Article Title: Criteria | Corporates | General: Methodology: The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers Data: (EDITOR'S NOTE: —On Dec. 15, 2021, we republished this criteria article to make nonmaterial changes. See the "Revisions And Updates" section for details.) 1. This criteria article presents S&P; Global Ratings' methodology for assessing how captive finance (or captive) operations affect the creditworthiness of a nonfinancial corporate issuer, and the analytical adjustments we make for entities that have captive finance operations. These criteria complement our methodology for determining the issuer credit rating of nonfinancial corporate issuers; however, the criteria do not address how we determine the issuer credit rating of a captive finance operation. 2. These criteria constitute specific methodology and assumptions relating to our criteria article "Principles Of Credit Ratings". The criteria also relate to "Group Rating Methodology" (GRM) and "Corporate Methodology". 3. This paragraph has been deleted. 4. These criteria supplement and partially supersede our "Corporate Methodology" article, and should be read in conjunction with that article. SCOPE OF THE CRITERIA 5. These criteria apply to nonfinancial corporate entities that engage in providing financing to their dealers or customers to support the sale of their nonfinancial products, and such financing activities meet the characteristics of captive finance operations described in paragraph 6. 6. A captive finance operation functions primarily as a means to market a company's products by providing financing (typically in the form of loans or leases) to the company's dealers (wholesale financing) or end customers (end user financing). The captive may also provide ancillary services, such as selling insurance. The captive can be structured as a legally separate subsidiary of the corporate entity or as a distinct operating division or business line. We apply the criteria when the following characteristics apply: We expect the captive to generate (on a normalized basis over the long term) 70% or more of its receivables and other captive-related assets from sales of its parent's or wider group's goods or services; Where the captive is a separate subsidiary, the group status of the subsidiary is deemed to be "moderately strategic," "strategically important," "highly strategic," or "core" (according to our GRM criteria); and We believe facilitating the parent's product sales is the key strategic mission of the finance unit. 7. We do not apply the criteria if we believe that the captive finance operations could not have material impact on the issuer's creditworthiness. This is to ensure that captive operations of small scale in the overall consolidated financial profile of the group do not affect our view of the parent's financial risk profile (FRP). As a guide, captive finance operations are considered material when, excluding the captive's debt from the consolidated financial statements, the FRP of the parent (as described in step 1 of paragraph 22) moves two or more FRP categories relative to the FRP on a consolidated basis. To make this comparison, we use a preliminary cash flow metric--the ratio of debt to EBITDA--to determine the FRP. However, we will not base our materiality decision solely on quantitative metrics, because captive finance operations may have characteristics that indicate material risks to the company, despite having debt levels that would not meet the above quantitative materiality threshold. When we believe qualitative factors are more analytically relevant we will apply the criteria irrespective of the outcome from the quantitative materiality calculation. Regardless of whether the captive is material, we exclude the captive's financials from our analysis of the parent by making analytical adjustments to the reported consolidated figures (see the 'Analytical Adjustments For Nonfinancial Corporate Issuers With Captive Finance Operations' section). 8. These criteria do not apply to independent finance companies, nor do they apply to determining the stand-alone credit profile (SACP) or issuer credit rating (ICR) of a captive finance subsidiary (see "General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating"). If the captive is a separate legal entity, we may assign a rating to the captive finance subsidiary. This is separate from our assessment of the impact of the captive operations on the consolidated entity, which is addressed in the criteria. The relationship between the rating of the captive finance subsidiary and the group credit profile (GCP) or the parent rating is governed by the SACP and the group status of the captive, according to our GRM criteria. 9. To determine the SACP of a captive finance subsidiary, we apply "Financial Institutions Rating Methodology." To determine the ICR of a captive finance subsidiary incorporating the impact of group membership, we apply our GRM criteria. SUMMARY OF THE CRITERIA 10. The criteria describe our methodology for assessing how the risk profile of the captive finance operations of a nonfinancial corporate issuer, or within the group of a nonfinancial corporate issuer, affect the creditworthiness of the consolidated entity (i.e., the GCP). 11. The criteria supplement

"Corporate Methodology". Under our "Corporate Methodology," we combine the business risk profile and financial risk profile of an issuer into an anchor, which may then be modified by additional rating factors to determine the SACP. These criteria describe how the benefits and risks of captive finance operations are captured in the parent's business risk profile. The criteria also define when and how we would raise or lower the financial risk profile of the issuer or parent based on the asset quality and leverage profile of its captive finance operations. The criteria define additional captive finance-related rating factors that could modify the parent's liquidity and anchor and, in turn, affect the parent's SACP, and ultimately the group's GCP. 12. The business-related benefits and risks to the parent of owning a captive finance unit are captured in the analysis of the parent company as part of the "Corporate Methodology." Generally, those benefits and risks are captured in our analysis of competitive advantage. Additionally, if we believe that the captive historically contributed to meaningfully stabilizing profitability (as shown by a track record of captive earnings that are stable and material relative to the corporate entity's industrial profits) and we expect this to continue, we would positively adjust the assessment of volatility of profitability by one category. Evidence that captive earnings increase volatility would lead to a one-category downward adjustment. 