Attachment 1.11

Standard and Poor's: Credit assessment and ratings (CONFIDENTIAL)

January 2015

Ausgrid revised regulatory proposal attachment

This attachment contains the following reports from Standard and Poor's:

1.11 A - Credit assessment – Ausgrid stand-alone credit profile (CONFIDENTIAL)

1.11 B - General Criteria - Stand-Alone Credit Profiles

1.11 C – Ratings definitions

STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

Level 45
120 Collins Street
Melbourne, VIC 3000
+61 3 9631-2036 Tel
Standard & Poor's (Australia)
Pty. Ltd.
A.C.N: 007 324 852

8 January 2015

Mr. Justin De Lorenzo
Group Chief Financial Officer
Networks NSW
PO Box 718
Queanbeyan NSW 2620

Dear Justin

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STANDARD & POOR'S RATINGS SERVICES
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Standard & Poor's Ratings Services Terms and Conditions Applicable To Credit Assessments

Scope of Credit Assessment. You understand and agree that (i) a credit assessment is not a rating but is a broad indication of the credit strength of the obligations based on limited information, (ii) a credit assessment should not be represented as a rating, (iii) a credit assessment is an opinion and is not a verifiable statement of fact, (iv) a credit assessment is based on information supplied to Standard & Poor's by an issuer or its agents and upon other information obtained by Standard & Poor's from other sources it considers reliable, (v) Standard & Poor's does not perform an audit in connection with any credit assessment and a credit assessment does not represent an audit by Standard & Poor's, (vi) Standard & Poor's relies on the issuer and its accountants, counsel, and other experts for the accuracy and completeness of the information submitted in connection with the credit assessment, (vii) Standard & Poor's undertakes no duty of due diligence or independent verification of any information, (viii) Standard & Poor's does not and cannot guarantee the accuracy, completeness, or timeliness of the information relied on in connection with a credit assessment or the results obtained from the use of such information, and, (ix) a credit assessment is not a "market" rating nor a recommendation to buy, hold, or sell any financial obligation.

Dissemination. You are authorized to disseminate the credit assessment to interested parties on a confidential basis but only in accordance with the following conditions: (a) distribution of the credit assessment must comply with any applicable law, (b) the credit assessment letter must be provided in its entirety to all recipients, (c) you shall not edit or alter the credit assessment letter in any manner, (d) all recipients of the credit assessment must agree to keep it confidential, and (e) dissemination of the credit assessment shall cease if and when Standard & Poor's changes the credit assessment. The credit assessment will not be published by Standard & Poor's. Standard & Poor's may publish explanations of Standard & Poor's credit assessment methodology from time to time and nothing in this Agreement shall be construed as limiting Standard & Poor's ability to modify or refine Standard & Poor's methodology at any time as Standard & Poor's deems appropriate.

Information to be Provided by You. You shall meet with Standard & Poor's for an analytic review at any reasonable time Standard & Poor's requests. You also agree to provide Standard & Poor's promptly with all information relevant to the credit assessment and surveillance of the credit assessment, if applicable, including information on material changes to information previously supplied to Standard & Poor's. The credit assessment may be affected by Standard & Poor's opinion of the accuracy, completeness, timeliness, and reliability of information received from you or your agents. Standard & Poor's undertakes no duty of due diligence or independent verification of information provided by you or your agents. Standard & Poor's reserves the right to withdraw the credit assessment if you or your agents fails to provide Standard & Poor's with accurate, complete, timely, or reliable information.
Confidential Information. For purposes of this Agreement, "Confidential Information" shall mean information received by Standard & Poor's from you or your agents which has been marked "Proprietary and Confidential" or in respect of which Standard & Poor's has received specific written notice of its proprietary and confidential nature. Notwithstanding the foregoing, information disclosed by you or your agents shall not be deemed to be Confidential Information, and Standard & Poor's shall have no obligation to treat such information as Confidential Information, if such information (i) was substantially known by Standard & Poor's at the time of such disclosure, (ii) was known to the public at the time of such disclosure, (iii) becomes known to the public (other than by Standard & Poor's act) subsequent to such disclosure, (iv) is disclosed lawfully to Standard & Poor's by a third party subsequent to such disclosure, (v) is developed independently by Standard & Poor's without reference to the Confidential Information, (vi) is approved in writing by you for public disclosure, or (vii) is required by law to be disclosed by you or Standard & Poor's, provided that notice of such required disclosure is given to you. Commencing on the date hereof, Standard & Poor's will use Confidential Information only in connection

with the assignment and monitoring of credit assessments and ratings and will not directly disclose any Confidential Information to any third party. Standard & Poor's may also use Confidential Information for research and modeling purposes provided that the Confidential Information is not presented in a way that can be directly tied to you. You agree that the Confidential Information may be used to raise, lower, suspend, withdraw, and place on CreditWatch any credit assessment or rating if the Confidential Information is not directly disclosed.

Standard & Poor's Not an Advisor, Fiduciary, or Expert. You understand and agree that Standard & Poor's is not acting as an investment, financial, or other advisor to you and that you should not and cannot rely upon the credit assessment or any other information provided by Standard & Poor's as investment or financial advice. Nothing in this Agreement is intended to or should be construed as creating a fiduciary relationship between Standard & Poor's and you or between Standard & Poor's and recipients of the credit assessment. You understand and agree that Standard & Poor's has not consented to and will not consent to being named an "expert" under the applicable securities laws.

Limitation on Damages. You understand and agree that Standard & Poor's, its officers, directors, shareholders, and employees shall not be liable to you or any other person for any actions, damages, claims, liabilities, costs, expenses, or losses in any way arising out of or relating to the credit assessment or the related analytic services provided for in an aggregate amount in excess of the aggregate fees paid to Standard & Poor's for the credit assessment, except for Standard & Poor's gross negligence or willful misconduct. In no event shall Standard & Poor's, its officers, directors, shareholders, or employees be liable for consequential, special, indirect, incidental, punitive or exemplary damages, costs, expenses, legal fees, or losses (including, without limitation, lost profits and opportunity costs). In furtherance and not in limitation of the foregoing, Standard & Poor's will not be liable in respect of any decisions made by you or any other person as a result of the issuance of the credit assessment or the related analytic services provided by Standard & Poor's hereunder or based on anything that appears to be advice or recommendations. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss, whether in contract, statute, tort (including, without limitation, negligence), or otherwise. You acknowledge and agree that Standard & Poor's does not waive any protections, privileges, or defenses it may have under applicable law.

