

Bulletin: 35

The Rating Process

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Author: Credit Policy Group

India Ratings and Research (Ind-Ra) provides forward-looking credit opinions that reflect its expectations of credit behaviour as indicated by its ratings. To arrive at a rating opinion, Ind-Ra follows standardised procedures, as described in this report, to ensure a consistent approach in the conduct of its rating processes. Ind-Ra does not structure transactions or provide corporate restructuring or policy advice to issuers, rated entities or their agents. Ind-Ra does not provide indicative ratings without having a written agreement in place. For purposes of this report, an “issuer” denotes an issuer, rated entity or transaction. [Appendix A](#) (see flow chart, page 9) illustrates the credit rating process

Initiating the Ratings Process

The rating process begins when an issuer or its agent contacts a member of Ind-Ra's Business Relationship Management (BRM) group with a request to engage Ind-Ra to provide a credit rating.

Assignment of the Analytical Team

At the start of the rating process, both primary and secondary analysts are assigned to each Issuer or transaction, by their Manager. This team is responsible for completing the analysis necessary to bring the initial credit rating(s) to committee. Subsequently, the team is responsible for the ongoing monitoring of the rating, except for point-in-time ratings or where monitoring responsibility has been transferred from one or both of these analysts to one or more dedicated surveillance analysts.

Analyst Role: Ind-Ra analysts conduct their analyses in a manner consistent with Ind-Ra's rating process and published criteria applicable to the particular entity, transaction type, asset class, region or sector. Analysts and committee members are required to consider relevant qualitative and quantitative factors as defined in the applicable criteria and methodologies.

Manager's Role: The manager leading the relevant product group will assign a primary and secondary analyst (if required tertiary) to lead the analysis, formulate a rating recommendation and continue surveillance of the rating.

Information Used to Determine a Rating

Analysts base their rating analysis on a thorough review of information known to them and believed to be relevant information to the analysis and the rating decision is in accordance with the applicable criteria. The rating process incorporates all relevant information provided directly by the issuer or their agents or other third-party including publicly available information. This may include background data, financial information, forecasts, risk reports and performance information. In most cases, issuer management and/or their agents participates in the ratings process via in-person management meetings, on-site visits, teleconferences and other correspondence. Analysts also consider macroeconomic conditions, market events and any other factors deemed relevant for the rating analysis, such as information from an issuer's peers or data provided by other analytical groups within Ind-Ra or publicly available information.

The analytical team conducting the analysis will determine if sufficient information is available to recommend a view on the creditworthiness of the issuer. Collectively, the rating committee will also consider whether there is sufficient information to support a rating. If Ind-Ra believes that the information available, both public and private, is insufficient to form a rating opinion, no credit rating will be assigned. However, once a rating has been accepted and published, it is reviewed even if the information is insufficient, based on the best available information, and the rating may be migrated to the Issuer non-cooperating category. Basic minimum information requirements for Issuers in Corporate Finance, Infrastructure Finance, Public Finance, Structure Finance and Financial Institutions verticals form a part of Ind-Ra's Rating Process Manual and the same is reviewed periodically, to incorporate changing business and economic environment.

Ind-Ra relies on information it receives from sources believed to be credible. Ind-Ra conducts a reasonable investigation of data accuracy and obtains reasonable verification of that information from independent sources such as bankers and auditors. Issuers may choose not to share certain information with external parties, including rating agencies, at any time. While Ind-Ra expects that each participating issuer in the rating process, or its agents, will supply promptly all information relevant for evaluating both the ratings of the issuer and all relevant securities, Ind-Ra neither has, nor would it seek, the right to compel the disclosure of information by any issuer or any agents of the issuer.

Non-Cooperation by Issuers: It is possible that some of the issuers may stop cooperating/participating in the rating process after the initial rating is assigned. Ind-Ra's policy on as to [Guidelines on What constitutes Non-Cooperation](#) is available on its website. Reference to SEBI is also be made regarding suppression of information by the Issuer/non-cooperation by the Issuer.