13. Nonfinancial corporate issuers or groups with captive finance operations are non-homogenous enterprises. Their financial assets can typically support, like other financial companies, a higher degree of leverage than their industrial assets, but those finance operations also entail specific risks. Under the criteria, we seek to segregate captive finance operations to determine the credit quality of the corporate/industrial business. This recognizes the differences in business dynamics and economic characteristics between captive and corporate/industrial operations, and the appropriateness of using different financial measures, rather than analyzing credit quality based on consolidated financial metrics. 14. Still, given the very close financial ties that typically exist between a captive and its parent, we reflect the strength or weakness of the captive back into our assessment of the parent creditworthiness as a way of achieving 'equilibrium.' This aims at recognizing that how management funds and capitalizes the captive can be neutral, positive, or negative to the credit profile of the overall enterprise. A captive that is under- or over-leveraged relative to both the quality of its asset portfolio and to the financial risk profile of the parent, will ultimately, and subject to materiality considerations, provide greater or lower debt capacity, respectively, to the overall enterprise than one that is not, and we may adjust the parent financial risk profile as a result. 15. Under the criteria, we define the adjustments we make to segregate the captive finance financials from consolidated accounts to determine the FRP of the parent (i.e., of its corporate/industrial operations). We then compare the financial risk profile of the parent and the asset and leverage risk profile of the captive, and may adjust the parent's FRP by up to two categories worse or one category better. We make such an adjustment if we determine that the captive's asset and leverage risk assessment differs significantly from the parent's FRP. If the captive is an insulated subsidiary in accordance with GRM (for example, due to regulation), this would constrain an uplift of the parent FRP. 16. Under "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers", the analysis of monetary flows of the parent company excludes the sources and uses of cash from captive finance operations. However, under these criteria, we have superseded that guidance and now include funds from the captive (typically in the form of dividends or intercompany loans) as a source of liquidity for the parent when we believe that transfers from the captive are available to the parent at all times, including during times of stress, and we expect this to continue. We may then modify the assessment of the parent's liquidity to incorporate our views of the captive's ability to manage its funding and liquidity needs in adverse market and economic conditions. To this end, we assess the captive's funding and liquidity as neutral or negative. If we assess funding and liquidity as neutral, we do not adjust the parent's liquidity. If we assess the captive's funding and liquidity as negative, we adjust the parent's liquidity assessment to a weaker category. 17. Under the criteria, we may then further modify the anchor by one or more notches downward if we assess that other non-leverage or non-liquidity-related risks are significant. To this end, we analyze an additional modifier, the 'captive finance modifier,' which is supplemental to the five modifiers otherwise considered under our "Corporate Methodology." If we assess the captive's risk positions as neutral, the captive finance modifier has no impact on the anchor. A negative assessment would lower the anchor by one or more notches. 18. This paragraph has been deleted. 19. This paragraph has been deleted. 20. This

paragraph has been deleted. METHODOLOGY Framework 21. The methodology addresses how the risk profile of captive finance operations would affect the business risk profile, financial risk profile, anchor, liquidity, and ultimately the SACP of the parent company (or the issuer, if the captive finance operations are within the same legal entity). Regardless of whether the captive is material, we exclude the captive's financials from our analysis of the parent by making analytical adjustments to the reported consolidated figures (See the 'Analytical Adjustments For Nonfinancial Corporate Issuers With Captive Finance Operations' section). 22. To assess if, and how, captive finance operations affect the parent company's SACP, we follow these steps: Step 1: Apply analytical adjustments for captive finance operations to determine the parent's adjusted financials, which exclude the captive's assets, debt, earnings, and cash flows. When applying the adjustments, we also deconsolidate the captive's cash, cash equivalents, and liquid investments. This is because such assets are sometimes not available to the parent, for example, because the captive is a regulated entity. However, when sufficient evidence is available that those cash and liquid investments are accessible to the parent and available for debt repayment, we would take them into account when calculating the parent's accessible cash. The full treatment of analytical adjustments is described in the section titled 'Analytical Adjustments For Nonfinancial Corporate Issuers With Captive Finance Operations.' Step 2: Apply the "Corporate Methodology" criteria, incorporating the benefits and risks of the captive in the competitive advantage assessment and adjusting the volatility of profitability to reflect the impact of the captive's operations in the parent's business risk profile. Step 3: Determine the asset and leverage risk (ALR) assessment of the captive finance operations (see paragraph 27). The ALR results from our analysis of the asset quality of the captive's portfolio compared to reported (or estimated) leverage at the captive. We