Term. This Agreement shall terminate when the ratings are withdrawn. Notwithstanding the foregoing, the paragraphs above, "Confidential Information", "Standard & Poor's Not an Advisor, Fiduciary, or Expert", and "Limitation on Damages", shall survive the termination of this Agreement or any withdrawal of a rating.

Third Parties. Nothing in this Agreement, or the credit assessment letter when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of the credit assessment. No person is intended as a third party beneficiary to this Agreement or to the credit assessment when issued.

Binding Effect. This Agreement shall be binding on, and inure to the benefit of, the parties hereto and their successors and assigns.

Severability. In the event that any term or provision of this Agreement shall be held to be invalid, void, or unenforceable, then the remainder of this Agreement shall not be affected, impaired, or invalidated, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

Complete Agreement. This Agreement constitutes the complete agreement between the parties with respect to its subject matter. This Agreement may not be modified except in a writing signed by authorized representatives of both parties.

Governing Law. This Agreement and the credit assessment letter shall be governed by the laws of New South Wales, Australia. The parties agree that the state and federal courts of Australia shall be the exclusive forums for any dispute arising out of this Agreement and the parties hereby consent to the personal jurisdiction of such courts.

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A Credit Assessment in no sense represents a rating and should not be represented as a rating. A Credit Assessment is a preliminary indicator of creditworthiness that may be expressed in a broad rating category. It provides an evaluation of the general strengths and weaknesses of an issuer, obligor, a proposed financing structure, or elements of such structures. It may also pertain to limited credit matters or carve out certain elements of a credit that would ordinarily be taken into account in a credit rating. A Credit Assessment represents a point-in-time evaluation and Standard & Poor's does not maintain ongoing surveillance on Credit Assessments. A Credit Assessment is confidential.

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Terms and Conditions
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modeling purposes provided that the Confidential Information is not presented in a way that can be directly tied to you. You agree that the Confidential Information may be used to raise, lower, suspend, withdraw, and place on CreditWatch any credit assessment or rating if the Confidential Information is not directly disclosed.

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CORPORATE RATINGS METHODOLOGY

Transparency. Comparability.

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OUR METHODOLOGY

Standard & Poor's Ratings Services' corporate analytical methodology organizes the analytical process according to a common framework and divides the analysis into several steps so that we may consider all salient factors. The first step is analyzing a company's business risk profile, followed by an evaluation of its financial risk profile. We combine our assessments to determine an issuer's anchor. We then take several subsequent analytical steps using forward-looking analysis and analytic judgment to determine the ultimate rating conclusion with the goal of transparency and rating comparability. Underpinning the entire framework is financial analysis comprising reviews of historical financial statements, analytic adjustments, and cash flow forecasts.

Our Rating Process and Surveillance

We assign a rating only when we believe we have adequate information to form a credible opinion, and only after we have conducted applicable quantitative, qualitative, and legal analyses.

First, we assemble a team of analysts to review information pertinent to the rating. Members of the team then meet with an issuer's management to review key factors that we think might affect the rating. Following this review and discussion, the primary analyst determines the rating recommendation and presents that to an internal rating committee made up of other analysts. After discussion, the committee votes on the recommendation. The issuer is notified of the rating and the major considerations supporting it. We provide for an appeal process if the issuer provides material new information. Once our assessment is complete and we have assigned a rating, we announce the rating in a report on our websites, except in the case of private or confidential ratings.

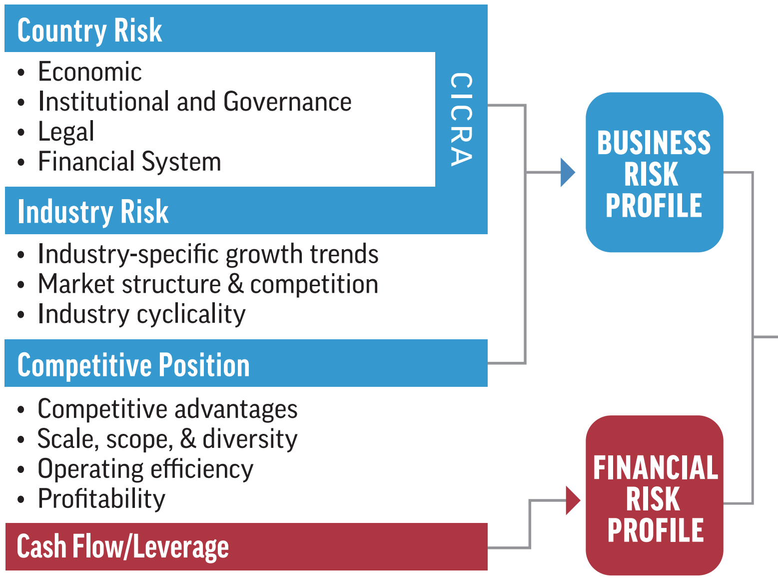
Ratings are monitored, and surveillance is ongoing except for point-in-time ratings. This process may result in our making changes in ratings, which are also disseminated through our websites.

Confidentiality

Some information an issuer provides to us may be sensitive and is provided solely for the purpose of arriving at a rating. We maintain confidentiality over all confidential information received and will not disclose it to third parties, as described in our terms and conditions provided to all issuer clients. We also will not share such information with our equity information services business unit.

Please visit our dedicated ratings portal page for Corporate criteria-related content: www.spratings.com/CorpCriteria

CORPORATE CRITERIA FRAMEWORK



COMBINING THE BUSINESS AND FINANCIAL RISK PROFILES TO DETERMIN

	Financial risk profil			
Business risk profile	1 (minimal)	2 (modest)	3 (intermediate)	4 (significan
1 (excellent)	aaa/aa+	aa	a+/a	a-
2 (strong)	aa/aa-	a+/a	a-/bbb+	bbb
3 (satisfactory)	a/a-	bbb+	bbb/bbb-	bbb-/bb+
4 (fair)	bbb/bbb-	bbb-	bb+	bb
5 (weak)	bb+	bb+	bb	bb-
6 (vulnerable)	bb-	bb-	bb-/b+	b+

DESCRIPTION OF RATINGS

LONG TERM

Issuer Rating	Description	Issue Rating
AAA	Extremely Strong	AAA
AA	Very Strong	AA
A	Strong	A
BBB	Adequate	BBB
BB	Less Vulnerable	BB
B	More Vulnerable	B
CCC	Currently Vulnerable	CCC
CC	Currently Highly Vulnerable	CC
–	Bankruptcy filing (or similar)	C
SD	Selective Default	–
D	Default	D

