



TRANSPARENCY REPORT 2020

Scope Ratings GmbH



Introduction

This report is published by Scope Ratings GmbH (hereinafter referred to as “**SRG**”) 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 1 January 2020 to 31 December 2020 (hereinafter referred to as the “**Reporting Period**”) on the scoperatings.com website:

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I. Legal Structure and Ownership

SRG is registered at the Charlottenburg Commercial Register (Berlin) with the company number HRB 192993 B. It is fully owned by its parent, Scope SE & Co. KGaA (hereinafter referred to as “**Scope**”), a company registered at the Charlottenburg Commercial Register (Berlin) with the company number HRB 182023 B. SRG has been registered as a credit rating agency in accordance with the EU Regulation since 2012.

SRG has its head offices at Lennéstraße 5, 10785, Berlin, Germany and maintains branch offices in Frankfurt (Germany), Paris (France), Milan (Italy) and Oslo (Norway). Until 31 December 2020, SRG maintained a branch office in London; on 1 January 2021, Scope Ratings UK Limited, a company registered with the Companies House in the United Kingdom with the company number 11810998, became a wholly owned subsidiary of SRG.

The parent entity Scope together with its wholly owned direct subsidiaries, SRG, Scope Ratings UK Limited¹, Scope Analysis GmbH, Scope Investor Services GmbH and Scope ESG Analysis GmbH, are hereinafter together referred to as “**Scope Group**”.

II. Internal Control Mechanisms ensuring Quality of SRG's Credit Rating Activities

SRG's Internal Control Mechanisms:

Governance

SRG's governance structures are set up to meet the requirements of the EU Regulation and other applicable regional and national laws and to provide appropriate management oversight over SRG's international credit rating activities. SRG maintains an administrative board in accordance with the EU Regulation. Independent non-executive directors also serve on the administrative board to provide oversight.

The Administrative Board

During the Reporting Period, the administrative board of SRG was composed of two members who were not involved in the daily management of SRG or in SRG's credit rating activities. The administrative board oversaw the activities of the executive board of SRG.

The Independent Non-Executive Directors (“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 SRG's internal control framework. IRF operates independently of the analytical business lines and business development. It is responsible for independently approving, periodically examining and reviewing credit rating methodologies, models and key rating assumptions used in the credit rating process. It makes sure that these credit rating methodologies are robust, rigorous, systematic and continuous and that they are validated, for example, through back-testing. IRF may attend credit rating committees but has no voting right on credit rating decisions.

The Compliance Function

SRG's compliance function operates independently from the analytical business lines and business development. The compliance function oversees adherence to regulatory requirements in each jurisdiction in which SRG

¹ On 1 January 2021, the London branch of SRG was transferred to Scope Ratings UK Limited (company number 11810998) with a registered address at 111 Buckingham Palace Road, London SW1W 0SR.

operates and going forward also for its wholly owned subsidiary in the United Kingdom, Scope Ratings UK Limited². Its role is to maintain the relationship with regulatory authorities, to advise and provide training to SRG's employees and managers on regulatory requirements, and SRG's Code of Business Conduct and Code of Ethics, among other internal policies and procedures, and to assess and monitor adherence to those rules. This includes compliance surveillance over SRG's credit rating activities and compliance investigations in cases of potential breaches of the EU Regulation or other applicable laws as well as SRG's codes, policies and procedures. The head of compliance for SRG reports directly to the Executive Management (“**Executive Management**”) of SRG and to the INEDs.

The Internal Audit Function

SRG's parent entity Scope maintains an internal audit function which reports directly to the CFO of Scope. The internal audit function operates independently of the analytical business lines and business development of Scope Group. The internal audit function regularly reviews business activities as well as operational processes and internal controls in each jurisdiction in which Scope and its affiliates operate. Audit reports are provided to the INEDS and the Executive Management of SRG.

