market position, size and diversification by considering the issuer's portfolio size and market position relative to peers, as well as its geographic, tenant, sector and property diversification. Diversification can reduce reliance on individual tenants, properties, sectors and markets, although a smaller or more concentrated issuer may still achieve a strong assessment if supported by a high-quality portfolio and stable cash flow generation. Tenant concentration is assessed in the context of the issuer's overall diversification profile.

PORTFOLIO ASSESSMENT

111. The portfolio assessment evaluates the quality and attractiveness of an issuer's assets and tenant base. NCR places particular emphasis on asset quality, property attractiveness, including location, and the depth and liquidity of the relevant investment market, as these factors influence long-term asset values, financial flexibility and the portfolio's resilience through market cycles. Key considerations include asset quality, property attractiveness, tenant quality, occupancy levels, lease maturity profiles and rollover exposure, rental reversion risk and development exposure. High-quality assets in attractive locations, supported by strong demand fundamentals, creditworthy tenants, high occupancy and limited rollover and development risk, support a strong assessment.

112. NCR assesses property attractiveness relative to factors such as population growth, economic activity, transport infrastructure, commercial development and investor demand for the relevant asset class and location. The depth and liquidity of the transaction market are also important considerations, as more liquid asset classes and locations generally provide greater financial flexibility and resilience across market cycles. Asset quality includes considerations such as building condition, refurbishment requirements, regulatory compliance and expected capital expenditure needs.

113. NCR also assesses the quality of the tenant base and the characteristics of the lease portfolio, with a particular focus on the predictability of lease-related cash flows. Key considerations include tenant type, tenant credit quality, lease maturity profiles, rollover exposure, vacancy risk and contractual rent indexation. Long lease terms with creditworthy tenants generally

support resilient occupancy levels, reduce lease rollover risk and contribute to predictable cash flows through industry and economic cycles.

114. NCR may also compare portfolio yields with those of peers, relevant property segments and the broader property market. Yield differentials may provide insight into market perceptions of asset quality, liquidity, long-term attractiveness and risk that are not fully captured by issuer-specific characteristics. Higher yields may indicate weaker asset quality, lower market liquidity, greater exposure to structural demand shifts or elevated risk.

115. Development exposure can increase business risk by introducing construction, leasing, cost inflation and market timing risks that are typically more volatile than cash flows from completed and income-producing properties. NCR assesses the scale, nature and execution risk of development activity.

116. Key considerations include development assets as a share of gross assets, the proportion of speculative versus pre-let projects, project size and complexity, geographic and project concentration, funding requirements and the issuer's execution track record. NCR also considers construction risk, including contract structure, cost certainty and counterparty strength. Turnkey contracts with reputable contractors generally reduce execution and cost-overrun risk, while projects with uncertain costs or greater exposure to contractor performance risk may result in a weaker assessment. Limited development exposure, a high degree of pre-leasing and a demonstrated ability to complete projects on time and on budget support a stronger assessment. Larger development pipelines, greater reliance on speculative projects or weaker execution capabilities may result in a weaker assessment due to the potential for cost overruns, project delays, cash flow volatility and value impairment.

OPERATING EFFICIENCY

117. The operating-efficiency assessment considers an issuer's profitability, cost efficiency and ability to generate economies of scale. Larger portfolios may benefit from lower relative administrative and property-management costs, greater operating flexibility and increased purchasing power. NCR also considers the issuer's ability to manage property and administrative costs relative to peers. A high proportion of triple-net leases, where tenants bear most operating costs, maintenance, property taxes and insurance, typically supports stronger and more stable profitability.