SHORT TERM

Rating	Desc
A-1+	Oblig
A-1	Oblig
A-2	Oblig
A-3	Oblig but
B	Obli ing
C	Oblig men
SD	Sele
D	Defa

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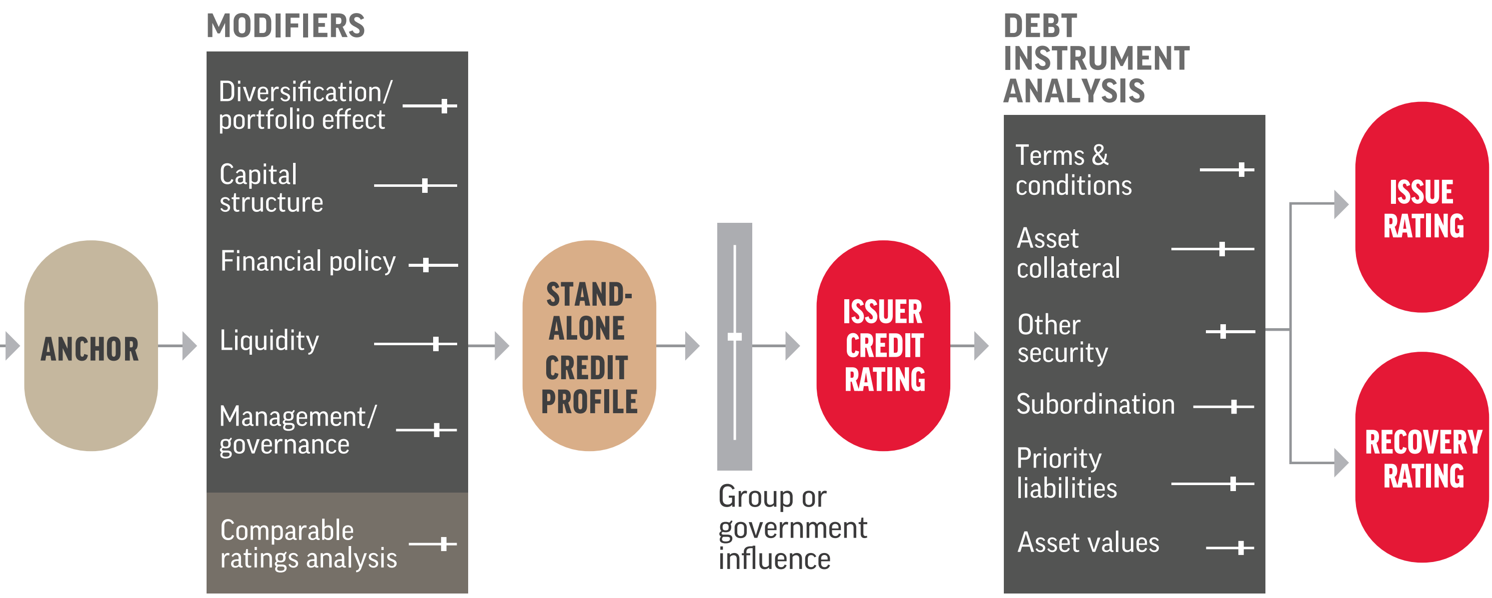

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e		
t)	5 (aggressive)	6 (highly leveraged)
	bbb	bbb-/bb+
	bb+	bb
	bb	b+
	bb-	b
	b+	b/b-
	b	b-

CREDIT RATINGS

- We provide the market with a wide range of ratings products, such as credit ratings on issuers of debt as well as ratings on individual debt issues.
- A credit rating is our opinion of the general creditworthiness of a particular issuer, debt issue, or other financial obligation, based on relevant risk factors.
- A credit rating does not constitute a recommendation to purchase, sell, or hold a particular security.
- A rating does not constitute a comment on the suitability of an investment for a particular investor.

RATING OUTLOOK

- Assigned to long-term ratings
- Assesses the potential long-term credit direction
- Time horizon varies; typically six months to two years
- Not necessarily a precursor to other rating actions or a CreditWatch listing
- Outlook options: positive, negative, stable, developing

CREDITWATCH LISTING

- Assesses the potential short-term credit direction (event- or industry fundamentals-driven)
- Time horizon varies; generally resolved within 90 days, unless pending developments prolong review
- We may request additional information for a possible rating action
- CreditWatch options: positive, negative, developing

cription
gor's capacity is extremely strong
gor's capacity is strong
gor's capacity is satisfactory
gor's capacity is adequate, vulnerable to adverse circumstances
igor's capacity is subject to major ongo- uncertainties
gor's capacity is vulnerable to nonpay- t
ctive Default
ult

RECOVERY RATINGS, RANGES & ISSUE RATINGS FOR SPECULATIVE-GRADE ISSUERS

Recovery Rating	Description of Recovery	Recovery Range[1]	Issue Rating Notches[3]
1+	Highest expectation, full recovery	100%[2]	+3
1	Very high recovery	90 – 100%	+2
2	Substantial recovery	70 – 90%	+1
3	Meaningful recovery	50 – 70%	0
4	Average recovery	30 – 50%	0
5	Modest recovery	10 – 30%	-1
6	Negligible recovery	0 – 10%	-2

[1]Recovery of principal plus accrued but unpaid interest at the time of default. [2]Very high confidence of full recovery resulting from significant overcollateralization or strong structural features. [3]Indicates issue rating "notches" relative to our issuer credit rating.

FOR MORE INFORMATION

The Americas
+1 212 438 2400
ratings_request@standardandpoors.com

Europe
+44 20 7176 7176
clientsupporteurope@standardandpoors.com

Japan
+81 3 4550 8711
clientservices_japan@standardandpoors.com

Australia
+61 3 9631 2160
clientservices_pacific@standardandpoors.com

China
+8610 6569 2909
marketing.hk@standardandpoors.com

Hong Kong
+852 2533 3500
marketing.hk@standardandpoors.com

Singapore
+65 62 396 316
clientservices_sse@standardandpoors.com

Korea
+82 2 2022 2302
clientservices_korea@standardandpoors.com

www.SPRatings.com

STANDARD & POOR'S

Guide to Credit Rating Essentials

What are credit ratings and how do they work?

