RATING DEFINITIONS

SOVEREIGN RATING METHODOLOGY

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BEYOND RATINGS

standards for positive finance

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A. RATINGS NOMENCLATURE

Beyond Ratings provides opinions on a common credit ratings scale (see Table 1 below). Beyond Ratings issuer credit ratings are an opinion on the relative ability of a credit issuer to meet its financial commitments, principally interest and repayment of principal. Credit ratings relating to obligations of an issuer can reflect a recovery expectation in some specific cases (notably in "CCC", "CC" and "C" ratings). Credit ratings are used by investors as opinion on the likelihood of receiving the money owed to them in accordance with the terms on which they invested. Beyond Ratings credit ratings cover the spectrum of sovereign and public finance entities (including sub-sovereign and supranational entities) and the obligations they issue.

The "Investment Grade" and "Speculative Grade" terms have established themselves over time as broad categories to describe the categories from "AAA" to "BBB" for Investment Grade and from "BB" to "C" for Speculative Grade. The "Investment Grade" and "Speculative Grade" terms are market conventions and do not imply any recommendation or endorsement of a specific security for investment purposes. The "Investment Grade" broad category indicates opinions of extremely low ("AAA rating) to moderate credit risk ("BBB" category), while the "Speculative Grade" broad category indicates opinions of substantial credit risk ("BB" category) or that a default is imminent ("C" rating).

Beyond Ratings credit ratings express risk in relative rank order, which is to say they are ordinal measures of credit risk and are not predictive of a specific frequency of default or loss. In the default components of ratings assigned to individual obligations, Beyond Ratings typically rates the likelihood of non-payment or default in accordance with the terms of that obligation's documentation.

The Beyond Ratings' definition of a credit default (*i.e.*, D) is applicable to all rated entities. It includes one or more of the following four events:

(i) Failure to service a coupon or principal on any debt instrument, (including but not limited to bills, notes, bonds and loans) issued by the entity on the due date or the resolution of such outstanding payments within a grace period not exceeding 30 calendar days;

(ii) Missed coupon or principal repayment on debt benefiting from a timely, irrevocable and unconditional guarantee issued by the entity;

(iii) Failure to service debt other than bonds or loans owed to private creditors by the entity, at the exclusion of leases, purchase agreements, labour contracts, and debt involving a bona fide commercial dispute;

(iv) Any debt exchange or distressed-debt restructuring that leads to less favourable terms of a debt obligation than those of the original contractual terms. This can include, for example, an extension of maturities, reduced principal amount, lower coupon or interest rates, a change in the currency payment or effective subordination.

In the case of an announced debt restructuring, Beyond Ratings assesses the characteristics of any exchange offer and considers the impact of each individual change in the debt terms. If a rated bond or loan is subject to either an exchange offer or distressed-debt restructuring that leads to a material reduction compared with the original contractual terms, Beyond Ratings will change the rating – on both the issuer and the obligation subject to the exchange – to D for Default. This also applies when only a part of the rated bond is subject to exchange offers. The entity will remain in Default rating until the debt exchange has been substantially concluded, after which Beyond Ratings will change the issuer rating to a level in line with its opinion of the post-restructuring fundamentals of the entity.

For sovereign issuers, our "D" rating may denote generally a partial default on some but not all of the sovereign's debt. Sovereigns are not subject to bankruptcy laws, and can therefore select the debt on which they will default, while maintaining other financial obligations current. Consequently, when a Sovereign is in default (with a "D" rating), some of its issues will be rated "D", but others may still be performing and be rated differently.

Beyond Ratings has decided to assign one issuer credit rating to each rated issuer, rather than separate foreign and local currency issuer credit ratings. The reasons for this simplification are:

- In most cases, foreign and local currency credit risks are similar, in Beyond Ratings' opinion, because of the monetary policy regime, fiscal flexibility issues, or political/governance considerations.
- In some debt restructurings, the treatment differs not by currency as much as by the legal framework under which the debt obligations are issued. For example, issuance of local currency debt in global markets and foreign currency debt in local markets can alter incentives and options in a debt restructuring

For all issuers in default on any loan or debt (rated or unrated), the issuer credit rating will be 'D.' Rated debt will also be 'D' if any payment is past due and, where applicable, Beyond Ratings does not expect payment within a grace period specified in the original terms of the issue. Debt not in default will be rated in accordance with Beyond Ratings' expectations of whether that debt will continue to be serviced on time and in full.