Figure 18. Competitive position scoring guidelines for real estate management companies

Subfactors	aa	a	bbb	bb	b
Market position, company size and diversification	• Leading market position and portfolio size relative to global peers. • Exceptional geographic, sector and property diversification with limited tenant concentration.	• Leading market position and large portfolio size relative to regional peers. • Strong geographic, sector and property diversification with low tenant concentration.	• Above-average market position and portfolio size relative to regional or domestic peers. • Good geographic, sector and property diversification.	• Average market position and portfolio size relative to domestic peers. • Moderate diversification and some concentration risk.	• Weak market position and small portfolio size relative to domestic peers. • Limited diversification and material concentration risk.
Portfolio assessment	• Very attractive, high-quality portfolio comprising mainly prime assets in highly attractive and liquid locations and property markets. • Very high-quality and creditworthy tenant base. • Occupancy rate typically >95%. • Very low lease rollover and rental reversion risk (typically average remaining lease term >7 years). • Very low development exposure and execution risk (typically <5% of gross assets).	• Attractive, high-quality portfolio comprising primarily prime assets in liquid locations and markets. • High-quality and creditworthy tenant base. • Occupancy rate typically >95%. • Low lease rollover and rental reversion risk (5-7 years). • Low development exposure and execution risk (<7.5% of gross assets).	• Good portfolio quality, primarily comprising attractive assets in reasonably liquid locations and markets. • Satisfactory tenant quality. • Occupancy rate typically >90%. • Moderate lease rollover and rental reversion risk (4-5 years). • Limited development exposure with generally low execution risk (<10% of gross assets).	• Average portfolio quality, primarily comprising secondary assets or locations with more limited investor demand or market liquidity. • Below-average tenant quality. • Occupancy rate typically >85%. • Elevated lease rollover and rental reversion risk (2-4 years). • Moderate development exposure and some speculative elements (<15% of gross assets).	• Weak portfolio quality, primarily comprising secondary assets in less attractive or illiquid markets. • Weak tenant quality. • Occupancy rate typically <85%. • High lease rollover and rental reversion risk (<2 years). • Significant development exposure and/or largely speculative projects (>15% of gross assets).
Operating efficiency	• Exceptional profitability and property management efficiency (EBITDA margin above 75%). • Strong economies of scale and cost advantages.	• Strong profitability and property management efficiency (>65%). • Clear economies of scale and cost advantages.	• Good profitability and property management efficiency (>55%). • Some economies of scale and cost advantages.	• Average profitability and property management efficiency (>50%). • Limited economies of scale and cost advantages.	• Weak profitability and property management efficiency (<50%). • Weak economies of scale and elevated cost base.

FINANCIAL RISK ASSESSMENT

118. NCR's assessment of a real estate management company's financial risk profile begins with an analysis of historical and forecast NCR-adjusted credit metrics. NCR also considers the issuer's financial policy, risk appetite, covenant-related risks, ownership commitment, liquidity and refinancing risk. In addition, NCR assesses balance-sheet quality and financial flexibility, including the use of hybrid capital and derivative instruments, the level of asset encumbrance and the proportion of unencumbered assets.

RATIO GUIDELINES

119. NCR applies a different set of financial ratios to real estate management companies than to industrial corporates, reflecting the long-lived nature of real estate assets, the contractual characteristics of rental income and the value of the underlying property assets. The relative predictability of property cash flows and asset values generally supports greater debt

capacity and funding access than is typical for industrial companies, resulting in different leverage and coverage expectations.

120. NCR's assessment of a real estate management company's financial risk profile typically focuses on four ratios: net loan to value, EBITDA to net interest, net debt to EBITDA and FFO to net debt. Together, these metrics provide insight into leverage, asset value protection, debt-servicing capacity and cash flow generation. The ratio guidelines in Figure 19 are indicative rather than absolute. NCR may also consider potential volatility in credit metrics arising from funding and interest-rate risk management decisions, including hedging, refinancing concentrations and other capital-structure characteristics.

121. In addition to the financial adjustments applied to general corporates (see §100-103), NCR typically adjusts real estate company credit metrics for capitalised interest and prepaid interest-rate hedges entered into at non-market terms. NCR may also apply pro rata consolidation of joint ventures and associated companies where necessary to provide a more representative assessment of leverage, cash flow generation and asset coverage. Definitions of credit metrics and financial adjustments are set out in Appendix 2.