assess the ALR as either 'minimal/modest,' 'intermediate/significant,' or 'aggressive/highly leveraged.' The full treatment of the ALR is in the section titled 'Asset And Leverage Risk (ALR).' Step 4: Apply the "Corporate Methodology" criteria using parent financials, adjusted according to step 1, to determine the issuer or parent FRP. Step 5: Compare the FRP of the parent and the ALR of the captive. If the ALR assessment is indicative of a higher risk profile than the FRP of the parent, we may adjust the FRP of the parent by up to two categories lower, as illustrated in Table 1. If the ALR is indicative of a lower risk profile than the FRP of the parent, we may adjust the FRP by up to one category higher. Step 6: Determine the parent's anchor by applying Table 3 of "Corporate Methodology" (or other applicable criteria). Step 7: Determine the parent's liquidity by applying "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers". Under these criteria, we now include funds from the captive (typically in the form of dividends or intercompany loans) as a source of liquidity for the parent when we believe that transfers from the captive are available to the parent at all times, including during times of stress, and we expect this to continue. Step 8: Determine the captive's funding and liquidity assessment and its impact on the parent's liquidity descriptor. The full treatment of funding and liquidity is in the section titled 'Funding and Liquidity Assessment' and the adjustment to the parent's liquidity is described in Table 2. Step 9: Determine the captive finance modifier assessment, which results from our analysis of the captive's risk positions. The full treatment of the modifier is in the section titled 'Captive Finance Modifier' and the impact of the captive finance modifier assessment on the parent's anchor is described in Table 3. Step 10: Apply all modifiers pursuant to "Corporate Methodology," and prior to applying comparable ratings analysis, determine if the captive finance modifier described in step 9 lowers the anchor due to the risk positions. Table 1 Adjustments To The Parent Financial Risk Profile Based On The Asset And Leverage Risk --CAPTIVE’S ASSET AND LEVERAGE RISK* (ALR)-- Parent financial risk profile** Minimal/Modest Intermediate/Significant Aggressive/Highly Leveraged Minimal Minimal Modest or Intermediate Modest or Intermediate Modest Modest Modest or Intermediate Intermediate or Significant Intermediate Modest or Intermediate Intermediate Intermediate or Significant Significant Intermediate or Significant Significant Significant or Aggressive Aggressive Significant or Aggressive Significant or Aggressive Aggressive Highly leveraged Aggressive or Highly Leveraged Aggressive or Highly Leveraged Highly Leveraged *As determined by step 3. **As determined by step 4 and using the category descriptors set forth under our Corporate Methodology. 23. Where Table 1 provides for the choice between two possible category adjustments, we determine the appropriate category adjustment based on the strength of the underlying characteristics of the ALR. The purpose of these possible category adjustments is to find an equilibrium risk assessment between

the parent's FRP and the captive's ALR. Accordingly, the greater the divergence between the FRP and the ALR, the greater the category adjustment we would make. When a parent's FRP and a captive's ALR are in the same category, no adjustment would be warranted in general. 24. The better the underlying ALR characteristics (with respect to portfolio quality or leverage) within the ALR category, as defined in Table 6 of these criteria, the more likely it is that an upward adjustment to the parent's FRP would be warranted. For instance, for a portfolio quality of 'strong,' a captive's leverage of just above 9x could warrant a different adjustment than leverage of just under 11x. 25. The weaker the underlying ALR characteristics (with respect to portfolio quality or leverage) within the ALR category, as defined in Table 6 of the criteria, the more likely it is that a greater downward adjustment would be warranted. 26. In addition, when we consider, based on the application of our GRM criteria, that the captive finance company is an insulated subsidiary, we do not uplift the FRP of the parent even if the ALR of the captive could otherwise support such uplift as per Table 1. Insulation would limit the benefits that a parent would otherwise derive from owning a better-capitalized captive. Typically, this would be the case when the captive finance company is a regulated entity, and the relevant regulatory/legal framework restricts parental influence. Table 2 The Impact Of The Funding And Liquidity Assessment On The Parent’s Liquidity FUNDING AND LIQUIDITY ADJUSTMENT TO THE PARENT’S LIQUIDITY Neutral None Negative -1 category* *We would use more than the indicated number of categories to capture “tail risk,” as defined in paragraph 58. Table 3 The Impact Of The Captive Finance Modifier Assessment On The Parent’s Anchor CAPTIVE FINANCE MODIFIER ADJUSTMENT TO THE ANCHOR (NUMBER OF NOTCHES) Neutral 0 notch Negative -1 notch* *We would use more than the indicated notches to capture “tail risk,” as defined in paragraph 73. Asset And Leverage Risk (ALR) 27. We assess the captive's ALR as 'minimal/modest,' 'intermediate/significant,' or 'aggressive/highly leveraged.' 28. To determine the assessment, we analyze two components: portfolio quality and leverage. The quality of a captive's portfolio assets determines how much those assets can be leveraged, meaning that a portfolio of higher quality, lower risk assets can support a higher leverage than a portfolio of lower quality, higher risk assets. As such, to determine the ALR assessment, we compare the captive's reported (or estimated) leverage to the quality of its portfolio of assets. 