



TRANSPARENCY REPORT 2018

Scope Ratings GmbH





Introduction

This report is published by Scope Ratings GmbH (further referred to as “Scope”) in accordance with Article 12 and Part III, Section E of Annex I of the Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended by Regulation (EU) No 513/2011 and Regulation (EU) No 462/2013 (hereinafter referred to as the “EU Regulation”) and includes information for the period from January 1, 2018 through December 31, 2018 (hereinafter referred to as the “Reporting Period”) on Scope’s:

- I. Legal structure and ownership**
- II. Internal control mechanisms ensuring quality of Scope’s credit rating activities**
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I. Legal structure and ownership

Scope Ratings AG was converted into Scope Ratings GmbH on 24. January 2018. Scope Ratings GmbH is registered at the Commercial Register Charlottenburg (Berlin), HRB 192993 B. It is fully owned by Scope SE & Co. KGaA, a company registered at the Commercial Register Charlottenburg (Berlin), HRB 182023 B. Scope Ratings GmbH (further referred to as “Scope” or “Scope Ratings”) is registered as a credit rating agency in accordance with the EU Regulation since 2012.

Scope has its head offices at Lennéstraße 5, 10785, Berlin, Germany and maintains branch offices in Frankfurt, Germany, London, UK, Paris, France, Milan, Italy and Oslo, Norway.

II. Internal control mechanisms ensuring quality of Scope’s credit rating activities

Scope’s internal control mechanisms:

Governance

Scope’s governance structures are set up to meet the requirements of the EU Regulation and other applicable regional and national laws and to provide for appropriate management oversight over Scope’s international credit rating activities. Scope has established and maintains supervisory bodies in accordance with the EU Regulation. This includes oversight by independent non-executive directors (“INEDs”), who serve on Scope’s administrative board, or prior to the conversion of Scope on 24. January 2018 on the supervisory board of Scope Ratings AG.

The Administrative Board

From January 01 until January 24, 2018, the supervisory board of former Scope Ratings AG was composed of three members who were not involved in the day-to-day management of Scope or in Scope’s credit rating activities, including two INEDs. The supervisory board oversaw the activities of the executive board of Scope Ratings AG and was responsible for appointing its members. .

Following the conversion of Scope Ratings AG into Scope Ratings GmbH, starting on 25 January 2018, the administrative board of Scope Ratings GmbH was comprised of Scope’s two INEDs.

The INEDs

The INEDs were specifically responsible for monitoring the:

- Development of the credit rating policy and credit rating methodologies;
- Effectiveness of the internal quality control system;
- Effectiveness of measures and procedures to identify, eliminate, manage and/or disclose conflicts of interest; and
- Compliance and governance processes

The independent review function

The independent review function (hereinafter referred to as “IRF”) is a key part of Scope’s internal control framework. IRF operates independently from both the analytic business lines and the business development departments. It is responsible for approving and periodically reviewing methodologies, models and key rating assumptions that are used in the credit rating process. IRF further independently examines, challenges and approves Scope’s new credit rating methodologies and changes thereto. It monitors that these methodologies are rigorous, systematic and continuous, and that they are validated based on historical experience, including back-testing and other validation techniques. IRF may attend but has no vote in credit rating committees. It reports to the CEO of Scope and to the INEDs.

The compliance function

Scope's Compliance function operates independently from the analytic business lines and the business development departments. The Compliance function oversees adherence to regulatory requirements in each jurisdiction in which Scope operates. Its role is to maintain the relationship with regulatory authorities, to advise and provide training to Scope's employees and managers on regulatory requirements, Scope's code(s) of conduct, its policies and internal procedures, and to assess and monitor adherence to those rules. This includes responsibility for conducting compliance investigations in cases of a potential breach of the EU Regulation or other applicable laws as well as Scope's codes, policies or procedures. The Head of Compliance for Scope reports directly to the CEO of Scope and to the INED's.

The internal audit function

The internal audit function of Scope's parent, Scope SE & Co. KGaA, was established in December 2018. The Internal Audit function reports directly to the CFO of Scope SE & Co. KGaA and operates independently from the business lines and the business development departments of Scope Group. Internal Audit function is responsible for conducting regular reviews of the business activities as well as operational processes and internal controls in each jurisdiction in which Scope SE & Co. KGaA and its affiliates operate. Audit reports are provided to the board of Scope SE & Co. KGaA.

The credit rating process

The credit rating process is designed to protect the independence, objectivity and integrity of Scope's credit rating decisions. Credit rating actions are not based on the opinion of a single (lead) analyst but are determined by a credit rating committee. The process to conduct a credit rating committee follows the principles set out in, amongst others, Scope's code of business conduct, Scope's rating governance policy, Scope's confidential information management policy. Further details are governed by internal procedures that provide for minimum process, approval and documentation requirements that Scope's analytic employees have to adhere to in conducting credit rating activities.