Figure 19. 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 – 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	5 – 7	7 – 9	9 – 13	>13
FFO to net debt (%)	>20	20 – 15	15 – 9	9 – 7	7 – 5	<5

RISK APPETITE

122. In assessing the risk appetite of real estate management companies, NCR places particular emphasis on refinancing risk, liquidity management, capital structure, hedging practices and financial flexibility, reflecting the sector's reliance on debt funding and access to capital markets. NCR assesses the extent to which these factors support resilience to changes in interest rates, funding conditions and property market cycles. NCR also considers financial policy, including leverage targets, acquisition appetite, dividend policy, covenant headroom and the issuer's track record of balancing growth ambitions with financial flexibility.

LIQUIDITY ANALYSIS

123. Given the capital-intensive nature of the real estate sector, NCR places particular emphasis on refinancing risk and financial flexibility when assessing liquidity. Real estate management companies typically rely on continued access to external funding to refinance maturing debt, making funding access and capital-market conditions important considerations throughout the credit cycle. While NCR generally expects investment-grade issuers to maintain sufficient liquidity to meet upcoming debt maturities and other committed obligations, the assessment also considers demonstrated access to funding, the strength and stability of banking relationships, the availability of unencumbered assets, covenant headroom and other sources of financial flexibility.

APPENDIX 4: INDUSTRY-SPECIFIC CREDIT FACTORS: REGULATED UTILITY COMPANIES

REGULATED UTILITY COMPANIES

124. NCR's industry-specific credit factors for regulated utilities apply primarily to companies that provide essential infrastructure services under regulatory oversight or stable monopoly-like frameworks. These companies typically benefit from predictable cash flows, limited competitive pressure and a high degree of revenue visibility, although their credit profiles are heavily influenced by the quality, stability and predictability of the applicable regulatory framework.

125. These industry-specific credit factors do not apply to companies that derive a majority of their revenues or EBITDA from electricity or other energy-generation activities. Such companies are generally more exposed to commodity-price risk, wholesale energy-price volatility and market-based competition than regulated utilities and are therefore assessed under NCR's general corporate methodology.

126. Regulated utilities typically operate under tariff frameworks designed to allow recovery of efficient operating costs, depreciation and a reasonable return on invested capital. Their credit profiles are therefore strongly influenced by how regulation determines allowed revenues, cost recovery, permitted returns and cash flow predictability.

127. NCR applies the same analytical considerations to entities that are not formally regulated but operate natural monopolies under stable and transparent self-regulatory regimes that effectively mimic regulated conditions, such as district heating networks in Sweden. In these cases, NCR assesses the companies' track record of consistently setting prices that recover costs and generate a reasonable return on invested capital, while maintaining customer acceptance and avoiding regulatory intervention. Tariff flexibility may, however, be constrained by customers' ability to switch to alternative heating sources and by the risk that materially higher prices could trigger regulatory intervention, which can weaken their competitive position relative to fully regulated utilities.

128. NCR distinguishes highly regulated utilities as entities where a substantial majority, typically around two-thirds or more, of revenues, EBITDA or operating cash flow is derived from regulated or naturally monopolistic activities. Examples include electricity, gas and water transmission or distribution businesses operating under regulated or monopoly-like frameworks. A higher proportion of such activities is viewed favourably because these operations typically benefit from more predictable revenues, cash flows and returns than non-regulated activities. Conversely, the nature, scale and risk profile of any non-regulated activities influence the overall business-risk assessment.

BUSINESS RISK ASSESSMENT

129. The business-risk assessment reflects NCR's view of the issuer's operating environment and competitive position. NCR places particular emphasis on the operating environment, reflecting the extent to which regulation limits competitive pressures and supports predictable cash flows. Competitive position is assessed based on size, diversification, asset quality, operational quality and operating efficiency. NCR places less emphasis on market-based competitive advantages, as regulated utilities typically face limited direct competition.

130. NCR's business-risk assessment of regulated utilities is forward-looking and incorporates historical performance together with expectations for regulatory developments, future investment requirements, regulated asset base (RAB) growth and the issuer's ability to operate efficiently within the regulatory framework. The assessment comprises four subfactors, each incorporating multiple sector-specific considerations.

