



Methodology

Rating Sovereign Governments

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CONTACT INFORMATION

Fergus J. McCormick

Head of Sovereign Ratings
Financial Institutions-Sovereign Group
Tel. +1 212 806 3211
fmccormick@dbrs.com

Alan G. Reid

Managing Director
Financial Institutions Group &
Sovereign Ratings Group
Tel. +1 212 806 3232
areid@dbrs.com

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TABLE OF CONTENTS

Overview	4
Local and Foreign Currency Ratings	5
Fiscal Management and Policy	6
Expenditures	6
Revenues	6
Fiscal Balance	7
Budget Planning and Control	7
Government Policy Management	8
Debt and Liquidity	8
Economic Structure and Performance	9
Historical Growth and Prospects	9
Inflation	10
International Economic Integration	10
Demographics and Social Structure	10
Monetary Policy and Financial Stability	10
Monetary Policy	10
Financial System Stability	11
Balance of Payments	11
Current Account	11
Capital Account	11
Political Environment	12
Appendix A: Sovereign Rating Categories – Analytical Guidelines	13
Appendix B: Sovereign Rating Categories – Selected Statistics	19
Appendix C: Sovereign Rating Categories – Statistical Benchmarks	22
Appendix D: DBRS Long-Term Rating Scale	25

Overview

Credit ratings reflect the probability of default or the likelihood that an obligor's debt will be repaid in a timely manner and in full. They are not a performance guarantee, a statement of fact or a recommendation to buy, sell or hold securities. Rather, a credit rating is an opinion regarding the creditworthiness of an issuer, a security or an obligation.

In assigning a credit rating, DBRS incorporates all meaningful factors that could affect the risk of maintaining timely and full payments of interest and principal in the future. In the case of a sovereign rating, which exclusively applies to the creditworthiness of a central government's debt to private creditors, DBRS's rating methodology looks at a broad array of economic, fiscal, financial and political factors in order to assess the government's ability and willingness to service its debt obligations. Given the government's pervasive authority the sovereign rating will often match or exceed ratings assigned to other obligors within the country, but might in certain circumstances be lower.

DBRS's sovereign rating methodology groups risk factors into six categories, each of which contains a set of quantitative and qualitative considerations:

- (1) Fiscal management and policy
- (2) Debt and liquidity
- (3) Economic structure and performance
- (4) Monetary policy and financial stability
- (5) Balance of payments
- (6) Political environment

In addition, DBRS requires that there be a minimum amount of information available in order to arrive at a credit opinion. "Minimum information" includes full disclosure from relevant government officials from the Ministry of Finance, Directorate of Public Credit, Central Bank, and any other areas DBRS considers to be of importance to the credit. At least one visit to each country per year by two sovereign analysts is required. In most cases, information from secondary sources is also necessary to arrive at an informed credit opinion. These may include, but are not limited to, documents from credible and internationally recognized organizations such as the International Monetary Fund, the Organization for Economic Co-operation and Development, and in the case of Euro zone or European Union member countries, the European Central Bank (ECB) and European Commission. In the event that sovereign analysts consider official disclosure to be insufficient, DBRS will not rate the sovereign.

Together these categories form the basic framework for all DBRS sovereign credit ratings, which reflect the combined influence of all risk factors on a government's credit. The relative importance of risk factors can vary across countries or in response to major shifts in the global economy and financial markets. In certain cases, major strengths in some areas will offset weakness in others, or a critical weakness will override a country's strengths. In many cases, qualitative factors, such as fiscal management proficiency or policymakers' willingness to commit to sustainable policies or implement structural economic reforms, will override quantitative factors. Most important, each sovereign is assessed on its own merit, and the factors that assume the most importance for any given sovereign may differ from those emphasized for other sovereigns.

Common across all rating analysis is DBRS's longer-term "through the cycle" view of an issuer, and this prevents rating changes that are based solely on normal cycles in the economy. Consequently, DBRS will generally be more responsive to structural changes in the credit fundamentals of a debt issuer, rather than to changes in cyclical economic conditions, unless these conditions are unforeseeably large and persistent. Therefore analysts place greater emphasis on fundamental characteristics such as fiscal responsibility, debt sustainability, economic diversification, price stability and the stability of the political system. Such



practice highlights the forward-looking nature of DBRS's credit ratings and significantly reduces the cyclicity of DBRS's ratings. An equally important facet of DBRS's analysis is broad peer coverage. Analysts strive to consider each issuer on its own strengths and weaknesses, thus avoiding placing issuers in a rigid grid based on a limited number of economic and financial ratios. However, DBRS also emphasizes that peer comparisons are important to understanding the differences and nuances of each issuer, and maintaining consistency across sovereign credit ratings.

Local and Foreign Currency Ratings

DBRS's sovereign rating methodology applies to both local and foreign currency government debt to the private sector (both are issuer ratings). The foreign currency rating applies to debt that is denominated and payable in a currency other than the country's own domestic currency. Sovereign default on either foreign currency or local currency debt generally reflects the outcome of a severe fiscal, economic or political crisis, and default on both types of debt is often strongly correlated. Given this underlying link, DBRS's rating considerations for both foreign currency and local currency sovereign obligations cover the same broad risk categories, although emphasis on certain factors may vary. In particular, DBRS foreign currency sovereign ratings emphasize factors that most directly affect foreign currency-denominated debt servicing, such as the size and composition of current and capital account balances, foreign exchange rate stability and international reserve liquidity. Local currency ratings put relatively more emphasis on the depth of the local government debt market and a government's propensity to finance deficits through unorthodox means, such as monetary expansion or inflation, the use of moral suasion on banks or other institutions, or arrears to domestic creditors.

Foreign currency and local currency sovereign ratings seldom differ widely. In countries with liquid domestic capital markets, sovereigns may have greater flexibility to generate financing in local markets than in foreign markets. A central government's taxation powers tend to favor the servicing of local currency over foreign currency debt. Furthermore, countries with independent Central Banks that have control over monetary policy may use expansionary measures, such as quantitative easing, to facilitate payment of local currency debt over foreign currency debt. These policies highlight greater flexibility when servicing local currency debt over foreign currency debt and may be a justification for rating the local currency debt higher than the foreign currency debt. However, greater policy flexibility may often be offset by factors such as a higher stock of local currency debt versus foreign currency debt, or a more limited number of domestic bondholders. These considerations increase the riskiness of servicing domestic debt, and may provide less justification for a higher domestic debt rating. Furthermore, DBRS notes that if such policies are expansionary, they may have adverse effects on debt servicing capacity over time, and may actually serve to undermine the intended outcomes.