The credit rating methodology process

Scope's credit rating methodologies are publicly available on Scope's website and govern the analytical components that are applied in Scope's credit rating activities. For the development of new credit rating methodologies, or for adjustments to existing credit rating methodologies, the analytical groups are in charge of preparing a proposal to Scope's credit rating methodology approval committee, which includes representatives of the lines of business as well as a member of Scope's Independent Review Function. IRF has final approval authority on Scope's credit rating methodologies.

Scope's public codes and policies

Scope's public code of ethics, the code of business conduct and several policies set out the principles that all Scope employees are bound to adhere to. These codes and policies are updated from time to time to reflect changes in applicable rules and regulations as well as guidance of the European Securities and Markets Authority (hereinafter referred to as "ESMA"). All Scope employees are required to confirm compliance with these codes and Scope's policies annually. In addition, internal procedures support and foster the process steps that protect the quality, independence and integrity of the credit rating process.

Scope's conflicts management principles

Scope is operationally, functionally and physically separated from non-credit rating activities that are conducted in other entities of Scope group. Further, Scope's public code(s) and Scope's policies set out the key principles to prevent, identify, manage and where relevant disclose potential or actual conflicts of interests. This includes restrictions on employees on the handling of confidential information under Scope's confidential information management policy. It further includes specific rules with regard to personal interests of employees, such as personal ownership of and trading in financial instruments, receipt of gifts or outside business activities under Scope's personal account dealings policy, outside business interests policy, and Scope's gifts, entertainment and anti-bribery policy. To prevent potential conflicts with Scope's business interests, Scope's business development and sales personnel is operationally, functionally and physically segregated from Scope's analytical units and may not participate in credit rating activities as set out in Scope's commercial separation policy. At the

same time, Scope's analytical personnel is not permitted to participate in the discussion of commercial matters, including fees, with issuers or their agents.

Group risk reporting and risk management

Group wide risk reporting and risk management is overseen by the supervisory board of Scope's parent company, Scope SE & Co. KGaA. The supervisory board of Scope SE & Co. KGaA is composed of three members and discusses potential financial, strategic, legal, regulatory or operational risks in order to assess the probability of occurrence and the effectiveness of existing protections that are in place at Scope. In 2018, Scope SE & Co. KGaA established an internal function to administer the risk assessment and risk management process and to support the process of Scope Group's Risk Committee, which was established in 2018 to prepare a standardized risk reporting for consideration at Scope Group's supervisory board.

III. Allocation of personnel and senior management

The below information refers to allocation of staff to credit rating activities, methodology or model appraisal and senior management as well as on the allocation of staff to credit rating activities in the different asset classes for Scope.¹

Allocation	Number of staff
New Credit Ratings and Credit Rating Reviews	53
Methodology Appraisal	2
Senior Management/Board	1
Total	56

Asset Class	Number of staff
Corporates	15
Structured Finance incl. Covered Bonds	20
Project Finance	2
Sovereign/Public Finance	7
Financial Institutions	9
Total	53

¹ This includes all full-time or part-time employees of Scope. Part time employees are counted as 0.5 FTE. Interns, working students ('Werkstudenten') are also included. Data provided relate to the status as per 31.12.2018.

IV. Members of Management

From January 01, 2018 until January 24, 2018, the Executive Board of Scope Ratings AG was composed of Torsten Hinrichs (CEO) and Dr. Stefan Bund. The Supervisory Board of Scope Ratings AG was composed of Dr. Martha Boeckenfeld (chair), Mr. Ian Bell (INED) and Mr. Benoît Claire (INED).

As per 24 January 2018, following the legal change of Scope Ratings AG into GmbH, Mr. Torsten Hinrichs and Dr. Stefan Bund continued to act in the capacity of executive management (Geschäftsführung) of Scope. On 04 May 2018, Dr. Stefan Bund was released from his role as member of the Executive Management (Geschäftsführung) of Scope. Following this change, from 04 May 2018 onwards, Mr. Torsten Hinrichs acted as the sole managing director of Scope's executive management (Geschäftsführung).

Further, also following the conversion of Scope on 24 January 2018, the administrative board of Scope was established. It was comprised of two INEDs who are not directly involved in Scope's credit rating activities. Until 05 November 2018, the members of Administrative Board were Ian Bell and Benoît Claire. Benoît Claire's term concluded on 05 November 2018. Mr. Moritz Kraemer was appointed as his successor and commenced acting as Scope's new INED following the reporting period on 01 January 2019.

V. Rotation policy for analysts

Scope introduced an analyst rotation policy in 2017 which is designed to rotate lead analysts, involved analysts and persons approving credit ratings from rated entities and, where relevant, their related third parties. According to the analyst rotation policy, Scope will rotate lead analysts every four years, involved analysts every five years, and persons approving credit ratings every seven years.

Following the rotation, these analysts will be subject to a two-year period in which they are not permitted to engage in credit rating activities with the same rated entity and, where relevant, their related third parties.