Figure 20. Business risk assessment subfactors for regulated utilities

Factors		Subfactors	Impact	Selected metrics
Business risk assessment		Operating environment	50%	• Strength, predictability and transparency of the regulatory framework, including cost recovery and allowed returns. • Regulatory track record. • Share of revenues, EBITDA or operating cash flows derived from regulated or naturally monopolistic activities. • Exposure to political or regulatory intervention risk. • Country risk.
	Competitive position	Market position, size and diversification	25%	• Scale. • Geographic diversification. • Customer-base attractiveness, diversification and stability. • Asset diversification.
		Operating efficiency	25%	• Cost efficiency relative to peers and regulatory benchmarks. • Compliance and performance compared to regulatory expectations. • Asset quality, condition, and reliability. • Ability to achieve returns consistent with or above regulatory allowances.

OPERATING ENVIRONMENT

131. NCR analyses the extent to which a utility operates under a regulatory framework that provides transparent, predictable and stable mechanisms for the recovery of efficient operating, capital and maintenance costs, together with a reasonable return on the regulated asset base or capital base. Such frameworks generally support stable revenues, earnings and cash flows across economic cycles and periods of stress, which may support higher financial leverage than would typically be sustainable for non-regulated companies. At the same time, regulation often constrains profitability and strategic flexibility, as allowed returns and tariff structures are determined by the regulatory framework. NCR also considers the broader institutional and legal environment in which the framework operates, including country risk and the independence, credibility and stability of regulatory institutions.

132. A strong operating environment is characterised by regulatory arrangements that provide transparent, predictable and consistent cost recovery and reasonable returns on invested capital. NCR views an established track record of stable cash flows and limited exposure to political or regulatory intervention favourably, particularly during periods of economic stress or heightened public pressure. Credit-supportive frameworks commonly include mechanisms that mitigate regulatory lag and support cash flow stability during major investment programmes, reducing the risk of material timing mismatches between investment spending and cost recovery.

133. Less credit-supportive regulatory frameworks typically exhibit one or more characteristics such as incomplete or delayed cost recovery, greater exposure to political or regulatory intervention in tariff-setting decisions, longer regulatory lags without effective adjustment mechanisms, or increased uncertainty regarding the recognition and recovery of investments. Such frameworks may result in less predictable cash flows, particularly where utilities are required to fund investments or absorb costs for extended periods before receiving compensation through customer tariffs. As a result, issuers operating under these frameworks may exhibit weaker cash flow resilience, higher financing requirements and greater refinancing risk than utilities benefiting from transparent and predictable cost-recovery mechanisms.

Figure 21. Operating environment scoring guidance for regulated utility activities

	aa	a	bbb	bb	b
Operating environment	• Highly transparent, stable and predictable regulatory framework. • Timely and reliable recovery of efficient operating and investment costs, with limited regulatory lag. • Regulatory framework supports stable and predictable earning of a reasonable return on capital. • Independent and highly credible regulatory institutions with very limited risk of political or regulatory intervention.	• Strong and predictable regulatory framework. • Generally reliable recovery of efficient operating and investment costs. • Regulatory framework generally supports earning a reasonable return on capital. • Strong regulatory governance and low risk of political or regulatory intervention.	• Adequate regulatory framework that generally supports stable earnings and cash flows. • Some uncertainty regarding cost recovery, investment recovery or regulatory lag. • Reasonable returns are generally achievable but subject to greater variability or uncertainty. • Moderate political or regulatory intervention risk.	• Less predictable regulatory framework. • Meaningful uncertainty regarding cost recovery, investment recovery or tariff outcomes. • Ability to earn reasonable returns may be constrained by regulatory uncertainty or intervention. • Elevated risk of political or regulatory intervention.	• Weak or unpredictable regulatory framework. • Material uncertainty regarding cost recovery and investment recovery. • Limited visibility regarding the ability to earn reasonable returns on capital. • High risk of political or regulatory intervention.

COMPETITIVE POSITION

MARKET POSITION, COMPANY SIZE AND DIVERSIFICATION

134. Regulated and semi-regulated utilities are generally limited to operating within the geographic areas served by their networks and defined by their operating licences. As a result, competitive position depends less on traditional measures such as market share and more on structural characteristics including scale, customer-base quality, diversification and stability, asset diversification, and exposure to favourable economic and demographic trends within the service area. Stronger economic and population growth typically support infrastructure investment and growth in the RAB, which under most regulatory frameworks contributes to higher future revenues and cash flows.

