

General Criteria:

# National And Regional Scale Credit Ratings

September 22, 2014

*(Editor's Note: This article has been fully superseded by "Methodology For National And Regional Scale Credit Ratings," published June 25, 2018.)*

1. This article describes Standard & Poor's Ratings Services criteria for assigning national and regional scale credit ratings. This article seeks to help market participants better understand our approach to assigning issuer and issue credit ratings using our national and regional credit rating scales. This article is related to our criteria article "Principles Of Credit Ratings," which we published on Feb. 16, 2011, and "S&P Global Ratings Definitions," which we update from time to time. These criteria fully supersede the article "Understanding National Rating Scales," published April 14, 2005. Concurrently with this article, we are publishing our mapping tables, which show the correspondence between global scale credit ratings and national scale credit ratings (see "S&P Global Ratings' National And Regional Scale Mapping Tables," published Aug. 14, 2017). These mapping tables are published and updated periodically as necessary, as described in the section, "National Scale Design And Calibration."

## SCOPE OF THE CRITERIA

2. This methodology applies to all national scale credit ratings except Japanese SME ratings (small and medium-size enterprises), and Canadian national scale ratings. These criteria do not supersede country-specific issue rating criteria. See "Related Criteria And Research," which lists the country-specific issue rating criteria. Ratings on in-scope scales are denoted with a market-specific prefix, with the exception of the Nordic regional scale, which has a unique symbology (K-scale).

## SUMMARY OF THE CRITERIA

3. This article updates our criteria for assigning national and regional scale credit ratings (both referred to here as "national scale credit ratings"). We assign national scale credit ratings in a number of jurisdictions and regions. This article describes the principles underpinning such ratings, explains how they are different from global scale credit ratings, details how mapping tables between national and global scale ratings are designed and calibrated, and explains how we determine national scale credit ratings.
4. Standard & Poor's national scale credit ratings are an opinion of an obligor's creditworthiness (issuer, corporate, or counterparty credit rating) or overall capacity to meet specific financial obligations (issue credit rating) relative to other issuers and issues in a given country. National scale credit ratings provide a rank ordering of credit risk within the country. We will refer to both

### PRIMARY CONTACT

**Peter J Eastham**  
New York  
(61)3-9631-2184  
peter.eastham  
@spglobal.com

### SECONDARY CONTACTS, EMEA

**Katrien Van Acoleyen**  
London  
(44) 20-7176-3860  
katrien.vanacoleyen  
@spglobal.com

**Andrea Quirk**  
London  
(44) 20-7176-3736  
andrea.quirk  
@spglobal.com

### SECONDARY CONTACTS, AMERICAS/LATIN AMERICA

**James M Wiemken**  
New York  
(1) 212-438-1150  
james.wiemken  
@spglobal.com

**Marta Castelli**  
Buenos Aires  
(54) 114-891-2128  
marta.castelli  
@spglobal.com

### SECONDARY CONTACT, ASIA-PACIFIC

**Takamasa Yamaoka**  
Tokyo  
(81) 3-4550-8719  
takamasa.yamaoka  
@spglobal.com

## General Criteria: National And Regional Scale Credit Ratings

"country" or "region" as "country" in this context. We may assign national scale ratings to entities residing in the country, as well as non-domestic entities issuing debt in a given national scale market.

5. To determine the national scale credit rating, we use criteria that are identical to, or consistent with, our global scale criteria. We typically first determine our view of creditworthiness on the global scale (see note at the end of this article), and then use mapping tables, which show the relationship between global and national scales, to determine a national scale credit rating. For some countries, we also publish specific criteria for national scale credit ratings. Country-specific national scale criteria provides additional guidance to determine the finer distinctions between credit quality on the national scale.
6. To determine the national scale issue credit rating for corporate and government issuers, we first determine the national scale issuer credit rating (ICR) and then potentially notch up or down for subordination (the relative position in bankruptcy) or for expected recovery (recovery given default). If we also notch down the global scale issue rating for differentiated default risk, such as in the case of equity hybrid capital instruments, we first determine the global scale rating that corresponds to our view of the default risk for the instrument, then we map that preliminary result to the national scale rating, and then we notch down on the national scale for subordination features.
7. For structured finance issues, we determine national scale issue credit ratings by either i) first determining the global scale issue rating and then using the mapping tables, or ii) applying country-specific national scale criteria as per paragraph 5, above.
8. In order for an corporate and government entity, or structured finance issue rating, to be rated above the sovereign on the national scale, the entity/issue should pass the relevant stress test or other constraints in the criteria to be rated above the sovereign, i.e., it should be resilient to the level of stress expected in a sovereign default scenario. Therefore, for cases where we first determine a global scale rating, if we do not rate an entity/issue above the sovereign on the global scale, we will not rate such entity/issue above the sovereign on the national scale. [See Appendix A, and "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013, and "Rating Above the Sovereign-Structured Finance", August 8, 2016.]
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## METHODOLOGY