The Credit Rating Process

The credit rating process is designed to protect the independence, objectivity and integrity of SRG'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 credit rating committee follows the principles set out in, among others, SRG's Code of Business Conduct, Rating Governance Policy, Rating Process Manual and Confidential Information Management Policy. Further details are governed by internal procedures that provide the requirements over processes, approvals and documentation that SRG's analytical employees have to adhere to in the credit rating process.

The Credit Rating Methodology Process

SRG's credit rating methodologies are available on SRG's public website and govern the analytical components applied in SRG's credit rating analyses. The process for the development of new credit rating methodologies or adjustments to existing credit rating methodologies follows the principles set out in, among others, SRG's Code of Business Conduct and SRG's Methodologies Governance Policy. The credit rating methodology review process involves representatives from the analytical business lines and IRF. IRF reviews the credit rating methodologies independently and has final approval over SRG's credit rating methodologies. Further details are governed by internal procedures that provide the requirements over processes, approvals and documentation that SRG's employees have to adhere to in the context of the credit rating methodology review process.

SRG's Public Codes and Policies

SRG's public Code of Ethics, Code of Business Conduct and other policies set out the principles that all SRG employees are bound to in performing their duties. These codes and policies are updated periodically to reflect changes in applicable rules and regulations as well as guidance from the European Securities and Markets Authority (hereinafter referred to as “**ESMA**”). Each year, all SRG employees are required to confirm compliance with these codes and their certainty regarding SRG's policies. In addition, internal procedures support and foster the steps that protect the quality, independence and integrity of SRG's credit rating activities.

SRG's Conflict Management Principles

SRG's public code(s) and policies set out the key principles to prevent, identify, manage and, where relevant, disclose potential or actual conflicts of interest. SRG has adopted policies and procedures that prevent, identify and manage conflicts of interest. In particular, SRG has put in place the following:

- SRG's analysts who participate in credit rating activities are operationally and functionally separated from non-credit rating activities conducted in other Scope Group entities.
- As an institution, SRG does not act as a principal or market maker in securities.

² SRG endorses credit ratings issued by Scope Ratings UK Limited under Article 4(3) of the EU Regulation.

- As the parent entity of SRG, Scope is responsible for all commercial relationships with issuers and is operationally segregated from all analytical rating groups and credit rating activities. Analysts are prohibited from participating in fee discussions with issuers or their agents.
- Credit ratings are determined according to the Rating Process Manual.
- Analysts are not compensated or evaluated based on the amount of revenue that SRG derives from issuers that the analyst rates or with which the analyst interacts.
- SRG applies a mechanism for the gradual rotation of relevant analytical staff to protect analytical independence.
- Employees must follow specific rules with regard to their personal interests, such as personal ownership of and trading in financial instruments, receipt of gifts or outside business activities. These rules are set out in SRG's Personal Account Dealings Policy, Outside Business Interests Policy, and SRG's Gifts, Entertainment and Anti-bribery Policy.
- The SRG's compliance department monitors employee conduct regarding potential conflicts of interest.

Risk Reporting and Risk Management

Risk reporting and risk management are overseen by Scope, SRG's group-level holding entity. Scope discusses potential financial, strategic, legal, regulatory and operational risks in order to assess the probability of their occurrence and the effectiveness of existing protections at Scope Group. An internal function is tasked with the risk assessment and risk management process including standardised risk reporting to Scope's Risk Committee, which makes recommendations to the board of SRG.