135. In assessing company size and diversification, NCR considers scale important because larger operations can spread fixed costs across a broader customer base and benefit from greater operating flexibility. Scale may result from serving a larger service territory or a more densely populated area. NCR also evaluates the quality, diversification and stability of the customer base. Strong economic and demographic fundamentals may support long-term infrastructure investment and RAB growth, while a broad mix of residential and small commercial customers can reduce customer-concentration risk and political sensitivity to tariff adjustments. Conversely, reliance on a limited number of industrial customers may increase exposure to local economic cycles, customer-concentration risk and regulatory scrutiny. Geographic diversification across multiple service areas may further reduce exposure to local economic and demographic developments.

Figure 22. Market position, size and diversification scoring guidelines for regulated utilities

Subfactors	aa	a	bbb	bb	b
Scale	• Very large scale that provides significant economies of scale and supports operational resilience through cycles and external events.	• Large scale that provides meaningful economies of scale and supports operational stability under most conditions.	• Moderate scale with some economies of scale and adequate ability to absorb external changes and adverse events.	• Small scale that offers limited economies of scale and heightened sensitivity to operational or external disruptions.	• Typically not applicable to regulated utilities but may be assigned in exceptional circumstances.
Customer base	• Broad and diversified customer base in attractive service areas with strong economic and demographic fundamentals.	• Diversified customer base in service areas with favourable economic and demographic fundamentals.	• Stable customer base with some concentration and average economic and demographic fundamentals.	• Concentrated customer base and/or exposure to weaker economic or demographic fundamentals.	• Typically not applicable to regulated utilities but may be assigned in exceptional circumstances.
Diversification	• Strong diversification across service areas, regulated activities, major assets and customer groups.	• Good diversification across service areas, regulated activities, major assets or customer groups.	• Moderate diversification with limited concentration risk.	• Limited diversification and elevated concentration risk.	• Typically not applicable to regulated utilities but may be assigned in exceptional circumstances.

OPERATING EFFICIENCY

136. NCR assesses operating efficiency relative to comparable regulated peers and the expectations of the regulatory framework. Key considerations include cost efficiency, operational performance, compliance with regulatory and licence requirements, and the quality, condition and reliability of the asset base. Well-maintained assets support uninterrupted service, reduce operational risk and limit unplanned maintenance and capital expenditure requirements. Failure to meet operational, reliability, safety, environmental or other regulatory standards may result in penalties, revenue adjustments or remedial obligations.

137. NCR evaluates a utility's ability to earn returns consistent with or above regulatory allowances. Realised returns may differ from regulatory assumptions due to operating efficiency, performance against regulatory targets, capital-allocation decisions and the timing of cost recovery. Depending on the regulatory regime, efficient operators may benefit from performance incentives, efficiency gains or other regulatory mechanisms, while weaker operators may earn returns below regulatory allowances. NCR also considers the utility's ability to execute investment programmes efficiently, as delays, cost overruns or inefficient capital deployment may result in penalties, reduced cost recovery or lower regulatory returns.

Figure 23. Operating efficiency position scoring guidelines for regulated utilities

