

**RATING-AGENTUR EXPERT RA GMBH**  
**ANNUAL TRANSPARENCY REPORT FOR THE YEAR ENDED 31<sup>st</sup> OF DECEMBER 2018**  
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## INTRODUCTION

Rating-Agentur Expert RA GmbH (hereinafter “the Agency”) is affiliated with the International group of rating agencies «RAEX». Rating-Agentur Expert RA GmbH was established in Frankfurt am Main in 2013 and is fully independent in its operational activities.

The European Securities and Markets Authority (ESMA), the EU’s direct supervisor of credit rating agencies (CRAs), has registered Rating-Agentur Expert RA GmbH as a CRA under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, with effect from 1 December 2015. Rating-Agentur Expert RA GmbH is based in Germany, issuing solicited credit ratings on financial institutions, insurance undertakings and non-financial corporates as well as public finance.

This Transparency report has been prepared in accordance with Article 12 and part III of Section E of Annex I of European Union (EU) Regulation (EC) No 1060/2009 of 16 September 2009 on credit rating agencies (hereinafter the CRA Regulation). Rating-Agentur Expert RA GmbH will ensure that this Transparency report remains available on the Agency’s website for at least five years.

## 1. LEGAL STRUCTURE AND OWNERSHIP

Rating-Agentur Expert RA GmbH was included into the commercial register of Frankfurt am Main under the number HRB 97024 on the 16<sup>th</sup> of July 2013 in the form of GmbH (Gesellschaft mit beschränkter Haftung - Limited liability company).

Current registered office: Walter-Kolb-Strasse 9-11, 60594 Frankfurt am Main.

The ownership structure of the Agency is the following:

Owner	Percentage of capital	Nature of the holding: direct or indirect	Percentage of voting rights	Comments
"Expert RA" International Group of Rating Agencies	100%	Direct	100%	
Dmitry Grishankov	100%	Indirect	100%	Owner of "Expert RA" International Group of Rating Agencies (100%)

## 2. INTERNAL CONTROL MECHANISMS

The Agency has established internal control mechanisms and effective procedures in order to ensure the quality, integrity and thoroughness of the rating process, as well as to prevent and eliminate any possible conflicts of interest.

### 2.1 Advisory board

The Advisory board of the Agency operates in accordance with the Agency's Articles of Association and the Agency's Regulation on the Advisory board meetings.

The composition of the Agency's Advisory board, effective from the 1<sup>st</sup> of December 2015 till the 1<sup>st</sup> of December 2018, was as follows:

- Dmitry Grishankov – Advisory board member, shareholders' representative;
- Svetlana Grishankova – Advisory board member, Managing director;
- Alexander Karminsky – independent Advisory board member;
- Jacqueline Curzon – independent Advisory board member & Internal control officer.

The composition of the Agency's Advisory board, effective from the 1<sup>st</sup> of December 2018, is as follows:

- Dmitry Grishankov – Advisory board member, shareholders' representative;
- Svetlana Grishankova – Advisory board member, Managing director;
- Mathias Schepp – independent Advisory board member;
- Evgeny Maltsev – independent Advisory board member.

Two members of this Advisory board are independent and not involved in the rating activity. They were selected for a fixed and not renewable period of time according to the CRA Regulation.

The role of the Advisory board is to ensure that the Agency's credit rating activities are independent, including from all political and economic influences or constraints, that conflicts of interest are properly identified, managed and disclosed, and that the requirements of EU CRA Regulations are followed.

Independent Advisory board members have voting rights on the Methodological committee meetings, approving changes in the current rating methodologies and developments of the new methodologies.

On a periodical basis the Internal control officer performs an internal audit of the Agency on subjects including the development of the credit rating policy, compliance and governance processes, as well as the effectiveness of the internal control system and procedures. Following the discussion of the audit results, the Advisory board can suggest some changes in the Agency's internal policies and procedures in order to address possible inefficiencies.

In March 2018 Internal control officer Jacqueline Curzon conducted annual internal audit in-house check for the year 2017. Based on the results of the audit check Ms. Curzon prepared the audit report stating that there is a high level of comfort with the overall governance process established in the Agency.