### National Scale Credit Rating Principles, Definitions, And Symbols

12. National scale credit ratings are calibrated to provide finer distinction of relative credit risk within a country than is possible with global scale credit ratings. Unlike the latter, which are comparable across all regions, national scale credit ratings provide a rank ordering of credit risk within the country only. Because the focus is on credit quality within a single country, national scale credit ratings are not comparable between countries. In addition, national scale ratings may be changed more often, including multi-notch rating adjustments, and be more volatile than global scale ratings because a one- or two-notch change in a global scale rating may map to a multiple-notch change for the national scale rating.

## General Criteria: National And Regional Scale Credit Ratings

13. Standard & Poor's national scale credit ratings are an opinion of an obligor's creditworthiness (issuer, corporate, or counterparty credit rating) or overall capacity to meet specific financial obligations (issue credit rating) relative to other issuers and issues in a given country. National scale credit ratings provide a rank ordering of credit risk within the country. We may assign national scale ratings to entities residing in the country or to non-domestic entities issuing in a given national scale market.
14. Standard & Poor's also assigns regional scale credit ratings for certain groups of countries, such as the Gulf Cooperation Council region. Regional scale credit ratings have the same attributes as national scale credit ratings in that neither is comparable to other regional or national scales, and they represent a relative rank order of creditworthiness within the region. The definitions also are the same except that "national" is replaced with "regional."
15. National scale credit rating definitions are similar to global scale credit rating definitions but are generally expressed in terms relative to other national scale issuers or obligations, except for three rating levels that are not relative: 'R' (regulatory intervention), 'SD' (selective default), and 'D' (default). For example, the general 'xxAAA' national scale long-term issue rating definition is, "An obligation rated 'xxAAA' has the highest credit rating assigned on Standard & Poor's national scale. The obligor's capacity to meet its financial commitments on the obligation, relative to other national obligors, is extremely strong." Most national scales use an identical set of credit rating definitions. (See "S&P Global Ratings Definitions," updated from time to time, for national scale rating definitions.)
16. National scale credit ratings use Standard & Poor's global credit rating symbols, including pluses and minuses, with the addition of a two-letter, lower-case prefix to denote the country, except for Nordic regional scale credit ratings, which have a unique symbology (K-scale). For example, the Brazil national scale uses the prefix 'br', as in 'brAAA' or 'brBBB'. National scale credit ratings can be assigned for both long- and short-term issues, and we can assign long- and short-term issuer credit ratings. We will use CreditWatch in the same manner as we do for global scale ratings. National scale credit ratings can include the use of outlooks. In addition, national scale credit ratings may use pluses and minuses from 'xxAA' to 'xxCCC'. (See "S&P Global Ratings Definitions" for a list of country prefixes, the scale name, and the associated country [or countries for regional scales].)

## National Scale Design And Calibration

17. The guiding principle for national scale calibration is to provide finer distinctions among issuer and issue credit quality than is possible with the global rating scale. This is because in some countries, sovereign and country risk may constrain credit quality on the global scale to a limited number of rating categories, whereas the national scale allows us to communicate our views on finer distinctions in credit quality. Thus, national scale design begins with an assessment of credit quality within a given country. For example, if we expect almost all of the entities in a country to receive a global scale local currency credit rating of 'BBB-' or lower, we would assign those entities the national scale credit rating of 'xxAAA' along with the global scale credit rating of 'BBB-'. After we have determined the mapping correspondence between the highest national scale credit rating and the global rating scale, we then determine the rest of the rating scale based on our expectations of each entity's credit quality within the country.
18. The highest national scale credit rating is often the sovereign local currency credit rating, but this is not always the case. If some entities' credit ratings exceed the sovereign credit rating on the global scale, the sovereign national scale rating may well be below 'xxAAA', and the non-sovereigns whose credit ratings exceed the sovereign credit rating may be rated up to 'xxAAA'.
- 19.