29. We first establish the portfolio quality assessment. We assess portfolio quality of a captive as 1-excellent; 2-strong; 3-satisfactory; or 4-high risk. 30. For each portfolio asset quality category, we have established the ranges of leverage, defined as the captive's debt to equity, that we consider reflective of a 'minimal/modest,' 'intermediate/significant,' or 'aggressive/highly leveraged' risk profile. Portfolio quality 31. To determine the portfolio quality assessment, we analyze the following fundamental factors: Asset quality-related risks and portfolio losses; and Underwriting standards, as a forward-looking assessment of company-specific portfolio risk. 32. A captive's portfolio is generally made up of several distinct types of assets. We determine the initial portfolio quality assessment based on the record of historical losses or our expectation of losses for the portfolio as a whole. If the net loss ratio is not reported as a whole, we may calculate it by using a weighted average of net loss ratios by asset type. 33. Then we assess underwriting standards whereby we consider various forward-looking factors that could alter our expectations of portfolio quality--and we adjust the initial portfolio quality assessment accordingly. The assessment of underwriting standards is neutral, positive, or negative. A positive or negative assessment can modify the initial portfolio quality assessment by one category upwards or by up to two categories downwards, respectively. Asset quality-related risk and historical loss track record 34. To assess asset quality-related risk (the risk that stems from the likelihood of the lessee making payments according to lease terms), we generally use the net loss ratio to demonstrate the historical loss track record of the portfolio and as the basis point for our expectations for future portfolio quality. We define the net loss ratio as gross losses minus recoveries divided by average net earning assets outstanding. For operating lease assets, we include in the net loss ratio both credit losses on outstanding receivables and losses on residual value whenever possible. We generally use a 5-10 year historical average to establish a track record for this ratio. Our assessment may also take account of factors such as historical performance of the sector during times of stress, the nature of the assets being financed, risk conditions emerging in the sector, or developing macroeconomic factors that could affect a large portion of the company's borrowers. We would modify the net loss ratio if we believe these factors indicate prospective performance that is different from historical performance. If we do not

have sufficient information to determine or confidently estimate recoveries, we use a gross loss ratio. 35. For the purpose of determining net earning assets outstanding, we consider both on-balance-sheet and off-balance-sheet assets. Often, financial assets of a captive are sold into securitizations--but the captive continues to manage the assets and bears reputational risks relating to such securitization arrangements. Since a captive retains significant risks pertaining to such assets--beyond any contractual obligations--we include all managed assets in our analysis, adding back the off-balance-sheet assets to determine net earning assets. 36. We then derive the initial portfolio quality assessment based on the net loss ratio as indicated in Table 4. Table 4 Initial Portfolio Quality Assessment NET LOSS RATIO INITIAL PORTFOLIO QUALITY ASSESSMENT <=1% Excellent >1-3% Strong >3-5% Satisfactory >5% High risk Underwriting standards 37. After assigning the initial portfolio quality assessment, we analyze trends in the captive's underwriting standards, through a review of various forward-looking factors that could alter our expectations of portfolio quality--and we adjust the initial portfolio quality assessment accordingly. The assessment of underwriting standards could move the initial portfolio quality assessment by one category up, down by one or two categories, or have no impact. 38. The characteristics can positively or negatively modify the initial portfolio quality assessment, as indicated in Table 5. Table 5 Underwriting Standards POSITIVE Meaningfully improving trend in track record of net loss ratio, which can be sustained in our view Meaningfully improving trend in delinquency ratios, which can be sustained in our view* Significant upward change to portfolio’s average credit quality**, which can be sustained in our view Plans to change portfolio to a materially better asset mix (e.g., restricting lease financing) that we consider credible and with limited execution risk NEGATIVE Deteriorating trend in track record of net loss ratio Deteriorating trend in track record of delinquency ratios Significant degradation of portfolio’s average credit quality Plans to change portfolio to a materially riskier asset mix (e.g., expanding lease financing) Concern about underwriting competence in light of history of operational crises or performance problems that surfaced unexpectedly *We generally use 60+ day ratios. However, we may use 90+ day or 30+ day delinquency ratios depending on data availability. We define 60+ day delinquency ratios as the aggregate balance of 60 or more days past due as a % of earning assets. **For example, as measured by credit scores calculated using algorithms developed by Fair Isaac Corp. (FICO). 39. When assessing underwriting standards, and in particular trends in net loss ratios, delinquency ratios, or credit scores, we focus on changes that result from management's behavior and attitude toward risk tolerance, rather than on changes that result from underlying cyclical performance of the portfolio. 40. If the captive does not exhibit any of the positive or negative characteristics described in Table 5, or if we believe that a positive characteristic is evenly balanced out by a negative one, we assess underwriting standards as neutral. The initial portfolio quality assessment would then become the final portfolio quality assessment. 41. When positive or negative characteristics are present, and we believe that they do not balance each other overall, we assess underwriting standards as positive or negative, respectively. A positive or negative assessment will generally modify the initial portfolio assessment by one category up or down. However, if we believe that the negative characteristics, based on their severity or magnitude, point to a very significant negative shift in the portfolio risk profile, we could adjust the initial portfolio quality assessment downward by two categories. Leverage 42. We define the leverage ratio as the captive's debt to equity (whereby equity is the sum of capital plus general reserves). We ordinarily adjust captive balance sheet numbers to include managed assets relating to securitizations within the captive asset portfolio--and the securitized debt is also added to captive debt. 43. We add general reserves (if any) to the captive's equity when the reserves were created for credit losses and reported separately from equity accounts. The ability of such reserves to absorb future credit losses makes them similar to other equity elements. We do not include in the above calculation reserves created for specifically identifiable customer losses. 