ACRA

JULY 31, 2024

METHODOLOGY

METHODOLOGY FOR ASSIGNING CREDIT RATINGS TO INTERNATIONAL FINANCIAL INSTITUTIONS UNDER THE INTERNATIONAL SCALE

ACRA-RATINGS.RU

1 SCOPE OF THE METHODOLOGY

The Methodology for Assigning Credit Ratings to International Financial Institutions under the International Scale of the Analytical Credit Rating Agency (hereinafter, ACRA) defines approaches to assigning credit ratings (credit estimates) to rated entities in the international financial institution segment (hereinafter, IFIs, or the rated entity).

In this methodology, IFIs include international development banks, as well as other financial institutions, founded by sovereign governments of several countries and regulated by international agreements between member states (hereinafter, member state, or supporting entity).

IFIs are usually established to pursue noncommercial or long-term investment projects that are difficult to finance through market instruments. The activities of IFIs are in most cases aimed at promoting the economic development of member states and regional integration, and are noncommercial, i.e. not intended to generate profit.

IFIs are immune to the regulations set by the regulators of any member states. However, regulatory standards can be complied with out on a voluntary basis or on the basis of constituent documents. IFIs have privileged creditor status, which imples the priority of repayment of public debt to IFIs.

The main sources of funding for IFIs include capital provided by the governments of the member states and debt obligations issued by IFIs. For analysis purposes, ACRA uses total capital and authorized capital. Total capital includes paid-in capital, as well as retained earnings of IFIs subject to possible adjustments by ACRA. Authorized capital includes both capital paid by the governments of the member states (paid-in capital) and capital that was committed but not paid in (callable capital), which an IFI can count on should the need arise.

Credit ratings assigned in accordance with this methodology belong to the category of sovereign ratings, and they are reviewed within 182 days from the date of the last rating action in accordance with ACRA's internal documents.

This methodology is applied to assign credit ratings under ACRA's international scale, is not exhaustive, and contains references to a number of ACRA's other methodologies.

This methodology shall be applied on an ongoing basis until a new version is approved by ACRA's Methodology Committee.

To keep this methodology up to date, ACRA may review and amend it ahead of schedule in the following cases:

- More than three deviations from this methodology in a quarter when performing rating actions;
- The need to review based on methodology application monitoring by ACRA's Methodology Group, including based on the results of checking the quality of the methodology in accordance with Bank of Russia Ordinance No. 6583-U[1];
- Non-compliance with Federal Law No. 222-FZ[2];
- Immediate review of the methodology requested by ACRA's Compliance and Internal Control Service.

[1] Ordinance of the Bank of Russia No. 6583-U dated October 23, 2023 "On the requirements for the provisions specified in Part 7 of Article 12 of Federal Law No. 222-FZ, cases, frequency, timing of verification of the quality of the methodology by a credit rating agency, requirements for its implementation, and also the form, procedure, and timing of sending a report by the credit rating agency to the Bank of Russia based on the results of checking the quality of the methodology, the procedure for the Bank of Russia to evaluate the methodology of the credit rating agency for compliance with the law of the Russian Federation and regulations of the Bank of Russia".

[2] Federal Law No. 222-FZ dated July 13, 2015 (with amendments dated December 19, 2022), "On the Activity of Credit Rating Agencies in the Russian Federation, on Amending Article 76.1 of the Federal Law 'On the Central Bank of the Russian Federation' and Recognizing Null and Void Certain Provisions of Legislative Acts of the Russian Federation" (including changes and addenda that came into force on December 20, 2023).

ACRA reviews this methodology in accordance with its internal documents no later than one calendar year from the date of its latest review. This methodology may be amended based on the review.

Any deviation from this methodology is documented and disclosed by ACRA on its official website at www.acra-ratings.ru when publishing a credit rating or a credit rating outlook, stating the reason for the deviation.

If any errors are found in this methodology that have affected or may affect credit ratings and/or credit rating outlooks, ACRA will analyze and review it in accordance with the Agency's established procedures. If the identified errors affect previously assigned ratings, ACRA will disclose that information on its official website.