The next internal audit check for the year 2018 is planned to be conducted in May 2019.

Independent Advisory board members have voting rights on the Methodological committee meetings, approving changes in the current rating methodologies and developments of the new rating methodologies.

## **2.2 Compliance function**

Rating-Agentur Expert RA GmbH has established and maintains an effective compliance function, which operates independently. The compliance function is not involved in the performance of credit rating activities of the Agency and the compensation of the Compliance officer is not linked to the Agency's performance, which ensures the independence of Compliance officer's judgment.

Main responsibilities of the Compliance officer include the following:

- Reviewing the activities of the Rating service and ensuring correspondence with internal documents of the Agency or applicable EU Regulations for credit rating agencies;
- Regular monitoring of correspondence of the internal regulations of the Agency with the provisions of national law and the law of European Union;
- Regular monitoring of the effectiveness of measures and procedures to ensure the identification and elimination of any conflicts of interest;
- Participation in the development of policies and procedures to implement all relevant regulatory requirements adopted in EU in business practices of the Agency;
- Assisting all employees of the Agency to comply with the Agency's obligations under applicable EU Regulations and organizing trainings when necessary;
- Regular reporting on compliance of the Agency and its employees with the obligations of the CRA Regulation, and internal procedures to Advisory board, Managing director, as well as to ESMA.

## **2.3 Review function officer**

Rating-Agentur Expert RA GmbH has established an independent review function, which is fulfilled by the Review function officer, who is not involved in the rating activities of the Agency.

Main responsibilities of the Review function officer are the following:

- Reviewing all methodologies, models and key rating assumptions, making sure that they are properly maintained and up-to-date, checking that their short descriptions are published on the official website of the Agency in a manner permitting comprehensive review and full understanding;
- Ensuring that the methodologies and assumptions used for rating assignments properly reflect the changing conditions in the underlying markets;
- Monitoring the process of informing general public about the changes in methodologies, models and key rating assumptions used by the Agency;

- Conducting scheduled and unscheduled review of methodologies, models and key rating assumptions related to these methodologies. Scheduled review shall be done in accordance with pre-defined review schedule approved by the advisory board. Each methodology and working instructions related to it shall be reviewed at least annually. Unscheduled review shall be done when some deficiencies in valid methodologies, models and key rating assumptions are identified;
- Participation in the Methodological committee meetings (without voting right);
- Reporting periodically on the topics listed above to the Advisory board and when requested to ESMA.

Currently the Agency has five credit rating methodologies and each methodology shall be reviewed at least annually.

#### **2.4. Financial Audit**

Rating-Agentur Expert RA GmbH has appointed an independent audit company to carry out the annual audit of financial statements as of December 31, 2018. The audit is conducted in accordance with generally accepted auditing standards. The results of the audit will be provided to the Advisory board of the Agency and sent to ESMA.

#### **2.5 Conflicts of interests**

Rating-Agentur Expert RA GmbH has established appropriate internal policies and procedures in relation to employees and other persons involved in the credit rating process in order to prevent, identify, eliminate or manage and disclose any conflicts of interest. The Agency has developed the Policy on Avoidance of conflicts of interest, which is available on the official website of the Agency: [http://raexpert.eu/files/compliance/Avoidance of Conflicts of Interest Policy 5-10-2015 UPD.pdf](http://raexpert.eu/files/compliance/Avoidance_of_Conflicts_of_Interest_Policy_5-10-2015_UPD.pdf)

Potential conflicts of interest which may arise from the employees of the Agency due to following reasons:

- Direct ownership – ownership of financial instruments issued by the rating object, with exception of holdings in diversified collective investment schemes;
- Indirect ownership – ownership of financial instruments issued by any entity affiliated with the rating object, holding of which might cause or might be considered as causing conflicts of interest, with exception of holdings in diversified collective investment schemes;
- Experience of work relations – recent experience of work relations with the rating object or any other relations with the rating object, which might cause or might be perceived as causing conflicts of interests;
- Participation in negotiations related to financing questions – initiation or participation in negotiations on determination of fees paid for the rating analysis or other fees paid by the rating objects, associated entities or any other persons directly or indirectly connected with the rating objects through control;
- Receiving money, presents or favors from the rating object.

