

# TRANSPARENCY REPORT 2019

AXESOR RISK MANAGEMENT S.L.U. N.I.F.: B-18550897. Ins. Reg. Merc. de Granada. T. 913. F. 81. H. 17096



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## 1. Introduction

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Axesor was created in Granada in 1996. After having led the national information, scoring and online services market for more than twelve years; it stands out as the leading Spanish credit rating agency, having been registered by the *European Securities and Markets Authority* (ESMA) in 2012.

As pioneers in the analysis and evaluation of corporate information, our goal is to facilitate the decision-making process and to minimise risk in all types of commercial operations. To achieve this Axesor carries out an exhaustive analysis of a company's credit quality, reflecting the result of the research in a credit rating, enabling its clients to benefit from an informed opinion regarding the solvency of a company of their interest.

Axesor has a solid team of professionals who are specialised in putting together solvency reports for companies operating in Spain. Axesor guarantees its independence, integrity and quality of its services without overlooking the importance of a close relationship and a personalised treatment of its clients.

Axesor guarantees an independent process of issuing credit ratings that is separate from the particular interests of the rated companies.

The reports that Axesor offers to the markets are not limited to the assignment of a rating category of credit quality, but also contain a complete analysis of the researched company that includes the credit history, the macroeconomic environment of the sector in which it operates, as well as other information detailing important characteristics of the rated company.

Below, Axesor publishes this Transparency Report, which covers the period from January 1, 2019 to December 31, 2019.

## 2. Transparency Report

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### 2.1. Legal and shareholder structure

The legal nature of the Agency is that of a corporate "Sociedad Limitada" with the CIF B18550897. At December 31, 2019, AXERMARIS SPAIN HOLDING SL owns 100% of the shares of AXESOR RISK MANAGEMENT SL.

### 2.2. Internal control measures

The various internal control measures that are undertaken in Axesor are listed below. The aim of their implementation is to guarantee that the activities undertaken by the company are:

- Upright
- Reliable
- Transparent

- With quality

### 2.2.1. Board of Directors

The Board of Directors is Axesor’s most senior executive body. Apart from faculties that are specifically reserved for the General Assembly of Shareholders, the Board of Directors has the most far-reaching faculties for representing, governing and administrating the Company.

Amongst its functions, the Board is in charge of developing Axesor’s strategic direction and, in a general manner, of undertaking any structurally important function that may affect the Agency. In this regard, the Board of Directors has final responsibility for the activities undertaken by Axesor.

The following persons are members of the Board of Directors:

Name	Position
D. Demetrio Martínez	President of Board of Directors
D. Francisco de Paula Lombardo	Vice-president of Board of Directors
D. Manuel Neira López	Member of Board of Directors
D. Eduardo Espiga Pérez	Member of Board of Directors
D. Francisco Javier Orizaola Paz	Member of Board of Directors, Independent
D. Bruno Díaz Carazo	Member of Board of Directors, Independent

### 2.2.2. Audit Committee

The aim of the Audit Committee is to supervise and guarantee the strict compliance with established regulations on the part of the Agency and of its employees. The Audit Committee has the following functions:

- To review and approve the procedures adopted for detecting, handling and eliminating conflicts of interest.
- To review and guarantee the reliability and accuracy of the Agency’s accountancy information.
- To review and guaranteeing the effectiveness of the internal controls established by the Agency.
- To approve, together with the Board of Directors, the methodology used for the issuance of credit ratings.

Furthermore, the committee will be in charge of reviewing and approving the documents that have been delegated by the Board of Directors.

### 2.2.3. Audit and Compliance

The Audit and Compliance Department is in charge of supervising the Compliance with the regulations on the part of the Agency and its employees. To fulfil this goal, the Department operates independently from the rest of the activities undertaken by the Agency and carries out the following functions:

Compliance Function:

- Supervise and regularly evaluate the relevance and efficiency of the policies and procedures of Axesor's different areas.
- Guaranteeing the maintenance of a *CRA Code of Conduct* based on the following basic principles:
  - Objectivity, quality and integrity in the rating processes.
  - Independence in the face of real or potential conflicts of interest.
  - Market Transparency.
  - Compliance with the requirements defined by the International Organisation of Securities Commissions (IOSCO) and the (EC) Regulation 1060/2009 of the European Parliament and Council and subsequent modifications thereof.
- Ensuring Compliance with the *CRA Code of Conduct* on the part of all of the Agency's employees.
- Guaranteeing that all conflicts of interest are identified and eliminated.
- Reviewing internal control measures and making audit recommendations whenever necessary.