For sovereign issuers, this means some issues may continue to be rated several notches above 'D,' because of greater flexibility regarding payment in local currency or other considerations. For non-sovereign issuers, the same may also be true, but the situation will occur less frequently, unless the obligations are of a different status, because bankruptcy laws usually do not permit discrimination between equally ranked debt obligations. If the sovereign restricts non-sovereign access to foreign exchange needed for debt service, a non-sovereign may continue to service its local currency obligations while failing to meet its foreign currency obligations. However, over the last few decades sovereigns suffering mounting political and economic pressures have less frequently resorted to restrictions on foreign exchange needed for debt service than was the case in prior decades, even when sovereigns impose other types of foreign exchange controls.

Lastly, for the convenience of investors, in its supporting documents Beyond Ratings may also include issues relating to a rated issuer that are not and have not been rated on its web page. Such issues are denoted as "NR" for Not Rated.

Table 1: Ratings Nomenclature

Broad Rating Category	Rating Category	Short Definition	Definition
Investment Grade	AAA	Higher credit quality	"AAA" ratings denote an extremely low credit risk expectation on financial commitments. They are associated with outstanding economic, financial and ESG performances.
	AA	Very high credit quality	"AA" ratings denote a very low credit risk expectation on financial commitments. They are associated with very high economic, financial and ESG performances.
	A	High credit quality	"A" ratings denote a low credit risk expectation on financial commitments. They are associated with high economic, financial and ESG performances.
	BBB	Good credit quality	"BBB" ratings denote a moderate credit risk expectation on financial commitments. They are associated with relatively good economic, financial and ESG performances.
Speculative Grade	BB	Speculativ e	"BB" ratings denote a substantial credit risk expectation on financial commitments. They are associated with moderate and/or erratic economic, financial and/or ESG performances.
	B	Highly speculative	"B" ratings denote a high credit default risk expectation on financial commitments. They are associated with mediocre and/or erratic economic, financial and/or ESG performances.
	CCC	Substantial risks	"CCC" ratings denote a very high credit risk expectation on financial commitments. They are associated with weak and/or erratic economic, financial and/or ESG performances.
	CC	Extremely speculative	"CC" ratings denote an extremely high credit risk expectation on financial commitments. They are associated with very weak and erratic economic, financial and/or ESG performances.
	C	Imminent default	"C" ratings denote that an entity has not officially defaulted on some or all of its financial commitments but that the official announcement of the default is imminent. They are assigned regardless of economic, financial and ESG performances.
D		Default	"D" ratings denote that an entity has officially defaulted on its debt. They are assigned regardless of economic, financial and ESG performances.

N.B.: The ratings from “AA” to “B” may be modified by the addition of a plus (+) or minus (-) sign to assess relative standing within the rating categories.

B. FROM LONG-TERM RATING TO SHORT-TERM RATING

Short-term credit ratings cover the financial obligations of rated entities with contractual maturity of up to 13 months. Beyond Ratings will use the correspondence table below to rate short-term debt. For our short-term ratings, IG denotes Investment Grade category while HY denotes Speculative Grade category (sometimes called High Yield category). “+” and “-“ follow the same logic as for long-term ratings.

Table 2: From Long-Term Rating to Short-Term Rating

Long-term	Short-term
AAA	IG+
AA+	
AA	
AA-	
A+	IG
A	
A-	
BBB+	IG-
BBB	
BBB-	
BB+	HY+
BB	
BB-	
B+	HY
B	
B-	
CCC	HY-
CC	
C	
	D
D	

C. DEFINITIONS OF RATING ACTIONS

Preliminary: Preliminary (P) ratings are assigned in advance of the issuance of the debt. Beyond Ratings will only assign a preliminary rating on products/structures where it would also assign a new Credit Rating, subject to all project documents being finalized.

New: The assignment of a new Credit Rating (may or may not be preceded by a preliminary rating).

Upgrade: The upgrade of a Credit Rating.

Downgrade: The downgrade of a Credit Rating.

Default: The assignment of a default status to a Credit Rating.

Under Review: The placement of a Credit Rating "under review" for a possible upgrade, a possible downgrade, or for a developing outcome.

Confirmation: If a Credit Rating is removed from the review or observation status without an upgrade or downgrade.

Affirmation: If a Credit Rating is affirmed following a rating committee meeting.

Withdrawal: A Credit Rating is withdrawn.

Outlook New or **Outlook Change**: The assignment or change of an outlook. An outlook can be stable (STA), positive (POS) or negative (NEG). When an outlook has not been assigned to an eligible entity, No Outlook (NOO) may be displayed.

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