Addendum to Prudential Rating's Scales, Symbols and Definitions

Scope of the Addendum

This paper is an addendum to Prudential Ratings' published Scales, Symbols and Definitions. The addendum describes International Scale Ratings, what they mean and how they compare to national scale ratings.

Prudential Ratings' credit ratings are defined as forward looking opinions on the relative ability of an issuer to meet its financial obligations as they fall due. Thus, all credit ratings issued by Prudential Ratings are relative assessments of the creditworthiness of an issuer, or an instrument, within a given frame of reference.

International Scale Ratings

Prudential ratings issues credit ratings that are comparable both within a particular jurisdiction, called National Scale Issuer Ratings, and on a global scale, called International Scale Issuer Ratings. A national Scale Rating, as the name suggests, is an opinion on the creditworthiness of an entity/instrument relative to other entities/instruments within that same country. An international Scale Issuer Rating, on the other hand, is an opinion on the creditworthiness of an entity/instrument relative to all other entities/instruments across the globe.

Prudential Ratings' International Scale Ratings and definitions are directly aligned and comparable to all the other international scale ratings issued by global/international credit ratings agencies

Prudential Ratings' national ratings scale can be viewed in the Scales, Symbols and Definitions published on Prudential Ratings' website. Table 1 below shows the international scale ratings, symbols, and descriptors of what each international rating band means.

Table 1: International Long and Short-Term Scales and Definitions

LT Rating Description	Long Term Rating	Short Term Rating	Short Term Description
Obligor/obligation has the highest/best creditworthiness on a global scale, i.e. compared to all others in the world.	AAA	A1+	Highest certainty of timely payment of Short term obligations.
Very strong creditworthiness of the obligor/obligation.	AA+ AA AA-		
Strong creditworthiness of the obligor/ obligation.	A+ A	A1	Strong certainty of timely payment of Short term obligations.
	A-	A2	Good certainty of timely payment and Short term obligations.
Adequate levels of obligor/obligation creditworthiness.	BBB+		
	BBB BBB-	A3	Adequate certainty of timely payment and Short term obligations.
Moderate levels of obligor/obligation creditworthiness.	BB+ BB BB-	B	
Low levels of obligor/obligation creditworthiness.	B+ B B-		
Obligor/obligation is vulnerable to non-payment.	CCC+ CCC CCC-	C	Short term obligations are currently vulnerable to non-payment.
The likelihood of liquidation / default / restructure or distressed exchange scenario to be material in the next one year.	CC	C	Short term obligations are currently vulnerable to non-payment.
Identify entities where liquidation / default / restructure / distressed exchange scenario has been announced or is expected in the short term (typically within 6 months)	C	C	Short term obligations are currently vulnerable to non-payment.
Selective defaulting on the obligations, but not experiencing a general default.	SD	SD	Selective defaulting on the obligations, but not experiencing a general default.
Generally defaulting on obligations as they come due.	D	D	Generally defaulting on obligations as they come due.

Ratings which are considered to be of the lowest credit risk on a global scale typically will be in the AAA to AA range. On the other end of the spectrum, ratings which demonstrate vulnerability to non-payment will be accorded ratings of CCC and below on a global comparison.

Just like the national rating scale, international rating scale uses rating notch modifiers (plus (+) or minus (-) to reflect the strength within a rating category to provide greater credit risk differentiation between issuers/instruments that are within the same credit ratings band. For instance, within the A ratings category, greater credit risk differentiation is achieved by including A+, A and A- ratings.

International Scale Local Currency (LC) versus Foreign Currency (FC) Ratings

In line with best practice and global standards, when assigning International Scale Issuer Ratings, Prudential Ratings typically differentiates between local currency ratings and foreign currency ratings. Such distinction recognises that an obligor's ability to meet its local-currency-denominated obligations may be different from its foreign-currency-denominated obligations, depending on the sovereign government's capacity to repay external versus domestic debt. Such sovereign risk factors are incorporated in assigning and differentiating between the 2 ratings.

An International Scale LC rating assesses the issuer's ability to meet its financial obligations in the currency of the jurisdiction/country in which it is domiciled. While the rating is comparable to the global universe of issuers/instruments, it addresses only the entity's ability to generate sufficient cashflows in its local currency, ignoring the risk of restrictions or controls on the transfer and/or convertibility of foreign currencies that may be imposed by the sovereign.

An international Scale FC Rating assesses the issuer's ability to meet its financial obligations in globally accepted hard currencies, such as the United States Dollar, British Pound or Euro, relative to all other issuers in the world. Such ratings factor in the risk of restrictions or controls on the transfer and/or convertibility of foreign currencies that may be imposed by the authorities of the jurisdiction within which the entity is domiciled.

The underlying methodologies/criteria for analysing entities and assigning ratings are exactly the same for both national scale ratings and international scale ratings. they use the same rating categories to express relative risk. Prudential Ratings' scoring framework produces a risk score that is mapped directly to a national scale rating or an international scale rating.

Prudential Ratings works with the rationale that typically, the government of a country will retain the lowest credit risk when compared to entities domiciled and operating within the same country, in local currency terms. Thus, on a national scale basis, the government of a country will typically have a rating of AAA. Therefore, the international scale ratings of entities operating within a country are typically capped at the international scale rating of the sovereign. For instance, entities domiciled and operating entirely in a country with a sovereign rating of BBB, Prudential Ratings will typically cap the international scale ratings of such entities at BBB. Prudential Ratings notes that it is possible for the international scale Issuer rating of an entity may be higher than that for the sovereign provided that the country risk elements/factors constraining the sovereign rating are adequately mitigated. The table below shows a typical example of how the ratings of issuers operating entirely within a country with a sovereign rating of BBB would be mapped to the international scale ratings.

Table 2: Prudential Ratings International Scale to National Scale Mapping Table – Country XYZ for 2022

International Scale Rating LC	National Scale Rating (Country XYZ)
AAA(xx)	BBB and above
AAA(xx) / AA+(xx)	BBB
AA(xx) / AA-(xx)	BBB-
A+(xx) / A(xx) / A-(xx)	BB+
A-(xx) / BBB+(xx) / BBB(xx)	BB
BBB(xx) / BBB-(xx)	BB-
BB+(xx) /BB(xx)	B+
BB-(xx) / B+(xx)	B
B(xx) / B-(xx)	B-
CCC(xx)	CCC
LD(xx) / DD(xx)	LD/DD

As is evident from table above, the need for national scale ratings is especially marked for use in the local capital markets for countries where the international rating scale provides inadequate differentiation among credits due to the low sovereign ratings accorded in those markets. This is particularly true in emerging markets, where Prudential Ratings operates. To show the detailed credit differentiation, Prudential Ratings will primarily be assigning National Scale Issuer Ratings, unless where this is explicitly specified.