DBRS's experience is that in most countries there is little evidence that governments allocate a higher priority to domestic bondholders compared to external creditors. Willingness to pay both local currency and foreign currency debt is often at the same level. In fact, DBRS finds that the more open and mature a country's capital markets, and the fewer barriers there are for entry and exit of capital by domestic and international bondholders, the less incentive there is for a government to favor local currency debt servicing over foreign currency debt. In a growing number of countries, international bondholders have access to both local and foreign currency debt, and this lowers the incentive for a government to favor a local currency security over a foreign currency security. For these reasons, DBRS may rate the local currency rating above the foreign currency rating. However, DBRS does not automatically consider local currency debt to be more creditworthy and judges each sovereign's debt dynamics on a case-by-case basis.

Fiscal Management and Policy

DBRS analyzes the government fiscal track record and prospects, looking at revenue generation, expenditure planning and control, as well as the coherence and appropriateness of the strategies, policies and processes governing the management of public resources. Particular attention is allocated to the fiscal management framework, the adequacy of revenues to cover program and interest expenditures, and the level of fiscal flexibility afforded by the system; that is, the degree to which expenditures can be contained and revenues increased in order to protect or restore fiscal soundness. A government's effect on aggregate demand and macroeconomic stability also draws considerable attention. Analysts look at the fiscal balance as a share of GDP of the central government, the general government (central and sub-national governments), and the consolidated public sector (general government and state-owned enterprises that carry out government operations). In certain instances, state-owned enterprises may be excluded from the public sector balance sheet if they are stand-alone entities that do not depend on the central government for financial support. DBRS distinguishes between balance sheet expenditures and revenues in a given budget, and contingent liabilities, which may be quasi-fiscal and off-balance sheet.

EXPENDITURES

The methodology distinguishes between three major expenditure areas: programs, capital investments and debt service, with an emphasis on identifying major trends, actual and potential areas of pressures and sources of rigidities in government spending.

With regard to program expenditures, DBRS seeks to understand the government's structure and role in the economy. The relationship between key expenditure items and major factors, such as demographics, economic conditions or political tensions, is analyzed in order to identify sources of pressure or flexibility. Analysts review key government programs, focusing on the coherence and sustainability of each program, the systems in place to monitor and control spending, multi-year cost projections and financing methods, and potential stress case outcomes. Reported figures are reviewed to determine the treatment of material special items, such as off-balance sheet expenditures, quasi-fiscal support for banks, state enterprises or provincial governments.

Debt servicing is the most rigid spending item and can constitute a substantial portion of a government's budget. As a result, the stability and trend of government interest and debt payments are an especially important risk consideration. In analyzing debt servicing requirements, DBRS pays careful attention to a government's debt management strategy and capability, incorporating findings from the debt and liquidity profile analysis, which is described in the "Debt and Liquidity" section.

While capital requirements can be reduced more easily than program expenditures to weather short-term financial hardship, they generally show considerable rigidity over the longer term. Analysts examine current and future requirements and financing methods for infrastructure and other capital spending. Another area of focus is on the adequacy and quality of a country's public infrastructure, as well as the estimated future costs of maintaining existing assets, addressing any deferred maintenance, and meeting growth-related requirements. Analysts also examine government accounting for capital spending to determine if accrued costs are recorded appropriately.

REVENUES

Revenue analysis covers the major components of a government's revenue base, focusing on diversification, volatility and ability to grow key revenue sources, as well as tax effort and avoidance, reliance on one-time revenues and transfer payments between jurisdictions. Key sources analyzed include direct and indirect taxes, tariffs and royalties, as well as earnings from government enterprises. Special emphasis is put on resilience of major revenue sources, and the consistency and prudence of budgetary projections,

looking at projections based on both a moderately conservative outlook and alternative stress cases. In this regard, countries with high or rapidly rising income per capita are generally regarded as having a wider or rising revenue base, and therefore greater fiscal flexibility to service debt and fund expenditure programs, although emphasis is placed on the sustainability of this growth. One gauge among many that is analyzed is interest payments on debt coming due within a given fiscal year, over total revenues generated.

Any structural defects in the tax and revenue system warrant scrutiny. An inefficient, burdensome tax system not only limits government budget flexibility, but also creates structural economic problems by exacerbating tax evasion and corruption, distorting business decision-making and discouraging investment and saving. Correcting these distortions can be difficult, as interest groups may benefit from the existing structure and government may find little support for change.

FISCAL BALANCE

A government's fiscal performance provides a reliable indicator of management proficiency and commitment to fiscal soundness. Analysts look at the government's primary balance (the difference between revenue and non-debt expenditures) as an indicator of fiscal flexibility – the part of the budget the government has control over. The overall fiscal balance (including interest charges) better reflects the potential financing requirements in a given year. While the analysis focuses on the fiscal balance of the central government, it also incorporates the performance of sub-national governments, given the fiscal ties between levels of government and the fact that these governments are often competing for the same limited fiscal resources. The size and power of sub-national governments and the system of transfers from the central government can be important determinants of the stability of fiscal balances, and the general government balance in particular. Analysts also examine the balance sheets of state-owned enterprises and the degree of implicit or explicit central government support for these entities in the event of financial stress. The degree of support for state-owned enterprises is an important factor in determining the size and composition of the consolidated public sector balance, the most comprehensive fiscal measure.

Analysts examine historical results as well as projections over the medium term, incorporating possible stress scenarios to assess the cyclical and sensitivity of the government's budget and financing requirements to various developments. In some higher-risk countries, fiscal deficits frequently widen during economic upswings and narrow during contractions. This pro-cyclical fiscal behavior tends to exacerbate economic volatility, and can result from factors such as diminishing access to credit during downturns, or a government's inability to resist spending pressures during economic upturns. In contrast, lower-risk countries generally exhibit greater fiscal stability and have flexibility to provide a more accommodative fiscal approach. While repeated budgetary shortfalls are perceived negatively by DBRS, the impact of a shortfall on a sovereign rating will generally be discounted if it is believed to be the result of economic cyclical, as opposed to a structural imbalance. DBRS generally looks favorably upon rules-based fiscal policies that are designed to target structural, counter-cyclical balances. However, fiscal rules tend to serve as guides to fiscal discipline, and do not replace strong and consistent fiscal management.

The trade-offs between maintaining balanced budgets and fiscal stimulus spending are also analyzed, consistent with DBRS's approach of rating through the cycle. DBRS is aware that a larger deficit may be considered favorable by a government to provide scope for higher spending during periods of extreme financial stress, severe downturns or balance of payments shocks in order to avert a deep recession. However, DBRS also emphasizes that although stimulus spending may sometimes be an optimal policy, there is a need for a clear plan to return to balanced budgets over the medium term to avoid chronic deficits and unsustainable rises in public debt.

BUDGET PLANNING AND CONTROL

This part of the analysis covers the effectiveness of the budgetary process, including the timing, transparency and comprehensiveness of budget planning, reporting and monitoring systems for government expenditures and revenues, and the ability of the fiscal authorities to control expenditures and adjust the

budget as needed. Additional considerations include the allocation of responsibility and control between the legislature and executive branches, adherence to external budget constraints (e.g., International Monetary Fund (IMF) targets or European Monetary Union (EMU) Maastricht guidelines), and budget relationships between the central and sub-national governments, such as whether expenditure responsibilities at each level of government appropriately match revenue-generating powers.

