

Article Title: General Criteria: Country Risk Assessment Methodology And Assumptions Data:

(EDITOR'S NOTE: —On March 22, 2023, we republished this criteria article to make nonmaterial changes. See the "Revisions And Updates" section for details.) OVERVIEW 1. S&P; Global Ratings' methodology for determining a country risk assessment forms a benchmark for incorporating country risk in corporate ratings and in ratings on other sectors that include such assessments in related criteria. 2. We define "country risk" as the broad range of economic, institutional, financial market, and legal risks that arise from doing business with or in a specific country and can affect a non-sovereign entity's credit quality. The credit risk for every rated entity and transaction is influenced to varying degrees by these types of country-specific risks. 3. Under the criteria, we rank country risk on a scale of '1' (very low risk) to '6' (very high risk) to establish a "country risk assessment." The country risk assessment is one aspect of the sector-specific criteria we use to determine ratings of entities within scope of these criteria. We publish these country risk assessments and update them on a regular basis. The country risk assessment criteria are also used to evaluate country risk for rating insurance companies (see "Insurers Rating Methodology"). 4. These criteria govern our determination of the country risk assessment, which reflects this broad set of risks. The use of a country risk assessment enhances consistency and transparency in how we incorporate country risk analytics in our non-sovereign ratings and will be guided by sector-specific criteria, such as that described in "Corporate Methodology." These criteria do not affect our approach to considering country risk for banks and other financial institutions covered under "Financial Institutions Rating Methodology," Dec. 9, 2021. 5. Several other methodology articles explain our current approach to incorporating country risk in our ratings and are listed in "Related Criteria" below. Subsequent updates of our methodologies may incorporate specific references to the country risk assessment or relevant components of the assessment. 6. These criteria are different from our methodologies for assigning ratings above the sovereign, such as in corporate, government, and structured finance ratings (see "Related Criteria"). Country risk addresses risk factors that help determine all non-sovereign ratings and include broader factors than sovereign default risk. Criteria for ratings above the sovereign relate only to entities potentially rated above the sovereign and consider the effect of sovereign default risk along with various types of sovereign direct intervention, such as transfer and convertibility risk (see "Related Criteria"). 7. The criteria constitute specific methodologies and assumptions under "Principles Of Credit Ratings," published Feb. 16, 2011. SCOPE 8. The criteria describe the methodology we use to arrive at our country risk assessments. The ultimate use of the country risk assessments will be governed by sector- and asset-class-specific criteria. 9. This paragraph has been deleted. METHODOLOGY 10. Country risk, for the purposes of these criteria, is the risk an entity faces by having some of its operations or assets exposed to one or more countries. The country-specific risks covered by these criteria consist of economic risk, institutional risk, financial system risk, and payment culture/rule-of-law risk (see the chart for our country risk assessment framework). 11. S&P; Global Ratings' sovereign ratings have often been used by the market as a proxy for indicating the extent of these risks in a given country. However, the sovereign rating's focus is on the likelihood that a sovereign obligor will pay its debt on time and in full. The sovereign rating itself may understate, or overstate, the country-specific risks that are relevant to non-sovereign credit analysis. Therefore, S&P; Global Ratings separately analyzes the relevant country risks for non-sovereign entities. 12. We currently incorporate relevant country risk factors in our analyses of all sectors and asset classes. The country risk assessment draws from related criteria that form parts of our sovereign rating analysis and banking industry country risk assessment (BICRA) analysis and is also informed by various available country risk indicators to arrive at the overall country risk assessment. 13. For the overall country risk assessment, we first assign a ranking from '1' to '6' (strongest to weakest) to each of the following four sub-factors, as described in Section B, "Country Risk Assessment: Four Sub-Factors": Economic risk, Institutional risk, Financial system risk, and Payment culture and rule-of-law risk. 14. We then determine the simple average of the four sub-factors and round up or down, with additional potential adjustment, as described in Section C, "Final Country Risk Assessment: Combining Four Sub-Factors And Adjustments." 15. The overall country risk assessment would be ranked as follows: '1', very low risk, '2', low risk, '3', intermediate risk, '4', moderately high risk, '5', high risk, or '6', very high risk. 16. The relevant sector-level criteria will indicate the specific methodology for incorporating the country risk assessment in the credit rating

