Criteria | Corporates | Recovery:
Methodology For Applying Recovery Ratings To National Scale Issue Ratings

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(Editor's Note: We originally published this criteria article on Sept. 22, 2014. We're republishing it following our most recent periodic review completed on Sept. 22, 2015. As a result of our review, we updated our contact information, updated criteria references, and deleted outdated sections that previously appeared in paragraphs 4 and 5 related to the initial publication of this criteria, and which are no longer relevant.)

1. Standard & Poor's is expanding its global scale recovery rating methodology to include national scale issue ratings. The existing global scale recovery rating methodology is contained in "Criteria Guidelines For Recovery Ratings On Global Industrials Issuers’ Speculative-Grade Debt," published Aug. 10, 2009, on RatingsDirect. This methodology is also related to "National And Regional Scale Credit Ratings," published Sept. 22, 2014.

SCOPE OF THE CRITERIA

2. The criteria pertain to national scale issue ratings on rated corporate entities in countries where we have national scale recovery ratings. In those countries, we may apply such national scale recovery ratings, and related issue rating methodology, when our view of issuer creditworthiness corresponds to an issuer credit rating of 'BB+' or lower on the global scale.

SUMMARY OF THE CRITERIA

3. Criteria guidelines for recovery ratings on global scale speculative-grade corporate debt are in "Criteria Guidelines For Recovery Ratings On Global Industrials Issuers’ Speculative-Grade Debt," published Aug. 10, 2009. These guidelines formalize the extension of this criteria to national scale corporate debt. We will notch issue ratings up or down from national scale issuer credit ratings based on recovery expectations shown in the table below.

4. This paragraph has been deleted.

5. This paragraph has been deleted.

METHODOLOGY

6. This methodology applies to the recovery rating scale and issue rating framework for national scale corporate credit ratings.

7. The table summarizes our issue rating framework. The issue rating we assign to the loans and bonds of companies is based on our recovery rating expectations for the specific instrument being rated. Issues with a high recovery rating ('1+', '1', or '2') would lead us to rate the loan or bond above the national scale issuer credit rating, using the number of notches indicated in the table below, while a low recovery rating ('5' or '6') would lead us to rate the issue below the
national scale issuer credit rating. Note that the column headed "Issue rating notches relative to national scale issuer credit rating" refers only to notching for post-default recovery. If an instrument has deferral characteristics, such as a hybrid capital instrument, we may notch down incrementally for heightened default risk (see "National And Regional Scale Credit Ratings," paragraph 25).

### National Scale Recovery Rating And Issue Rating Criteria

<table>
<thead>
<tr>
<th>Recovery rating*</th>
<th>Recovery description</th>
<th>Nominal recovery expectations¶</th>
<th>Issue rating notches relative to national scale issuer credit rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1+</td>
<td>Highest expectation, full recovery</td>
<td>100%§</td>
<td>+3 notches</td>
</tr>
<tr>
<td>1</td>
<td>Very high recovery</td>
<td>90%-100%</td>
<td>+2 notches</td>
</tr>
<tr>
<td>2</td>
<td>Substantial recovery</td>
<td>70%-90%</td>
<td>+1 notch</td>
</tr>
<tr>
<td>3</td>
<td>Meaningful recovery</td>
<td>50%-70%</td>
<td>0 notches</td>
</tr>
<tr>
<td>4</td>
<td>Average recovery</td>
<td>30%-50%</td>
<td>0 notches</td>
</tr>
<tr>
<td>5</td>
<td>Modest recovery</td>
<td>10%-30%</td>
<td>-1 notch</td>
</tr>
<tr>
<td>6</td>
<td>Negligible recovery</td>
<td>0%-10%</td>
<td>-2 notches</td>
</tr>
</tbody>
</table>

*Subject to jurisdiction-specific adjustments, detailed below. ¶Recovery of principal plus accrued but unpaid interest at the time of default. §Very high confidence of full recovery resulting from significant overcollateralization or strong structural features.

### Jurisdiction-Specific Adjustments

8. The majority of national scale rating scales are for countries whose legal regimes we rank as Group B (less creditor-friendly) or Group C (least creditor-friendly), as defined in our criteria, "Update: Jurisdiction-Specific Adjustments To Recovery And Issue Ratings," published June 20, 2008. Recovery ratings in Group B jurisdictions are generally capped at '2', which means issue-level ratings in those countries will not be more than one notch above the issuer credit rating, and then only in limited cases where collateral coverage is strong and expected recovery is firmly in the 90%-to-100% range, absent our jurisdiction-related concerns. Recovery ratings in Group C jurisdictions are generally capped at '3', so issue-level ratings there typically will not be higher than the corresponding corporate credit ratings.

### General Recovery Methodology For National Scale Industrials


10. In summary, recovery analytics for industrials issuers have three basic components: (1) determining the most likely path to default for a company; (2) valuing the company following default; and (3) distributing that value to claimants based on each claimant's relative priority. Our analytical process breaks down these components into the following steps:

- Establishing a simulated path to default;
- Forecasting the company's cash flow at default based on our simulated default scenario;
• Determining an appropriate valuation for the company following default;
• Identifying and estimating debt and non-debt claims in our simulated default scenario;
• Determining the distribution of value based on relative priorities; and
• Assigning a recovery rating (or ratings) and publishing a recovery report that summarizes our assumptions and conclusions.

RELATED CRITERIA AND RESEARCH

Related criteria
• Standard & Poor’s Ratings Definitions, Feb. 1, 2016
• Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
• National And Regional Scale Credit Ratings, Sept. 22, 2014
• Principles of Credit Ratings, Feb. 16, 2011
• Criteria Guidelines For Recovery Ratings On Global Industrials Issuers’ Speculative-Grade Debt, Aug. 10, 2009

Related research
• Standard & Poor’s Publishes Jurisdiction Ranking Assessments For The Insolvency Regimes Of 30 Countries, Jan. 20, 2016