Pre-Committee Process

Where a debt issue or financial structure is deemed to have unique or complex features or does not appear to have a fundamental economic purpose, a Transaction Screening Committee (TSC) may be held to determine whether the full rating process should proceed. A TSC is not itself a rating committee but is rather a cross disciplinary committee that provides an initial layer of review to consider certain rating proposals for new security, transaction or issuer types early in the rating process. The primary purpose of the TSC is to determine the feasibility of assigning a rating to a new security. Committees are selected from a designated pool of senior members of Ind-Ra's analytical groups.

The Committee Process

Ratings are assigned and reviewed through a committee process. Once information has been collected and the issuer analysed in accordance with Ind-Ra's criteria and methodologies, the primary analyst makes a rating recommendation and documents his/her analysis and rationale in a committee package. Committees consider the information and rating recommendations presented in the committee package and discuss the primary analyst's recommendation. The committee package must contain sufficient content and be consistent with the methodology and criteria that apply to the analysis, to provide a solid basis for the recommended credit rating. The package must include a summary of key rating drivers, sensitivity analysis, criteria variations (if any), and details of reasonable investigation, among certain other minimum content.

Voting members are chosen based on relevant experience, with seniority and experience thresholds incorporated into Ind-Ra's committee quorum requirements. The minimum committee quorum for credit rating decisions is generally four analysts, although committees can include more members, including non-voting observers. The committee quorum should at the minimum include:

- a chair who moderates the committee and ensures that it is conducted in accordance with Ind-Ra's policies and procedures. Generally, analysts titled 'Director' and above chair the committee. However, for simplified bank loan ratings with revenue less than INR2.5 billion, analysts titled 'Associate Director' and above may chair the committee.
- at least two independent members. An independent member is from outside the immediate analytical team and who does not have a reporting relationship with the Committee Chair.
- the primary or the secondary analyst, as applicable.

The rating committee considers the relevant quantitative and qualitative issues, as defined in Ind-Ra's established criteria and methodologies, to arrive at the rating that most appropriately reflects both current conditions and prospective performance. A rating committee may adjust the application of the criteria to reflect the risks of a specific transaction or entity. Such adjustments are called variations. All variations will be disclosed in the respective Rating Action Commentaries (RAC), including their impact on the rating where appropriate.

A variation can be approved by a rating committee where the risk, feature, or other factors that are relevant to the assignment of a rating and the methodology applied to it are included within the scope of the criteria. Variations are expected to be rare.

Analysts maintain a dialogue with the issuer during and following the rating process to resolve any outstanding issues and to request additional information identified by the committee, where applicable.

Committee decisions are reached by majority. A summary of key issues discussed is recorded, in addition to the recording of a rating appeal or a dissent, if any.

Analysts follow Ind-Ra's Confidentiality Policy and Conflicts of Interest and Securities Trading Policy for additional information when a recusal from all analytical discussions on an Issuer or transaction is required. Committee members and the chair make certain attestations with respect to the independence and objectivity of the rating process that was followed.

Issuer Notification and Rating Dissemination

Once a committee concludes, the outcome is communicated to the issuer or, where applicable, its agents. In communicating the rating, the primary analyst explains the key rating drivers and sensitivities to these drivers to facilitate the issuer's understanding of the principal grounds on which the rating is based, as well as the sensitivity and potential volatility of the rating. Typically, analysts use a draft RAC (or a draft presale report in structured finance), which includes the committee's rating decisions, to convey this information. Notification is generally provided to issuers in writing as soon as possible, but within two working days of conclusion of the rating committee. The primary analyst provides the issuer or its agents with the opportunity to review Ind-Ra's RAC (or presale report) prior to publication to allow the issuer to check for factual accuracy and the presence of non-public information.

Ind-Ra evaluates any feedback or comments from issuers but nevertheless retains full editorial control over its commentaries.