UNDERSTANDING RATINGS

The origin of Standard & Poor's Credit Ratings

Standard & Poor's Ratings Services traces its history back to 1860, the year that Henry Varnum Poor published the History of Railroads and Canals of the United States.

Dr. to H.V.&H.W.Poor
MANUAL RAILROADS
New York.

Poor was concerned about the lack of quality information available to investors and embarked on a campaign to publicize details of corporate operations. Standard & Poor's has been publishing credit ratings since 1916, providing investors and market participants worldwide with independent analysis of credit risk.

Introduction

Credit ratings are one of several tools that investors can use when making decisions about purchasing bonds and other fixed income investments. The purpose of this guide is to help explain what credit ratings are, and are not, who uses them, and how they may be useful to the capital markets.

The guide provides an overview of different business models and methodologies used by credit rating agencies. It also describes generally how Standard & Poor's forms its ratings opinions about issuers and individual debt issues, monitors and adjusts its ratings, and studies ratings changes over time.

In addition, the *Guide to Credit Rating Essentials* points out several key things you should know about credit ratings:

> Credit ratings are opinions about relative credit risk.

> Credit ratings are not investment advice, or buy, hold, or sell recommendations. They are just one factor investors may consider in making investment decisions.

> Credit ratings are not indications of the market liquidity of a debt security or its price in the secondary market.

> Credit ratings are not guarantees of credit quality or of future credit risk.

If you would like to learn more about credit ratings, additional information is available at www.AboutCreditRatings.com or www.UnderstandingRatings.com.

STANDARD & POOR'S

Guide to Credit Rating Essentials

What are credit ratings

Credit ratings are opinions about credit risk. Standard & Poor's ratings express the agency's opinion about the ability and willingness of an issuer, such as a corporation or state or city government, to meet its financial obligations in full and on time.

Credit ratings can also speak to the credit quality of an individual debt issue, such as a corporate or municipal bond, and the relative likelihood that the issue may default.

Ratings are provided by credit rating agencies which specialize in evaluating credit risk. In addition to international credit rating agencies, such as Standard & Poor's, there are regional and niche rating agencies that tend to specialize in a geographical region or industry.

Each agency applies its own methodology in measuring creditworthiness and uses a specific rating scale to publish its ratings opinions. Typically, ratings are expressed as letter grades that range, for example, from 'AAA' to 'D' to communicate the agency's opinion of relative level of credit risk.

A matter of opinion

Standard & Poor's ratings opinions are based on analysis by experienced professionals who evaluate and interpret information received from issuers and other available sources to form a considered opinion.

Unlike other types of opinions, such as, for example, those provided by doctors or lawyers, credit ratings opinions are not intended to be a prognosis or recommendation. Instead, they are primarily intended to provide investors and market participants with information about the relative credit risk of issuers and individual debt issues that the agency rates.

Standard & Poor's public credit ratings opinions are also disseminated broadly and free of charge to recipients all over the world on **www.standardandpoors.com**

Credit ratings are forward looking

As part of its ratings analysis, Standard & Poor's evaluates available current and historical information and assesses the potential impact of foreseeable future events. For example, in rating a corporation as an issuer of debt, the agency may factor in anticipated ups and downs in the business cycle that may affect the corporation's creditworthiness. While the forward looking opinions of rating agencies can be of use to investors and market participants who are making long- or short-term investment and business decisions, credit ratings are not a guarantee that an investment will pay out or that it will not default.

Credit ratings do not indicate investment merit

While investors may use credit ratings in making investment decisions, Standard & Poor's ratings are not indications of investment merit. In other words, the ratings are not buy, sell, or hold recommendations, or a measure of asset value. Nor are they intended to signal the suitability of an investment. They speak to one aspect of an investment decision—credit quality—and, in some cases, may also address what investors can expect to recover in the event of default.

In evaluating an investment, investors should consider, in addition to credit quality, the current make-up of their portfolios, their investment strategy and time horizon, their tolerance for risk, and an estimation of the security's relative value in comparison to other securities they might choose. By way of analogy, while reputation for dependability may be an important consideration in buying a car, it is not the sole criterion on which drivers normally base their purchase decisions.

Credit ratings are not absolute measures of default probability

Since there are future events and developments that cannot be foreseen, the assignment of credit ratings is not an exact science. For this reason, Standard & Poor's ratings opinions are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.

Instead, ratings express relative opinions about the creditworthiness of an issuer or credit quality of an individual debt issue, from strongest to weakest, within a universe of credit risk.

For example, a corporate bond that is rated 'AA' is viewed by the rating agency as having a higher credit quality than a corporate bond with a 'BBB' rating. But the 'AA' rating isn't a guarantee that it will not default, only that, in the agency's opinion, it is less likely to default than the 'BBB' bond.

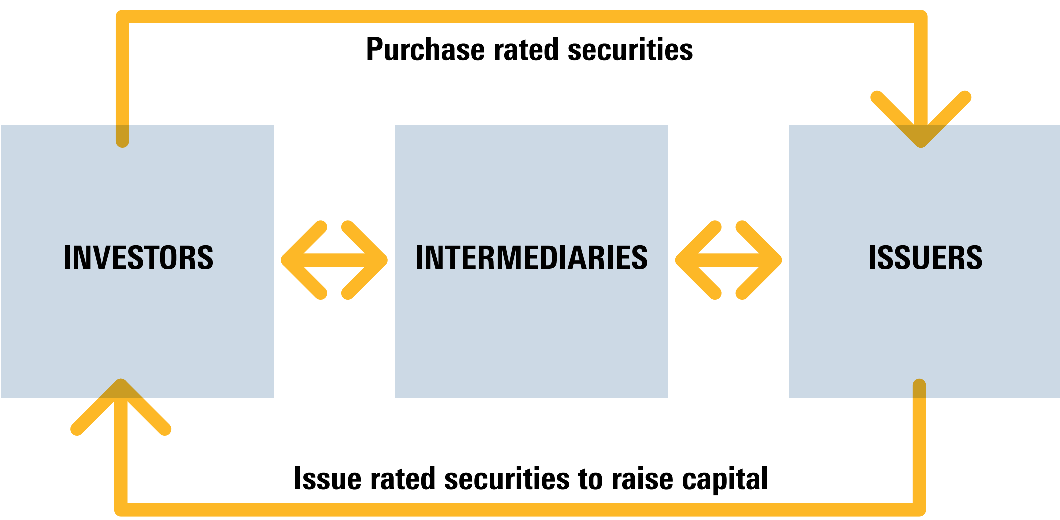
Why credit ratings are useful

Credit ratings may play a useful role in enabling corporations and governments to raise money in the capital markets. Instead of taking a loan from a bank, these entities sometimes borrow money directly from investors by issuing bonds or notes. Investors purchase these debt securities, such as municipal bonds, expecting to receive interest plus the return of their principal, either when the bond matures or as periodic payments.