Subfactors	aa	a	bbb	bb	b
Operating efficiency	• Cost efficiency at or above peers and regulatory benchmarks, with efficient investment delivery and limited exposure to penalties or disallowances.	• Cost efficiency broadly in line with peers and regulatory expectations, with generally efficient investment delivery and limited performance variability.	• Cost efficiency somewhat below peers or regulatory benchmarks, or some delays or cost variability in investment delivery.	• Cost efficiency materially below peers or benchmarks, with recurring delays, cost overruns or increased exposure to penalties and disallowances.	• Typically not applicable to regulated utilities but may be assigned in exceptional circumstances.
Operational compliance and service reliability	• Strong record of meeting or exceeding regulatory performance standards, including safety, reliability and environmental requirements.	• Generally meets regulatory performance standards, with limited and manageable deviations.	• Occasional or moderate deviations from regulatory performance standards, resulting in limited corrective measures or scrutiny.	• Frequent or material regulatory-performance deficiencies, resulting in recurring penalties, corrective measures or heightened regulatory oversight.	• Typically not applicable to regulated utilities but may be assigned in exceptional circumstances.
Asset quality	• Well-invested, maintained and resilient asset base with limited structural vulnerabilities and predictable long-term investment requirements.	• Generally robust asset base with manageable investment requirements and limited structural weaknesses.	• Asset base with some emerging vulnerabilities or elevated investment needs.	• Asset base requiring significant investment to maintain performance, regulatory compliance or service reliability.	• Typically not applicable to regulated utilities but may be assigned in exceptional circumstances.
Profitability	• Realised and projected returns consistently at or modestly above allowed levels, supported by strong operating performance and stable cost recovery.	• Realised and projected returns broadly aligned with allowed levels, with limited performance-related variability.	• Realised and projected returns somewhat below allowed levels due to operating performance, cost pressures or timing effects in cost recovery.	• Realised returns materially below allowed levels due to sustained performance weaknesses, cost pressures or timing mismatches in cost recovery.	• Realised returns persistently and materially below allowed levels due to performance weaknesses, cost under-recovery or sustained timing mismatches in cost recovery.

FINANCIAL RISK ASSESSMENT

138. Given the capital-intensive nature of regulated utilities and their reliance on long-term investment programmes, NCR places particular emphasis on the sustainability of funding and regulatory cost-recovery mechanisms when assessing financial risk and risk appetite. Key considerations include the utility's ability to fund investment requirements while maintaining stable credit metrics, the predictability of cost recovery, and the potential for regulatory lag or other timing mismatches between investment spending and revenue recovery. These factors influence the stability of the utility's financial profile over time.

RATIO ANALYSIS

139. Given the generally defensive characteristics of regulated and naturally monopolistic utilities, NCR may apply financial ratio benchmarks that differ from those used for industrial corporates. The stability and predictability of cash flows, together with long-lived asset bases and transparent cost-recovery mechanisms, generally support higher leverage for a given level of credit risk than would be appropriate for most industrial companies. Consequently, NCR places greater emphasis on cash flow stability, debt-servicing capacity and funding sustainability than on leverage alone.

140. Utilities with very low business-risk exposure, typically those with a business-risk assessment of 'a+' or above, benefit from highly predictable cash flows and strong cost-recovery characteristics. Their financial-risk assessment is therefore performed using the regulated-utility ratio benchmarks in Figure 24.

141. Utilities with a business-risk assessment in the 'a' to 'bbb-' range typically benefit from predictable cash flows and some degree of cost recovery, but do not exhibit the same stability and visibility as utilities with very low business-risk exposure. Their financial-risk assessment may therefore be based on ratio benchmarks that are less stringent than the general corporate guidelines in Figure 9, but more conservative than the regulated-utility benchmarks in Figure 24. Utilities with stronger business-risk assessments are typically assessed closer to the benchmarks in Figure 24, while utilities with weaker business-risk assessments are typically assessed closer to the benchmarks in Figure 9.

142. NCR applies the standard corporate ratio guidelines where regulation materially limits or creates uncertainty regarding cost recovery or the utility's ability to earn a reasonable return on invested capital. This generally includes utilities with a business-risk assessment of 'bb+' or below.

143. NCR does not apply these benchmark tables mechanically. Where a utility's business-risk assessment is near the boundary between categories, NCR may exercise analytical judgement based on the stability and predictability of cash flows, the strength of cost-recovery protections and the extent to which the utility's credit characteristics resemble those of regulated utilities or general corporates.

144. NCR's assessment of financial risk typically focuses on net debt to EBITDA, EBITDA to net interest, and FFO to net debt, as these metrics provide insight into debt-servicing capacity and underlying cash flow generation. When relevant, NCR may also evaluate supplementary ratios that place greater emphasis on cash flow after working capital movements, capital expenditures and dividends, to distinguish the extent to which cash flow uses affect creditors. NCR also uses net debt to RAB as a supplementary measure of leverage relative to a utility's regulatory asset base. The metric guidelines in Figure 24 should be viewed as indicative ranges rather than absolute thresholds. For further definitions and explanations of credit ratios and adjustments, see Appendix 2.