Potential conflicts of interest which may arise from the owners of the Agency:

- Influence of the owners on the decisions of the credit rating agency – direct or indirect ownership or other interests connecting owners of the Agency with the rating object;
- Holdings in other credit rating agencies.

Influence of the owners on the decisions made by the Agency is controlled by the Advisory board and its independent members. Moreover, in accordance with the Article 8 of the Regulation (EU) No 449/2012 of 21 March 2012 supplementing Regulation (EC) No 1060/2009 of the European Parliament and of the Council, another important tool of managing these conflicts of interests is disclosure of information about the owners and beneficiaries of the Agency to ESMA.

Any identified cases of potential or actual conflicts of interest shall be informed to the Compliance officer who is responsible for eliminating, preventing and managing any conflicts of interest and reporting them to the Managing director and Advisory board of the Agency.

## **2.6 Code of Conduct**

Rating-Agentur Expert RA GmbH has developed a Code of Conduct, which defines the key principles and rules of activities carried out by the Agency supporting their objectivity and independence. It was adopted in accordance with the set of relevant Regulations of the European Parliament and the Council currently in force and is based on the latest International Organization of Securities Commissions (IOSCO) code of conduct fundamentals. The Agency's Code of Conduct is publicly available on the Agency's website: [http://raexpert.eu/files/compliance/Code\\_of\\_Conduct\\_4-08-2015\\_UPD.pdf](http://raexpert.eu/files/compliance/Code_of_Conduct_4-08-2015_UPD.pdf)

The main rules contained in the document concern the quality and integrity of the rating process, independence and avoidance of conflicts of interests, transparency and disclosure principles as well as mechanisms for treatment of confidential information.

All employees of the Agency and members of its advisory board follow the professional ethical standards and internal procedures aimed at ensuring the quality and integrity of the rating process as well as maintaining sound reputation of the Agency and its trustworthiness.

## **2.7 Credit rating process**

### **2.7.1. Credit rating process flow**

Rating-Agentur Expert RA GmbH is assigning the following types of credit ratings:

- Sovereign and public finance ratings;
- Corporate ratings;
- Financial institution, including credit institutions and investment firms;
- Insurance undertaking;
- Corporate issuer that is not considered as financial institution or an insurance undertaking.

The Agency has a Rating service department which is responsible for the rating analysis and rating assignment activities.



More detailed rating process for each type of the rating is described and publicly available on the official website of the Agency: <http://raexpert.eu>

The Rating committee is the only body of the Agency authorized to execute rating actions. The Committee can be conducted only if the quorum requirement is satisfied, which means that at least half of the Rating service employees and not less than three of them can take part in the Rating Committee. The Compliance officer of the Agency can participate in the Rating committee meeting for the purpose of compliance control and does not vote on the rating outcome.

### **2.7.2 Rating methodology**

Rating-Agentur Expert RA GmbH performs the rating assessment based on the following methodologies:  
Methodology for assigning credit ratings to banks:

[https://raexpert.eu/files/Methodology\\_Full\\_Banks\\_September2018.pdf](https://raexpert.eu/files/Methodology_Full_Banks_September2018.pdf)

Methodology for assigning corporate credit ratings (non-financial non-holding companies):

[https://raexpert.eu/files/Methodology\\_Corporate\\_Full\\_November2018.pdf](https://raexpert.eu/files/Methodology_Corporate_Full_November2018.pdf)

Methodology for assigning credit ratings to regions:

[https://raexpert.eu/files/Methodology\\_Regions\\_Full\\_V4.pdf](https://raexpert.eu/files/Methodology_Regions_Full_V4.pdf)

Methodology for assigning reliability ratings to insurance companies:

[https://raexpert.eu/files/Methodology-Full-Reliability\\_Ratings-Insurance\\_companies\\_V3.pdf](https://raexpert.eu/files/Methodology-Full-Reliability_Ratings-Insurance_companies_V3.pdf)

Methodology for assigning sovereign government credit ratings:

[https://raexpert.eu/files/methodology/Methodology\\_Full\\_Sovereign\\_V3.pdf](https://raexpert.eu/files/methodology/Methodology_Full_Sovereign_V3.pdf)

#### **Supplementary methodologies:**

Methodology for assigning credit ratings to debt instruments:

[https://raexpert.eu/files/Methodology\\_Full\\_Bonds\\_November2018.pdf](https://raexpert.eu/files/Methodology_Full_Bonds_November2018.pdf)

Methodology for assigning banking sector risk score:

[https://raexpert.eu/files/Methodology\\_Anchor\\_BSR\\_September2018.pdf](https://raexpert.eu/files/Methodology_Anchor_BSR_September2018.pdf)

Methodology for assigning country and industry score:

[https://raexpert.eu/files/Methodology\\_Anchor\\_CIR\\_November2018.pdf](https://raexpert.eu/files/Methodology_Anchor_CIR_November2018.pdf)

Methodology for assigning credit ratings to debt instruments:

[https://raexpert.eu/files/Methodology\\_for\\_assigning\\_ISR\\_score-Full.pdf](https://raexpert.eu/files/Methodology_for_assigning_ISR_score-Full.pdf)

In order to improve the quality of the assessment and to ensure the reliability of decisions made based on these methodologies, the Agency performs a review cycle for each methodology at least once a year. Based on the results of the review cycle, Methodology discussion meetings (MDM) and Methodology committee

meetings (MCM) are organized where rating methodologies, procedures, models and key rating assumptions are discussed and approved.

During 2018 year scheduled reviews of the methodologies were conducted:

- Methodology of assigning sovereign government credit ratings: during the MCM on the 16<sup>th</sup> of March 2018 it was agreed to publish the full version of the methodology. Proposals included changes of the structure in order to make the document consistent with all methodologies of the Agency, separation of CCE and SGC methodologies and inclusion of rating outlook. The suggested changes were approved by the independent members of the Advisory Board and public consultation published on the Agency's website for a period of one month. No comments were received during the consultation period.
- Methodology of assigning credit ratings to regions: the MCM took place on the 5<sup>th</sup> of June 2018. There were no substantial changes for this review cycle, and the suggested changes were related to the publication of the full version of the methodology on the website for the purpose of improved transparency and consistency with other methodologies. Independent members of the Advisory Board voted on the proposed changes and agreed to launch the public consultation for the full public version of the methodology. No comments were provided during the consultation period.
- Methodology of assigning credit ratings to banks: most of the proposed changes were related to making the full version of the methodology public. Regarding analytical suggestions, it was agreed to switch to market-based profitability benchmarks in order to allow an analyst to perform qualitative analysis of profitability for a particular market. During the MCM on the 3<sup>rd</sup> of August 2018 the independent members of the Advisory Board voted on the proposed changes and agreed to launch the public consultation for the full version of the methodology. No comments were provided during the consultation period.
- Methodology of assigning corporate credit ratings: new factors, such as "market position" and "investments", were added to the methodology introducing broader and deeper analysis. Also it was suggested to include additional sections in the methodology that were added to all methodologies and to exclude country specific links to accounting standards in order to make the document applicable for any international company. During the MCM on the 8<sup>th</sup> of October 2018 independent members of the Advisory Board voted on the proposed changes and agreed to launch the public consultation for the full version of the methodology. No comments were provided during the consultation period.
- Methodology for assigning reliability ratings to insurance companies: during the MCM on the 19<sup>th</sup> of December 2018 it was decided that no additional changes are required for this review cycle.

However, during the next year it is planned to extend the Methodology to a new insurance company type - life insurance. Independent members of the Advisory Board voted that the methodology shall remain unchanged following this review cycle.