analysis and will specify how the country risk assessment will be incorporated for a multi-jurisdictional entity or transaction, typically using a weighted-average approach to calculate aggregate country risk exposure. 17. This paragraph has been deleted. 18. This paragraph has been deleted. 19. This paragraph has been deleted. A. Criteria Calibration 20. Of the many factors that contribute to country risk, we have chosen to focus on four sub-factors, which we believe are the key determinants for country risk. This followed our review of coincident and causal factors related to increased country-related default risk for non-sovereign entities, as explained below. 21. Sub-factor 1, Economic Risk: Several sources document a correlation between increased macroeconomic volatility and elevated country risk. For example, we note in our ratings definitions article (see "Related Publications"), "developing economies ... may experience pronounced and frequent swings" in GDP and unemployment. This observation is also noted in the National Bureau of Economic Research Working Paper, "Emerging Market Business Cycles: The Cycle Is the Trend": "Emerging market economies on average have a business cycle two times as volatile as their developed counterparts" (Mark Aguiar and Gita Gopinath, Journal of Political Economy, 2007, vol. 115, no. 1, ©2007 by The University of Chicago). On the other hand, our default studies have shown that the Great Recession of 2009 had a greater default effect in developed markets and serve as a reminder that macroeconomic volatility is not limited to emerging markets (see "Related Research"). Similarly, in an IMF Working Paper titled "The International Monetary System: Where Are We and Where Do We Need to Go?", the authors note that real GDP growth volatility for advanced economies jumped substantially during the "North Atlantic financial crisis of 2008-09" compared with the "Great Moderation" period of 1984-2007. They note that "large and volatile capital flows have promoted greater volatility in financial markets, leading to recurrent financial crises" (Rakesh Mohan, Michael Debabrata Patra, Muneesh Kapur, November 2013). 22. At the same time, we have observed a high correlation between corporate default rates and sovereign crises and macroeconomic volatility, as our emerging market default studies have suggested (see "Related Research"). 23. Sub-factor 2, Institutional Risk: In general, periods of stress in emerging markets have been characterized by political instability, high external debt, unsustainable financial policies, heavy dependence on exports, and unstable financial markets. In our sovereign analysis of Institutional Risk, the main focus is on factors that ultimately relate to the stability and predictability of the environment for non-sovereigns: "effectiveness, stability, and predictability of the sovereign's policymaking, political institutions, and civil society" as well as political event risk, such as domestic and external security risks, which can cause a more severe impact for the business environment. 24. Sub-factor 3, Financial System Risk: For developed markets, our global default studies have also demonstrated a significant correlation of defaults with weak points in business cycles and banking crises. For example, the 1991 peak default rate occurred after a moderate recession in the U.S., a severe but short recession in the U.K., and the Nordic banking crisis. 25. For more details on default rates, see our periodic default studies listed in "Related Research." Also, for macroeconomic stresses and ratings, see our ratings definitions article. 26. "This Time Is Different" (Reinhart, Carmen M. and Rogoff, Kenneth S., 2009) also points to the link between corporate defaults and banking crises (see figure 16.1, page 252). The authors indicate that although countries may "graduate" from certain types of crises, such as serial defaults on sovereign debt or hyperinflation episodes, developed and emerging economies alike remain subject to banking and financial crises. 27. Sub-factor 4, Payment culture/Rule of Law: Compared with our BICRA criteria, we have given this factor increased weight, elevating it to one of the four sub-factors. This is because of the key importance of concepts such as respect for rule of law, property rights, contract rights and enforceability, corruption, and related event risk, including the extreme cases of expropriation and nationalization in the country risk considerations. In our analysis of this subfactor, together with our analytical insights, we also make use of various indicators that could include--but are not necessarily limited to--indicators provided by the World Bank, Transparency International, and S&P; Global. In this way, we avoid relying on any single indicator or source. We also complement these indicators with S&P; Global Ratings' analytics, including insolvency regime research. 28. Weighting of the four sub-factors: After extensive review and testing, we have concluded that an equal weighting of the four sub-factors is the most representative approach to country risk. While the risk profiles in some countries might temporarily suggest a different weighting (such as when domestic hostilities break out or a banking crisis is under way), we did not find any one