44. If the captive's equity data are not available (from reported figures or management), we estimate notional equity by subtracting captive debt from captive assets. If captive debt is not segregated, we attribute a portion of consolidated debt to financing the captive assets. We would ordinarily use industry standards in this analytical exercise (see our Ratios And Adjustments guidance document). Asset and leverage risk assessment 45. We determine the ALR assessment by comparing the captive's leverage to the final portfolio quality assessment, as illustrated in Table 6. Table 6 ALR Assessments IF THE FINAL PORTFOLIO QUALITY ASSESSMENT IS… …

AND LEVERAGE IS… ..THEN THE ALR ASSESSMENT IS: Excellent <12x Minimal/Modest 12-14x Intermediate/Significant >14x Aggressive/Highly Leveraged Strong <9x Minimal/Modest 9-11x Intermediate/Significant >11x Aggressive/Highly Leveraged Satisfactory <6x Minimal/Modest 6-8x Intermediate/Significant >8x Aggressive/Highly Leveraged High risk <3x Minimal/Modest 3-5x Intermediate/Significant >5x Aggressive/Highly Leveraged Funding And Liquidity Assessment 46. We assess the captive's funding and liquidity as 'neutral' or 'negative.' 47. How a captive funds its business and the potentially confidence-sensitive nature of its liabilities can directly affect its ability to maintain business volumes and to meet obligations in adverse circumstances. The analysis of funding and liquidity addresses the strength and stability of a captive's funding mix and its ability to manage its liquidity needs in adverse market and economic conditions. We adjust the liquidity assessment of the parent to reflect a 'neutral' or 'negative' funding and liquidity assessment using Table 2. 48. To assess the captive's funding and liquidity we analyze six subfactors, as 'neutral,' 'negative,' or 'significantly negative.' These are: Funding sources; Ability to absorb high-impact, low-probability events; Relationships with financial markets; Asset/liability duration matching; Exposure to margin calls, rating triggers, or other forms of early termination; and Financial/liquidity/interest-rate risk management. 49. We assess the relative diversity, strength, and potential volatility of funding sources by reviewing a captive's debt, including the mixture of long- and short-term debt and secured and unsecured borrowings in the capital markets. A captive's mix of funding results from its strategic choices and risk management decisions about what funding options to use, given the availability of more stable long-term funding and riskier short-term wholesale funding. 50. We consider the ability to absorb high-impact, low-probability events (such as market turbulence, sovereign risk, or the activation of material-adverse-change clauses) without refinancing or selling of assets. 51. We consider the nature and history of specific banking relationships (including periods when the captive or its parent company may have been under stress), the variety of lending facilities in place, and track record of accessing short- and long-term debt market, as well as the standing in credit markets. 52. We assess the concentration and staggering of assets and liabilities, the degree of any potential mismatch, and the degree to which short-term funding is used to fund longer asset maturities. 53. Substantial calls on liquidity can arise from margin-posting requirements or when loan documentation includes early termination triggers based on a decline in credit ratings. We evaluate whether any contractual early termination exposure exists that could precipitate a liquidity stress. 54. Under the financial/liquidity/interest-rate risk management factor, we assess whether there is any evidence of shortfalls in risk management in the areas of balance sheet, liquidity, and interest rate, or if controls and processes are in place to anticipate potential setbacks and to take the necessary actions to ensure continued adequate liquidity. 55. We use the guidance in Table 7 to determine the assessment of each of the above subfactors. Table 7 Subfactors To Assess Funding And Liquidity --CHARACTERISTICS-- SUBFACTOR NEUTRAL NEGATIVE SIGNIFICANTLY NEGATIVE Funding sources We expect the captive to have diversified funding sources (including access to secured and unsecured debt markets, and a diversified group of lending counterparties) and contingency funding and liquidity stress scenario management plans. We expect the captive to not have diversified funding sources, rely significantly on short-term debt, or lack contingency funding/liquidity stress scenario management plans. The company faces a potential loss of funding over the next 12 months due to ‘headline risk’ situations. We expect the captive to face a high risk of potential loss of funding due to ‘headline risk’ situations. Ability to absorb high-impact, low-probability events We expect the captive to be able to absorb high-impact, low-probability events--without additional funding or sale of liquid assets--because it arranged excess liquidity via multiple sources of secured or unsecured debt, or deposits. We expect the captive would be somewhat unlikely to be able to absorb high-impact, low-probability events without additional funding or sale of liquid assets. We expect the captive would be highly unlikely to be able to absorb high-impact, low-probability events, as we do not expect it to be able to have access to additional funding or sell liquid assets. Relationships with financial markets We expect the captive to continue to have well-established, solid relationships with banks and access to securitization markets that would help retain funding in a stress scenario. We expect the captive to lack good relationships and high standing in financial markets, such that its funding might be jeopardized in a stress scenario, such as an economic downturn. We expect the captive’s relationships and standing in the financial markets to be