Figure 24. Regulated utilities (low volatility) financial ratio scoring guidelines

	aa	a	bbb	bb+/bb	bb-/b+	b/b-
Primary ratios						
Net debt to EBITDA (x)	<2.5	2.5 – 3.5	3.5 – 4.5	4.5 – 5.5	5.5 – 6.5	>6.5
EBITDA to net interest (x)	>12	12 – 7	7 – 4	4 – 2.5	2.5 –1.2	<1.2
FFO to net debt (%)	>35	35 – 25	25 – 15	15 – 10	10 – 7	<7
Supplementary ratios						
CFO to net debt (%)	>30	30 – 20	20 – 12	12 – 8	8 – 5	<5
FOCF to net debt (%)	>20	20 – 12	12 – 5	5 – 3	3 – (5)	<(5)
DCF to net debt (%)	>11	11 – 7	7 – 3	3 – 0	0 – (10)	<(10)
Net debt to RAB (%)	<50	50 – 60	60 – 70	70 – 75	75 – 80	>80

CFO (cash flow from operations); FOCF (free operating cash flow); DCF (discretionary cash flow); RAB (regulatory asset base).

APPENDIX 5: ESG FACTORS

145. NCR incorporates ESG factors into its credit analysis where they are material and relevant to an issuer's creditworthiness. ESG factors may influence ratings, outlooks and rating headroom through their actual or potential impact on an issuer's business profile, financial profile or other aspects of creditworthiness, including any component of NCR's rating methodology. Where material ESG considerations are not adequately captured by the standard criteria, NCR may make additional adjustments to reflect their impact on the credit assessment. NCR assesses ESG factors holistically and considers both public disclosures and discussions with management regarding ESG-related risks and opportunities.

146. NCR does not analyse ESG factors separately from other non-financial credit considerations. Instead, ESG factors are incorporated into the relevant components of the rating methodology where they materially influence creditworthiness. To improve transparency, NCR identifies the most relevant ESG factors and their impact on the rating analysis in its full rating reports.

147. Where relevant, NCR includes an ESG impact table in its rating reports, identifying the affected areas of assessment and the relative impact on relevant criteria factors (see Figure 25). ESG impact levels inform the assessment of criteria factors and subfactors but do not constitute separate scores or rating notches. Instead, they indicate whether ESG factors have a positive or negative influence on the credit assessment.

Figure 25. ESG factor impact levels for subfactor scoring and indicative credit assessment

Significant positive impact	Moderate positive impact	Neutral impact	Moderate negative impact	Significant negative impact
++	+	0	-	--

APPENDIX 6: CORPORATE HYBRID SECURITIES

148. NCR may assign equity treatment to corporate hybrid securities that exhibit sufficient equity-like characteristics. Corporate hybrid securities include hybrid debt instruments, preferred shares and other subordinated capital instruments that combine debt-like and equity-like characteristics. NCR assesses each instrument individually, considering its position in the capital structure, ability to absorb losses and support provided to senior creditors. Equity treatment reflects NCR's assessment of an instrument's subordination, permanence and deferability.

149. Corporate hybrid securities are generally rated below the issuer rating to reflect their subordinated position in the capital structure and higher expected loss severity in a default scenario. The degree of notching depends on the issuer's credit quality, the characteristics of the instrument and NCR's assessment of recovery prospects.

150. NCR may assign 0%, 50% or 100% equity treatment to a corporate hybrid instrument when calculating adjusted credit metrics. The assigned level reflects NCR's assessment of the instrument's subordination, permanence and deferability, and the extent to which it provides support to senior creditors. Equity treatment affects debt adjustments, financing costs and the credit metrics used in the financial-risk assessment.

151. NCR assesses hybrid securities based on three principal considerations:
    1. Subordination;
    2. Permanence; and
    3. Deferability.

The level of equity treatment reflects NCR's assessment of the extent to which an instrument exhibits these characteristics.

152. **Subordination**. Like common equity, corporate hybrid securities are generally expected to rank below senior debt and non-deferrable subordinated obligations. Such subordination provides an additional buffer for senior creditors and supports the instrument's equity-like characteristics.