risk more determinant than others over time for the majority of countries. Still, to recognize the importance and potential for periodic sharp hikes in one type of risk, we introduced judgmental weighting on a case-by-case basis. As per paragraph 49, we may round a country risk assessment weaker in case of one type of risk being or becoming dominant that would cause us to add additional weight to an unfavorable sub-factor and reduce weight to a more favorable sub-factor(s). B. Country Risk Assessment: Four Sub-Factors 29. The country risk assessment considers four sub-factors: Economic risk, Institutional risk, Financial system risk, and Payment culture and rule-of-law risk. 30. Each sub-factor is ranked according to the following scale: '1', very low risk; '2', low risk; '3', intermediate risk; '4', moderately high risk; '5', high risk; and '6', very high risk. 31. These sub-factors are based on a series of quantitative factors and qualitative considerations. Economic risk 32. The economic risk sub-factor draws on the criteria for the sovereign economic assessment, with adjustments, as described below, for elevated monetary risk, external risk, or economic imbalances. The sovereign economic assessment includes income levels, growth prospects, and economic diversity and volatility. For more details, see the economic assessment section in "Sovereign Rating Methodology." 33. After considering the criteria for the overall sovereign economic assessment, we would consider the criteria for other sovereign rating assessments (monetary and external) and for a BICRA factor (economic imbalances within the economic risk assessment) to derive the economic risk sub-factor, and adjust this score as follows: Add '1' if the initial economic risk sub-factor ranking is '4' or stronger, and if: the sovereign monetary assessment, or sovereign external assessment, or BICRA economic imbalances score is '5' or '6'; or Add '1' if the initial economic risk sub-factor score is '5', and if: the sovereign monetary assessment, or sovereign external assessment, or BICRA economic imbalances score, is '6.' 34. Economic risk is relevant for non-sovereigns because of the following factors: Relative income levels and changes in income levels influence consumer spending power and, therefore, consumer loan default frequency and corporate revenues; Economic diversity and volatility influence the relative duration and severity of business cycles; and Growth prospects influence business investment decisions and consumer spending expansion or contraction. 35. The reason for the additional adjustment for weakness in monetary or external trends is to better capture potential incremental economic volatility relevant to the private sector. For example, in our criteria for the sovereign monetary assessment, an initial monetary assessment of '5' may indicate one or more of the following risk factors, which are relevant for non-sovereigns: a currency regime that features a "hard peg" (currency board) and therefore may be subject to currency devaluation risk if the hard peg does not hold; a central bank that has limited ability to act as a lender of last resort for the financial system; or relatively high inflation (the consumer price index typically exceeding 10%). High inflation can affect pricing power, corporate cost structures, and consumers' discretionary spending power. In our criteria for the sovereign external assessment, an initial external assessment of '5' would indicate relatively high external debt and relatively weak external liquidity, a combination that could increase the risk of economic volatility affecting non-sovereigns. Institutional risk 36. This sub-factor draws on the criteria for the sovereign institutional assessment. This sovereign institutional assessment covers the following factors: Effectiveness, stability, and predictability of the sovereign's policymaking and political institutions (the primary factor); Transparency and accountability of institutions, data, and processes as well as the coverage and reliability of statistical information (the secondary factor); and Potential adjustment factors, such as sovereign debt payment culture and external security risks. 37. For more details, see the institutional assessment section in our sovereign rating methodology, listed in "Related Criteria." 38. The institutional assessment as analyzed under our sovereign methodology is relevant for non-sovereigns because policymaking instability and weaker political institutions reduce predictability for the private sector, and because high geopolitical or internal security risk indicate potential conflict that can be disruptive to the private sector. Financial system risk 39. The relative strength, or weakness, of a country's banking system and the relative depth of its capital markets are important country risk factors for non-sovereigns. The BICRA industry risk score is the principal factor we use to assess this sub-factor. We also make adjustments as described below for particularly broad, or narrow, access to domestic or external capital markets. 40. The initial financial system risk sub-factor draws on the criteria for the BICRA industry risk score. We note that the overall BICRA score has two components: economic risk and industry risk. However, because most of the factors considered in the