poor, with a high probability of its funding being jeopardized even outside of a stress scenario. Asset/liability duration matching We expect no significant asset or liability concentrations that can compromise the captive's liquidity over a 36-month period. We do not expect the captive to rely significantly on short-term debt. If the captive has a significant deposit funding, we expect most of the deposits to be insured and unlikely to be redeemed if it came under significant stress. We expect asset or liability concentrations that can compromise the captive's liquidity over a 24-36 month horizon. We expect the captive to rely significantly on short-term debt or uninsured deposit funding that could be redeemed while financing longer-term assets. We expect asset or liability concentrations that could significantly compromise the captive's liquidity within 24 months. Exposure to margin calls/rating triggers/other forms of early termination We expect exposure to margin calls, rating triggers, or other forms of early termination to continue to be limited, and we do not expect those could compromise liquidity if triggered. We expect the captive to be exposed to margin calls, rating triggers, or other forms of early termination due to its funding structure, such as lenders' discretion over valuations underlying advance rates and we believe those could weaken liquidity if triggered. We expect the captive to be exposed to margin calls, rating triggers, or other forms of early termination due to its funding structure, such as lenders' discretion over valuations underlying advance rates or early termination due to triggers, and we believe those would very likely severely compromise liquidity if triggered. Financial/liquidity/interest-rate risk management There are no known issues relating to financial/liquidity/interest-rate risk management, nor do we expect any issues to emerge. The captive has experienced issues with financial/liquidity/interest-rate risk management in the past, although management has, or is, addressing these or we expect that such issues could emerge over the medium-to-long term. The captive has experienced significant issues related to financial/liquidity/interest-rate risk management, which are not being addressed, or we expect that such issues will emerge in the short term. 56. We then combine the six subfactors' assessments to determine the overall funding and liquidity assessment. Funding and liquidity is assessed as 'neutral' or 'negative' based on the following guidance: If three or more subfactors are 'negative,' or if one or more is 'significantly negative,' then the overall assessment for funding and liquidity is negative; If two subfactors are 'negative' and we believe that those subfactors will together pose a significant risk, then we would assess funding and liquidity as 'negative;' Otherwise, the funding and liquidity assessment is neutral. 57. In addition, funding and liquidity may be assessed as negative if we believe that there is company-specific risk not captured in Table 7 that potentially represents a significant weakness. 58. Under the criteria, we would use more than the indicated number of categories in Table 2 to capture "tail risk," in cases of extreme risk or very severe deficiencies in funding and liquidity that could precipitate a crisis or imperil the parent's ability to meet its obligations. 59. Under "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers", the analysis of monetary flows of the parent company excludes the sources and uses of cash from captive finance operations. However, under these criteria, we have superseded that guidance and now include funds from the captive (typically in the form of dividends or intercompany loans) as a source of liquidity for the parent when we believe that transfers from the captive are available to the parent at all times, including during times of stress, and we expect this to continue. We may then modify the assessment of the parent's liquidity to incorporate our views of the captive's ability to manage its funding and liquidity needs in adverse market and economic conditions. To this end we assess the captive's funding and liquidity as 'neutral' or 'negative.' If we assess funding and liquidity as 'neutral,' we do not adjust the parent's liquidity. If we assess the captive's funding and liquidity as 'negative,' we adjust the parent's liquidity assessment to a weaker category. Captive Finance Modifier 60. We assess the captive finance modifier as 'neutral' or 'negative.' 61. Through the captive finance modifier, we aim to account for captive-related risk factors that may not be captured by our analysis of asset quality and leverage, and funding and liquidity, but which, if they are significant, can weaken the overall quality of the issuer or group. We analyze those risks through an assessment of risk positions. The risk position assessment of 'neutral' or 'negative' determines the captive finance modifier adjustment using Table 3. 62. We analyze six subfactors, which we assess as 'neutral,' 'negative,' or 'significantly negative,' to evaluate risk positions: Residual value, Borrower concentration, Product risks, Monitoring process/recovery process, Country risk, and Currency risk. 63. Operating leases introduce unpredictable residual risk (the risk of

lower-than-expected proceeds from the sale of the asset at the end of the lease period) that is incremental to asset-quality risk (the risk that lease payments will not be made on time and in full). The residual value factor intends to capture risks that are highly unpredictable by nature and could result in loss levels that diverge from historical performance. In some cases, losses from residual value may not be disclosed and therefore not captured in the net loss ratio. An asset mix with greater focus on operating leases would more likely expose a captive to unpredictable losses. 64. Under the borrower concentration factor, we assess the diversity of risk exposures. Concentrations may pose material risks and we focus on the concentration of exposures to individual borrowers or groups of borrowers, as a captive will often be relatively concentrated by industry, by virtue of its function to finance the product of the industrial operations. Borrower concentrations can expose a captive to unexpected changes in the creditworthiness of borrowers and counterparties, for example, or a shift in profitability of an industry or sector. 