If the proposed changes to this methodology are significant and affect or may affect existing credit ratings, ACRA will:

1. Post on its official website information on planned changes to the applied methodology, indicating the reasons and consequences of such changes, including for credit ratings assigned using the methodology.
2. Assess whether it is necessary to review all credit ratings assigned in accordance with this methodology within six months of its amendment.
3. Review credit ratings within six months of the abovementioned assessment (provided the need to review them is discovered based on the conducted assessment).

2 SOURCES OF INFORMATION

The main source of information when conducting rating analysis is the IFRS or US GAAP audited financial statements of the rated entity (including the auditor's report and notes to the financial statements) for the last three complete financial years. If necessary, ACRA may request that a rated entity fill out an individual questionnaire using the proposed template.

If a rated entity reports under IFRS, US GAAP or local GAAP on a quarterly and/or semi-annual basis, this information may also be used in the rating analysis. ACRA may use a combination of various sources of information in order to obtain the most complete, objective and up-to-date view of the financial standing of a rated entity when conducting rating analysis.

When assigning a credit rating, ACRA may also use the following sources (this list is not exhaustive):

– Information provided by the rated entity: statutory documentation, issuance documents for the IFI's individual securities issues (if any), internal documents defining the IFI's development plan, including a financial forecast, internal documents regulating corporate governance and risk management, as well as data received during the rating meeting;
– Information from public sources: government statistics, publications of central banks and international organizations, media data, data from other sources which, in ACRA's opinion, contain material information for rating analysis;
– Internal information: data from rating analysis previously conducted by ACRA, aggregated financial and operational indicators of other rated entities subject to analytical adjustments, macroeconomic and industry forecasts of ACRA's internal divisions, and ACRA's internal credit ratings in relation to member states.

If there is not enough information to apply this methodology, ACRA refrains from assigning a credit rating. If ACRA identifies that there is not enough information to maintain the current credit rating, it withdraws the credit rating with no further action taken with respect to it. Information about the withdrawal is reflected in the publication of the rating action on the rated entity.

The sufficiency of information is determined based on the possibility of performing rating analysis in accordance with ACRA's general rating process principles. The main criteria of information sufficiency is as follows:

- Ability to perform quantitative and qualitative analysis of the creditworthiness of the rated entity;
- Ability to analyze external and internal risk factors that may affect the creditworthiness of the rated entity;
- Ability to perform comparative analysis against peers.