Ind-Ra typically aims to publish rating actions on existing public ratings as soon as possible, but typically not later than the timelines as provided below:

Sl. no.	Scenario	Timelines
a.	Initial rating, after acceptance of rating from issuer	Will have a publication deadline of two working days
b.	Initial rating, after non-acceptance of rating from issuer	Within a month of communication of rating, the same should be disclosed as Non-Accepted Rating on website
c.	Periodic surveillance	Will have a publication deadline of five working days from the date of relevant rating committee
d.	Periodic surveillance, external appeal (by issuer)	Publication will be made as soon as possible, but not later than 10 working days from the date of original relevant rating committee
e.	Event-based rating review (including affirmation)	Should be published immediately but not later than seven working days of occurrence of the said event
f.	Intimation about delay in servicing of debt have been received from issuer/debenture trustee/bankers	Publication of rating action should be made immediately but not later than two working days from date of intimation

Source: Ind-Ra

All rating actions for new ratings (including unaccepted) or existing rated issuers are published on Ind-Ra's website and, as appropriate, are simultaneously released to major newswire services. These RACs provide a rationale for the rating decision based on the key ratings drivers and sensitivities, liquidity indicator, instruments rated, rating history and identify the criteria applied in the rating process. Any exceptions to Ind-Ra's published criteria that occurred in determining the rating are clearly disclosed and explained in the commentary. In cases of non-cooperation by issuers' with any other credit rating agency, status of such non-cooperation is disclosed in Ind-Ra's commentaries.

The timing of publication reflects the important balance between allowing sufficient time for the issuer to review the rating rationale for factual accuracy and the presence of confidential information and requirements of the users of ratings for timely and objective opinions. In addition to Ind-Ra's published RAC, a credit report may be published about issuers individually or by industry and made available to subscribers on Ind-Ra's website.

External Appeal

An issuer may request an appeal, referred to as an external appeal, of a rating decision. Appeals will only be granted when an issuer provides new or additional information in a timely manner that Ind-Ra believes is relevant to the rating. Where an appeal review is deemed appropriate, a new committee is convened to reconsider the rating decision in light of the new information. This committee is composed of majority members who are different from those in the rating committee that assigned the earlier rating, and at least one-third of independent members (people not having any pecuniary relationship with Ind-Ra or any of its employees). Ind-Ra completes the appeal review of ratings within regulatory timelines governing rating announcements, barring a few approved exceptions.

[Appendix B](#) (see flow chart, page 10) illustrates the appeal process.

Surveillance of Ratings

Ind-Ra's ratings are monitored on an ongoing basis and the review process is a continuous one. Monitored ratings are subject to regular scheduled reviews by a rating committee every 12 to 15 months, although the review frequency may vary if deemed appropriate by Ind-Ra or where required by the applicable law. Point-in-time ratings are not monitored on an ongoing basis.

Analysts will convene a committee promptly to review the rating instead of waiting for the next review if a business, financial, economic, operational or other development can reasonably be expected to result in a rating action. For example, operational or fiscal deterioration, an acquisition, a divestiture or the announcement of a major share repurchase may trigger an immediate rating review. Ind-Ra's surveillance process incorporates the use of market indicators such as share prices and bond spreads where available and a broader array of financial information, systemic risk and operational risk analyses. Ind-Ra continues to develop tools appropriate to the surveillance task.

Peer analysis is another surveillance method that is used primarily to assess the relative performance of comparable corporate entities and financial institutions over time. Peer groups are created based on similar fundamentals and rating levels, among other factors. Results of Ind-Ra's peer analysis are included in research such as Ratings Navigator, a peer comparison tool used by the Corporate and Financial Institutions groups, which provides a graphical representation of key rating drivers against peer expectations for a given rating category.

Scenarios for structured finance are generally based on quantitative metrics. In addition, ratings performance will be monitored with surveillance techniques to evaluate the impact of stress scenarios on multiple transactions. Such tools will typically track data from surveillance reports provided by the trustee and compare the information against original and stressed expectations to "flag" transactions where performance has diverged from established parameters.