## General Criteria: National And Regional Scale Credit Ratings

In constructing our mapping tables, we have certain guidelines for the top and bottom of the rating scale. We generally require a minimum global scale rating of 'BB-' to map to a national scale rating of 'xxAAA', although most individual scales have higher global scale "anchor" points for the 'xxAAA' rating. We expect the mapping tables to converge between global and national scale ratings at the low end of the scale, meaning that a 'CCC+' global scale credit rating will generally equal a 'xxBB+' or lower national scale credit rating, a 'CC' global scale credit rating will equal a 'xxCC' national scale credit rating, and a 'D' or 'SD' credit rating indicates default on both global and national scales.

20. We may recalibrate the national scale from time to time to provide credit quality distinctions, such as if a national scale exhibits rating "compression" (a large proportion of ratings clustered among two or three rating levels), indicating changing credit quality. For example, compression at either end of the national rating scale may suggest that the scale does not provide enough credit quality distinction.
21. We may also recalibrate the scale when we change a sovereign credit rating, especially if through a multi-notch adjustment; when general credit conditions change, for example because of changing country risk for non-sovereigns; or if we change the global scale credit rating definitions.

## Using Mapping Tables To Assign National Scale Credit Ratings

22. National scales are designed to provide greater distinction of credit risk within a country than is possible with a global scale. For example, two issuers in the same country may be assigned a global scale 'BB' credit rating, but their national scale credit ratings could be different, indicating their relative credit risk within the country. We express the relationship between global and national scale credit ratings using mapping tables.
23. The mapping defines the relationship between the global and national scale credit ratings. Mapping tables typically map each global scale credit rating to up to four national scale credit rating choices. For example, if an issuer is assigned a 'BB' global scale credit rating, the national scale credit rating options may be 'xxAA', 'xxAA-', or 'xxA+'. If a sovereign credit rating is very low and most or all the non-sovereign global scale ratings are also very low (because of constraints for sovereign and country risk), it may be beneficial to have more notches to better distinguish creditworthiness on the national scale.
24. Each mapping table is specific to a given country (national scales) or region (regional scales), and national scale ratings on different scales cannot be compared to each other without the respective mapping tables. For example, the global scale mapping for a 'brAAA' may be different from that of a 'mxAAA' or 'zaAAA'. (See the section titled "National Scale Design And Calibration," above, for details.)
25. Mapping tables are published and updated as necessary. Please see "National And Regional Scale Mapping Tables," published Aug. 14, 2017, for national scale mapping tables that are current as of the date of this criteria. A hypothetical example of a national scale mapping is shown in the table.

### Hypothetical National Scale Mapping

Global scale long-term local currency rating	National scale long-term rating	National scale short-term rating
BBB and higher	xxAAA	xxA-1
BBB-	xxAAA, xxAA+	xxA-1
BB+	xxAA+, xxAA	xxA-1
BB	xxAA, xxAA-, xxA+	xxA-1

**General Criteria: National And Regional Scale Credit Ratings**

**Hypothetical National Scale Mapping (cont.)**

Global scale long-term local currency rating	National scale long-term rating	National scale short-term rating
BB-	xxA+, xxA, xxA-	xxA-1, xxA-2
B+	xxA-, xxBBB+	xxA-2, xxA-3
B	xxBBB+, xxBBB	xxA-3
B-	xxBBB, xxBBB-	xxA-3
CCC+	xxBB+, xxBB, xxBB-	xxB
CCC	xxB+, xxB, xxB-	xxB
CCC-	xxCCC+, xxCCC, xxCCC-	xxC
CC	xxCC	xxC
C	xxC	xxC
R	R	R
SD	SD	SD
D	D	D

Note: For corporate and government entities (except project finance), mappings are for issuer credit ratings, and issue ratings may be notched incrementally on the national scale for subordination (ranking) or our expectations for post-default recovery. As a result, the national scale issue credit rating may not be in line with the global scale issue credit rating. R--Regulatory supervision. SD--Selective default. D--Default.