Review Function:

- Regularly verifying the suitability of the models, methodologies and hypotheses involved in the development of credit ratings, as well as reviewing and validating any changes or modifications that these may undergo.
- Monitoring the quality and goodness of fit of the ratings.
- To study the impact of economic factors on the ratings.

Internal Audit Function:

- Periodical drafting of internal audit reports on the different areas of the company, indicating possible deficiencies or areas for improvement.

#### 2.2.4. Credit Rating assignment process

To evaluate an issuer or an issuance's solvency, Axesor focuses on the probability of it not fulfilling its payments with regard to the definition of *default* used by the Agency. For this purpose, the Financial Analysis Area applies a strict process that includes different validation filters, so that the quality of the credit rating is secured, such process consists of the following phases:

- **Processing of information:** all the information is gathered, public and / or private as the case may be; it is processed and incorporated into the databases for the analysis.
- **Analysis and evaluation of the information:** quantitative and qualitative study of the entity to be rated by an analyst, analysis of the information and valuation of the risk foundations.

The methodology that Axesor uses for the issuance of credit ratings is robust and follows the best market practices, complying with regulatory judgments issued by the Regulation (EC) No. 1060/2009 of the European Parliament and of the Advice on credit rating agencies. Details by type of credit rating methodology are available at [www.axesor-rating.com](http://www.axesor-rating.com).

- **Head Analyst's revision:** review of the information used, the documents generated, the rating process itself and the credit rating given by the analyst.

The Head Analyst studies the rating awarded by the analyst, along with the supporting arguments. If the head analyst agrees with the criteria used by the analyst, the rating is then taken to the Rating Committee for its approval and subsequent publication. If, on the contrary, the head analyst considers that the qualification may be modified in some way, the qualification is returned to the study phase along with the reasoning that justifies this revision.

- **Rating Committee:** is the final body with responsibility for the issuance and review of the ratings issued by Axesor.
- Once the Head Analyst has sent a company's credit ratings to the Rating Committee, this body conducts an analysis and evaluation of these rating reports in order to approve them and to be able to notify the rated company of the rating that it has received. Just as is the previous phase, if the Committee finds any reason for which it considers that a review of the rating is necessary, it will return it along with the proper justifications, to its study phase.
- **Communication of the credit rating:** as a prior step to being published, Axesor notifies the company of the rating that it has received, along with the fundamental elements upon which the rating is based. The notification takes place with at least 24 hours previous notice, thus giving the company the opportunity to appeal the rating.
- **Publication:** once 24 hours have passed from the company being notified of the rating issued, Axesor launches a process by means of which the rating is disclosed to the competent authorities as well as to the market.

From the beginning of the study of the rated company until the publishing of the final rating awarded, the rating must pass a minimum of three different quality filters (the analyst, the head analyst and the Rating Committee), thus guaranteeing the independence and integrity of the rating process undertaken by Axesor.

- **Monitoring and revision of ratings:** with the purpose of guaranteeing the reliability of the published credit ratings, Axesor conducts a continuous assessment of all the companies for which it has issued a credit rating. In this sense, a system has been developed by means of which all of the situations

that may represent a modification to the credit quality of some of the rated companies are identified.

By virtue of the information set out in the previous paragraph, Axesor has available a series of defined alarms that alert the analyst of any financial update that may entail a modification in the rating of a company. Depending on the nature of the alarm, the analyst will consider the need to review the company’s credit rating by means of the previously described process, updating, if necessary, the published rating and notifying the users of this rating as a result of the changes incurred by the company and the reasons for these changes.

Axesor carries out a revision of all the ratings that have been published at least once a year.

### 2.3. Agency staff statistics

The following table presents information regarding the persons who take part in the credit rating activities performed by Axesor.

