

Credit Rating Definitions

Scope Ratings GmbH & Scope Ratings UK Ltd.

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1. Introduction

- [1] This document presents the Credit Rating terms and definitions of Scope Ratings GmbH and Scope Ratings UK Limited (Scope Ratings). These terms apply to Credit Ratings produced by Scope Ratings including the Sovereign and Public Sector¹, Financial Institutions, Corporates, Structured Finance, Covered Bonds and Project Finance asset classes.
- [2] Please see the [Defined Terms Glossary](#). Terms may change as and when necessary.

2. Main Credit Rating definitions

- [3] A **Credit Rating** is a forward-looking opinion regarding the relative creditworthiness of an issuer, an instrument or a contractual financial obligation and is assigned using an established and defined ranking system of Credit Rating categories.
- [4] Scope Ratings' opinions on creditworthiness address the timely payment or expected loss for financial obligations, as defined in Scope Ratings' respective Credit Rating methodologies.

2.1 Credit Ratings assigned to issuers

- [5] **Issuer ratings** are forward-looking opinions on the relative credit worthiness of an issuer's ability and willingness to repay its financial obligations when due.
- [6] Issuer ratings can be either long-term or short-term. A long-term issuer rating refers to an issuer's ability and willingness over the long term to meet its financial obligations, while a short-term issuer rating addresses an issuer's ability and willingness to repay its financial obligations in the short term (one year).
- [7] Issuer ratings can be either in foreign currency or local currency. Credit ratings refer to the relative credit worthiness of the issuer in its local currency unless otherwise stated.

2.2 Credit Ratings assigned to instruments

- [8] **Debt ratings** are opinions on the relative creditworthiness of a contractual financial obligation, such as a debt instrument or an issuer's obligation or exposure under a financial contract. The assessment of creditworthiness considers the relative likelihood of default and ranking of claims, or the expected loss, as specified in the relevant rating methodology.
- [9] **Debt ratings** can be long term or the short term. Long-term ratings apply to contractual financial obligations with an original maturity of more than 12 months. Short-term ratings apply to contractual financial obligations with an original maturity of up to 13 months. Long-term ratings may be assigned to contractual financial obligations with an original maturity of less than 12 months.
- Debt ratings are assigned to contractual financial obligations – such as a debt instrument or an issuer's obligation or exposure under a financial contract.
 - Senior secured debt ratings are assigned to debt, secured by a lien against collateral, which has priority over unsecured debt in case of resolution or insolvency.
 - Senior unsecured debt ratings are assigned to debt which has priority over other unsecured debt in case of an insolvency and does not benefit from security over collateral.
 - Preferred senior unsecured debt ratings are assigned to debt which is not secured by collateral, and which has priority over other unsecured debt in case of resolution or insolvency in jurisdictions which have defined non-preferred senior unsecured debt.
 - Non-preferred senior unsecured debt ratings are assigned to senior debt which is not secured by collateral, and which ranks below preferred senior debt and above subordinated debt in resolution or insolvency.
 - Subordinated debt ratings are assigned to unsecured subordinated debt which ranks lower than senior debt in case of resolution or insolvency.
 - Subordinated debt (hybrid) ratings are assigned to hybrid subordinated debt which ranks lower than senior debt in case of resolution or insolvency.
 - Tier 2 capital securities ratings are assigned to debt qualifying as Tier 2 capital as defined under current bank capital regulations.