In assessing the quality of the fiscal planning and management framework, DBRS compares recent years' fiscal results against original budget estimates, putting emphasis on the frequency and extent of major budget deviations. DBRS also reviews accounting consolidation practices in order to understand the composition of the reporting entity and ensure that all tax-supported activities are appropriately captured.

GOVERNMENT POLICY MANAGEMENT

The set of institutions and procedures by which a government manages major economic and fiscal policy initiatives is subject to a detailed review. Particular attention is allocated to the policy development and implementation framework within the executive branch and the coordination process with the legislature, sub-national governments and other interest groups. Analysts examine the coherence and long-term implications of policies aimed at social and structural economic issues, with frequent changes in strategic goals or inability to pass legislation needed to implement government strategies generally perceived as weakness in the policy framework. The review also incorporates any other policy-related issues that may have important adverse implications for a country or its government, such as strategies aimed at regional disparities in income and employment, an inadequate public education system, unfunded pension liabilities, or a severely undercapitalized banking system, along with potential resistance to needed changes.

Debt and Liquidity

The sustainability of a government's debt is a central consideration in sovereign credit risk analysis. DBRS carefully examines the size and structure of government debt and analyzes the full range of factors that affect the debt burden and the government's debt servicing requirements. Analysts focus on three major segments: first, total public sector debt, including both domestic and external obligations of the central government, regional governments and any government guaranteed or tax-supported public agencies; second, debt servicing requirements and the government's debt management capability; and third, the government's access to liquid assets that can be used to pay down principal and interest on debt. The level of public sector debt as a percentage of GDP is emphasized in the context of a government's fiscal stance. A comprehensive measure of gross debt is examined and compared to a net debt concept that nets out certain unrestricted liquid assets and a number of liabilities, such as the monetary base, that are not in the form of debt securities payable within a given time period.

Analysts examine the composition of outstanding debt and quasi-debt obligations (e.g., unfunded pension liabilities), as well as the debt maturity structure and sensitivity to volatility in inflation, exchange rates, interest rates and credit risk spreads. The primary focus in this section is on tax-supported debt, i.e., debt that taxpayers are directly accountable for. This would exclude the debt of government-owned commercial organizations responsible for servicing their debt, which is categorized as self-supporting by DBRS. Self-supporting government enterprise debt is examined separately and may be given less weight in the analysis, depending on the self sufficiency of the organization and the likelihood that it may require direct government support. Considerable emphasis is put on the medium-term outlook for government debt and debt servicing obligations, in keeping with the forward-looking approach of DBRS ratings.

Government liquidity is analyzed in relation to scheduled debt payments, as well as potential pressure to repay outstanding short-term debt. Liquidity coverage for external debt requirements is given particular attention, with emphasis on international reserves and export receipts, market depth, access to alterna-



tive private financing sources and contingent liquidity support available from the IMF or other official sources. Measures of liquidity, such as DBRS's external liquidity ratio, attempt to assess total external debt servicing needs of the public and private sectors against sources of external funds available to meet these needs. For example, in a given year, sources of external liquidity, such as international reserves, exports and net transfers, are weighed against uses of external liquidity, such as amortizations of debt, short term debt and imports. A government's track record in servicing debt will also be considered, and in certain cases may either support or weigh against a sovereign rating.

DBRS principally focuses on the direct financial obligations of governments, but also considers any indirect or private sector obligations that may have implications for the sovereign credit profile. Indirect liabilities attracting particular attention from DBRS include guarantees and material contingent liabilities, including non-guaranteed debts of public sector organizations and the financial sector, which can demand significant fiscal resources if financial support is required. External debts of the private sector are profiled alongside the government's external debt, since both represent claims on the economy's ability to acquire foreign currency. During a crisis, moreover, governments may assume responsibility for certain private sector external debt.

DBRS also takes into consideration the extent that market forces can support or derail debt affordability by, for example, increasing the price of key commodity goods and export receipts. DBRS emphasizes that sovereign ratings are based on the fundamental strengths of a sovereign, and not on the market price of a security. However, if market forces affect debt dynamics, then DBRS will analyze the change in these dynamics. In this case, DBRS attempts to analyze a government's debt servicing capacity through the commodity price cycle. In the event of an adverse market shock, which sends prices sharply lower over a protracted period of time, thereby jeopardizing debt stability, DBRS attempts to analyze the underlying fundamentals of the sovereign, in addition to the timeliness and effectiveness of the government response to the shock. The ability of an economy to weather severe market shocks, as well as a government's ability to articulate a medium-term plan to reduce deficits and stabilize the debt, are all taken into careful consideration with a view to rating through the cycle, even if the cycle is severe.

Economic Structure and Performance

A country's economic structure, historical trend growth and growth prospects are fundamental considerations for DBRS's sovereign credit analysis, as the strength of the economy constitutes the primary determinant of a government's capacity to generate revenue and carry its debt. This is also a major foundation of the country's economic and political stability. Analysis in this risk category focuses on factors that point to the economy's robustness, flexibility and propensity for growth, as well as any structural impediments that could either increase the country's susceptibility to shocks, unduly pressure the fiscal position of government, or inhibit its commitment to service its debts. The following list outlines the several primary considerations when assessing the contribution of an economy's structure and performance to a sovereign credit profile.

HISTORICAL GROWTH AND PROSPECTS

A sound record of generating sustained economic growth is a prime indicator of a country's ability to generate wealth for its population and fiscal resources for its government. DBRS looks at the level and trend of key summary indicators, such as per-capita GDP and income, and seeks to understand the growth potential of a country's economy, as defined by an array of variables, including employment growth and labor productivity, economic composition, and private sector investment and savings rates. Structural distortions within the economy, such as an outmoded financial system or a poorly designed tax system, are also considered in the analysis.

INFLATION

High levels of inflation often indicate underlying stresses and distortions that correlate directly with sovereign risk. Like economic volatility, inflation that recurs frequently or persists for extended periods deepens these stresses, and requires increasingly stringent macroeconomic adjustments to stabilize the economy. Inflation may in the short run facilitate debt servicing by lowering the domestic price of a government's liabilities. However, over time, higher inflation has deleterious effects on price stability and a government's assets, which may eventually offset the short-term benefits of lower debt servicing. The pervasive effects of inflation increase social inequality, distort financial statements, deter investment, and erode confidence in government authorities – all of which may undermine a government's capacity and willingness to service debt. As such, analysts examine historical inflation and GDP volatility, as well as monetary policies, objectives, and institutions.