### **2.7.3 Rating monitoring**

The duties of the expert responsible for the rating include monitoring of the rated entity's activities within one year from the assignment of rating.

Monitoring process includes tracking information in the media, regular monitoring upon receipt of market overviews, as well as regular monitoring on credit ratings of companies from non-financial sector.

Depending on the influence of identified factors, the reaction on significant events can be:

- Distribution of Press release with the opinion of the Agency;
- Questions to the rated entity;
- Preparation of the report on the withdrawal for the committee and its consideration on the Rating committee.

### 3. STATISTICS ON PERSONNEL ALLOCATION

As of the 31<sup>st</sup> of December 2018, total number of employees working on a full-time basis in Frankfurt am Main office counted 7 people, 5 of which are engaged in credit rating activities:

- 1 Managing director;
- 1 Compliance officer;
- 5 employees of the Rating service.

Furthermore, there are three positions, which are performed on a non-full-time basis:

- 1 Review function officer;
- 2 Independent Advisory board member;
- 1 Internal control officer.

Statistics on the allocation of the Agency's staff to new credit ratings, credit rating reviews, methodology or model appraisal and senior management, and on the allocation of staff to rating activities in relation to the various classes of assets, is as follows:

- New credit ratings and monitoring and verification of the existing ratings – 5 employees of the Rating service;
- Review and validation of the rating methodologies used – 1 Review function officer;
- Compliance with law and internal regulations – 1 Compliance officer;
- Senior management – 4 (Managing director, 2 independent Advisory board members and 1 Internal control officer).

#### 4. RECORD-KEEPING POLICY

Rating-Agentur Expert RA GmbH established the record keeping rules regarding the documents prepared throughout the Agency's operational activity.

Timeframe for record keeping may vary depending on the nature of the document:

- Records and audited rating history are stored in the premises of the Agency for at least 5 years;
- Records establishing respective rights and responsibilities of the Agency and Rating object or related third parties according to the agreement on credit rating services shall be stored at least for the full duration of the relationship with this rating object or related third parties and at least for 5 years after termination of relationship with this rating object;
- In case the registration of Rating-Agentur Expert RA GmbH is withdrawn, the records shall be kept for an additional term of at least 3 years;
- The records of the Agency shall be provided upon request to the relevant regulatory authorities of the country of Agency's registration and of the EU in general.

Documents circulated in the Agency are divided into three types:

- Records of the rating activities where the responsible persons for keeping shall be employees of the Rating service;
- Compliance records with the Compliance officer responsible for keeping them;
- Records of contracts and agreements as well as financial accounting, keeping of which are segregated between Managing director (keeping and filing) and Compliance officer (checking that keeping and filing is done in accordance with internal regulations).

Main principles regarding keeping records on rating activity are the following:

- The information on date of final decision on the credit rating, the identity of the rating experts participating in the determination of the credit rating and who have approved the credit rating, information as to whether the rating was solicited or unsolicited shall be recorded for each credit rating decision;
- Compliance officer shall check on the regular basis the records created during rating activity process and make sure they comply with internal regulations of the Agency and applicable EU CRA Regulation;
- Internal audit of the credit rating activity history shall be done by the Internal control officer.

## 5. INTERNAL AUDIT AND THE COMPLIANCE FUNCTION

Within the framework of performing the annual internal audit of the Agency's activities, the check of compliance function will be performed in May 2019 by the Internal control officer.

Also there are teleconference calls organized on a quarterly basis between Compliance officer and Internal control officer in order to monitor current compliance activities performed in the Agency.

Plan of compliance work for 2019 includes the following tasks:

- Constant monitoring of the CRA Regulation and all necessary documents and requirements for CRAs.
- Preparing information for periodic and non-periodic submission to ESMA.
- Participating in ESMA public consultations related to credit rating agencies.
- Submission of rating data to ESMA reporting system RADAR.
- Assisting the Internal Control Officer in conducting Annual Audit review for 2018.
- Performing compliance checks in accordance with the requirements of the CRA Regulation.
- Participation in Rating committees with the right of advisory vote, participation in Advisory Board meetings.
- Compliance check of rating committee meetings' Minutes, Press releases, Research reports and other documents created in the rating analysis process.
- Constant monitoring of the Agency's website content, publication of reports and administration of the website.
- Assisting employees in compliance with the CRA Regulation and informing them about the updates in this regulation.
- Organization of compliance trainings and seminars for employees.
- Monitoring of any material changes to the conditions for initial registration.