Type of employee	Number of staff
Rating Manager	2
Analyst	11
Independent members of the Rating Committee	1
Methodology Development	5
Model Revision	1
Senior Management	2

The analysts perform both activities, issue new credit ratings and revise issued credit ratings.

With respect to the asset classes, the analyst’s team of is distributed as follows:

Asset classes	Number of staff
Corporate	9
Structured finance	1
Sovereign	1

### 2.4. Policy for the preservation of documentation

Axesor will keep the following information on its premises for a minimum of five years:

- All documentation relating to each credit rating issued by the Agency including, amongst others:

- o Entry data from its models (financial, qualitative, etc.) as well as any information upon which the rating is based.
- o For credit ratings of structured finance instruments, information about:
  - The portfolio of assets (information on loans, the debtor, warranties, historical information of default, defaults, recoveries etc.)
  - The structure (structure of cash flows, analysis of losses and cash flows, fund participants, qualitative elements, etc.).
  - The prospectus or initial term-sheet.
  - Etc.
- o For sovereign ratings or outlooks, information about:
  - Any data used to determine the rating or outlook, including specific research information as quantitative and qualitative hypotheses, parameters, limits and uncertainties.
  - The calendar with the publication dates for the unsolicited sovereign ratings.
  - The information of the following elements for the detailed evaluation of the modification of the sovereign rating or outlook: income per capita, GDP growth, inflation, budget balance, external balance, external debt, indicator of economic development, indicator of non-compliance and any other factor taken into account.
  - The summary of the meeting minutes of the Rating Committee where the change in the rating grade is decided.
- o Partial and final results obtained during the methodological rating process.
- o Identification of those agents who have taken part in the rating, including the analyst, the head analyst and persons who have participated in the Rating Committee for its approval.
- o Identification of agents who have access to confidential information.
- o The minutes of each Rating Committee.
- o Other information contained in the disclosure of the credit rating (date of issuance, whether the qualification was solicited or unsolicited, etc.).
- o Documentary proof of the communications having occurred during the credit rating process between Axesor and the rated company, as well as internal communications that may be relevant for each specific case.
- o A copy of the notification made to the company prior to the publishing of the credit rating as well as any response that may have been received from it.
- o Internal communications related to credit rating activities.
- o Rating reports latest version for each of the rated companies or instruments.
- o Internal documentation, including non-public information and work documents, used as a basis for any adopted credit rating decision.
- All the information in electronic format, including all electronic mail messages received and sent by Axesor, regardless of their content, will be kept on the Agency's server, whilst all documents in physical format will be stored and protected by the person in charge of each section.
- Any document that describes the measures, policies, procedures and methodologies associated with the process of issuing credit ratings.



- Results of the different statistical studies carried out.
- Information regarding each client, including:
  - A description of the services provided as well as the contract signed by Axesor and the client.
  - Accounting information relative to the fees received for the service provided.
- Any document that describes the policies, procedures and methodologies applied in the Agency.
- Any document that describes the measures, policies and procedures that are applied by Axesor within the functions of Compliance and Review.
- The results of the evaluations made by the Audit and Compliance Department as well as the reports presented to the Board of Directors by this department.
- Copies of the following registers:
  - Minutes of the Board of Directors.
  - Minutes of the Management Committee.
  - Minutes of the Audit Committee.
  - Procedures and reports drafted by the Audit and Compliance Department.
  - Information sent through RADAR for CEREP, diffusion and supervision.

To obtain the information listed above, there is a control system that authorises access depending on the functions, responsibilities and job held by each user.

In addition, Axesor disposes of a series of control procedures, as well as backup procedures for the archived information, that guarantee the protection of the documentation in the case of errors of a technological nature or of system failures.

Axesor places the information listed above at the disposal of the relevant authorities when they see fit.

If Axesor were to be withdrawn from the register, the aforementioned information will be kept for an additional period of at least three years.

## 2.5. Internal audit report on the Compliance Function

The purpose of this document is to inform the Board of Directors of the Compliance Function performance of the Rating Agency as established by the Regulation (EC) No. 1060/2009 of the European Parliament and of the Council.

The audit review includes an assessment of the Compliance Function and its staff, along with the monitoring of policies and procedures established pursuant to Regulation.