- 26. For issuers that have both foreign and local currency ICRs, we use the global scale local currency ICR as the reference point in the mapping tables to determine the national scale ICR. The global scale foreign currency issue credit rating is the reference point for issue-level ratings in foreign currency, as discussed in paragraph 35.

**Assigning the national scale credit rating**

- 27. To determine the national scale credit rating, we use criteria that are identical to, or consistent with, our global scale criteria. For corporate and government ratings, we follow the steps below:
  - We first determine the global scale local currency credit rating; and
  - We then use the mapping tables to determine a national scale credit rating. When two or more outcomes are possible, we first consider the outlook on the global scale rating. Additional considerations include: whether the entity is a relatively stronger or weaker credit within its global scale credit rating category, for example, using a rank ordering of entities in the same global scale credit rating category within the entity's sector in the country (i.e., among domestic corporate ratings, or among domestic financial institution ratings); or a rank ordering of entities with the same global scale credit rating globally within the industry (for example, among global rated steel companies, or among global rated sovereigns). For sectors where we use the mappings to assign the national scale ICR, there are further steps to determine the national scale issue credit rating, as explained in "The Impact Of Subordination, Recovery, And Differentiated Default Risk," below.
- 28. For structured finance, we determine the national scale issue credit rating using one of two methods. We use the country-specific national scale issue criteria, such as "Rating Mexican Residential Mortgage-Backed Securities," published on June 7, 2012, or if we do not have country-specific criteria, we follow the two steps below:

## **General Criteria: National And Regional Scale Credit Ratings**

- First, we determine the global scale issue credit rating; and
- We then use the mapping tables to determine a national scale issue credit rating. To choose which national scale credit rating when two or more options are available, we consider whether a security is relatively stronger or weaker than others within the global scale credit rating category, for example, by considering the credit enhancements available relative to our loss projections at a particular global scale rating.

## **The Impact Of Subordination, Recovery, And Differentiated Default Risk**

29. In the absence of country-specific issue rating criteria, we apply the two sections below to determine the national scale issue credit rating.

### **Subordination/recovery**

30. We use notching to reflect an issue's subordination relative to other debt issues, or to reflect our recovery expectations in the event of a default.
31. The national scale ICR is the starting point for determining such notching. We will typically notch up or down one or two notches from the national scale ICR, according to the number of notches we would notch from the global scale ICR, if we were rating such an issue on the global scale. Therefore, the national scale issue credit rating, when compared with a global scale issue credit rating on the same issue, may not correspond to the rating in the mapping table.
32. For example, if our global scale criteria calls for one notch down for issue credit rating subordination for an issuer with an ICR of 'BBB-' or higher, and two notches down for subordination for an ICR of 'BB+' or lower, we would notch down one from a national scale ICR that corresponds to a global scale ICR of 'BBB-' or higher, and notch down two from a national scale ICR that corresponds to a global scale ICR of 'BB+' or lower.
33. Because we use subordination notching to indicate priority among creditors, national scale issue credit ratings typically remain within one or two notches from the national scale ICR, similar to the typical notching range between global scale issuer and issue credit ratings.

### **Notching for hybrid capital instruments: Differentiated default risk**

34. We also notch the national scale issue credit rating for differentiated default risk, such as in the case of equity hybrid capital instruments (e.g., preferred stock and certain subordinated instruments). First, we establish on the global scale the rating level that reflects the default risk of the instrument. Second, we use this rating level on the global scale to map to the indicative national scale rating. Third, we apply incremental notches down from the indicative national scale rating for subordination, as determined in paragraphs 30 through 33. In some cases, as per our hybrid capital criteria, the global scale hybrid capital issue credit rating is set to 'CCC', in which case the national scale credit rating would be set at the rating level that maps to a global scale rating of 'CCC'.

## **National Scale Issue Credit Ratings: Foreign Currency**

35. To rate a foreign currency issue on the national scale, we first establish on the global scale the rating level corresponding to the global scale foreign currency default risk of the instrument. Second, we use this rating level on the global scale to map to the indicative national scale rating.

## General Criteria: National And Regional Scale Credit Ratings

Third, we notch up or down from the indicative national scale rating if the instrument has subordination or recovery characteristics. In this way, we therefore take into account transfer and convertibility constraints, if any. As a clarification of the reference point for the first step, the "rating level corresponding to the foreign currency default risk" will typically be, for most corporate and government issuers, the foreign currency issuer credit rating. In the case of hybrid capital instruments, there may be a differentiated default risk (as per paragraph 34). We would then apply incremental notching, if relevant, to rate the instrument, as per paragraphs 30 to 33. For project finance and securitizations, the first step will apply to the global scale foreign currency issue credit rating, which is mapped to the national scale as in step two, and the third step (notching for subordination or recovery) is not relevant for those sectors.

