FitchRatings

Criteria Essentials – Corporate Ratings (1/2)

Scan QR code or visit https://www.fitchratings.com/criteria/corporate-finance to view relevant criteria: **(A)** Corporate Rating Criteria; **(B)** Sector Navigators - Addendum to the Corporate Rating Criteria; **(C)** Parent and Subsidiary Linkage Rating Criteria; **(D)** Corporates Recovery Ratings and Instrument Ratings Criteria; **(E)** Country-Specific Treatment of Recovery Ratings Criteria; **(F)** Corporate Hybrids Treatment and Notching Criteria; **(G)** Government-Related Entities Rating Criteria

Corporate Rating Tool

Business Profile → **Financial Profile** → **Preliminary SCP**

1. **Analytical adjustments**
   - Sector, if several
   - Weakest link
   - B+ to CC (see next page)
2. **Governance**
3. **Operating environment**
4. **Qualitative overlay**
   - Idiosyncratic risks
   - Calibration (max 1 notch)

→ **Standalone Credit Profile (SCP)** + **Group Structure**

Capped by Country Ceiling* → **Long-Term Issuer Default Rating (IDR)**
Vulnerability to default on senior financial obligations

→ **Short-Term IDR**
In accordance with LT/ST rating correspondence table (see next page)

Recovery and Instrument Ratings (see next page)
Senior secured and unsecured debt
Subordinated and hybrid debt

Group Structure

C G

1 **When there is parent/subsidiary relationship,** linkage strength determines relative importance of consolidated or standalone credit profiles to derive IDRs

Parent-subsidiary linkage relationship
Is there sufficient control by the parent?

- No → **Separate IDRs**
- Yes → Compare parent consolidated profile with subsidiary SCP
  - Same → **Separate IDRs**
  - Stronger subsidiary → Legal ring-fencing access & control
  - Stronger parent → Legal, strategic, operational incentives
  - → **Subsidiary IDR** derived from linkage factors assessment
    Parent IDR typically at consolidated group level; may be below if limited access to group

2 **Entities directly owned by government sponsors** are assessed under the Government-Related Entities (GRE) Rating Criteria

Government IDR — Notched down or equalised
GRE Support Score Exceptional support likelihood
Distance between GRE SCP and government LT IDR
→ Notching Matrix → **GRE IDR**
GRE Standalone Credit Profile — Notched up or equalised

Business Profile and Financial Profile - Sector Navigators

B

50+ sector navigators define sector-specific factors, subfactors, financial ratios and related benchmark values.
For issuers straddling several sectors, focus on navigator from primary sector

	Factors	**Subfactors** (up to 5 per factor)
Business Profile**	1. Management Capped at bbb (sound practices)	• Risk tolerance • Management strategy • Management quality
	2. Sector characteristics	Defined in sector navigators
	3. Market & competitive positioning	
	4. Diversification & asset quality	
	5. Company operational characteristics	
Financial Profile	1. Profitability: Earnings stability and continuing cash flow	Defined in sector navigators • Cash flow metrics typically emphasised • Financial data adjusted (see next page) • Forward-looking metrics calculated with standard weights (may be adjusted): – 20% latest historical year – 40% for each of forecasted years 1 and 2
	2. Financial structure: Leverage and dependence on external financing	
	3. Financial flexibility: Capitalisation, financial access, liquidity, coverage	

Weights Derivation:
- **Initial weights:** 50%/50% Business/Financial Profiles
  Equal factor/subfactor weight in each profile/factor
- **Factor relative importance** assigned; drives weight multiplier:
  – Higher 5.0x
  – Moderate 1.0x
  – Lower 0.2x

→ **Preliminary SCP**

Governance Overlay

A B

Captures the negative impact of corporate governance deficiencies through 3 factors:
1. Ownership and decision-making concentration
2. Group structure transparency and contagion risk
3. Information quality/transparency

Notch down from pre-governance SCP guided by notching grid

Governance assessment	Good	Some deficiencies	Deficient	Material failures
Typical notching	0	0 to -2	Up to -6	Up to -6
			Generally incompatible with IDRs ≥ BBB-	

Operating Environment (OE) Overlay

A

Captures the risk of doing business in the jurisdiction(s) where the issuer operates

Jurisdiction-level OE: 'Assigned Operating Environment' score under Bank Rating Criteria
Geographic span of operations based on where economic value is created and assets are located
→ **Blended OE** → **0 to -3 notch down** from pre-OE SCP guided by notching grid

12-JAN-26

* The Country Ceiling indicates Fitch's view of the likelihood of transfer and convertibility restrictions being imposed to a country's domestic private sector. ** The REITs and investment holding company sectors have distinct business profile factors and subfactors.
This document is a summary of, and complementary material to, our current Corporate Rating Criteria report available on Fitch Ratings' public website. It does not replace our criteria and should be used in conjunction with it.