Credit ratings may facilitate the process of issuing and purchasing bonds and other debt issues by providing an efficient, widely recognized, and long-standing measure of relative credit risk. Investors and other market participants may use the ratings as a screening device to match the relative credit risk of an issuer or individual debt issue with their own risk tolerance or credit risk guidelines in making investment and business decisions.

For instance, in considering the purchase of a municipal bond, an investor may check to see whether the bond's credit rating is in keeping with the level of credit risk he or she is willing to assume. At the same time, credit ratings may be used by corporations to help them raise money for expansion and/or research and development as well as help states, cities, and other municipalities to fund public projects.

Raising capital through rated securities



Who uses credit ratings

Investors
Investors most often use credit ratings to help assess credit risk and to compare different issuers and debt issues when making investment decisions and managing their portfolios. Individual investors, for example, may use credit ratings in evaluating the purchase of a municipal or corporate bond from a risk tolerance perspective.

Institutional investors, including mutual funds, pension funds, banks, and insurance companies often use credit ratings to supplement their own credit analysis of specific debt issues. In addition, institutional investors may use credit ratings to establish thresholds for credit risk and investment guidelines.

A rating may be used as an indication of credit quality, but investors should consider a variety of factors, including their own analysis.

Intermediaries
Investment bankers help to facilitate the flow of capital from investors to issuers. They may use credit ratings to benchmark the relative credit risk of different debt issues, as well as to set the initial pricing for individual debt issues they structure and to help determine the interest rate these issues will pay.

Investment bankers and entities that structure special types of debt issues may look to a rating agency's criteria when making their own decisions about how to configure different debt issues, or different tiers of debt.

Investment bankers may also serve as arrangers of special debt issues. In this capacity, they establish special entities that package assets, such as retail mortgages and student loans, into securities, or structured finance instruments, which they then market to investors.

Credit rating agencies

Some credit rating agencies, including major global agencies like Standard & Poor's, are publishing and information companies that specialize in analyzing the credit risk of issuers and individual debt issues. They formulate and disseminate ratings opinions that are used by investors and other market participants who may consider credit risk in making their investment and business decisions. In part because rating agencies are not directly involved in capital market transactions, they have come to be viewed by both investors and issuers as impartial, independent providers of opinions on credit risk.

Issuers
Issuers, including corporations, financial institutions, national governments, states, cities and municipalities, use credit ratings to provide independent views of their creditworthiness and the credit quality of their debt issues.

Issuers may also use credit ratings to help communicate the relative credit quality of debt issues, thereby expanding the universe of investors. In addition, credit ratings may help them anticipate the interest rate to be offered on their new debt issues.

As a general rule, the more creditworthy an issuer or an issue is, the lower the interest rate the issuer would typically have to pay to attract investors. The reverse is also true: an issuer with lower creditworthiness will typically pay a higher interest rate to offset the greater credit risk assumed by investors.

Businesses and financial institutions
Businesses and financial institutions, especially those involved in credit-sensitive transactions, may use credit ratings to assess counterparty risk, which is the potential risk that a party to a credit agreement may not fulfill its obligations.

For example, in deciding whether to lend money to a particular organization or in selecting a company that will guarantee the repayment of a debt issue in the event of default, a business may wish to consider the counterparty risk.

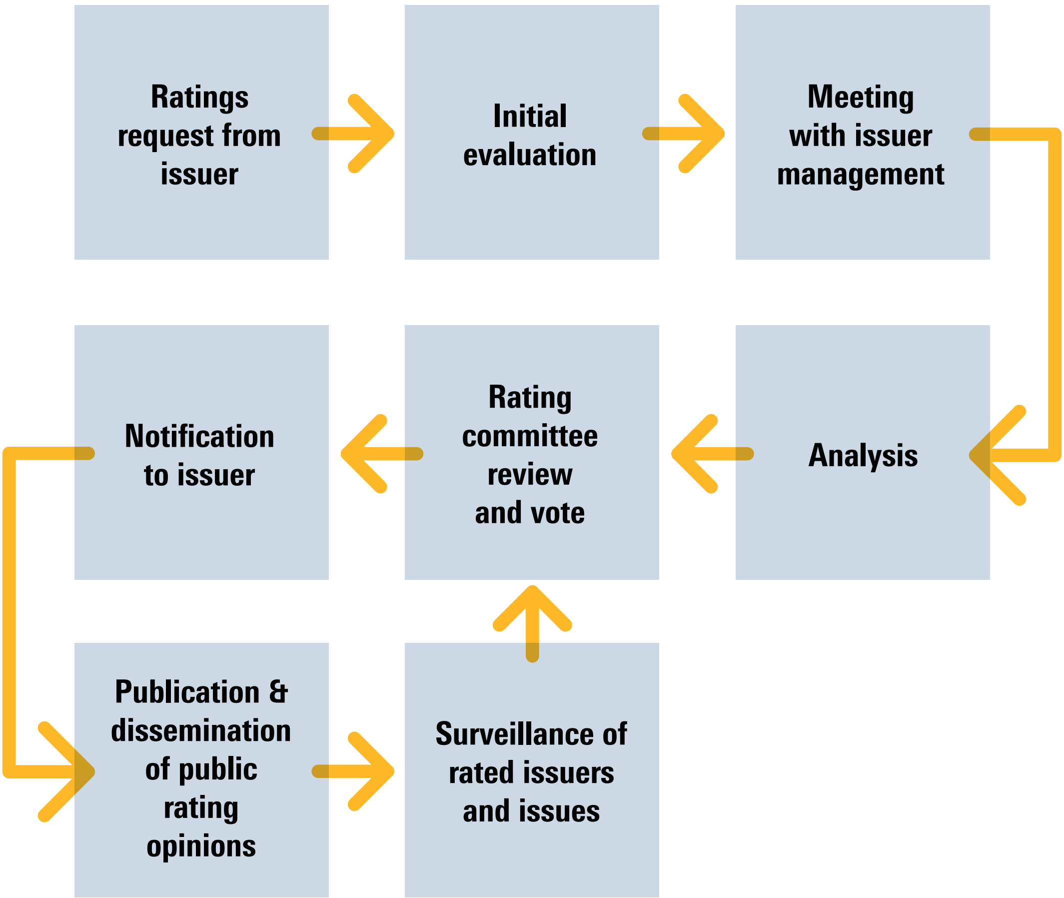
A credit rating agency's opinion of counterparty risk can therefore help businesses analyze their credit exposure to financial firms that have agreed to assume certain financial obligations and to evaluate the viability of potential partnerships and other business relationships.