65. Wholesale dealer inventory (floorplan financing) and dealer loan facilities are inherently very concentrated, as well as highly correlated to the original equipment manufacturer (OEM). We view dealer inventory as an intermediary point in the distribution channel. Until the product is in the end user's possession, where it is likely to be used to generate income, provide transportation, etc., it is in the interest of the manufacturer to support the product and channel. For example, the manufacturer may buy back inventory from dealers or share the loss that results from discounted prices to the end user. 66. For product risks, we assess whether the financed products are diverse or not and whether they are tested, unproven, or highly specialized. Financing less proven products or highly specialized products could expose the captive to losses arising from customers experiencing operational issues, or inability to sell or remarket a product upon repossession. 67. Under the monitoring process/recovery process factor, we assess whether the captive's procedures and practices with respect to portfolio quality monitoring, receivables collection, and recovery are well-established and efficient or if there is any evidence of control lapses or underperformance in those areas. 68. Country risk addresses the economic risk, institutional and governance effectiveness risk, financial system risk, and payment culture or rule of law risk in the countries in which the captive's assets are located. We differentiate captives by the degree of exposure that their asset portfolios have to high or very-high risk countries, i.e. countries classified as category 5 or 6 under our country risk criteria (see "Country Risk Assessment Methodology And Assumptions"). 69. Currency risk arises when a captive finance company borrows without hedging in a currency other than the currency in which it generates revenues. Such an unhedged position makes the captive company potentially vulnerable to fluctuations in the exchange rate between the two currencies, in the absence of mitigating factors. We determine the materiality of any mismatch by identifying situations where adverse exchange-rate movements could weaken cash flow or leverage ratios. We view adverse exchange rate movements as those that would result in a full loss of the assets held in the foreign currency. In our assessment, we also consider the potential mitigants to currency mismatches under scenarios described in paragraph 142 of our "Corporate Methodology" criteria. For captive finance companies that use hedging, the counterparties to those hedges should be of sufficient creditworthiness. 70. We use the guidance in Table 8 to determine the assessment of each of the above subfactors. Table 8 Subfactors To Assess Risk Positions --CHARACTERISTICS-- SUBFACTOR NEUTRAL NEGATIVE SIGNIFICANTLY NEGATIVE Residual value We expect lease assets to account for <=30% of the total assets. We expect lease assets to account for >30% of the total assets. We expect lease assets to account for >30% of the total assets and residual losses are not captured in the historical net loss ratio. Borrower concentration We do not expect concentration in the captive’s borrower universe (examples: auto and truck buyers, retailer customers). We expect a limited number of borrowers, or a single borrower to account for greater than 10% of the lending portfolio, or dealer-related assets to account for 30% or more of the portfolio. We expect a single borrower to account for greater than 20% of the lending portfolio. Product risks We expect the products being financed to remain diverse and tested (examples: consumer goods, such as autos, that have a large customer base and can easily be sold in the mass market). We expect the captive to finance a very limited range of products or finance very specialized products that cannot easily be sold in the secondary market. N.A. Monitoring process/recovery process We expect competent monitoring procedures and asset recovery to minimize losses by allowing the company to identify missing payments at an early stage and start the collection procedure in a timely manner. We

expect the captive to be less able than its peers to track payments or start collection in a timely manner. Therefore, the captive’s recovery is likely to be below the industry norms at times--casting doubt on recovery procedures. We expect the captive to have significant deficiencies in its monitoring, collection, and recovery processes. Country risk We expect less than 30% of captive assets to be linked to countries that have a country risk of 5 or 6, based on our criteria for assessing country risk. We expect 30%-60% of captive assets to be linked to countries that have a country risk of 5 or 6. We expect greater than 60% of captive assets to be linked to countries that have a country risk of 5 or 6. Currency risk We do not expect adverse exchange rate movements to weaken leverage ratios because of mismatches in asset liability currencies after giving effect to derivative agreements or natural hedges. We expect exchange rate movements to weaken leverage ratios by one ALR category (for instance minimal/modest to intermediate/significant) because of mismatches in asset liability currencies, after giving effect to derivative agreements or natural hedges. We expect adverse exchange rate movements to weaken leverage ratios by two ALR categories (for instance, minimal/modest to aggressive/highly leveraged) because of mismatches in asset liability currencies, after giving effect to derivative agreements or natural hedges 71. We then combine the subfactors' assessments to determine the overall risk positions assessment, as follows: Negative, if three or more subfactors are 'negative,' or one or more assessment is 'significantly negative'; Negative, if two subfactors are 'negative' and we believe that these two subfactors will together pose a significant risk; and Neutral, otherwise. 72. In addition, the risk positions assessment could be 'negative' if we believe that there are company-specific risk factors not captured in Table 8 that potentially represent a significant weakness. 