Base and Stress Cases

Ratings reflect Ind-Ra's forward-looking views of future performance based on historical performance through various economic cycles. Ind-Ra typically analyses credit characteristics under several scenarios to determine the likelihood that current ratings expectations will be met and, if not, the extent of the change. Scenarios include a base case that reflects Ind-Ra's current outlook and stress cases. Stress cases include the probability of deteriorating credit metrics, the degree of flexibility in adjusting to a stress scenario and the impact a stress case would have on ratings. Stress cases are based on historical events that are outside normal business cycles. Event risk is not considered in most ratings, and as a result, ratings may change due to a merger, acquisition, political events that alter expected financial performance in the near term.

Rating Process Timeframe

The time required to assign a new rating varies and will partly depend on the time required by the issuer to respond to information requests from Ind-Ra. Depending on the sector and type of credit analysis involved, Ind-Ra typically assumes a time frame of two to eight weeks to provide a rating, once all the necessary information is available. However, in case of an urgent need, Ind-Ra can work at assigning ratings at a shorter timeframe.

Rating Withdrawals

A credit rating can only be withdrawn under the following circumstances:

1. Where there is no debt outstanding
2. Liquidation of the rated entity
3. Reorganisation of rated entity (for reasons other than financial distress) (e.g. merger or acquisition of rated entity or rated entity no longer exists)
4. A forthcoming debt issue/transaction carrying a provisional rating which is no longer expected to issued
5. Provisional ratings, where the rating that would have been assigned in the absence of the pending steps/ documentation states that 'In cases where the absence of said steps/ documentation would not result in any rating being assigned by Ind-Ra, would be withdrawn if the pending steps/ documentation is not completed within the stipulated time
6. A provisional rating that has not been issued
7. A proposed instrument which is not issued
8. Bonds were pre-refunded
9. Bank loans/ facilities on request for withdrawal from the Issuer along with no objection from the lending bank(s)
10. Capital market instruments
 - i. rated the instrument continuously for five years or 50% of the tenure of the instrument, whichever is higher; or
 - ii. received an undertaking from the Issuer that a rating is available on that instrument.
11. Capital market instruments, in case of multiple ratings on a capital market instrument (where there is no regulatory mandate for multiple ratings), the withdrawal policy is as follows:
 - i. Issuer has to make a request for withdrawal;
 - ii. rated the instrument continuously for three years or 50% of the tenure of the instrument, whichever is higher; and
 - iii. received no-objection certificate (NOC) from 75% of bondholders of the outstanding debt for withdrawal of rating; or
 - iv. received an undertaking from the issuer that another rating is available on that instrument.
12. Ratings of open-ended mutual fund schemes, after receiving request for withdrawal from the asset management company (AMC). However, such ratings shall be placed on notice of withdrawal for at least 30 days, which shall be publicly available on the website.
13. Standalone Issuer rating can be withdrawn upon request of withdrawal from issuer.
14. Perpetual Debt Securities provided that
 - I. Issuer has to make a request for withdrawal;
 - II. rated such security/ies continuously for 5 years; and
 - III. received an undertaking from the Issuer that a rating is available on such security/ies; and
 - IV. received an undertaking from the other CRA(s) that a rating is available on such security/ies.
15. Fixed Deposit (FD) ratings withdrawal policy is as follows:
 - i **No deposits raised:** In case of no deposit raised against Ind-Ra assigned rating, ratings can be withdrawn upon request of withdrawal from issuer along with undertaking that Ind-Ra assigned rating has not been used for raising any deposit. In such cases, Ind-Ra would also require CA certificate stating that no deposits were raised.