This is a review of the activities of the Compliance Function and the adequacy of the work plan set for 2019.

We verified that the reporting line designed and established by the Compliance Function is independent, which is confirmed through the annual review.

It also verifies that the implementation of the recommendations and suggested changes resulting from the Compliance Function have been implemented or are underway.

The latest report to the Board of Directors refers to the fiscal year 2019.

## **2.6. Rotation policy**

In order to promote the independence of Axesor's employees with regard to the rated companies, Axesor makes use of a gradual rotation measure that is applicable to any person who takes part in credit rating activities.

This policy aims to avoid possible prolonged relationships between the rated companies and the analysts in charge of their ratings, thus avoiding potential conflicts of interest that may arise for this reason, guaranteeing the independence and integrity of the rating issuance process performed by Axesor.

The portfolio rotation policy is carried out gradually, individually and not with the entire team, envisaging and guaranteeing abiding by all the regulatory dispositions to which it is subjected.

Along these lines, and based on the applicable regulation that applies to rating agencies, Axesor has established a set of policies, procedures and control measures linked to the rotation of portfolios of rated companies in order to guarantee compliance with the following requirements:

- The lead analysts who take part in the development of credit ratings cannot take part in credit ratings linked to the same rated company or to related third parties for a period of more than four years.
- Credit rating analysts cannot take part in credit qualification activities linked to the same rated company or to related third parties for a period of more than five years.
- The persons in charge of approving credit ratings cannot take part in credit rating activities linked to the same rated company or to related third parties for a period of more than seven years.

The person who has fulfilled the maximum periods mentioned above with regard to his/her post will not take part in the credit ratings of the corresponding company for a period of two years.

## **2.7. Income derived from CRA activities and ancillary services**

In the fiscal year ended December 31, 2019, the revenue obtained by Axesor was of 2.321.505,51€<sup>1</sup>. Below the definition of the considered concepts and the table showing the distribution of this revenue:

- "Credit Rating Services": are products or services including credit ratings in accordance with the provisions of Regulation (EU) No. 1060/2009 on credit rating agencies.
- "Ancillary services": are products or services that are not part of credit rating activities and include market forecasts, estimates of economic trends, pricing analysis and other general data analysis as well as related distribution services; for more information see [www.axesor-rating.com](http://www.axesor-rating.com).
- "Other services": are products or services different from the credit rating services and ancillary services.

Revenues	2019
<b>Credit Rating Services</b>	<b>23,18 %</b>
Corporates	19,95 %
Financial structured instruments	3,23 %
<b>Ancillary services</b>	<b>76,82 %</b>
Clients of Credit Rating Services	6,85 %
Non-Clients of Credit Rating Services	69,97 %
<b>Other services</b>	<b>0 %</b>

With regard to the asset classes, Axesor focuses its activity on corporate and financial structured instruments, and geographically revenues were generated in the European Union.

## 2.8. Corporate Governance Report

This section lists the corporate governance with regard to Article 46, Paragraph 1, of the Directive 78/660/EEC of 25th July 1978.

Article 46 bis, Paragraph 1, section (a), parts i and ii:

Axesor has adopted a CRA Code of Conduct that contains the foundations of the Code of Conduct for Credit Rating Agencies of the International Organisation of Securities

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<sup>1</sup> Audited revenues. The revenues € 1,811,674.79, published on March 30, 2020 had an error, it is rectified on May 13, 2020.

Commissions (“IOSCO Code”). This code regulates the activities of credit rating agencies and of the staff linked to these activities.

Article 46 bis, Paragraph 1, section (c):

The Agency’s internal risk control and management systems linked to the rating issuance process are listed in section 2.2 of the present document.

Article 46 bis, Paragraph 1, section (d):

Does not apply.

Article 46 bis, Paragraph 1, section (e):

Axesora abides by the *Código de Buen Gobierno* (Code of Good Governance) established by the *Comisión Nacional del Mercado de Valores* (CNMV - National Securities Market Commission).

Article 46 bis, Paragraph 1, section (f):

The composition and functions of the Board of Directors as well as of the various committees operating within the Agency are presented in sections 2.2.1. and 2.2.2. of the present document.