¹Includes sub-sovereign issuers, government-related issuers and supranationals

- Additional Tier 1 capital securities ratings are assigned to debt qualifying as Tier 1 capital as defined under current bank capital regulations.
- [10] **Debt category ratings** are assigned to a defined category of debt instruments and indicate the rating that may be assigned to instruments within that category.
- [11] **Programme ratings** are assigned to debt issuance programmes (such as medium-term notes, commercial paper) and indicate the rating that may be assigned to standardised individual debt issues made under the programme. However, individual debt issued under the Programme may be rated or unrated; except for commercial paper issuance which are typically not individually rated. Ratings assigned to long-term individual debt issues are subject to the final terms and conditions of the debt and such debt ratings may differ from the programme rating if the specific terms and conditions of the debt warrant a credit differentiation. Several ratings may be assigned to a single long-term debt issuance programme reflecting the different debt categories (priority of claims) that may be issued under the programme.
- [12] **Deposit ratings** are assigned on the long-term Credit Rating scale to bank deposits and reflect the bank's ability to repay its deposit obligations.
- [13] Credit Ratings refer to the relative creditworthiness, as further defined in the relevant Credit Rating methodologies, of the debt instrument in its local currency unless otherwise specified (in foreign currency).
- [14] Recoveries estimate the amount expected to be recovered following a default or a default-like event. Recovery definitions are specific to the different asset classes sectors as described, where relevant, in Scope Ratings' respective methodologies.
- [15] Several credit rating methodologies across sectors such as Structured Finance, Project Finance, and Covered Bonds reference [Scope_Idealised_Tables](#). These tables provide expected loss and probability of default points of reference used in our analytical models and tools. They are used to both suggest benchmark probability of default or loss rates used as model inputs and facilitate the mapping of modelled outputs (default or expected loss rates) with benchmark ratings.

3. Scope Ratings' Credit Rating scales

3.1 Long-term Credit Rating scale

- [16] The **long-term Credit Rating scale** for issuers, debt instruments and their debt instrument categories is the following:

AAA	Credit Ratings at the AAA level reflect an opinion of exceptionally strong credit quality.	
AA	Credit Ratings at the AA level reflect an opinion of very strong credit quality.	
A	Credit Ratings at the A level reflect an opinion of strong credit quality.	
BBB	Credit Ratings at the BBB level reflect an opinion of good credit quality.	
BB	Credit Ratings at the BB level reflect an opinion of moderate credit quality.	
B	Credit Ratings at the B level reflect an opinion of weak credit quality.	
CCC	Credit Ratings at the CCC level reflect an opinion of very weak credit quality.	Debt instruments in default: These Credit Ratings may also be assigned to debt categories and debt instruments in default*, see section 3.4.3. Credit Rating of debt instruments in default for more information.
CC	Credit Ratings at the CC level reflect an opinion of extremely weak credit quality.	
C	Credit Ratings at the C level reflect an opinion of exceptionally weak credit quality.	
D/SD	Credit Ratings at the D or SD level reflect a default* situation with average to low or no recoveries.	

*See definition of default in section 3.4.1 below.

- [17] **Notches** – Scope Ratings' long-term Credit Ratings are expressed with symbols from AAA to D/SD, with '+' and '-' as additional sub-categories for each category from AA to B (inclusive). There are 20 levels in total.
- [18] The '+' and '-' signs express whether the rating is positioned at the high or low end of the category:
- a '+' indicates the credit quality as being in the upper range of the rating category,
 - a '-' indicates the credit quality as being in the lower range of the rating category,
- The absence of sign indicates the credit quality as being in the mid-range of the rating category.

3.2 Short-term Credit Rating scale

[19] The **short-term Credit Rating scale** for issuers, debt instruments and their debt instrument categories is the following:

S-1+	Credit Ratings at the S-1+ level reflect an opinion of the lowest credit risk with the highest capacity to repay short-term obligations.
S-1	Credit Ratings at the S-1 level reflect an opinion of very low credit risk with high capacity to repay short-term obligations.
S-2	Credit Ratings at the S-2 level reflect an opinion of low credit risk with good capacity to repay short-term obligations.
S-3	Credit Ratings at the S-3 level reflect an opinion of acceptable credit risk with fair capacity to repay short-term obligations.
S-4	Credit Ratings at the S-4 level reflect an opinion of moderate to high credit risk with modest to very low capacity to repay short-term obligations.
D/SD	Credit Ratings at the D or SD level reflect a default* situation.