INTERNATIONAL ECONOMIC INTEGRATION

An economy's degree of openness to international trade and capital flows may affect a country's creditworthiness in several ways. Economic openness tends to enhance economic diversification while fostering a higher degree of innovation, as businesses must continually improve productivity and efficiency to remain competitive. Businesses in open economies also have a greater stake in retaining access to international markets and capital. Key indicators include traded goods/GDP; trade sector employment/total employment; membership in regional trade associations and adherence to World Trade Organization (WTO) and IMF standards.

DEMOGRAPHICS AND SOCIAL STRUCTURE

Demographics and social structure issues are important considerations, as they can have a considerable impact on political and social stability as well as a government's fiscal position and debt servicing capacity, by affecting the labor force, income distribution, and demand for social services within a country. Countries with a rapidly growing population frequently benefit from an expanding labor force and tax base, but also face greater pressure to build social and economic infrastructure and foster a level of economic activity necessary to generate employment. Moreover, some countries are confronting lower birth rates and aging populations, which often translate into rising pension and health care expenditures and a shrinking tax-paying workforce. As a result, factors like birth rates, demographics, employment rates, immigration trends, school achievement, the level of labor informality, as well as income and wealth distributions, are carefully assessed.

Monetary Policy and Financial Stability

The credibility of monetary policy and stability of the financial system are related elements of sovereign credit risk analysis. Inconsistent monetary policies invariably increase the risk of inflation, exchange rate volatility and financial market shocks. A weak financial system can constrain monetary authorities' policy options and worsen the damage from internal or external shocks.

MONETARY POLICY

The analysis focuses on the credibility and effectiveness of monetary policy; that is, whether monetary policy goals, implementation structure, and institutions are consistent with price stability and financial stability. Analysts must also consider whether other conflicting policy goals may take precedence over inflation control, including economic growth, exchange rate stability or government deficit finance.

The monetary regime (i.e., the structure of operational targets and tools used to implement monetary policy) is a particularly important consideration, as it can have major economic and financial implications. Monetary regimes can range from full-fledged inflation targeting, to an implicit price stability anchor with wide discretionary flexibility, to explicit exchange rate targeting. Monetary authorities may

then have to tighten policy severely to protect the exchange rate, with a heavy cost for economic growth.

DBRS will look beyond any temporary changes in exchange rates, money supply or prices with a view to the long run sustainability of the debt and the credibility of monetary institutions. DBRS also emphasizes the quality of a monetary policy response to reducing the volatility of the exchange rate or inflation. In this regard, the degree of independence of a Central Bank from political interference is an important consideration. Governments with ineffective monetary policy or that lack their own Central Bank (e.g., member countries in an economic and monetary union such as the Euro zone) have fewer policy choices at their disposal. On the other hand, member countries of a monetary union often enjoy other benefits, such as more stable prices, than they would otherwise enjoy, and unlimited liquidity support from a common Central Bank. These considerations may outweigh the disadvantages of not having their own Central Bank.

FINANCIAL SYSTEM STABILITY

A strong, stable financial system is both less vulnerable to shocks and more resilient to domestic and global events. DBRS sovereign analysts closely review the structure and strength of the financial system, drawing on the expertise of DBRS's financial institutions group. The financial system review includes government efforts to strengthen banks and capital markets through improved transparency, application of global best practice standards, more rigorous governance requirements and access to extraordinary funding in times of stress, such as ECB funding in the case of members of the Euro zone.

Balance of Payments

Balance of payments accounts contain significant information on a number of risk considerations, including export, import and current account trends and volatility; the size, composition and stability of a country's net financing requirements from international sources; and the potential need for exchange rate depreciation or economic contraction to close a balance of payments financing gap. At times, a government may be unable to take sufficiently severe measures to close a payments gap, resulting in a full-fledged balance of payments crisis. In the extreme case, a crisis can culminate in a halt in government external debt payments and sovereign debt default.

CURRENT ACCOUNT

Current account deficits are not necessarily a sign of higher credit risk, as well-managed countries routinely run current account deficits. Moreover, a current account deficit may temporarily widen (or surplus narrow) when a country's cyclical expansion is out of phase with global economic demand, or when investment returns rise due to a sharp increase in productivity. In certain cases, however, a widening current account deficit may reflect severe domestic demand imbalances, major shocks to export revenues or import costs, or other factors that can raise credit risk concerns. DBRS analysts seek to determine whether a country's current account behavior falls outside sustainable patterns and, importantly, whether the country has the capacity to narrow its current account deficits when financing conditions turn adverse.

The volatility of export revenues and import costs are important risk considerations. Deteriorating terms-of-trade or other current account shocks affect sovereign credit risk through both a domestic channel, as economic output declines and fiscal balances deteriorate, and an external channel, if the higher demand for current account financing is met with reluctance by external creditors. The diversity of export goods and markets, import compressibility, dependence on energy imports, and reliance on trade barriers, tariffs and subsidies are often good indicators of a country's exposure to current account volatility.

CAPITAL ACCOUNT

The capital account analysis addresses the size and structure of a country's international capital flows. Particular attention is given to the volatility of financing flows, reliance on short-term financing and the importance of foreign direct investment. Analysts also pay attention to commercial bank financing flows,



which generally have short maturity and may be withdrawn rapidly when banks perceive increased risks. Also, large net outflows in the accounts for domestic residents' assets, or large errors and omissions, may signal an underlying financial instability.

Political Environment

Political analysis focuses on the bedrock issue for sovereign credit assessment: How strong and stable is the government's commitment to maintain its creditworthiness, even if meeting debt servicing obligations requires a large and sustained squeeze in domestic consumption and a prolonged economic downturn. This category concentrates on the legitimacy, appropriateness and robustness of political institutions and their capability to resolve issues in an orderly and timely fashion without damaging the country's commitment to service its debt. Important considerations include the government's openness and accountability, its institutional strength, the effectiveness of governance and the inclusion of minority interests in the political structure.

The degree of consensus on major social and economic issues is important, particularly by parties that at some point may control the government. The political system's responsiveness to social divisions along lines of income distribution, race, religion and region is also taken into consideration. As part of its review of the political environment, DBRS also evaluates the legal structure of the country, including enforceability of contracts, strength of property rights, and the independence and integrity of judicial processes.



Appendix A: Sovereign Rating Categories – Analytical Guidelines

DBRS assesses sovereigns on a case-by-case basis. At the same time, DBRS has provided in the following table a framework of general guidelines for rating sovereign governments across rating categories. Rating categories are not strictly bound by these criteria, but failure to meet the basic principles delineated in each sector will contribute to constraints on a rating. Strengths in some sectors may outweigh weaknesses in others, and vice versa.