73. Under the criteria, we would use more than the indicated notches in Table 3 to capture "tail risk," cases of extreme risk or very severe deficiencies in risk positions that could precipitate a crisis, uncertain market/funding conditions, or expected credit losses that significantly exceed those listed. For instance, if end users lose confidence in an OEM's product and service network, they are less likely to buy the product which, in turn, could leave dealers challenged to pay their debt in full and on time. As credit quality and viability of an OEM deteriorate, a large proportion of dealer-related receivables in the captive's portfolio could compound stress on the OEM. Analytical Adjustments For Nonfinancial Corporate Issuers With Captive Finance Operations 74. Captive finance operations are generally structured into one legal entity or a group of legal entities that is controlled by the OEM's parent. Consequently, these captive finance operations are included in the consolidated group's financial statements by way of full consolidation. 75. The objective of the adjustment procedure is to enable meaningful analytical analysis of the operating company by way of deconsolidation of the captive finance operation from the consolidated group's financial figures. The adjustment procedure is not designed to create a separate captive finance unit for financial analysis. Regardless of whether the captive is material, we exclude the captive's financials from our analysis of the parent by making analytical adjustments to the reported consolidated figures. 76. In rare circumstances, captive finance units are structured either as joint arrangements or associated affiliates. In those cases, the captive finance unit is included in the consolidated accounts via the equity method of accounting. The adjustment procedure described below may not be applicable for equity-accounted affiliates. Nonetheless, we may still apply analytical adjustments on a case-by-case basis to reflect the risks associated with the captive finance joint venture or associate affiliate. 77. Generally, the captive finance unit's financial data is available in published and audited financial reporting. Our analytical adjustments would always be based on the reported figures when they are available. When reported figures are not available, we may estimate to determine the captive finance unit's financial metrics. 78. Most consolidated financial statements include segment reporting under both U.S. Generally Accepted Accounting Principles (U.S. GAAP) and International Financial Reporting Standards (IFRS). Captive finance units are generally disclosed as discrete segments that allow the extraction of necessary data at a consolidated level. 79. In most jurisdictions, the captive finance unit may also file separate financial statements for legal, regulatory, or tax reasons. Sometimes, such separate financial statements are the only available information source. When both segment reporting and separate financial statements are available, the latter may provide additional information and assist us in fine-tuning our adjustments. When we use separate financial statements, we may make additional adjustments to the ones described below with the aim of taking into account the impact of any intercompany/inter-segment

transactions that the captive finance unit has with the other parts of the consolidated group. 80. When applying analytical adjustments to determine the parent's adjusted financials, we deconsolidate the captive's cash, cash equivalents, and liquid investments. This is because such assets at the captive are sometimes not available to the parent, for example, because the captive is a regulated entity. However, when sufficient evidence is available that those cash and liquid investments are accessible to the parent and available for debt repayment, we would take them into account when calculating the parent's accessible cash. 81. This paragraph has been deleted. 82. This paragraph has been deleted. REVISIONS AND UPDATES This article was originally published on Dec. 14, 2015. Changes introduced after original publication: Following our periodic review completed on Dec. 9, 2016, we updated the contact information and deleted paragraphs 18, 19, and 20, which were related to the initial publication of the criteria and no longer relevant. Following our periodic review completed on Dec. 5, 2017, we deleted paragraph 3. On Jan. 29, 2019, we republished this criteria article to make nonmaterial changes to the contact information. On April 1, 2019, we republished this criteria article to make nonmaterial changes. We deleted paragraphs 81 and 82 because they were superseded by "Corporate Methodology: Ratios And Adjustments," published on April 1, 2019 (Ratios and Adjustments). The sector-specific accounting and analytical adjustments previously included in those paragraphs are now included in the Guidance supporting the Ratios and Adjustments criteria. We also updated the criteria references and the contact list. On Oct. 7, 2019, we republished this criteria article to make nonmaterial changes. We updated criteria references and the contact information. On Dec. 5, 2019, we republished this criteria article to make nonmaterial changes. We changed all references to "surplus cash" in these criteria to "accessible cash" in order to align the language with our revised Ratios and Adjustments criteria published April 1, 2019. On Oct. 2, 2020, we republished this criteria article to make nonmaterial changes to update the contact information. On Dec. 15, 2021, we republished this criteria article to make nonmaterial changes to update criteria references. RELATED PUBLICATIONS Superseded Criteria Assumptions: Analytical Adjustments For Captive Finance Operations, June 27, 2008 Captive Finance Operations, April 17, 2007 Partly Superseded Criteria Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014 Related Criteria Financial Institutions Rating Methodology, Dec. 9, 2021 Group Rating Methodology, July 1, 2019 Corporate Methodology: Ratios And Adjustments, April 1, 2019 Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014 Corporate Methodology, Nov. 19, 2013 Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013 Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012 Principles Of Credit Ratings, Feb. 16, 2011 General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010 Related Guidance Guidance: Corporate Methodology: Ratios And Adjustments, April 1, 2019