VI. Record keeping policy

Scope receives information from or about entities that it rates in various forms, including physical documents and electronic formats as a part of the conduct of credit rating activities. Business records that are received by Scope from external entities or that are prepared internally in relation to the conduct of credit rating activities are retained in line with the requirements of the EU Regulation, applicable corporate laws and other relevant rules and regulations. Scope adheres to the standards that are set out in its record keeping policy and its internal record keeping procedures. These internal rules establish best practice standards for the appropriate and consistent handling and retention of such business records, so these are complete and readily available. Scope has established protections around sensitive information that is retained, and employees are required to take all reasonable measures to protect sensitive or confidential information and the records maintained in relation with it. Employees are also held responsible for protecting all property and business records belonging to, or in possession of, their employer from fraud, theft or miss-use.

VII. Compliance report

The Compliance function oversees adherence to regulatory requirements in each jurisdiction in which Scope conducts credit rating and other business activities. It operates independently within Scope, provides advice to management and employees and monitors internal control structures. The Head of Compliance reports to the Chief Executive Officer ("CEO") of Scope and to the INEDs.

Reports on compliance matters to the INED's as well as the executive board of Scope were provided on a regular basis to address relevant matters and potential compliance risks. Various enhancements to compliance policies and procedures were made in 2018 to address regulatory requirements and relevant changes to the organisational structures at Scope. All employees of Scope acknowledged relevant policies and procedures and certified their adherence to Scope's policies and procedures for 2018. Compliance training was provided to employees joining Scope and all employees attended the comprehensive annual compliance training in 2018.

Compliance surveillance controls were executed in accordance with Scope's codes and policies and were further enhanced in 2018. Potential issues identified as a result of such controls or by way of notifications submitted to the compliance department were addressed with executive management and, where relevant, the administrative board of Scope. Further, where potential breaches of the EU Regulation and other applicable laws, Scope's codes, policies or procedures were identified by or reported to the Compliance function, these were addressed by way of formal compliance investigations and brought up to Scope's management bodies for decision. Similarly, relevant reporting obligations to supervisory authorities, in particular ESMA, were covered in line with the EU Regulation.

Internal Audit conducted, as a part of its work plan, a review of Scope's Compliance department in the first quarter of 2019. This review was covering the activities and measures of the Compliance department with a view to the organisational set-up of the department and a focus on the areas of Compliance training, Compliance policies and procedures and Compliance surveillance activities. The overall outcome of this internal audit review of those activities was "good".

VIII. Financial revenues

The below table provides an overview of Scope's revenues in 2018:

2018 - Total Revenues	EUR
Revenues originating from credit rating services	8,136,361
thereof: Non-financial corporations	1,531,745
thereof: Financial Institutions	731,833
thereof: Sovereigns/public finance	20,583
thereof: Structured finance/project finance	5,852,199
Revenues originating from ancillary services ^[1]	65,934
Total:	8,202,294

2018 Revenues - Geographical Allocation	EUR
European Union (EU)	6,756,288
Worldwide (non-EU)	1,446,007
Total:	8,202,294

IX. Governance statement

During the Reporting Period, Scope did not have any shares listed on any regulated exchange. It is established in compliance with applicable German corporate laws and operates in accordance with relevant international laws and regulations, in particular the EU Regulation.

As of 31. December 2018, Scope was a 100% subsidiary of Scope SE & Co. KGaA. Through their shareholdings in Scope SE & Co. KGaA, the following entities had significant (over 5%) indirect shareholdings in Scope:

- Schoeller Corporation GmbH: 23%
- AQTON SE: 15%

Holdings of other minor shareholders (each one below 5.0%) were in total at 62%.



Scope's business activities and the members of the executive board were overseen by the supervisory board until 24 January 2018 and thereafter by Scope's administrative board. Scope's supervisory board and thereafter the administrative board met at least twice a year. The supervisory board was responsible for appointing or releasing the members of the executive board(s). The compensation of the supervisory board and of the administrative board members was not related to the business performance of the company.

Each member of the supervisory board and of the administrative board was of good repute and sufficiently skilled to perform his or her respective function. A majority of its members and all of the independent members have sufficient expertise in all relevant areas of financial services.

The term of office of the INEDs for Scope may not exceed five years and is not renewable. The dismissal of INEDs shall take place only in case of misconduct or professional underperformance. The INEDs were specifically responsible for monitoring the:

- Development of the credit rating policy and the credit rating methodologies;
- Effectiveness of the internal quality control system;
- Effectiveness of measures and procedures to identify, eliminate, manage and/or disclose conflicts of interest; and
- Compliance and governance processes.

The INEDs were not involved in credit rating activities and are free of any business, family or other relationship with Scope, its controlling shareholders or its executive management that would create a conflict of interests which would impair their judgement. At least one of Scope's INEDs has in-depth knowledge at a senior level of structured finance markets.

Members of Scope's governance and management bodies (such as the supervisory board, thereafter the administrative board, and of the executive board) had the powers conferred on them by German law or other applicable national law, the articles of association and applicable bylaws. The articles of association of Scope may be amended in accordance with applicable national law. The operation of the shareholder meeting, the key powers of the shareholder meeting, and the shareholder rights are provided for in national law and the constitutional documents of Scope.



Transparency Report for the Year Ended 31 December 2018

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