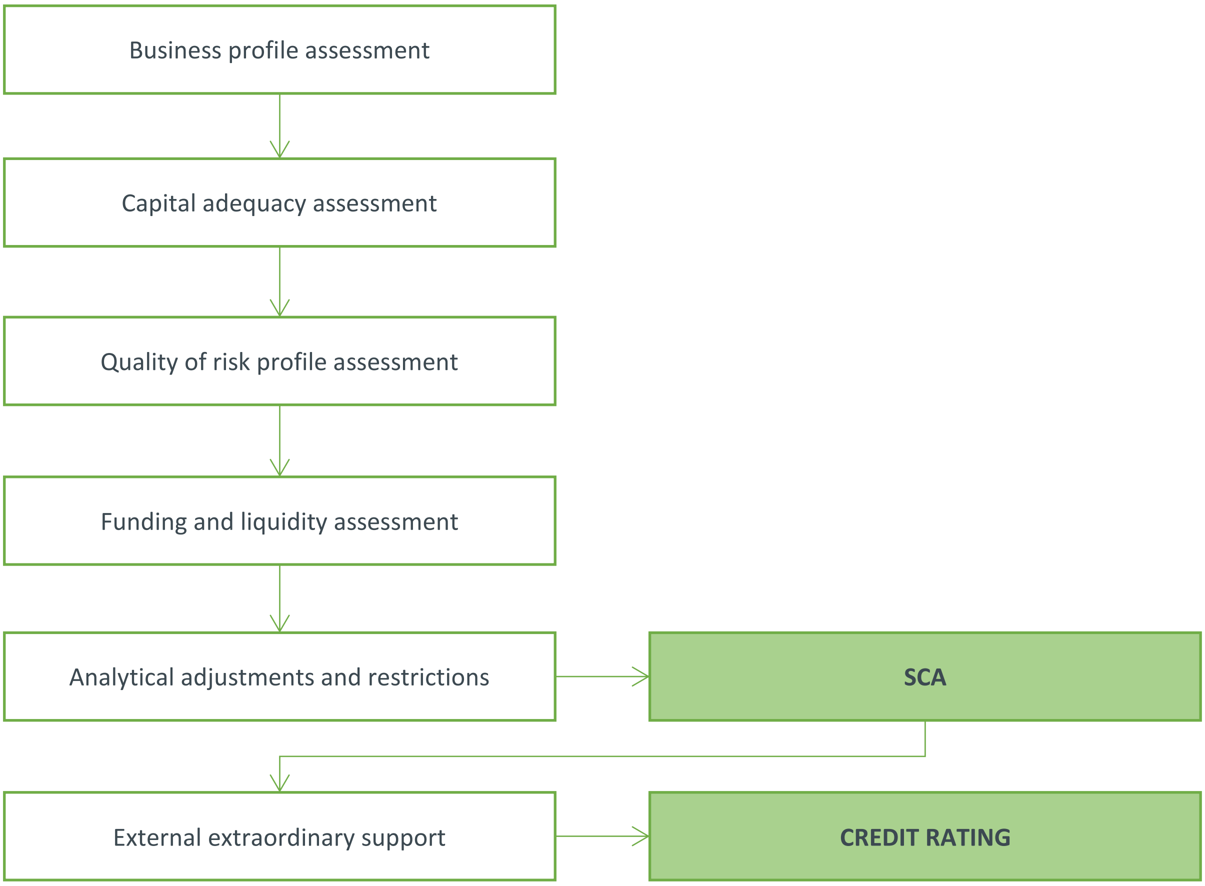
3 RATING ANALYSIS STRUCTURE

Rating analysis includes two main stages. Its detailed structure is provided in Figure 1.

Stage 1 A standalone creditworthiness assessment (hereinafter, SCA) is assigned that reflects the rated entity's ability to perform its financial obligations excluding extraordinary support. This is performed based on a weighted assessment of factors: (1) business profile; (2) capital adequacy; (3) risk profile; (4) funding and liquidity.

Stage 2 Credit rating assignment. This is performed based on the SCA and/or external extraordinary support if available.

FIGURE 1. DETAILED RATING ANALYSIS STRUCTURE



Source: ACRA

4 ASSIGNING THE STANDALONE CREDITWORTHINESS ASSESSMENT

The SCA reflects a rated entity's ability to perform its financial obligations within the established contractual terms in full, without taking into account the impact of extraordinary adverse events and external extraordinary support.

An SCA is assigned based on a weighted assessment of factors and is conveyed as a combination of letters ranging from aaa to ccc/c in accordance with Table 1. The value of SCA within the category from aa to b can be specified using the modifiers + and -. This clarification is made by the rating committee, taking into account:

- Proximity of the weighted average score to the boundaries of the ranges of symbol values;
- Trends in the factors that determine the IFI's creditworthiness;
- Comparison of indicators and qualitative characteristics of the rated entity with similar indicators of other IFIs (located mainly in this category or the neighboring category);
- Other factors that determine higher or lower creditworthiness of the IFI and are not directly taken into account during application of the methodology.

TABLE 1. SCA ASSIGNMENT

SCA CATEGORY	WEIGHTED FACTOR SCORE
aaa, aa	Less than 2
a	[2.0; 2.5)
bbb	[2.5; 3.0)
bb	[3.0; 3.5)
b	[3.5; 4.0)
ccc/c	4 or higher

Source: ACRA

The assessment of factors is based on the assessment of their sub-factors, as well as the weights presented in Table 2. The procedure for assessing sub-factors is described in the corresponding sections of this methodology.

Factors and sub-factors are assessed on a five-point scale from 1 to 5, where 1 is the best score, reflecting the lowest risk. The following qualitative characteristics correspond to each score: 1 — strong, 2 — adequate, 3 — satisfactory, 4 — weak, 5 — critical.

TABLE 2. FACTORS AND THEIR WEIGHTS

FACTOR	WEIGHT
Business profile	25%
Capital adequacy	20%
Risk profile	15%
Funding and liquidity	40%

Source: ACRA

When conducting an assessment, ACRA uses quantitative and qualitative indicators, and may also apply adjustments (including for boundary values).