- ii **Deposits paid in full:** In case all rated deposits are paid in full, ratings can be withdrawn upon request from issuer along with CA certificate (unsecured FD) / trustee certificate (secured FD) stating that all the deposits have been repaid in full and no fresh deposits have been raised.
- iii **When rated FDs are outstanding:** In case rated FDs are outstanding, ratings can only be withdrawn upon receipt of following:
 - Request of withdrawal from issuer;
 - No Objection Certificate (NOC) from all investors;
 - Confirmation from issuer that they have stopped raising fresh issuances using Ind-Ra's assigned rating;
 - Undertaking from issuer that FDs have a rating from another CRA.

However, in case No Objection Certificate (NOC) from all investors is not available, Ind-Ra would additionally require confirmation that communication have been sent by the issuer to all investors that they are withdrawing the ratings from Ind-Ra. In such cases ratings will be placed on notice of withdrawal for one year, before withdrawing the rating.

Ratings will be withdrawn upon the receipt of all relevant documents. At the time of withdrawal, where the rated instrument continues to be outstanding, a rating shall be assigned to such facility/ security and a RAC citing reason of withdrawal shall be made.

Quality Standards for Ratings

Ind-Ra's Ratings Sub-Committee of the Board has the responsibility with respect to oversight and approval of Credit Rating Policies & Procedures. The Rating Committees report to the Chief Rating Officer who reports to the Ratings Sub-Committee.

To ensure the quality of its product, common processes apply in assigning ratings to entities irrespective of size or location.

All published criteria reports, available on Ind-Ra's website, are reviewed and approved prior to use by a Peer Review Committee (PRC) at least once in three years and proposals to amend criteria between annual reviews are required to be approved by PRC. The PRC is an independent forum that evaluates the sufficiency, transparency and rigour of criteria for credit ratings. Ind-Ra operates two independent groups to enhance quality standards, the Credit Policy group (CPG) and Compliance group. Together, these groups ensure that Ind-Ra's credit ratings criteria, policies and procedures are consistently executed, ratings are comparable across the firm and the firm complies with applicable laws and regulations.

CPG is a central group with a cross-sector mandate to identify sustained shifts in risk profiles, review the performance of Ind-Ra's ratings and respond to complaints relating to the rating process. CPG independently ensures objectivity in the rating process. The Compliance group identifies and provides advice on compliance risks facing Ind-Ra, creates a control environment to ensure compliance with laws, regulations, guidelines and specifications relevant to Ind-Ra's business and monitors employee activity to ensure effectiveness of controls, including those to mitigate conflicts of interest. Policies with respect to managing conflicts of interest, gifts and confidentiality are made available on its website for users of ratings assigned by Ind-Ra.

Criteria Reports

All credit ratings must be assigned according to the applicable criteria. Criteria reports describe Ind-Ra's analytical methodology used to assign ratings. The application of consistent criteria facilitates the comparability of Ind-Ra's ratings across sectors.

Criteria can be classified as: master criteria that describe the basic foundation for our credit ratings within an asset group; cross-sector criteria that explain Ind-Ra's approach to discrete topics that relate to multiple areas; and sector-specific criteria that describe the rating drivers and assumptions applicable to a particular sector or asset class. Each

criteria report specifies the scope and sector to which the criteria apply, including a definition of the entity or securities to which the criteria apply.

Ind-Ra's criteria are designed to be used in conjunction with experienced analytical judgment exercised through individual analysts and the committee process. The combination of transparent criteria, analytical judgment applied on a transaction-by-transaction or issuer-by-issuer basis, and full disclosure via RAC strengthens Ind-Ra's rating process while assisting market participants in understanding the analysis behind our ratings.

Criteria reports describe limitations in the criteria used to assign a rating, unless the limitations are already included in the Ratings Definitions section on Ind-Ra's website.

Ind-Ra's forward-looking ratings approach evaluates credit risks that could impact the future credit quality of a borrower or debt instrument. Criteria reports identify the credit factors considered in the rating process, prioritise those credit factors into key ratings drivers and describe the strengths and limitations of Ind-Ra's analysis. Ind-Ra updates criteria where new and significant factors emerge or previous drivers are no longer relevant.