Sovereign Rating Categories – Analytical Guidelines								
Rating	AAA	AA	A	BBB	BB	B	CCC/CC/C	D
Credit Quality	Exceptional	Superior	Satisfactory	Adequate	Weak	Poor	Highly Speculative	Default
Credit Quality Explained	<ul style="list-style-type: none"> Exceptionally strong protection for the timely and full payment of principal and interest. Few qualifying factors detract from timely debt service. 	<ul style="list-style-type: none"> Overall, the profile differs from AAA rated sovereigns by only a small degree. Protection of principal and interest is considered very high. 	<ul style="list-style-type: none"> Protection of principal and interest is strong, but may be lower than AA rated sovereigns due to structural imbalances or other long-term considerations. 	<ul style="list-style-type: none"> Protection of principal and interest is adequate to provide a reasonable level of comfort. However, structural imbalances or policy management may need development. 	<ul style="list-style-type: none"> Bonds are defined as speculative and non-investment grade. The degree of protection afforded principal and interest is somewhat low. 	<ul style="list-style-type: none"> Highly speculative, where the degree of protection afforded principal and interest is uncertain, particularly during periods of economic recession or political stress. 	<ul style="list-style-type: none"> In danger of default on principal or interest. The issuer may have made it clear that it will miss a payment in the near future. Often has features which if not remedied may lead to default. 	<ul style="list-style-type: none"> The issuer has failed to meet a scheduled payment of interest or principal.



Sovereign Rating Categories – Analytical Guidelines

Rating	AAA	AA	A	BBB	BB	B	CCC/CC/C	D
Credit Quality	Exceptional	Superior	Satisfactory	Adequate	Weak	Poor	Highly Speculative	Default
Fiscal management and policy	<ul style="list-style-type: none"> Public finances are in long-term structural balance, with revenues relatively balanced, tax generation capacity high and expenditures under control. Unfunded public sector liabilities are manageable. 	<ul style="list-style-type: none"> Expenditures remain under reasonable control and are growing at a level consistent with revenues, with a high likelihood of maintaining the fiscal position in long-term structural balance. Unfunded public sector liabilities are manageable and are being addressed. 	<ul style="list-style-type: none"> Public finances are under control, but may suffer from shortfalls, such as a more volatile revenue base, or current spending increases which translate into chronic deficits. Unfunded public sector liabilities may be high but are still manageable. 	<ul style="list-style-type: none"> Fiscal performance may result in deficits, since the revenue and economic base may be small, undiversified or susceptible to the adverse effects of business cycle changes. Structural bottlenecks may impair expenditure efficiency. 	<ul style="list-style-type: none"> The size and scope of the government's revenue base may be small, while expenditures may be high and under pressure. 	<ul style="list-style-type: none"> Government capacity to deal with fiscal difficulties is uncertain. High and rapidly growing expenditures combined with an inadequate revenue base may contribute to chronic operating deficits. 	<ul style="list-style-type: none"> Government capacity to deal with fiscal imbalances is uncertain. High and rapidly growing expenditures combined with an inadequate revenue base may contribute to chronic operating deficits. 	<ul style="list-style-type: none"> Government capacity to deal with fiscal difficulties is uncertain.



Sovereign Rating Categories – Analytical Guidelines

Rating	AAA	AA	A	BBB	BB	B	CCC/CC/C	D
Credit Quality	Exceptional	Superior	Satisfactory	Adequate	Weak	Poor	Highly Speculative	Default
Debt and Liquidity	<ul style="list-style-type: none"> • Impeccable debt service record • Debt is relatively low or there is a medium-term plan to raise primary surpluses and reduce debt ratios. • Public debt structure is sound, and private sector debt and external debt are manageable. • Capital markets are developed. 	<ul style="list-style-type: none"> • Impeccable debt service record. • Debt ratios are manageable, funding markets are stable, and fiscal management is exceptional. 	<ul style="list-style-type: none"> • Impeccable debt service record. • Debt ratios are low and debt management is sound. 	<ul style="list-style-type: none"> • Good recent debt service record. • Debt ratios are manageable, but may be dependent on unstable funding sources. • Structural economic bottlenecks or social factors may limit economic growth rates and result in some exposure in debt structure. 	<ul style="list-style-type: none"> • Uneven debt service record. • Debt ratios are prone to structural factors that have the potential to impair debt servicing. • Liquidity may be low and economic policies may lack institutional strength or coherence. 	<ul style="list-style-type: none"> • Debt service record is poor. • Debt ratios may be unsustainably high. • Structural factors constrain economic growth. • Economic management may be inconsistent. 	<ul style="list-style-type: none"> • At high risk of default. 	<ul style="list-style-type: none"> • In default.



Sovereign Rating Categories – Analytical Guidelines

Rating	AAA	AA	A	BBB	BB	B	CCC/CC/C	D
Credit Quality	Exceptional	Superior	Satisfactory	Adequate	Weak	Poor	Highly Speculative	Default
Economic structure and performance	<ul style="list-style-type: none"> The economic base is diverse; economic performance is relatively strong and stable; sources of growth are balanced. GDP per capita is high; income distribution is reasonably level. The economy is relatively competitive; productivity growth is healthy. Trade, labor markets and productive sectors are fully functioning. 	<ul style="list-style-type: none"> The economy is large, well diversified and competitive. 	<ul style="list-style-type: none"> Long-term economic growth prospects are reasonable, although the economic base may be somewhat small or undiversified. Sectors of the economy or economic structure may require reform to improve long-term growth prospects and create higher employment. 	<ul style="list-style-type: none"> Economic stabilization may be relatively new, requiring a longer track record to establish confidence. Labor market informality may be large. 	<ul style="list-style-type: none"> The economic base may be somewhat concentrated in relatively few industries and economic growth may be sluggish or fairly volatile. Labor market informality tends to be large. 	<ul style="list-style-type: none"> Severe structural bottlenecks in many sectors affect the pace and stability of growth rates. Inefficient delivery of public services. Deep reforms and policy changes are needed. 		

Sovereign Rating Categories – Analytical Guidelines

Rating	AAA	AA	A	BBB	BB	B	CCC/CC/C	D
Credit Quality	Exceptional	Superior	Satisfactory	Adequate	Weak	Poor	Highly Speculative	Default
Monetary policy and financial stability	<ul style="list-style-type: none"> • Monetary policy is credible; tools are available to pursue long-term goals of price stability and, when appropriate, growth, full-employment or exchange rate stability. • Monetary authorities respond to volatility in interest rates, exchange rates, international capital flows or large fiscal deficits. • Financial regulation and supervision facilitate financial sector stability, including containing net financial liabilities, cross border exposure, household and corporate liabilities, private sector credit growth and non-performing loans. 	<ul style="list-style-type: none"> • Monetary and financial policy is credible and sustainable. 	<ul style="list-style-type: none"> • Overall financial flexibility is good; however development of monetary policy or the financial sector and capital markets could improve efficiency. • Further reforms may be needed to improve monetary and financial oversight. 	<ul style="list-style-type: none"> • Monetary policy might be inadequate to soundly anchor inflation and inflation expectations; however, monetary authorities are pursuing institutional reforms to improve the quality of monetary policy. • Financial authorities are working to improve oversight and provisioning of liabilities. • Public sector liabilities may crowd out private investment or development of domestic capital markets. 	<ul style="list-style-type: none"> • Monetary policy may lack institutional strength or credibility to effectively control price expectations. • A more adequate financial policy framework may be needed. • Domestic capital markets may be small and need development. 	<ul style="list-style-type: none"> • Inadequate monetary and financial framework to control inflation, inflation expectations or financial sector leverage. • Domestic capital markets are dysfunctional or underdeveloped. 		