4.1 BUSINESS PROFILE

The assessment of the Business Profile factor reflects the quality of strategy, organizational structure, management and corporate governance standards of the IFI, as well as the transparency of its operations.

A point-based assessment of the Business Profile factor is made on the basis of the base satisfactory score (3 points), which can be adjusted depending on the assessment of the situation at a particular IFI based on the analysis of sub-factors: (1) organizational structure, (2) management, (3) strategy, (4) transparency.

4.1.1 Organizational structure

ACRA analyzes the IFI's organizational structure in the context of its impact on the quality of management decisions and their execution. A simple and concise organizational structure provides for efficiency in both daily operations, as well as when building a strategy. A complex and non-transparent organizational structure, on the contrary, increases the risks of error, both in terms of carrying out tasks and when forming a strategy. Inconsistency of the organizational structure with the accepted risks may serve as the basis for lowering the assessment of the factor.

4.1.2 Governance

When analyzing the quality of governance, ACRA assesses the corporate governance standards of the IFI, experience and professional competency of its senior management, existence of conflicts between member states and the possibility of them arising, as well as the presence of an adequate legal base.

The assessment of the factor can be lowered if the IFI has weak corporate governance standards, examples of decision-making in violation of the principles enshrined in regulatory documents, as well as an absence of a transparent decision-making system, and insufficient skills, frequent replacement or low business reputation of senior managers. The assessment can also be lowered if there are signs of a negative impact of conflicts between member states on operational management and implementation of the IFI's strategy. The assessment of the factor can be improved if ACRA believes that the professional competence and experience of management exceed the level characteristic of peer IFIs.

Uncertainty of the IFI's legal status in its jurisdictions of presence (which creates risks of absence or loss of immunity, benefits and privileges that determine its special position), as well as the presence in the documents regulating the IFI's activities, provisions that contradict local or international law, may lead to a decrease in the assessment.

4.1.3 Strategy

ACRA analyzes the IFI's development strategy in terms of area of business, main products and target performance indicators, and assesses the feasibility of the stated goals and the history of their achievement. The assessment of this factor may be lowered if the IFI's development strategy is formal or absent, and also if the targets attached to it a regularly not achieved (significant lag of actual results from planned ones over a historical horizon of two or more years unrelated to changes in the situation in the economies of the jurisdictions of presence), and/or if the achievement of these targets in the future is unlikely. The fact that the IFI has a long history (over five years) of successful implementation of its development strategy, confirmed by the results of activities, and the consistent achievement of the goals for which the IFI was founded can positively affect the assessment of the factor.

4.1.4 Transparency

ACRA assesses the transparency of the principles for organizing the activities and functioning of the IFI. Insufficient regulation of these principles and/or their low transparency may lead to a decrease in the assessment of the factor.

4.2 CAPITAL ADEQUACY

The assessment of the Capital Adequacy factor reflects the IFI's ability to absorb losses and maintain business continuity, and also indicates the ability to compensate for balance sheet and off-balance sheet risks.

The assessment of the Capital Adequacy factor in points is based on the assessment of the Capital Adequacy sub-factor in accordance with Table 3 and can be further adjusted if there are additional risk factors.

TABLE 3. ASSIGNING A BASE CAPITAL ADEQUACY SCORE

SCORE	CAPITAL ADEQUACY
1	[25%; ∞)
2	[15%; 25%)
3	[10%; 15%)
4	[8%; 10%)
5	(-∞; 8%)

Source: ACRA

Capital adequacy is calculated as the ratio of total capital to the sum of assets and contingent liabilities of a credit nature minus highly liquid short-term assets. ACRA may decrease the size of total capital, firstly, by the size of impairment of assets, which differs from that disclosed in financial reporting, but, according to the Agency, may be realized with a high degree of probability (especially during periods of economic stress); secondly, by the size of accounts payable of the member states associated with the contribution of paid-in capital (taking into account the assessment of the creditworthiness of these countries).

The resulting capital adequacy score can be adjusted in accordance with Table 4. The final influence of adjustments is determined based on the mathematical sum of the values of individual adjustments, at the same time, the adjusted score of the factor cannot be less than 1 or more than 5 points. A specific adjustment value is selected from the range expertly.