III. Allocation of Personnel and Senior Management

The below information refers to allocation of staff to credit rating activities, methodologies, model appraisals, senior management and credit rating activities in the different asset classes for SRG.³

Allocation	Number of Staff
New Credit Ratings and Credit Rating Reviews	68
Methodology Appraisal	3.5
Senior Management/Board	3
Total	74.5

Asset Class	Number of Staff
Corporates	22
Structured Finance & Covered Bonds	23
Project Finance	6
Sovereign/Public Finance	9
Financial Institutions	8
Total	68

Structure of Rating Teams

SRG's analytical personnel are organised through regional reporting lines that operate across six rating groups during the Reporting Period: 1) Corporate Finance, 2) Project Finance, 3) Public Finance including sovereign and sub-sovereign issuers, 4) Financial Institutions, 5) Covered Bonds, and 6) Structured Finance. The analytical team head of each rating group reports to the Executive Management of SRG. The analytical team heads are generally supported by deputy managers. The cross-border reporting structure results in an escalation and

³ This includes all full-time and part-time employees of Scope. Part-time employees are counted as 0.5 full-time employees. The data provided relate to the status as per 31 December 2020.

resolution of any rating group issue on a regional basis, irrespective of the country in which the issue may have arisen. Similarly, to the extent possible, decisions relating to a particular rating group are implemented by the relevant management across jurisdictions or regions.

IV. Members of Management

From 1 January 2020, after the departure of Mr Torsten Hinrichs in 2019, Mr. Guillaume Jolivet is the sole managing director (*Geschäftsführer*) of SRG's Executive Management.

The administrative board of SRG was composed of two INEDs who are not directly involved in SRG's credit rating activities, Mr Moritz Kraemer and Mr Markus Schaber.

V. Rotation Policy for Analysts

SRG maintains an Analyst Rotation Policy, which is designed to rotate lead analysts, rating analysts and people approving credit ratings from rated entities and, where relevant, their related third parties. According to the Analyst Rotation Policy, SRG rotates lead analysts every four years, rating analysts every five years, and people approving credit ratings every seven years.

Following the rotation, analysts are not permitted to engage in credit rating activities with the same rated entity and, where relevant, their related third parties for a two-year period.⁴

VI. Record-keeping Policy

As part of its credit rating activities, SRG receives information from or about entities that it rates in various forms, including physical documents and electronic formats. SRG retains all relevant business records that SRG – or Scope Ratings UK Limited in the case of endorsed credit ratings – receives from external entities or that are prepared internally in relation to the conduct of credit rating activities in line with the requirements of the EU Regulation, applicable corporate laws and other relevant rules and regulations. SRG adheres to the standards set out in its Record Keeping Policy and Internal Record Keeping Procedures. These rules establish best practice for the appropriate and consistent handling and retention of such business records that ensure these are complete and readily available. SRG has established protections around the retention of sensitive information, 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 required to protect all property and business records belonging to, or in the possession of, their employer from fraud, theft or misuse.

VII. Compliance Report

The compliance function oversees adherence by SRG and its employees to regulatory requirements and SRG's policies and procedures in each jurisdiction in which SRG conducts credit rating and other business activities. It operates independently within SRG, provides advice to management and employees and monitors internal control structures. The head of compliance reports to the Executive Management of SRG and to the INEDs on a regular basis to address relevant compliance matters and potential compliance risks. Regulatory and compliance matters and potential compliance risks were further addressed on a regular basis by the INEDs and the compliance function at the level of SRG's parent entity, Scope.

During the Reporting Period, various enhancements to compliance policies and procedures were made to address regulatory requirements, new ESMA guidance, internal process enhancements and developments in SRG's business activities.

The Scope Group Code of Ethics was amended to incorporate human rights' abidance according to the 10 UN Global Compact Principles.

The Scope Ratings Pricing Policy was updated to incorporate a high-level description of pricing models and cost-based pricing factors.

⁴ Scope Ratings UK Limited is exempt from the obligation to maintain an analyst rotation policy.

All employees of SRG acknowledged the policies and procedures that were in place and certified their adherence to SRG's policies and procedures for 2020. Compliance training was regularly provided to employees joining SRG. A comprehensive annual compliance training for 2020 was conducted for all employees and managers of SRG.