Sovereign Rating Categories – Analytical Guidelines

Rating	AAA	AA	A	BBB	BB	B	CCC/CC/C	D
Credit Quality	Exceptional	Superior	Satisfactory	Adequate	Weak	Poor	Highly Speculative	Default
Balance of payments	<ul style="list-style-type: none"> The balance of payments position is sustainable. Trade and services are large and diverse. 	<ul style="list-style-type: none"> The balance of payments position is sustainable. Trade and services are large and diverse. 	<ul style="list-style-type: none"> Imbalances in the balance of payments may exist, but are sustainable. 	<ul style="list-style-type: none"> Imbalances may exist, requiring improvement in competitiveness or developments in key markets. 	<ul style="list-style-type: none"> Imbalances may be severe, resulting in chronic current account deficits and overreliance on short term capital inflows. 	<ul style="list-style-type: none"> Imbalances may be severe. 		
Political environment	<ul style="list-style-type: none"> Unquestioned willingness to service debt. The political environment is stable and there are checks and balances on executive or legislative power. Legal institutions uphold the rule of law, minimize corruption and honor contracts. Relations with neighboring countries are carefully managed. 	<ul style="list-style-type: none"> Unquestioned willingness to service debt. The political environment is stable and there are checks and balances on executive or legislative power. Legal institutions uphold the rule of law, minimize corruption and honor contracts. Relations with neighboring countries are carefully managed. 	<ul style="list-style-type: none"> Unquestioned willingness to service debt. Strong political institutions and legal system. 	<ul style="list-style-type: none"> Unquestioned willingness to service debt. Political party system or overly strong executive may require reform to strengthen political system. 	<ul style="list-style-type: none"> Strong willingness to service debt, but somewhat limited capacity. Political system may require reform. 	<ul style="list-style-type: none"> Questionable willingness to maintain debt servicing. The political environment may be somewhat unstable. Poor debt service record or high public sector or financial sector liabilities create the possibility of default in the event of a political change. 		

Appendix B: Sovereign Rating Categories – Selected Statistics

DBRS emphasizes that qualitative analysis is often as informative as quantitative analysis in determining the creditworthiness of sovereign governments. Policy intentions, political and social cohesion and willingness to uphold the sanctity of contracts are difficult to determine by statistics alone, and often require judgment calls to formulate a fair and balanced sovereign credit opinion. Statistics nonetheless aid analysts in determining a government's capacity to maintain timely and full principal and interest payments, as well as other aspects of sovereign analysis.

The statistical indicators below are a sample of the metrics that DBRS analyzes, and is an attempt to shed light on a few indicators in each of the six areas of sovereign analysis. No one indicator determines a government's rating. Instead, hundreds of both qualitative and quantitative factors go in to arriving at a specific rating for each government. Therefore this is by no means a complete list, and with the exception of major events, such as hyperinflation, an overthrow of a government or an unexpected run on a banking system, it would be inaccurate to use one or a small selection of these indicators to determine a government's rating.

Underlying data generally are from publicly available national or multinational sources. For some countries, data definitions and reliability are not fully consistent with international norms. DBRS notes these differences and in certain cases adjusts the reported data in order to enhance cross-country comparability.

FISCAL MANAGEMENT AND POLICY

- Allocation of responsibilities
- Budget management process: rigidity, efficiency, diversity, stability, fairness, outlook of both expenditures and revenues
- Expenditures: (General government expenditures) as a percentage of GDP
- Revenues: (General government revenues) as a percentage of GDP; tax generating capacity
- Fiscal balance: ("general government balance") as a percentage of GDP
- Primary balance: ("general government primary balance") as a percentage of GDP
- Interest payments: ("general government interest payments as a percentage of revenues"; "general government interest payments as a percentage of GDP")

DEBT AND LIQUIDITY

- Gross public debt ("general government debt") as a percentage of GDP; DBRS also analyzes central government debt, sub-national government debt, government enterprises and off-balance sheet liabilities (e.g., public pensions)
- Net public debt ("general government net debt") as a percentage of GDP: Nets out freely available liquid public sector assets, such as cash, convertible securities, offshore funds or official reserve assets.
- General government domestic debt (as a percentage of GDP)
- Household debt (as a percentage of GDP)
- Non-financial firms debt (as a percentage of GDP)
- Bank liabilities (as a percentage of GDP)
- External debt (as a percentage of GDP): Public and private external debt
- Government debt structure: Maturity, currency denomination, interest rate (fixed or floating), indexed debt
- Government debt service as a percentage of revenues
- External debt:



- External debt as a percentage of GDP
- External debt service as a percentage of exports or GDP
- Borrower (public and private sector)
- Source (bond, bank, official, other)
- Maturity structure (short-term, average duration)
- Liquidity:
 - External liquidity ratio: DBRS's external liquidity ratio is a measure of the amount of financing sources in foreign exchange immediately available to a central government to pay down its external financing needs. The sources of foreign exchange: official reserve assets, exports of goods, services and income, and net transfers, are divided by a government's foreign exchange needs: imports of goods, services and income, amortizations, and short-term public debt. A ratio of more than 100% suggests adequate liquidity. This concept is less relevant in the Euro zone, because Euro zone countries have relegated liquidity responsibility to the ECB, which holds liquidity on behalf of member countries.
 - Domestic financing needs versus financing sources: Needs are, in a given year: maturing debt redemptions, coupon interest payments on bonded domestic debt, the general government deficit, and when applicable, Treasury bill rollovers; sources are: planned gross bond and bill issuance, bank loans, other
 - Contingency financing: Multilateral (e.g., IMF, ADB, IDB), Paris Club, commercial bank, other

ECONOMIC STRUCTURE AND PERFORMANCE

- GDP Per Capita
- GDP growth (annual percentage changes)
- Economic diversity
- Labor productivity
- Unit labor costs (annual percentage changes)
- Employment growth
- Unemployment rate
- Private sector investment and savings rates
- Consumer spending patterns
- Demographics: population growth, age distribution, education levels
- Informal sector (as a percentage of GDP)
- Real effective exchange rate index
- Income distribution and poverty