Rating methodologies

In forming their opinions of credit risk, rating agencies typically use primarily analysts or mathematical models, or a combination of the two.

Model driven ratings. A small number of credit rating agencies focus almost exclusively on quantitative data, which they incorporate into a mathematical model. For example, an agency using this approach to assess the creditworthiness of a bank or other financial institution might evaluate that entity's asset quality, funding, and profitability based primarily on data from the institution's public financial statements and regulatory filings.

Standard & Poor's analyst driven rating process



Analyst driven ratings. In rating a corporation or municipality, agencies using the analyst driven approach generally assign an analyst, often in conjunction with a team of specialists, to take the lead in evaluating the entity's creditworthiness. Typically, analysts obtain information from published reports, as well as from interviews and discussions with the issuer's management. They use that information to assess the entity's financial condition, operating performance, policies, and risk management strategies.

How agencies are paid for their services

Agencies typically receive payment for their services either from the issuer that requests the rating or from subscribers who receive the published ratings and related credit reports.

Issuer-pay model. Under the issuer-pay model, rating agencies charge issuers a fee for providing a ratings opinion. In conducting their analysis, agencies may obtain information from issuers that might not otherwise be available to the public and factor this information into their ratings opinion. Since the rating agency does not rely solely on subscribers for fees, it can publish current ratings broadly to the public free of charge.

Subscription model. Credit rating agencies that use a subscription model charge investors and other market participants a fee for access to the agency's ratings. Critics point out that like the issuer-pay model, this model has the potential for conflicts of interest since the entities paying for the rating, in this case investors, may attempt to influence the ratings opinion.

Critics of this model also point out that the ratings are available only to paying subscribers. These tend to be large institutional investors, leaving out smaller investors, including individual investors. In addition, rating agencies using the subscription model may have more limited access to issuers. Information from management can be helpful when providing forward looking ratings.

Safeguards for issuer-pay ratings

To protect against potential conflicts of interest when paid by the issuer, Standard & Poor's has established a number of safeguards.

These measures include, for example, a clear separation of function between those who negotiate the business terms for the ratings assignment and the analysts who conduct the credit analysis and provide the ratings opinions. This separation is similar in concept to the way newspapers distinguish their editorial and advertising sales functions, since they report on companies from which they may also collect advertising fees.

Another safeguard is the committee process that limits the influence any single person can have on Standard & Poor's ratings opinions. The role of the committee is to review and assess the analyst's recommendation for a new rating or a ratings change as well as to provide additional perspectives and checks and balances regarding adherence to the agency's ratings criteria.

The ABCs of rating scales

Standard & Poor's credit rating symbols provide a simple, efficient way to communicate creditworthiness and credit quality.

Its global rating scale provides a benchmark for evaluating the relative credit risk of issuers and issues worldwide.

General summary of the opinions reflected by Standard & Poor's ratings

Grade	Rating	Description
INVESTMENT GRADE	**'AAA'**	Extremely strong capacity to meet financial commitments. Highest rating
	'AA'	Very strong capacity to meet financial commitments
	'A'	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
	'BBB'	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions
	'BBB-'	Considered lowest investment grade by market participants
SPECULATIVE GRADE	**'BB+'**	Considered highest speculative grade by market participants
	'BB'	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions
	'B'	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments
	'CCC'	Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments
	'CC'	Currently highly vulnerable
	'C'	A bankruptcy petition has been filed or similar action taken, but payments of financial commitments are continued
	'D'	Payments default on financial commitments

Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

Investment- and speculative-grade debt
The term "investment grade" historically referred to bonds and other debt securities that bank regulators and market participants viewed as suitable investments for financial institutions. Now the term is broadly used to describe issuers and issues with relatively high levels of creditworthiness and credit quality. In contrast, the term "non-investment grade," or "speculative grade," generally refers to debt securities where the issuer currently has the ability to repay but faces significant uncertainties, such as adverse business or financial circumstances that could affect credit risk.

In Standard & Poor's long-term rating scale, issuers and debt issues that receive a rating of 'BBB–' or above are generally considered by regulators and market participants to be "investment grade," while those that receive a rating lower than 'BBB–' are generally considered to be "speculative grade."

Ratings definitions

For a complete list of Standard & Poor's Rating Definitions, including issuer credit ratings as well as a related article on Understanding Standard & Poor's Ratings Definitions, please go to **www.AboutCreditRatings.com** and enter the module entitled The ABCs of S&P's Rating Scales.

Rating issuers and issues

Credit rating agencies assign ratings to issuers, such as corporations and governments, as well as to specific debt issues, such as bonds, notes, and other debt securities.

Rating an issuer
To assess the creditworthiness of an issuer, Standard & Poor's evaluates the issuer's ability and willingness to repay its obligations in accordance with the terms of those obligations.

To form its ratings opinions, Standard & Poor's reviews a broad range of financial and business attributes that may influence the issuer's prompt repayment. The specific risk factors that are analyzed depend in part on the type of issuer. For example, the credit analysis of a corporate issuer typically considers many financial and non-financial factors, including key performance indicators, economic, regulatory, and geopolitical influences, management and corporate governance attributes, and competitive position. In rating a sovereign, or national government, the analysis may concentrate on political risk, monetary stability, and overall debt burden.

Rating issuers and issues

For high-grade credit ratings, Standard & Poor's considers the anticipated ups and downs of the business cycle, including industry-specific and broad economic factors. The length and effects of business cycles can vary greatly, however, making their impact on credit quality difficult to predict with precision. In the case of higher risk, more volatile speculative-grade ratings, Standard & Poor's factors in greater vulnerability to down business cycles.