Criteria Assumptions: Criteria identify and prioritise quantitative and qualitative credit factors relevant to each rating sectors and describe their relative importance by identifying key rating drivers.

Criteria reports define what critical factors are used to establish the assumptions on which a rating is based. Where multiple sensitivity analyses or forecasts are employed in the rating analysis, the criteria will describe in broad terms how these multiple analyses interact in the rating decision. Where a rating is exposed to a limited number of key variables, such as the performance of a static pool of assets, the criteria will describe how sensitivity analyses would be applied to these variables. When an expected case and stress case analysis are appropriate for a sector, both cases would be described in the report.

Criteria Variations: Exceptions to Ind-Ra's criteria are not permitted. Variations in the application of criteria must be achieved through a change in scope by the criteria review process or an amended criteria assumption in the rating committee package for consideration by the rating committee. If at any point the variation is no longer considered unique to one or a limited number of transactions or issuers, then the criteria are updated so that the variation is no longer required. Variations must be disclosed in the press releases applying the variation and all ratings commentary as long as they exist.

Establishing Criteria and Methodologies

Rating criteria reports describe the methodology used in assigning ratings. Criteria are developed to be rigorous and systematic to maintain the high quality of Ind-Ra's ratings and their comparability across sectors. Criteria describe the key credit factors in a way that would allow a financial market professional to review the criteria, look at published rating reports and commentary and understand how Ind-Ra reached a given rating.

Models are tools that are often used to supplement qualitative ratings analysis. In many cases, quantitative models are developed to generate projections of the credit performance of issuers or issues under various scenarios, as defined by rating criteria. The rating of an issuer may not involve a model or may involve a single or multiple models. The importance of a model in generating rating opinions ranges from substantial to minor. Ratings are determined by committees and discussion. Rating criteria provide information on how model projections are used in the overall rating process.

Applying Criteria Changes: Any approved criteria, model or key rating assumption changes are applied to both the new and the existing outstanding ratings. Rating Outlooks or Rating Watches are considered the means of indicating that a review is under way following a material change to applicable criteria. A review of the affected ratings will be

completed within six months from the effective date of the criteria. Ind-Ra's policies with respect to placing rating on credit watch and assigning provisional ratings are available on its website.