Surveillance controls and monitoring reviews over SRG's credit rating activities were conducted by the compliance function independently. Potential issues identified as a result of such compliance controls or by way of notifications submitted to the compliance department were addressed with Executive Management and, where relevant, the administrative board of SRG. Where allegations for a relevant potential or actual breach of the EU Regulation, other applicable laws, and SRG's codes, policies and procedures were identified by or reported to the compliance function, these were addressed by way of formal compliance investigations and brought to SRG's management bodies for decision. Relevant reporting obligations to supervisory authorities, in particular ESMA, were covered in line with the EU Regulation and as per the Guidelines on the Submission of Periodic Information to ESMA by Credit Rating Agencies – 2nd Edition, issued on 5 February 2019. SRG is a category A credit rating agency with the obligation for scheduled reporting on 31 January, 30 April, 31 July and 31 October or on an ad-hoc basis. Going forward, the surveillance controls and monitoring activities will also include credit ratings issued by Scope Ratings UK Limited and endorsed by SRG.

The internal audit function conducted, as a part of its work plan, a review of SRG's compliance department in the first quarter of 2021. This review covered 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 did not show any material shortcomings.

VIII. Financial Revenues

The below table provides an overview of SRG's revenues in 2020:

2020 - Total Revenues	EUR
Revenues Originating from Credit Rating Services	11,641,929
Revenues Originating from Ancillary Services	581,141
Total:	12,223,069

2020 Turnover – Geographical Allocation	EUR
European Union (EU)	8,518,875
Worldwide (non-EU)	3,704,194
Total:	12,223,069

2020 Revenues – Credit Rating Services	EUR
thereof: Non-financial corporations / Sovereigns/Public Finance/ Financial Institutions	5,596,743
thereof: Structured Finance/Project Finance	6,045,186
Total:	11,641,929

2020 Revenues – Ancillary Services	EUR
Revenues Originating from Ancillary Services Provided to Clients of Credit Rating Services	581,141
Total:	581,141

IX. Governance Statement

During the Reporting Period, SRG had no 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 2020, SRG is a 100% subsidiary of Scope SE & Co. KGaA⁵. Through their shareholdings in Scope SE & Co. KGaA, the following entities had significant (over 5%) indirect shareholdings in SRG:

Florian Schoeller (via holding companies): 20%

AQTON SE: 16%

Michael C. Wisser (via holding companies): 7%

Holdings of other minority shareholders (each one below 5.0%) totalled 57%.

Scope Management SE is the general partner of Scope SE & Co. KGaA. The Executive Board of Scope Management SE manages the business of Scope SE & Co. KGaA and thereby of Scope Group. In addition to their shareholdings in Scope SE & Co. KGaA, Florian Schoeller and Stefan Quandt each hold 40% of the shares of Scope Management SE. The Scope Foundation has held 20% of the shares of Scope Management SE since May 2020. Scope Foundation has no financial or economic interest in Scope SE & Co KGaA and the main function of the foundation is to preserve the European identity of the shareholder structure of Scope Group.

Scope's investor relations team maintains close contact with Scope's shareholders to identify, manage, eliminate and disclose any potential conflicts of interest.

SRG's business activities and the members of Executive Management were overseen by SRG's administrative board. The administrative board met at least once per quarter. Compensation of administrative board members was not related to SRG's business performance.

Each member of the administrative board is sufficiently skilled to perform his or her respective function. The independent members have sufficient expertise in all relevant areas of financial services.

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

Members of SRG's governance and management bodies such as the administrative board and Executive Management have adequate powers conferred on them by the applicable national law, articles of association and applicable bylaws. The articles of association of SRG may be amended in accordance with applicable national law. The operations 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 SRG.

⁵ Scope, the group holding company, is a limited partnership on shares (KGaA) and combines the rules and set-up of a public limited company ("Aktiengesellschaft") with the corporate structure of a limited partnership ("Kommanditgesellschaft" or "Co. KG"). The acronym "Co. KGaA" reflects the dual character of this corporate structure.



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