MONETARY POLICY AND FINANCIAL STABILITY

- Monetary Regime: inflation targeting, exchange rate regime
- Degree of central bank independence
- Interest rate policy: Short-term policy rate, long-term targets, real versus nominal interest rates
- Monetary aggregates (growth and as a percentage of GDP): Domestic credit to private sector; broad money
- Financial aggregates: Non-performing loans/total banking sector assets
- Consumer price inflation (annual percentage change)
- Private sector credit (as a percentage of GDP)

BALANCE OF PAYMENTS

- Current account balance as a percentage of GDP
- Exports and imports of goods and services (as a percentage of GDP): growth, diversity, prices, the terms of trade



- Capital account structure: Foreign direct investment, bonds and other long-term liabilities, commercial bank and short-term, domestic residents' net external assets, short-term capital flows
- International investment position

POLITICAL ENVIRONMENT

- Stability of the political party system
- The balance of the legislative branch of government (if one exists) with the executive and judicial branches
- How easily reforms are approved in the legislature
- The degree of corruption and the rule of law
- Government stability
- Government legitimacy and popular support
- Judicial integrity and independence
- Political consensus on major economic issues
- Contract enforceability and bankruptcy laws
- Democratic accountability
- Ethnic and religious tensions
- Military involvement in politics
- Relations with neighboring countries

Appendix C: Sovereign Rating Categories – Statistical Benchmarks

DBRS pays particular attention to several measures that capture primary factors and concerns of sovereign analysis. These are shown below, and are assessed according to the empirical history and economic, financial, political and social conditions of each country.

FISCAL MANAGEMENT AND POLICY

- *Fiscal balance as a percentage of GDP:* For all countries, the lower the deficit the better. However, a deficit of no more than 3% of GDP is a standard measure of fiscal sustainability. The wealthier a country and the more flexible a country's public finances, the easier it usually is to finance a larger deficit. Therefore, DBRS attributes higher risk to larger deficits, especially over 3% of GDP, in poorer countries.
- *Primary balance as a percentage of GDP:* The higher a primary surplus, or fiscal balance excluding interest payments on debt, the more sustainable public debt ratios become. A primary surplus of 2% to 3% of GDP is often viewed as a strong primary effort.
- *Interest as a percentage of revenues:* The amount of interest payments as a percentage of government revenues is one measure of the debt burden of a government, and of budget flexibility. For developed economies, interest to revenues of 5% or below may be more sustainable, whereas for emerging economies, higher interest payments of closer to 6-8% may be more typical. Above 8-10% suggests that the debt burden may be too high and could threaten macroeconomic or fiscal sustainability.

LEVERAGE

- *Debt sustainability:* DBRS considers this the most important concept in assessing probability of default in sovereign ratings. Determining whether a government's debt burden is sustainable involves an assessment of a country's wealth and size, its interest burden, the quality of its fiscal policy, political commitment to debt stabilization, and other considerations.
- *Gross public debt as a percentage of GDP:* A level of 60% of GDP or below is in some cases a measure of debt sustainability for developed economies. For emerging economies, a level of closer to 40% of GDP may be more appropriate, given lower capacity to service debt. DBRS also emphasizes net public sector debt to GDP, which takes a government's assets into consideration.
- *Non-public sector debt as a percentage of GDP:* DBRS also emphasizes household debt, corporate debt and financial sector liabilities as a percentage of GDP. These are important, because a government may decide to guarantee its financial sector, or support corporates or households to maintain macroeconomic stability.

SIZE (ECONOMIC AND DEMOGRAPHIC)

- *GDP Per Capita:* The richer a country, the more diverse and flexible it tends to be, and therefore the greater capacity it has to service debt. For developed economies, GDP per capita of US\$40,000 or above is often a comfortable level, while in emerging economies, a level of US\$10,000 or less may reflect the need for economic development, structural improvements or economic diversification. As a general rule, the more populous a country is, the greater the propensity for higher economic growth.

LIQUIDITY

- *External Support:* The nature of external support is important to determining the amount of liquidity, or liquid assets, that a country may use to service short-term financing needs. For countries in the Euro zone or that have access to IMF loans, creditworthiness is supported by access to liquidity from a multilateral source, such as the European Central Bank. For countries without access to these organizations, DBRS emphasizes the need to have sufficient foreign exchange reserves, and a high liquidity ratio.



- *External Liquidity Ratio*: For countries with a large share of external debt, an external liquidity ratio is relevant. This would exclude Euro zone countries. For relevant countries, DBRS calculates the amount of hard currency liquid assets that a country has at its disposal to meet short-term financing needs. Reserves, exports and transfers are compared to imports, amortizations coming due and short term debt. A ratio of more than 100% suggests adequate liquidity.

EXTERNAL SECTOR

- *Current account balance as a percentage of GDP*: For developed economies, a current account deficit of close to 3% of GDP is often a typical sustainable measure; for emerging economies, a deficit of no more than 3% of GDP is often more sustainable. DBRS emphasizes that developing economies need to import more capital-intensive goods, and therefore tend to generate larger current account deficits.
- *Real effective exchange rate (REER)*: DBRS assesses exchange rate competitiveness and external sustainability through the change in a recent year's REER against a 10-year average. The level of real appreciation or depreciation is a good measure of competitiveness.

INFLATION

- *Consumer price inflation (annual percentage change)*: DBRS assesses price stability by emphasizing a standard measure of inflation, such as the consumer price index. Annual inflation of 2-3% may in some cases suggest stable prices. Emerging economies tend to have higher inflation as a result of weaker monetary institutions, structural bottlenecks, or less stable exchange rates.

APPENDIX C: BENCHMARK INDICATORS

The tables below are purely illustrative and show average historical indicators for a sample of countries in a given rating range. They show three variables associated with a country's leverage or debt burden, its fiscal position, and its size or wealth. The purpose is to show that a country's debt sustainability is often a function of both its fiscal effort and its wealth, among many other subjective factors. In other words, a country with low debt to GDP, a balanced budget and high GDP per capita is more likely to have a high level of debt sustainability. The current level of debt to GDP, as well as a country's size and wealth, and its fiscal stance, help determine the affordability of a country's debt. Specifically, if a country can afford to finance a higher debt burden, its debt sustainability is higher, and its rating may also be high, in spite of being more leveraged. Lower rated sovereigns tend to be poorer, and therefore often can only sustain lower debt burdens.