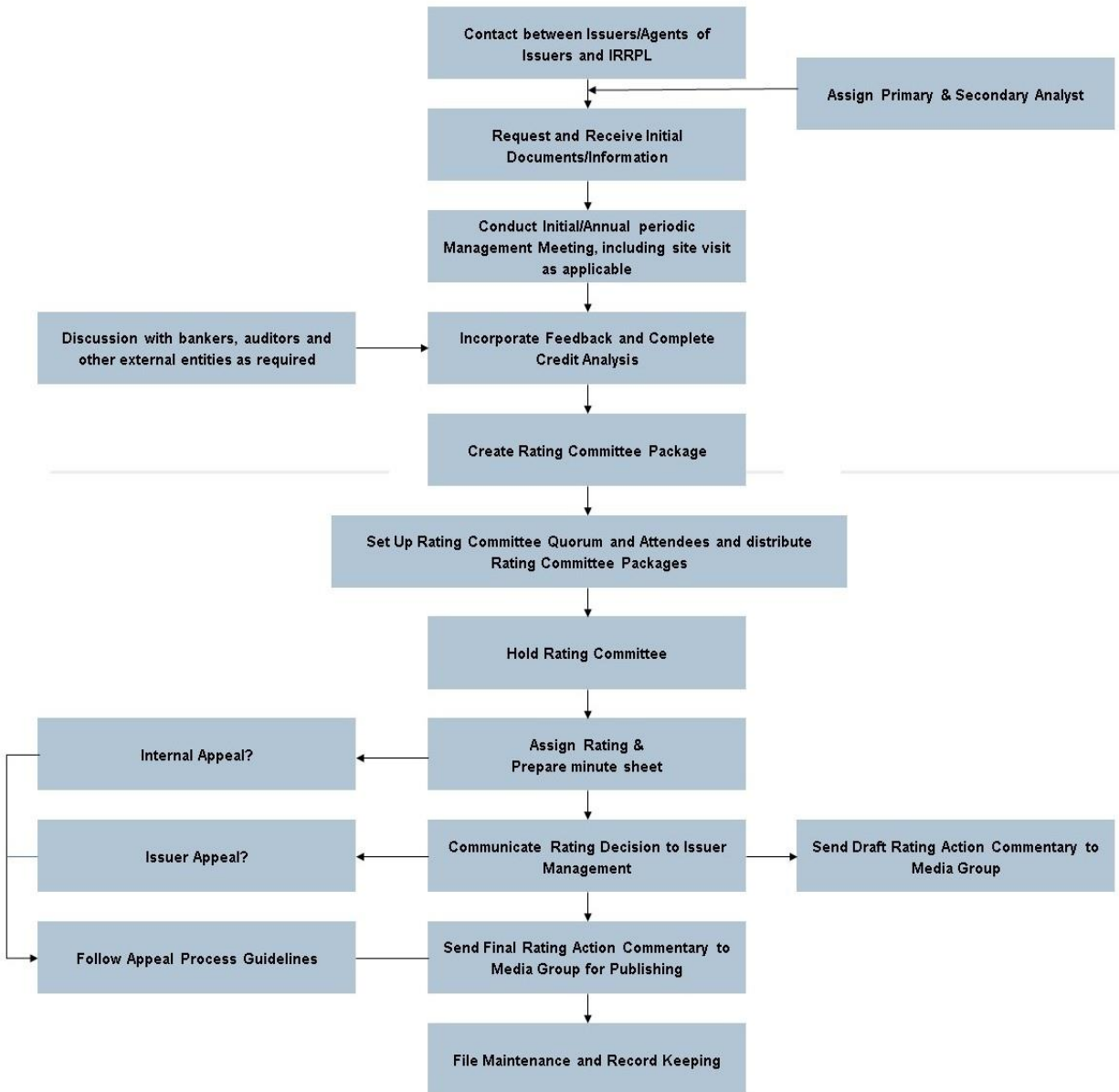
Communicating Criteria: Credit rating criteria are publicly disclosed on Ind-Ra's website. Minor changes to criteria that reflect characteristics of a particular transaction are communicated in the RAC for the respective transaction or rated entity. Criteria changes are effective immediately upon publication unless an alternative effective date is stated. While disclosing the revised criteria on the website, Ind-Ra also provides a reference/hyperlink to the previous criteria to enable investors to discern the changes made.

Fees

Ind-Ra has a dedicated BRM group that is responsible for managing the commercial aspects of issuer relationships. All discussions with issuers and intermediaries concerning rating fees and commercial matters are handled exclusively by its BRM team, as per Ind-Ra's policy. References to any commercial aspect of Ind-Ra's relationship with issuers are not permitted during any analytical discussion. Ind-Ra's [Policy on general nature of compensation arrangements with rated entities](#) is available on its website.