BICRA economic risk are already included in the country risk economic risk sub-factor, the emphasis in this section is on the BICRA industry risk score. 41. The availability or absence of a well-functioning domestic debt capital market can make a significant difference for the non-sovereigns' funding possibilities. The adjustments to the initial financial system risk sub-factor score reflect whether domestic capital markets are narrow and shallow, broad and deep, or moderately broad and deep and draw on the criteria for debt capital market characteristics in the BICRA methodology related to the "Systemwide Funding," which is part of the BICRA industry risk score. The adjustments to the initial financial system sub-factor score also reflect whether non-sovereigns have limited access to external markets. Add '1' if the domestic capital markets are narrow and shallow or there is a significant lack of access to external debt capital markets; Subtract '1' if domestic capital markets are broad and deep. To receive this positive adjustment, the private sector should also have reasonable access to external debt capital markets; Keep neutral if the domestic capital markets are moderately broad and deep, provided the private sector also has reasonable access to external debt capital markets. 42. These adjustments intentionally emphasize the effect of narrow or broad access to capital markets for non-sovereigns. Deep and well-functioning domestic capital markets combined with access to external capital markets can offset, to some extent, relatively weaker domestic banking systems, while narrow access to capital markets can offset strengths or exacerbate the weakness of domestic banking systems. 43. Financial system risk is relevant to non-sovereigns because it measures access to credit, both domestic and external, from both the banking system and capital markets, and the relative volatility of that access to credit. Payment culture/Rule-of-law risk 44. The payment culture/rule-of-law sub-factor is informed by various indicators, along with our analytical judgment. This risk category also covers other information, including S&P; Global Ratings' insolvency regime classification (where available), which is a relative indicator of creditor friendliness and referred to in our corporate recovery rating criteria. 45. We might adjust the sub-factor score downward if we believe expropriation risk is high or very high. This would apply if the government has a recent track record of nationalizing (compensating the owner) or expropriating (without promptly compensating the owner) domestic entities. Further information on S&P; Global Ratings' insolvency regime classification methodology can be found in "Methodology: Jurisdiction Ranking Assessments." 46. This category is relevant to non-sovereigns because it affects the reliability of contracts and enforcement of contractual rights. The analysis considers creditors' rights, the predictability of the legal framework, and the relative level of corruption. C. Final Country Risk Assessment: Combining Four Sub-Factors And Adjustments 47. We combine the sub-factors as a simple average of the four factors to arrive at the preliminary country risk assessment. In the absence of exceptional adjustment factors, the final country risk assessment is equal to the preliminary country risk assessment, rounded (when relevant) to a whole number, as indicated below: The preliminary country risk assessment ending in .25 is rounded to a stronger assessment (except for limited situations in which there are very strong negative trends or conditions, described in paragraph 51); The preliminary country risk assessment ending in .75 is rounded to a weaker assessment (except for limited situations in which there are very strong positive trends or conditions, described in paragraph 51); The preliminary country risk assessment ending in .5 is rounded to either a stronger or weaker assessment based on directional trends, our view of the relative weighting of the sub-factors, and other considerations described in paragraphs 48-50. 48. We would expect to round an assessment ending in .5 to a stronger assessment (for example, from '4.5' to '4') when, on balance, we observed or expected the following factors to be positive: A positive directional trend, which might be identified by: a positive sovereign rating outlook when the rationale for such positive outlook points to specific, potential near-term improvement in the factors relevant to the country risk assessment; a positive BICRA trend or new capital market reforms that point to a positive trend in the financial environment; increased stability and visibility in the business environment; or other positive developments for the business environment that lead us to weigh certain country risk sub-factors higher or lower than others; A strength in the business or financial environment that is not directly reflected in the country risk sub-factors, for example, where the overall BICRA is relatively stronger than the BICRA industry risk, and where the strength of the overall BICRA reflects factors not already captured by the country risk economic risk sub-factor. The financial system risk sub-factor, as described in Section B, considers the criteria for the BICRA industry risk score but not the overall BICRA and therefore does not consider the