Public Debt / GDP	Crisis years + forecasts 2008-2012	Last 5 years 2006-2010	Last 11 years 1999-2010	Last 15 years 1996-2010
AAA	60.2	54.9	53.9	54.4
AA	68.1	62.0	60.0	59.4
A	49.4	43.6	42.1	41.2
BBB	39.6	37.8	42.4	50.9
BB	44.7	46.1	58.9	NA
B	51.5	52.6	58.0	NA
Fiscal Balance / GDP				
AAA	-1.6	0.0	0.5	0.4
AA	-3.7	-2.1	-2.1	-2.1
A	-4.3	-2.9	-2.6	-2.4
BBB	-2.8	-1.5	-1.9	-3.3
BB	-3.5	-2.8	-3.3	NA
B	-3.6	-3.0	-3.7	NA
GDP Per Capita (US\$)				
AAA	52,640	48,589	38,733	36,554
AA	29,939	27,807	23,044	22,056
A	20,703	19,474	14,846	13,697
BBB	9,257	8,188	6,078	5,666
BB	6,470	5,452	3,919	3,758
B	5,804	4,885	3,666	3,516

Source: IMF World Economic Outlook database, DBRS Financial Institutions & Sovereign Group

Public debt / GDP: General government gross debt / GDP
 Fiscal balance / GDP: General government net lending or borrowing / GDP
 GDP per capita: Current GDP in US dollars / Population

Appendix D: DBRS Long-Term Rating Scale

LONG-TERM OBLIGATIONS

The DBRS® long-term rating scale provides an opinion on the risk of default. That is, the risk that an issuer will fail to satisfy its financial obligations in accordance with the terms under which an obligations has been issued. Ratings are based on quantitative and qualitative considerations relevant to the issuer, and the relative ranking of claims. All rating categories other than AAA and D also contain subcategories “(high)” and “(low)”. The absence of either a “(high)” or “(low)” designation indicates the rating is in the middle of the category.

AAA

Highest credit quality. The capacity for the payment of financial obligations is exceptionally high and unlikely to be adversely affected by future events.

AA

Superior credit quality. The capacity for the payment of financial obligations is considered high. Credit quality differs from AAA only to a small degree. Unlikely to be significantly vulnerable to future events.

A

Good credit quality. The capacity for the payment of financial obligations is substantial, but of lesser credit quality than AA. May be vulnerable to future events, but qualifying negative factors are considered manageable.

BBB

Adequate credit quality. The capacity for the payment of financial obligations is considered acceptable. May be vulnerable to future events.

BB

Speculative, non investment-grade credit quality. The capacity for the payment of financial obligations is uncertain. Vulnerable to future events.

B

Highly speculative credit quality. There is a high level of uncertainty as to the capacity to meet financial obligations.

CCC/CC/C

Very highly speculative credit quality. In danger of defaulting on financial obligations. There is little difference between these three categories, although CC and C ratings are normally applied to obligations that are seen as highly likely to default, or subordinated to obligations rated in the CCC to B range. Obligations in respect of which default has not technically taken place but is considered inevitable may be rated in the C category.

D

A financial obligation has not been met or it is clear that a financial obligation will not be met in the near future or a debt instrument has been subject to a distressed exchange. A downgrade to D may not immediately follow an insolvency or restructuring filing as grace periods or extenuating circumstances may exist.



RATING TRENDS

DBRS uses “rating trends” for its ratings in the Corporate sector (except for Income Fund Stability Ratings) and its ratings for the CMBS product group within Structured Finance. For additional information regarding rating trends in CMBS, please refer to DBRS policy “Use of Rating Trends in CMBS”.

Rating trends provide guidance in respect of DBRS’s opinion regarding the outlook for the rating in question, with rating trends falling into one of three categories - “Positive”, “Stable” or “Negative”. The rating trend indicates the direction in which DBRS considers the rating is headed should present tendencies continue, or in some cases, unless challenges are addressed. In general, the DBRS view is based primarily on an evaluation of the issuing entity or guarantor itself, but may also include consideration of the outlook for the industry or industries in which the issuing entity operates.

DBRS assigns a rating trend for each security of an issuing entity as opposed to specifying one rating trend for the issuing entity and all rated security lines. Given that the duration and ranking of securities can influence the weighting of the strengths, weaknesses and challenges that affect the entity, it is not unusual for securities of the same entity to have different Trends. However, the simultaneous occurrence of both a Negative and a Positive Trend for securities issued by the same entity is rare.

It is the DBRS philosophy to rate “through an economic cycle”; therefore it is often the rating trend that will reflect the initial pressures or benefits of a changing environment rather than an immediate change in the rating itself. Nevertheless, a Positive or Negative Trend is not an indication that a rating change is imminent. Rather, a Positive or Negative Trend represents an indication that there is a greater likelihood that the rating could change in the future than would be the case if a Stable Trend was assigned to the security.

Generally, the conditions that lead to the assignment of a Negative or Positive Trend are resolved within a twelve month period. However, in some instances, new factors emerge which may cause the Positive or Negative Trend to be maintained, even as the original factors become clarified or resolved. DBRS generally notes any changes to the basis for the Positive or Negative Trend.

RATINGS “UNDER REVIEW”

In practice, DBRS maintains continuous surveillance of the entities that it rates and therefore all ratings are always monitored. Accordingly, when a significant event occurs that directly impacts the credit quality of a particular entity or group of entities, DBRS will attempt to provide an immediate rating opinion. However, if there is uncertainty regarding the outcome of the event, and DBRS is unable to provide an objective, forward-looking opinion in a timely fashion, then the rating(s) of the issuer(s) will be placed “Under Review”.

DBRS also places ratings “Under Review” in situations where there has been no major announcement or event for the issuer, but in the opinion of DBRS the current rating on the security may no longer be appropriate due to a change in the credit status of the issuing entity for other reasons, such as the ongoing results of the company and/or the outlook for the industry. In most such cases, where additional time is required for further analysis, DBRS will place the rating “Under Review”.



A rating that is “Under Review” remains outstanding; however, this status acts as a warning signal indicating that the outstanding rating may no longer be appropriate.

Using “Under Review Positive” or “Under Review Negative” is a more significant action than changing a rating trend to positive or negative as rating changes are considered more likely with the former than the latter.

When a decision is made by DBRS to place a rating “Under Review”, DBRS will generally take the following actions:

1. Provide initial guidance as to the opinion of DBRS by noting whether the Under Review action has positive, negative or developing implications. These qualifications indicate the preliminary evaluation of DBRS of the impact on the credit quality of the security or issuer; however as situations and potential rating implications may vary, its final rating conclusion may depart from the preliminary assessment.

2. Remove the existing rating trend(s) of stable, positive or negative, replace the existing rating trend(s) with “--”, and indicate that the rating trend(s) will be reinstated when the rating(s) is removed from Under Review status.

In those cases where a rating is placed on Under Review status, DBRS views this as a temporary situation; therefore DBRS strives to complete the review and remove the rating from this status as soon as it is appropriate to do so.

In the event that a lengthy Under Review period is anticipated, DBRS may provide such guidance in a press release and may, if appropriate, provide guidance as to the anticipated rating that would emerge under a proposed scenario.

In the event that DBRS decides to discontinue a rating that is Under Review, DBRS endeavours to resolve the Under Review status prior to the discontinuation.

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www.dbrs.com

Corporate Headquarters

DBRS Tower
181 University Avenue
Suite 700
Toronto, ON M5H 3M7
TEL +1 416 593 5577