*See definition of default in section 3.4.1 below.

3.3 Short-term/long-term Credit Rating correspondence

[20] Short-term issuer Credit Ratings can be derived from long-term issuer Credit Ratings. They can be mapped as follows:

Short term rating	S-1+	S-1	S-2	S-3	S-4	D/SD
Long term rating						
AAA						
AA+						
AA	S-1+					
AA-						
A+		S-1				
A						
A-						
BBB+			S-2			
BBB						
BBB-						
BB+				S-3		
BB						
BB-						
B+						
B						
B-					S-4	
CCC						
CC						
C						
D/SD						D/SD

3.4 Ratings in default

3.4.1 Default definition

[21] **Default** – Scope Ratings considers the following events to constitute a default:

- failure to pay a coupon or principal payment on the due date following any grace period specified in the instrument's terms and conditions²,
- where applicable, insolvency proceedings, supervisory actions such as a bank resolution, liquidation, of the debt issuer or a moratorium resulting in debt non-payment or debt restructuring, and
- any distressed debt restructuring, exchange, or debt swap, that: i) leads to less favourable terms or a loss of value compared to the original terms of the debt, including unilateral or coercive currency redenomination, and ii) is undertaken to avoid a likely default.

[22] For the avoidance of doubt, Scope Ratings does not consider the following to constitute a default: i) technical default triggered by force majeure events; or ii) the non-payment of interest if such deferral is permitted under the terms and conditions of the securities.

[23] **Default status** – Upon the occurrence of a default, as per the above, the credit rating is in a default status and will be reported accordingly. The following sections (3.4.2 and 3.4.3) indicate the credit ratings assigned upon this status.

3.4.2 Credit Rating of issuers in default:

[24] Issuers which are in default are rated 'D' or 'SD'.

D	Default
SD	Selective Default is used at issuer and debt category level if one debt or specific class debt but not all debt issuances of an issuer is defaulted. Such a selective default can be the consequence of a distressed debt restructuring or failure to a pay. An SD at issuer level is not triggered by the write-down or conversion of hybrid debt.

3.4.3 Credit Rating of debt instruments in default

[25] Debt instruments in default are generally rated at the lower end of the rating scale according to the long term and short-term Credit Rating scales defined above, depending on the amount and degree of certainty of expected recoveries, see table below:

B-	Default with extremely high level of expected recovery with extremely high certainty
CCC	Default with very high level of expected recovery with very high certainty.
CC	Default with average to high level of expected recovery and high certainty.
C	Default with above average expected recovery and/or average certainty.
D	Default with average or low expected recovery or high uncertainty.

[26] Typically, only secured debt instruments with high quality collateral or debt instruments experiencing non-payment on a relatively minor amount are expected to be rated above D while in default. Scope Ratings may assign a credit rating higher than B- to a debt instrument in default in exceptional circumstances and in instances where a default is likely to be temporary and is associated with exceptionally high recovery expectations with an extremely high degree of certainty. The above section must be read in conjunction with Scope Ratings' respective methodologies.

4. Other indicators and suffixes

4.1 Preliminary Credit Ratings prefix (P)

[27] Scope may assign Preliminary Credit Ratings, identified with the prefix (P), when the assignment of a Credit Rating is subject to satisfactory review of final documentation and other final key information used in the rating process, if any. The Credit Rating may differ from the Preliminary Credit Rating where the final terms or information materially differ from the provisional. Scope

² Typically, not longer than 30 days

Ratings generally expects a Preliminary Credit Rating to be converted into a new Credit Rating or withdrawn within six months of it being assigned.

[28] Scope may assign Credit Ratings to debt securities in advance of their issuance, based on draft terms, only for rated issuers and where it is very unlikely that the final terms would materially differ from the draft terms. In case the debt is not issued the Credit Rating will be withdrawn. In case the final terms materially differ, the initial Credit Rating is withdrawn, and a new Credit Rating is assigned that may be different.