## Note

36. In this document, we may refer to the determination of creditworthiness on the global scale as a "global scale rating." Such determination includes any rating analysis performed for internal purposes and not released publicly. As described in Standard & Poor's Glossary with respect to Ratings Services' policies, an internal confidential unsolicited credit rating is a credit rating that is used solely for internal purposes as a component of another credit rating and is not made public. An internal confidential unsolicited credit rating is neither a type of Confidential Credit Rating nor an unsolicited credit rating.

## APPENDIX A: FREQUENTLY ASKED QUESTIONS

### Application of Rating Above the Sovereign Criteria to National Scale Ratings

37. In order for a corporate, financial, or government entity to be rated above the sovereign on the national scale, the entity should pass the relevant stress test or other constraints in the criteria to be rated above the sovereign (see "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013, "RAS-C&G"), i.e., it should be resilient to the level of stress expected in a sovereign default scenario. Therefore, if we do not rate an entity above the sovereign on the global scale, we will not rate such entity above the sovereign on the national scale. As per these criteria (paragraph 5), in order to determine the national scale rating, we first determine our view of creditworthiness on the global scale, and then apply the mapping tables. As relevant, we would apply RAS-C&G as part of our determination of our view of creditworthiness on the global scale.
38. In order for a structured finance issue to be rated above the sovereign on the national scale, the issue should pass the relevant stress test or other constraints in the criteria to be rated above the sovereign (see "Ratings Above the Sovereign-Structured Finance, August 8, 2016, "RAS-SF"), i.e., it should be resilient to the level of stress expected in a sovereign default scenario.
39. As noted in paragraph 7 of these criteria, for structured finance issues, we determine national scale issue credit ratings by either i) first determining the global scale issue rating and then using the mapping tables, or ii) applying country-specific national scale criteria. As relevant, we would apply RAS-SF as part of our determination of our view of creditworthiness on the global scale.
- Where we first determine a global scale rating and then apply our mapping tables to determine a national scale rating, we apply all aspects of RAS-SF to determine the global scale rating, and then apply mapping tables as we would in order to determine any other national scale rating. Therefore, if we do not rate an issue above the sovereign on the global scale, we will not rate

## General Criteria: National And Regional Scale Credit Ratings

such issue above the sovereign on the national scale.

- Where we have country specific national scale criteria, but these criteria do not contemplate a level of stress commensurate with a severe level of stress, in order to rate above the sovereign we may refer to the most applicable global scale criteria to determine the relevant severe stress scenario, then determine the maximum rating differential above the sovereign (using Table 2 of RAS-SF criteria, which considers the country risk sensitivity for the asset class), and then apply the country specific mapping table to reflect the maximum rating differential in national scale terms.
40. For example, when rating a Brazilian Trade Receivable Transaction, we may apply both national scale criteria ("Methodology And Assumptions For Rating Brazilian Trade Receivables Securitizations," published May 13, 2009, "Brazil Trade Receivable Criteria") and the relevant global scale severe stress from the global trade receivable criteria, such as "Trade Receivables Criteria: Calculating Credit Enhancement For Trade Receivables," Sept. 1, 2004. The maximum potential rating for a transaction on the national scale will be determined by using Table 2 of RAS-SF criteria, in this case a maximum differential of 4 notches above the global scale sovereign foreign currency rating, and mapping such maximum potential rating to the national scale, by using the relevant country (Brazil) mapping table.