BICRA economic risk score. Although much of the BICRA economic risk score is already reflected in the country risk economic sub-factor, the BICRA economic risk score contains some additional metrics. Here, we introduce the overall BICRA as a potential factor in determining the rounding adjustment for the country risk assessment; or Evident strength in country risk factors relative to those of weaker peers, defined as countries with a country risk assessment in the weaker of the two rounding choices. For example, if we are considering moving from '4.5' to '4', we would consider the strengths of the country risk factors relative to those of countries with a country risk assessment of '5'. 49. Conversely, we would expect to round an assessment ending in .5 to a weaker assessment (for example, from '4.5' to '5') when, on balance, we observed or expected the following factors to be negative: A negative directional trend, which might be identified by: a negative sovereign rating outlook, when the rationale for such negative outlook points to specific, potential near-term deterioration in the sub-factors relevant to the country risk assessment; a negative BICRA trend that points to a negative trend in the financial environment; reduced stability and visibility in the business environment; or other negative developments for the business environment that would lead us to weigh certain country risk sub-factors higher or lower than others; A weakness in the business or financial environment that is not directly reflected in the country risk sub-factors. For example, where the overall BICRA is relatively weaker than the BICRA industry risk, the latter of which would be considered in the financial system risk sub-factor. This would take into consideration the overall BICRA, as opposed to the BICRA industry risk score, which is already considered in the financial system risk sub-factor (see paragraph 48 for more explanation on the BICRA economic risk versus the country risk economic risk sub-factor); One type of risk being or becoming dominant that would cause us to add additional weight to an unfavorable sub-factor and reduce weight to a more favorable sub-factor(s); Evident weakness in country risk factors relative to those of stronger peers, defined as countries with a country risk assessment in the stronger of the two rounding choices. For example, if we are considering moving from '4.5' to '5', we would consider the weaknesses of the country risk factors relative to countries with a country risk assessment of '4'; or Emerging trends related to the factors listed in paragraph 52. 50. Examples of considerations that could lead to a positive or negative rounding adjustment on an assessment ending in .5 include: Currency risk: If the country's currency is highly volatile, it could contribute to a negative adjustment. For example, currencies that are prone to significant fluctuations, including currency devaluations, generally heighten financial risks for non-sovereign entities. Also, we would consider whether countries participating in currency unions have a growing risk of exiting the monetary union; Countries in transition: If a country is in a positive or negative transition that strengthens or weakens country risk and that is not already fully captured elsewhere in the sub-factors, we could adjust the country's indicative score, although this would typically be a negative adjustment; Positive or negative business environment factors not adequately captured in the sub-factors, such as: labor market flexibility or rigidity; predictability and general level of the tax burden; infrastructure constraints, including lack of transportation infrastructure or adequate electricity access; trends in demographics; and the degree of interventionism or risk of negative interference with private companies. Although expropriation or nationalization risks are captured in the payment culture/rule-of-law risk score, the prevalence of such risks may also influence the rounding for the overall country risk assessment. In this potential adjustment for business environment factors, we would focus on factors that are relevant to a broad range of industries and regions in the country. Factors affecting a single industry (such as infrastructure relevant to a certain industry only, e.g., oil pipelines) would instead be reviewed under the relevant criteria for that entity; and Government financing, particularly government-directed lending and government support to non-banks, either through banks or directly. Even though the BICRA industry risk may reflect a negative effect of government-owned institutions dominating in the sector and restricting competition, we might view this government assistance, if deemed sustainable, as a supportive credit factor for non-banks. 51. In limited situations, we might round a preliminary country risk assessment ending in .75 to a stronger, rather than weaker, category (such as from '4.75' to '4') when the conditions and trends listed in paragraphs 48 and 50 are nearly all very positive. Similarly, we might round a preliminary country risk assessment ending in .25 to a weaker, rather than stronger, category (such as from '4.25' to '5') when the conditions and trends listed in paragraphs 49 and 50 are nearly all very negative. 52. In rare cases, the preliminary rounded country risk assessment might be