4.2 Structured finance suffix (sf)

[29] Scope Ratings' Credit Ratings of structured finance instruments carry an SF suffix (e.g. BBB+SF). This symbol identifies Credit Ratings assigned to structured finance instruments as defined by Regulation (EU) No. 1060/2009 on Credit Rating Agencies of the European Parliament and the European Council³.

4.3 Withdrawn (WD)

[30] Withdraw (WD) indicates a Credit Rating assigned by Scope Ratings which has subsequently been withdrawn. A Credit Rating may be withdrawn due several reasons such as i) incorrect or insufficient information, ii) bankruptcy of rated entity or debt restructuring, iii) reorganisation of rated entity, iv) debt maturity, repayment, or early redemption or v) other reasons, such as business decision taken by Scope Ratings or at the client's request.

4.4 Overview of Credit Rating actions

[31] A Credit Rating action is any one of the items below:

- Preliminary: Preliminary (P) Credit Ratings are assigned in advance of an instrument issuance or before the review of the final documentation and other information used in the rating process.
- New: The assignment of a new Credit Rating (may or may not be preceded by a preliminary Credit Rating).
- Upgrade: The upgrade of a Credit Rating.
- Downgrade: The downgrade of a Credit Rating.
- Default: The assignment or removal of a default status.
- Under Review: The placement of a Credit Rating 'Under Review' for a possible upgrade or downgrade, or for a developing outcome.
- Affirmation: If a Credit Rating is affirmed following a rating committee⁴.
- Withdrawal: If a Credit Rating is withdrawn.
- Assignment of a new Outlook or a changed Outlook for a Credit Rating.

4.5 Credit Rating Under Review

[32] A Credit Rating may be placed Under Review for a possible upgrade, possible downgrade or a developing outcome. The Under Review status indicates that this Credit Rating is under consideration for a change in the short term (typically within three months) with additional information or analysis required to determine the Credit Rating outcome. Under Review for a developing outcome indicates that the rating outcome could be either an upgrade, a downgrade or an affirmation.

[33] The Under Review status will be resolved with a Credit Rating being upgraded, downgraded, or affirmed by a rating committee; a rating under review may also be withdrawn. A rating committee can decide to maintain the Under Review status if more time is required to complete the analysis (this is not a rating action). The direction of the Under Review status can also be changed (which constitutes a rating action). Not all rating changes are preceded by an Under Review status.

³ EU legislation which applied directly or indirectly to the UK before 11.00 p.m. on 31 December 2020 has been retained in UK law as a form of domestic legislation known as 'retained EU legislation'. This is set out in sections 2 and 3 of the European Union (Withdrawal) Act 2018 (c. 16). Section 4 of the 2018 Act ensures that any remaining EU rights and obligations, including directly effective rights within EU treaties, continue to be recognised and available in domestic law after exit.

⁴ Including when a rating is removed from under review status

[34] Scope Ratings aims to resolve the Under Review status of a Credit Rating typically within three months or as soon as practicable; in some cases, the resolution of an Under Review is contingent upon the development of certain events, such as the completion of a merger, acquisition, restructuring or the implementation of a transaction amendment.

4.6 Outlook

[35] A Credit Rating can be accompanied by a Credit Rating Outlook, which can be Stable, Positive or Negative. The Outlooks normally refer to a period of 12 to 18 months. These Outlooks provide an indication of the most likely direction of a potential rating change. However, they do not necessarily signal that an upgrade or a downgrade of a Credit Rating will automatically follow.

[36] Scope Ratings does not assign a Credit Rating Outlook to structured finance or project finance instruments, to short-term Credit Ratings⁵ or to Credit Ratings that are Under Review.

⁵ Following the publication of the updated Credit Rating Definitions, Scope will withdraw the outlooks assigned to short term ratings over the next 12 months.

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