FitchRatings

Criteria Essentials – Corporate Ratings (2/2)

Scan QR code or visit https://www.fitchratings.com/criteria/corporate-finance to view relevant criteria: **(A)** Corporate Rating Criteria; **(B)** Sector Navigators - Addendum to the Corporate Rating Criteria; **(C)** Parent and Subsidiary Linkage Rating Criteria; **(D)** Corporates Recovery Ratings and Instrument Ratings Criteria; **(E)** Country-Specific Treatment of Recovery Ratings Criteria; **(F)** Corporate Hybrids Treatment and Notching Criteria; **(G)** Government-Related Entities Rating Criteria

B+ to CC Considerations (A)

	Business model	Execution risk	Cash flow	Leverage	Financial policy	Refinancing risk	Liquidity
B+	Robust	Limited	Positive	Clear deleveraging	Committed	Limited	Comfortable
B	Sustainable	Moderate	Neutral to positive	Deleveraging capacity	Some deleveraging	Manageable	Satisfactory
B-	Intact	Meaningful	Volatile	High	Aggressive	High	Limited
CCC*	Compromised	Uncertain	Consistently negative	Unsustainable	Uncommitted	Excessive	Poor

* Descriptions for CCC+/CCC-/CC are available in the criteria report

Fitch Financial Adjustments (A)

1. Leases

- Lease costs treated as an operating expense
- Lease liabilities: not classified as debt for most sectors; as reported for airlines, shipping, retail, hotel and leisure

2. Hybrids purchased by unaffiliated investors expected to exercise all available remedies may be assigned 0%, 50% or 100% equity credit for Fitch financial analysis (impact of leverage ratios)

3. Defined-benefit pension schemes: not viewed as a debt obligation and impact reflected in CF modelling

4. Debt factoring: typically added back to debt

5. Cash adjustments

- Restricted cash, blocked cash not included in readily available cash
- Haircut applied to the value of certain marketable securities

6. Consolidated profile for group structures

- Weak legal, operational or strategic linkages may result in deconsolidation of subsidiaries
- Re-consolidation of debt likely serviced by issuer
- Proportional consolidation of JVs

7. HoldCo PIK and shareholder loans: treated as debt or non-debt depending on the assessed instrument impact on the default probability of the rated entity debt.

8. Debt fair-value adjustments: debt is reflected at the amount payable on maturity: impact of fair value adjustments and derivatives are eliminated from debt

9. Adjustments for financial services activities Financial services deconsolidated and capital re-allocated to create a self-sustained capital structure

Derivation of Short-Term IDRs (initial maturity ≤13 months) (A)

Correspondence table between Long- and Short-Term Ratings

		AAA to AA-	A+	A	A-	BBB+	BBB	BBB-	BB+ to B-	CCC+ to C
Long-Term Rating										
Short-Term Rating	Lower option	F1+	F1	F1	F2	F2	F3	F3	B	C
	Higher option		F1+	F1+	F1	F1	F2			
Min required for higher ST option	Financial flexibility		aa-	aa-	a	a	bbb+			
	Financial structure		a	a	bbb	bbb	bbb-			
	OE		bbb-	bbb-	bbb-	bbb-	bbb-			

Recovery Ratings and Instrument Ratings (Approach applied depends on the IDR) (D) (E)

IDR	Approach	Instrument Recovery Rating (RR)	Instrument Rating typical notching from IDR
AAA to BBB-	**Generic approach:** Generic recovery assumptions	RR not assigned	see table below
BB+ BB BB-	**Generic approach:** Generic recovery assumptions	RR may be assigned if there is market demand	see table below
B+ and below	**Bespoke approach:** Estimated recovery for each debt class	RR assigned drives IDR notching to derive instrument rating	see table below

AAA to BBB-:

Secured debt	+1 (0 if poor collateral)
Senior unsecured debt	0
Subordinated debt	-1

BB+ / BB / BB-:

IDR	BB+	BB	BB-
Super senior revolving credit facility	+1	+2	+2
Asset-backed loan facility	+1	+2	+2
Cat 1 first lien (US only)	+1	+2	+2
Cat 2 first lien	+1	+1	+2
Second lien/unsecured	0	0	0
Subordinated	-1	-1	-1
Deeply subordinated	-2	-2	-2

B+ and below:

Going Concern (GC) enterprise value (EV), typically cash multiple approach: GC EBITDA x Multiple (US: 4x to 8x; elsewhere: 3x to 7x)

Liquidation EV Discounted book value of assets

→ Post-restructuring EV

Creditor claims

→ EV distributed to creditors based on seniority to derive waterfall generated recovery

→ RR and instrument rating

RR	Description	Estimated Recovery (%)	Notching from IDR
RR1	Outstanding	91 – 100	+3
RR2	Superior	71 – 90	+2
RR3	Good	51 – 70	+1
RR4	Average	31 – 50	0
RR5	Below average	11 – 30	-1
RR6	Poor	0 – 10	-2 / -3

RR caps apply for

- Unsecured / second lien instruments
- Native American gaming
- Investment holding companies
- Country-specific predictability of recovery considerations

Uplift sectors, regulated utilities and REITs, may benefit from above-average recovery assumptions and receive an uplift.

Hybrid Instruments (F)

1. **If issuer rated BB- or above,** hybrid instrument ratings notched from IDR of issuer based on table below

2. **If issuer rated B+ or below,** bespoke approach applies as detailed above

Typical notching relative to IDR in going concern	
Hybrids subordinated or with deferral option	-1 at least
Hybrids that qualify for equity credit (deeply subordinated)	-2 at least
Hybrids with ability to write-down principal	-3 at least

When loss-absorption is triggered, instrument rated between 'CCC' to 'C' depending on severity of economic losses

12-JAN-26