153. **Permanence**. Hybrid securities are generally expected to be perpetual or long-dated. NCR assesses permanence both at the instrument level and in the context of the issuer's broader commitment to maintaining hybrid capital as a permanent component of its capital structure. NCR considers call options, step-ups, redemption features, replacement commitments and other factors that may affect the permanence of hybrid capital. NCR also considers the issuer's stated intention and historical practice regarding the replacement of hybrid instruments with securities of similar or stronger equity content.

154. NCR generally assigns equity treatment up to the first call date, provided the original maturity is at least 25 years and the first coupon step-up occurs no earlier than five years after the first call date. Equity treatment may continue beyond the first call date where NCR considers the instrument to retain sufficient permanence. In this assessment, NCR considers the instrument's remaining expected life, redemption incentives, replacement expectations and the issuer's commitment to maintaining hybrid capital as a recurring and permanent component of its capital structure. A shorter remaining expected life or stronger incentives for redemption may weaken permanence and result in a lower level of equity treatment.

155. **Deferability**. NCR assesses whether coupons or dividends may be deferred without triggering default and without a contractual time limit on such deferral. Deferred payments may be cumulative or non-cumulative. Features that create material incentives to avoid deferral, including penalty interest, escalating distributions or restrictions on payments to junior securities, may weaken an instrument's equity-like characteristics and reduce the

level of equity treatment assigned. NCR may reassess the credit implications of a hybrid instrument if coupon or dividend deferrals indicate liquidity pressure or broader credit deterioration.

156. The first call date does not, in itself, determine the continued eligibility of a corporate hybrid security for equity treatment. Where an issuer does not redeem a hybrid security at the first call date, NCR reassesses the instrument's equity-like characteristics, including whether hybrid capital is expected to remain a recurring and permanent component of the issuer's capital structure and whether the instrument continues to exhibit sufficient permanence.

157. The non-replacement, redemption or modification of a corporate hybrid security does not automatically result in the loss of equity treatment for other outstanding corporate hybrid instruments. However, NCR may reassess the equity treatment of outstanding or future corporate hybrid securities where such actions weaken NCR's view that hybrid capital forms a recurring and permanent component of the issuer's capital structure. Relevant considerations include the issuer's replacement practices, stated capital policy, financial profile and historical treatment of hybrid capital. NCR may also conclude that replacement is unnecessary where the issuer's creditworthiness has improved since issuance and reduced reliance on hybrid capital does not weaken its overall financial profile. NCR assesses such situations on a case-by-case basis.

158. The deferral of coupons or dividends does not in itself result in the loss of equity treatment. However, prolonged or repeated deferrals may indicate financial or liquidity stress and weaken the instrument's equity-like characteristics, leading NCR to reassess the issuer's credit profile and the appropriateness of the assigned equity treatment.

159. A rating committee determines the final level of equity treatment based on the instrument's subordination, permanence and deferability, and its contribution to supporting senior creditors. NCR may reduce the level of equity treatment where hybrid securities represent a significant proportion of total capital or where other characteristics weaken their effective equity-like behaviour. NCR may revise the assigned level of equity treatment over time if changes in an instrument's terms, remaining permanence, issuer behaviour or capital strategy alter its equity-like characteristics.

160. NCR generally assigns 100% equity treatment only to instruments that exhibit strong equity-like characteristics across the dimensions of subordination, permanence and deferability, with limited incentives for redemption and substantial flexibility to defer payments. NCR generally assigns 50% equity treatment to instruments that exhibit meaningful equity-like characteristics but include features that reduce permanence, deferability or loss-absorption capacity relative to common equity. Such features may include cumulative distributions, coupon step-ups, redemption incentives or a finite expected life.

Figure 26. Equity treatment of hybrid securities

Equity treatment	Typical characteristics
100%	• Instrument exhibits strong equity-like characteristics, including substantial subordination, permanence and deferability, with limited redemption incentives and substantial flexibility to absorb losses and conserve cash.
50%	• Instrument exhibits meaningful equity-like characteristics, but features such as cumulative distributions, coupon step-ups, redemption incentives or a finite expected life reduce its equity-like characteristics relative to common equity.
0%	• Instrument does not exhibit sufficient subordination, permanence or deferability to justify equity treatment.

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