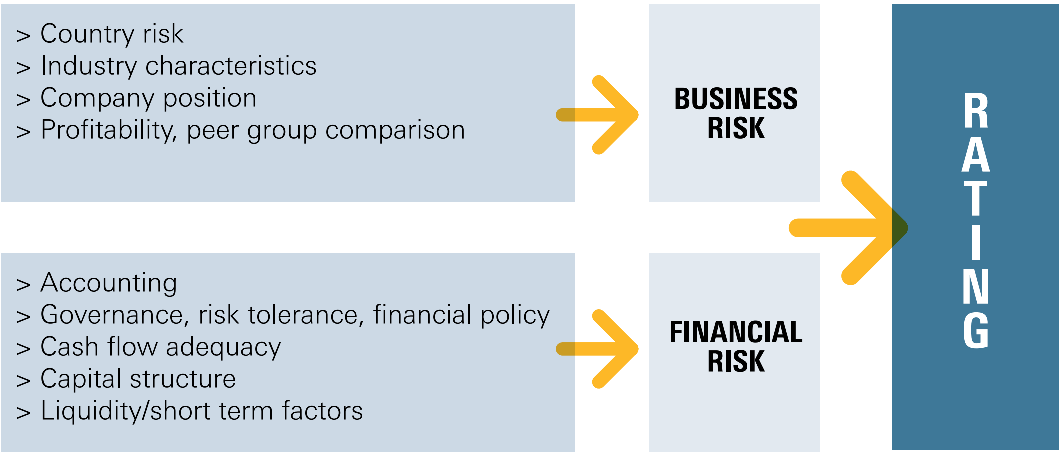
Rating an issue
In rating an individual debt issue, such as a corporate or municipal bond, Standard & Poor's typically uses, among other things, information from the issuer and other sources to evaluate the credit quality of the issue and the likelihood of default. In the case of bonds issued by corporations or municipalities, rating agencies typically begin with an evaluation of the creditworthiness of the issuer before assessing the credit quality of a specific debt issue.

In analyzing debt issues, for example, Standard & Poor's analysts evaluate, among other things:

> The terms and conditions of the debt security and, if relevant, its legal structure.
> The relative seniority of the issue with regard to the issuer's other debt issues and priority of repayment in the event of default.
> The existence of external support or credit enhancements, such as letters of credit, guarantees, insurance, and collateral. These protections can provide a cushion that limits the potential credit risks associated with a particular issue.

Recovery of investment after default
Credit rating agencies may also assess recovery, which is the likelihood that investors will recoup the unpaid portion of their principal in the event of default. Some agencies incorporate recovery as a rating factor in evaluating the credit

Standard & Poor's risk factors for corporate ratings



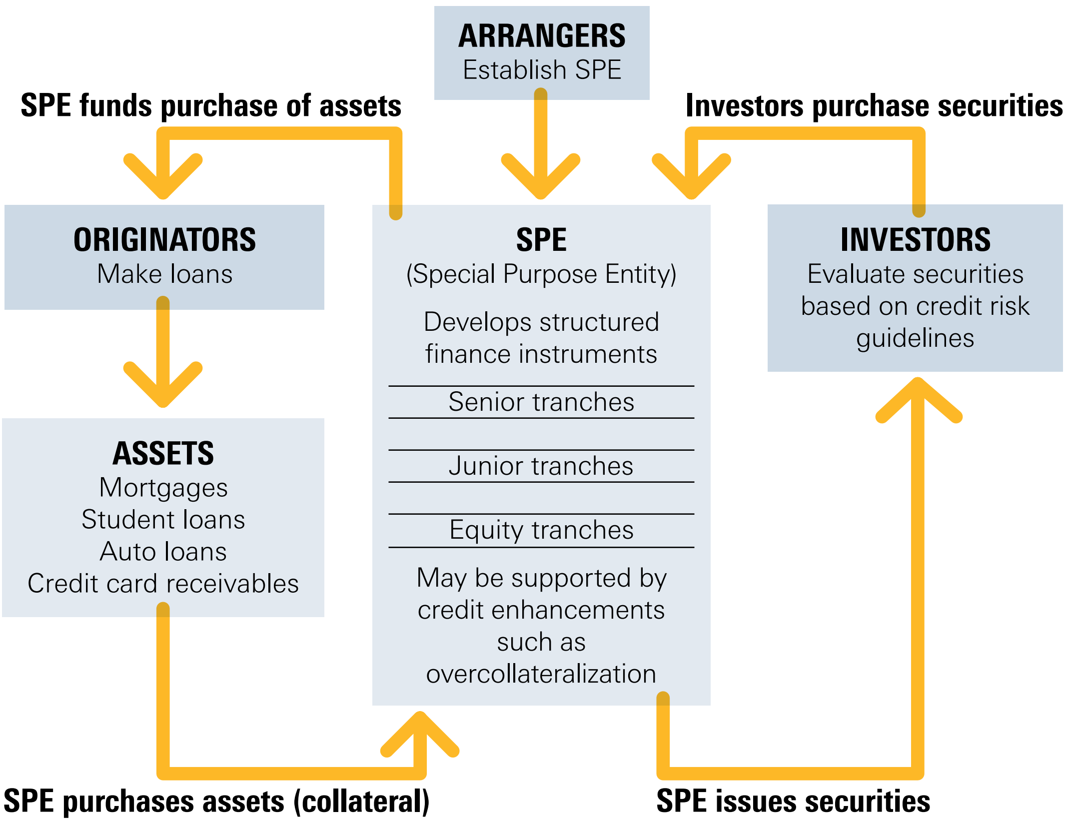
quality of an issue, particularly in the case of non-investment-grade debt. Other agencies, such as Standard & Poor's, issue recovery ratings in addition to rating specific debt issues. Standard & Poor's may also consider recovery ratings in adjusting the credit rating of a debt issue up or down in relation to the credit rating assigned to the issuer.

Rating structured finance instruments

A structured finance instrument is a particular type of debt issue created through a process known as securitization. In essence, securitization involves pooling individual financial assets, such as mortgage or auto loans, and creating, or structuring, separate debt securities that are sold to investors to fund the purchase of these assets.

The creation of structured finance instruments, such as residential mortgage-backed securities (RMBS), asset-backed securities (ABS), and collateralized debt obligations (CDOs), typically involves three parties: an originator, an arranger, and a special purpose entity, or SPE, that issues the securities.