The main aspects that will be assessed in the course of the check include the following:

- The independence of the compliance function within the Agency;
- The effectiveness of the internal control system in relation to credit rating activities;
- Fulfillment by the Agency of the requirements set by ESMA in relation to the credit rating agencies;
- Staff awareness of the Agency's key policies and procedures, the frequency of conduction of internal trainings;
- Check of the procedure of template preparation for the agreements with clients, correspondence of the amount of fees received from clients to the approved price list;
- IT and the Company's data security issues: the procedure of business continuity, access of the employees to Company's confidential information;
- The effectiveness of measures and procedures instituted to ensure that any conflicts of interest are identified, eliminated or managed and disclosed;

- Periodic reports prepared by the Compliance officer and communication with the Regulatory body – ESMA.

The results of this audit will be reported to the Managing director, Advisory board and ESMA.

## 6. MANAGEMENT AND RATING ANALYST ROTATION POLICY

In compliance with the CRA Regulation, the term of office of the independent members of the advisory board shall be for a pre-agreed fixed period not exceeding five years and shall not be renewable. Therefore, in order to follow the requirement, the Agency has arranged rotation of independent Advisory Board members, and new members started their term from the 1<sup>st</sup> of December 2018.

Regarding the rotation of analysts within the Rating service, the Agency has established the policy of Rotation of rating experts. According to the requirements of the CRA Regulation, it is stated that lead analysts and rating analysts are required to be rotated every 4 years and 5 years respectively, while maximum term to be a reviewer for the same rating object is 7 years.

The records of responsible experts and reviewers are periodically checked by the Compliance officer for correspondence with these rotation requirements.



## 7. INFORMATION ON REVENUES

During the year 2018 Rating-Agentur Expert RA GmbH was assigning and reviewing sovereign country ratings in public mode and based on publicly available information, without contractual relationships and interactions with those rated entities.

The Agency prolonged contractual relationships and actualized credit ratings of three banks and one insurance company and signed the agreement for rating assignment with another insurance company.

The Agency has added the issuance of Green Bond Second Opinion as an additional type of services to its business activities. The Green Bond Second Opinion is an independent opinion defining how the framework of the issued green bonds complies with the Green Bond Principles and defining the issuer's environmental performance related to the eligible projects.

There were no ancillary activities performed by the Agency in 2018.

The sales revenues for the year 2018 are as follows:

Total sales revenue in 2018 <sup>1</sup>	Percentage
Rating activities	73%
Services on Green Bond Second opinion	27%

<sup>1</sup> This information is taken from draft internal financial statements of the Agency and can be updated in case the audited figures differ from the aforementioned.

## 8. CORPORATE GOVERNANCE

Rating-Agentur Expert RA GmbH is a limited liability company with the statutory seat located in Frankfurt am Main and registered in accordance with the Germany corporate law. The corporate governance of the Agency is outlined by the Articles of Association which is duly notarized and registered.

In order to comply with the international standards regarding credit rating activities, Rating-Agentur Expert RA GmbH has implemented a Code of Conduct, which sets as the basis for internal procedures established in the Agency, and which is publicly available on the Agency's website: [http://raexpert.eu/files/compliance/Code of Conduct 4-08-2015 UPD.pdf](http://raexpert.eu/files/compliance/Code_of_Conduct_4-08-2015_UPD.pdf)

For more information regarding the Code of Conduct refer to the point 2.6 of this report.

Description of the Agency's internal control mechanisms is provided in the point 2 of this report.

Information on the operation of the shareholders is provided in point 1 of the report, and the composition and operation of the Advisory board as of the end of 2018 is in accordance with the information provided in section 2.1.