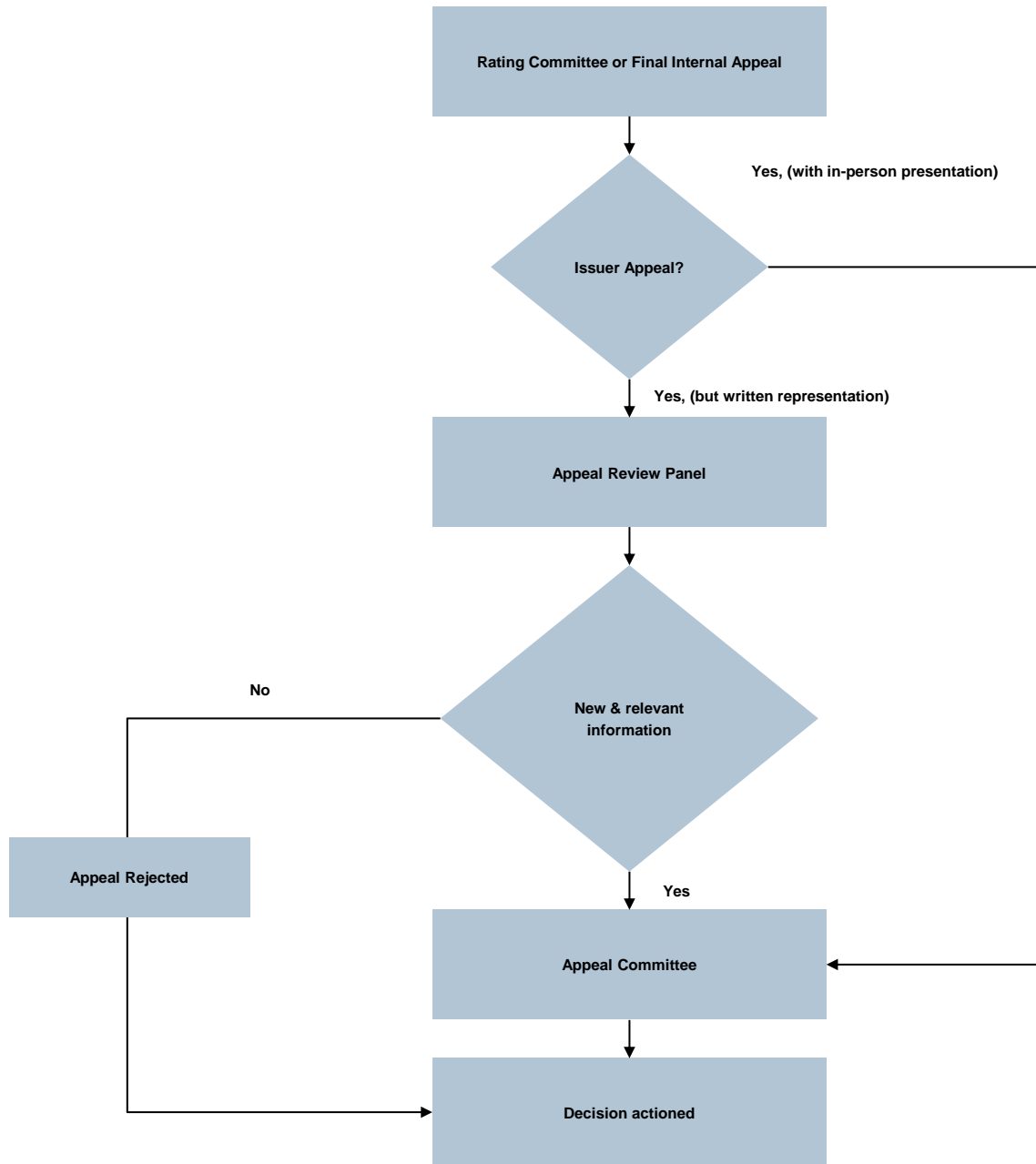
[Frequently Asked Questions \(FAQs\)](#) on credit ratings are available on Ind-Ra's website.

Appendix A - Credit Rating Process Flow Chart



This flow chart is provided for illustrative purposes; timing and order of steps may vary
Source: Ind-Ra

Appendix B – Issuer Appeal Process Flow Chart



Source: Ind-Ra

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The information in this report is provided "as is" without any representation or warranty of any kind. An Ind-Ra rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Ind-Ra is continuously evaluating and updating. Therefore, ratings are the collective work product of Ind-Ra and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Ind-Ra is not engaged in the offer or sale of any security. All Ind-Ra reports have shared authorship. Individuals identified in a Ind-Ra report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Ind-Ra rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at anytime for any reason in the sole discretion of Ind-Ra. Ind-Ra does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Ind-Ra receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Ind-Ra will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Ind-Ra shall not constitute a consent by Ind-Ra to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Ind-Ra research may be available to electronic subscribers up to three days earlier than to print subscribers.