Structured finance instruments



- The **originator** is generally a bank, lender, or a financial intermediary who either makes loans to individuals or other borrowers or purchases the loans from other originators.
- The **arranger**, which may also be the originator, typically an investment bank or other financial services company, securitizes the underlying loans as marketable debt instruments.
- The **special purpose entity (SPE)**, generally created by the arranger, finances the purchase of the underlying assets by selling debt instruments to investors. The investors are repaid with the cash flow from the underlying loans or other assets owned by the SPE.

Stratifying a pool of undifferentiated risk into multiple classes of bonds with varying levels of seniority is called tranching. Investors who purchase the senior tranche, which generally has the highest quality debt from a credit perspective and the lowest interest rate, are the first to be repaid from the cash flow of the underlying assets. Holders of the next-lower tranche, which pays a somewhat higher rate, are paid second, and so forth. Investors who purchase the lowest tranche generally have the potential to earn the highest interest rate, but they also tend to assume the highest risk.

In forming its opinion of a structured finance instrument, Standard & Poor's evaluates, among other things, the potential risks posed by the instrument's legal structure and the credit quality of the assets the SPE holds. Standard & Poor's also considers the anticipated cash flow of these underlying assets and any credit enhancements that provide protection against default.

Expressions of change: Outlook and CreditWatch

If Standard & Poor's anticipates that a credit rating may change in the coming 6 to 24 months, it may issue an updated ratings outlook indicating whether the possible change is likely to be "positive," "negative," "stable," or "developing" (meaning it's uncertain whether a rating might go up or down). Or, if events or circumstances occur that may affect a credit rating in the near term, usually within 90 days, Standard & Poor's may place the rating on CreditWatch. Typically, an updated outlook or CreditWatch from Standard & Poor's includes a rationale for the potential change and the extent of the change, up or down, that may occur. However, updating a ratings outlook or placing a rating on CreditWatch does not mean a ratings change is inevitable.

If Standard & Poor's has all the information available to warrant a ratings change, it may upgrade or downgrade the rating immediately, without placing the rating on CreditWatch or changing its outlook, to reflect these circumstances and its current opinion of relative credit risk.

Surveillance: Tracking credit quality
Agencies typically track developments that might affect the credit risk of an issuer or individual debt issue for which an agency has provided a ratings opinion. In the case of Standard & Poor's, the goal of this surveillance is to keep the rating current by identifying issues that may result in either an upgrade or a downgrade.

In conducting its surveillance, Standard & Poor's may consider many factors, including, for example, changes in the business climate or credit markets, new technology or competition that may hurt an issuer's earnings or projected revenues, issuer performance, and regulatory changes.

The frequency and extent of surveillance typically depends on specific risk considerations for an individual issuer or issue, or an entire group of rated entities or debt issues. In its surveillance of a corporate issuer's ratings, for example, Standard & Poor's may schedule periodic meetings with a company to allow management to:

> Apprise agency analysts of any changes in the company's plans.
> Discuss new developments that may affect prior expectations of credit risk.
> Identify and evaluate other factors or assumptions that may affect the agency's opinion of the issuer's creditworthiness.

As a result of its surveillance analysis, an agency may adjust the credit rating of an issuer or issue to signify its view of a higher or lower level of relative credit risk.

Why credit ratings change

The reasons for ratings adjustments vary, and may be broadly related to overall shifts in the economy or business environment or more narrowly focused on circumstances affecting a specific industry, entity, or individual debt issue.

In some cases, changes in the business climate can affect the credit risk of a wide array of issuers and securities. For instance, new competition or technology, beyond what might have been expected and factored into the ratings, may hurt a company's expected earnings performance, which could lead to one or more rating downgrades over time.

Growing or shrinking debt burdens, hefty capital spending requirements, and regulatory changes may also trigger ratings changes.

While some risk factors tend to affect all issuers—an example would be growing inflation that affects interest rate levels and the cost of capital—other risk factors may pertain only to a narrow group of issuers and debt issues. For instance, the creditworthiness of a state or municipality may be impacted by population shifts or lower incomes of taxpayers, which reduce tax receipts and ability to repay debt.

Why credit ratings change

When ratings change
Credit rating adjustments may play a role in how the market perceives a particular issuer or individual debt issue. Sometimes, for example, a downgrade by a rating agency may change the market's perception of the credit risk of a debt security which, combined with other factors, may lead to a change in the price of that security.

Market prices continually fluctuate as investors reach their own conclusions about the security's shifting credit quality and investment merit. While ratings changes may affect investor perception, credit ratings constitute just one of many factors that the marketplace should consider when evaluating debt securities.

Agency studies of defaults and ratings changes
To measure the performance of its credit ratings, Standard & Poor's conducts studies to track default rates and transitions, which is how much a rating has changed, up or down, over a certain period of time. Agencies use these studies to refine and evolve their analytic methods in forming their ratings opinions.

Transition rates can also be helpful to investors and credit professionals because they show the relative stability and volatility of credit ratings. For example, investors who are obligated to purchase only highly rated securities and are looking for some indication of stability may review the history of rating transitions and defaults as part of their investment research.

How Standard & Poor's communicates credit ratings

Standard & Poor's makes its credit ratings, criteria, and research available in a number of ways, including:

> Press releases
> Web sites
    www.standardandpoors.com
    www.RatingsDirect.com
    www.AboutCreditRatings.com
    www.UnderstandingRatings.com
> Podcasts (www.podcasts.standardandpoors.com)
> Newsletters (CreditMatters Today at www.standardandpoors.com/getcmt)
> Standard & Poor's Service Desk
    Email: research_request@standardandpoors.com
> Standard & Poor's hosted events
> Direct contact with market participants
> Participation in industry and credit events

If you have any questions about this guide or wish to order more copies, please email research_request@standardandpoors.com or call 1-212-438-7280.

Version 1.4

Standard & Poor's thanks Lightbulb Press for its collaboration in developing the *Guide to Credit Rating Essentials*.

STANDARD
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S&P by Numbers

Global Footprint

– more than **1,400** analysts in **26** offices
– **6,000** employees

Experience

– More than **150** years helping investors and issuers make more informed decisions
– **Five** major areas we rate: financial institutions, insurance companies, corporations, asset-backed securities and government securities

Providing Essential Information

– Published more than **1.2 million** credit ratings
– Rated **$6.6 trillion** in new debt in 2013
– **$52 trillion** in rated debt

Distributing Essential Information

– **4.5 million** annual visitors to S&P Ratings websites and blogs
– **2.25 million** views a year on e-newsletters and email alerts
– **225,000** annual downloads of CreditMatters TV and audio podcasts
– Over **65,000** social media followers