adjusted weaker by one or more categories based on the following exceptional factors, in addition to considering the negative factors in paragraph 49: Heightened risk or presence of capital controls or a bank deposit freeze; Sharp deterioration in the private sector's access to domestic or external liquidity; Event risk (such as natural disaster or escalating external or domestic security risk, including war, social unrest, or political upheaval, when such risks are not fully captured in the institutional and governance effectiveness sub-factor); or The risk of leaving a currency union, in which any potential exit could lead to dramatic consequences for domestic non-sovereign entities with foreign currency holdings or debts. The magnitude of such an adjustment would be based on our view of these extraordinary events' duration and effect on the activities of the non-sovereign entities and transactions.

53. In rare cases when the typical sources of information are not fully available for us to determine the country risk assessment, such as an unrated sovereign, a country on which we do not publish BICRA scores, or missing external data, we might estimate the country risk assessment based on the available information and comparisons to countries we consider most similar.

REVISIONS AND UPDATES This article was originally published on Nov. 19, 2013. Changes introduced after original publication: Following our periodic review completed on Nov. 4, 2016, we updated the contact information and the "Related Criteria" lists and removed obsolete elements (paragraphs 9, 17, 18, and 19) that pertained to the initial publication of the criteria. On Sept. 23, 2019, we republished this criteria article to make nonmaterial changes to criteria references. On Oct. 30, 2020, we republished this criteria article to make nonmaterial changes. We updated paragraph 41 to specify our adjustment to the initial financial system risk sub-factor score--more specifically, the adjustment for domestic debt capital markets. We added a table to show how the criteria assess the breadth and depth of the domestic debt capital markets. Prior to Oct. 28, 2020, this criteria article was structured so that it incorporated this item by referencing our BICRA criteria. With this change, we eliminated this cross-reference to the BICRA criteria and instead directly integrated the relevant provision from the BICRA criteria into these criteria. This revision makes no substantive change to the approach of the Country Risk criteria. We also updated criteria references throughout the article and made additional editorial changes to improve clarity in certain paragraphs. On Aug. 31, 2021, we republished this criteria article to make nonmaterial changes to the references to related criteria and related research articles. On Dec. 14, 2021, we republished this criteria article to make nonmaterial changes to the references to related criteria and related research articles. On March 22, 2023, we republished this criteria article to make nonmaterial changes. We removed outdated content in paragraphs 27 and 44. We updated these two paragraphs with references to various other sources of contract enforcement data. We also updated paragraphs 41 and 42 to align them with the BICRA methodology, which was revised on Dec. 9, 2021. Moreover, we updated criteria references and made additional changes to improve clarity in certain paragraphs. We also updated references in the related publications section.

RELATED PUBLICATIONS Related Criteria Corporate, Infrastructure, And Financial Services Ratings General Project Finance Rating Methodology, Dec 14, 2022 Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021 Financial Institutions Rating Methodology, Dec. 9, 2021 Methodology And Assumptions For Rating Aircraft-Backed Debt And Enhanced Equipment Trust Certificates, May 26, 2021 Insurers Rating Methodology, July 1, 2019 Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016 Corporate Methodology, Nov. 19, 2013 Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013 Structured Finance Ratings Global Trade Receivable Methodologies And Assumptions, June 29, 2021 Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019 Sovereign And Public Finance Ratings U.S. Municipal Water, Sewer, And Solid Waste Utilities: Methodology And Assumptions, April 14, 2022 Methodology For Rating Public And Nonprofit Social Housing Providers, June 1, 2021 U.S. Municipal Retail Electric And Gas Utilities: Methodology And Assumptions, Sept. 27, 2018 U.S. And Canadian Not-For-Profit Acute Care Health Care Organizations, March 19, 2018 Sovereign Rating Methodology, Dec. 18, 2017 U.S. Public Finance Charter Schools: Methodology And Assumptions, Jan. 3, 2017 Methodology: Not-For-Profit Public And Private Colleges And Universities, Jan. 6, 2016 General Criteria Principles Of Credit Ratings, Feb. 16, 2011 Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009 Related Research 2021 Annual Emerging And Frontier Markets Corporate Default And Rating Transition Study, Nov. 4, 2022 2021 Annual Global

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