## Reverse Application of National And Regional Scale Mapping Tables

41. We can use country or region mapping table in the Mapping Table Criteria (see "S&P Global Ratings' National And Regional Scale Mapping Tables," published Aug. 14, 2017) in reverse to estimate a rating or creditworthiness in the global scale. That is, for limited uses, we may start from a national or regional scale rating, and map such rating back to the corresponding global scale rating, as indicated in that table. Such limited uses may include: i) analyzing potential national scale rating transitions as per our "Credit Stability Criteria," published May 3, 2010; ii) applying our criteria for ratings above the sovereign (see RAS-C&G and RAS-SF) considering the relevant sovereign rating and the relevant number of notches above the rating; or iii) if we are requested to assign a global scale rating on a transaction rated under country specific national scale criteria, for example, Brazil Trade Receivable Criteria, or "Methodology And Assumptions For Rating Mexican Equipment ABS," Dec. 11, 2014
42. In some cases, there may be more than one global scale-equivalent option to choose from for a given national scale rating. In these cases, we follow a similar logic as for assigning national scale ratings starting off from a global scale rating (i.e., consider the outlook if there is one, or relative strength vs. other credits in the same category or industry). Additionally, if we are rating above the sovereign, the entity/issue should pass the relevant stress test or other constraints in the RAS-C&G or RAS-SF; i.e., it should be resilient to the level of stress expected in a sovereign default scenario.
43. For the analysis of historical transitions as presented in the "Credit Stability Criteria," published May 3, 2010, we choose the highest potential global scale rating for the beginning of the period, and the lowest potential global scale rating for the end of the period. If the mapping tables have been updated between the beginning and end of the one and three year horizons, we would use the mapping table in effect at each relevant point in time, to determine the global scale rating equivalents.



## **REVISIONS AND UPDATES**

We originally published this criteria article on Sept. 22, 2014.

These criteria fully superseded the article titled "Understanding National Rating Scales," published April 14, 2005.

Changes introduced after original publication:

- Following our periodic review completed on Sept. 15, 2015, we made minor changes that did not affect the substance of the criteria and updated the authors. We removed outdated sections that appeared in paragraphs 8-11, which were related to the initial publication of our criteria and no longer relevant.
- Following our periodic review completed on Sept. 15, 2016, we added frequently asked questions in Appendix A, made a conforming update to paragraph 8 (with respect to ratings above the sovereign on national and global scales), made minor changes that did not affect the substance of the criteria, updated the authors, and added a revision history section.
- Following our periodic review completed on Sept. 12, 2017, we made minor changes that did not affect the substance of the criteria, updated the authors, and updated the related criteria list.

## **RELATED CRITERIA AND RESEARCH**

### **Related Criteria**

- S&P Global Ratings Definitions, updated from time to time
- Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- S&P Global Ratings' National And Regional Scale Mapping Tables, Aug. 14, 2017
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Methodology For Applying Recovery Ratings To National Scale Issue Ratings, Sept. 22, 2014
- Use Of 'C' And 'D' Issue Credit Ratings For Hybrid Capital And Payment-In-Kind Instruments, Oct. 24, 2013
- Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

### **Country-Specific Rating Criteria**

- Methodology And Assumptions For Rating Mexican Tax Participation And Local Revenue Future Flow Transactions, Nov. 6, 2015
- Methodology And Assumptions For Rating Argentine Trade Receivables ABS Transactions, June 11, 2015
- Methodology And Assumptions For Rating Mexican Equipment ABS, Dec. 11, 2014

## General Criteria: National And Regional Scale Credit Ratings

- Standard & Poor's Maalot (Israel) National Scale: Methodology For Nonfinancial Corporate Issue Ratings, Sept. 22, 2014
- Methodology For Deriving Assumptions For Mexican Interest Rate Curves, Dec. 31, 2013
- Methodology And Assumptions For Rating Mexican Trade Receivables ABS Transactions, Dec. 10, 2012
- Rating Mexican Residential Mortgage-Backed Securities, June 7, 2012
- Methodology And Assumptions: Rating Mexican Residential Mortgage-Backed Securities, June 7, 2012
- Methodology And Assumptions For Rating Brazilian Residential Mortgage-Backed Securities, Jan. 14, 2010
- Methodology And Assumptions For Rating Construction Loan Securitizations In Mexico, Oct. 6, 2009
- Methodology And Assumptions For Rating Brazilian Trade Receivables Securitizations, May 13, 2009
- Methodology And Assumptions For Rating Brazilian Electric Power Receivables Future Flow Securitizations, Feb. 5, 2009
- LEVELS Mexico Estimates The Risk Of Defaults And Recoveries For Mexican RMBS, Jan. 20, 2009
- Securitization In Latin America: Rating Criteria For Argentine Mortgage-Backed Securities, Sept. 1, 2004

These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.

## General Criteria: National And Regional Scale Credit Ratings

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