TABLE 4. CAPITAL ADEQUACY ADJUSTMENTS

DESCRIPTION	RANGE
Adequacy of authorized capital. If the adequacy of authorized capital exceeds the adequacy of capital by more than 1.5 times, the base score may be improved. This adjustment is not applied if ACRA doubts the willingness and ability of the member states of the rated entity to promptly provide authorized capital in the amount provided for by the statutory documents.	[0; 1][3]
Adequacy of Tier 1 capital calculated as per Basel standards. The base capital adequacy score may be adjusted taking into account the actual and forecast values of the adequacy	[-2; 2]

[3] Hereinafter, in the adjustment tables, the minus sign means movement toward the deterioration of the assessment, and the number indicates the number of steps on the scale.

of total and/or common equity calculated as per Basel standards. The adjustment can be up to two points.	
Return on equity. If return on equity for the past three years is negative, then the score may be lowered. The calculation of the indicator is carried out as per Appendix 1. The procedure for calculating return on equity may be changed in the event of major amendments to the strategy and/or business model of the rated entity during the analyzed period. ACRA may expertly reduce the size of profit before taxation by the size of impairment of assets, which differs from that disclosed in financial reporting, but, according to the Agency, may be realized with a high degree of probability (especially during periods of economic stress).	[-1; 0]

Source: ACRA

4.3 RISK PROFILE

The assessment of the Risk Profile factor allows ACRA to determine the level of risks to the IFI is exposed in the course of its activities. The factor's base score in points is based on the scores of the Quality of Financial Assets and Risk Management Quality sub-factors in accordance with Table 5. The resulting base score can be further adjusted based on the assessment of other types of risk.

TABLE 5. ASSIGNING A BASE RISK PROFILE SCORE

ASSET QUALITY (LINES)/ RISK MANAGEMENT (COLUMNS)	ADEQUATE	SATISFACTORY	WEAK
1	1	1	2
2	2	2	4
3	2	3	4
4	3	4	5
5	4 or 5	5	5

Source: ACRA

The resulting base risk profile score can be adjusted in accordance with Table 6. The final impact of the adjustments is determined based on the mathematical sum of the value of individual adjustments, while the adjusted score of the factor cannot be less than 1 or more than 5 points. A specific adjustment value is selected from the range expertly.

TABLE 6. RISK PROFILE ADJUSTMENTS

DESCRIPTION	RANGE
Market risk. This type of risk includes stock, currency, commodity, and interest risks. If the IFI calculates market risk to assess its capital adequacy in accordance with the BCBS requirements, then this indicator is used for the assessment. If the size of market risk exceeds 100% of Tier 1 capital, market risk may be considered to be elevated. If the size of market risk exceeds 150% of Tier 1 capital, market risk may be considered to be high. In other cases, ACRA uses its internal method for assessing market risk and allows its qualitative analysis, based on the results of which one of the following assessments is assigned: Acceptable Risk, Increased Risk or High Risk. The amount of the adjustment is determined based on this assessment. If market risk indicators are not calculated, the assessment can be made on the basis of an analysis of the ratio of the volume of assets (liabilities) subject to market risk to Tier 1 capital, as well as on the basis of an analysis of the size of the open currency position. In particular, ACRA takes into account the possible occurrence of currency risk associated	[-2; 0]

with a mismatch between the currency structure of the IFI's projects and the IFI's capital formed by the member states. At the same time, the Agency takes into account the practice of market risk hedging. In addition, ACRA analyzes the impact of market risk on the IFI's financial performance. If during the last five years the revaluation of financial instruments was a one-time source of a significant loss or, on the contrary, provided for a significant improvement in financial results, this may be a sign of increased market risk. If such a situation has occurred in at least two of the last five years, this may be a sign of high market risk. The final adjustment takes into account an expert assessment of the IFI's exposure to market risk, which, in particular, can be based on modeling the results of losses under various scenarios, and also takes into account hedging practices and the economic substance of transactions associated with the assumption of market risk.	
Other balance sheet assets with value risk. If the IFI's balance sheet includes a significant share (more than 5% of capital) of non-core assets (including investment real estate, fixed assets, intangible and other assets), ACRA may perform an additional analysis of their fair value, liquidity, and the IFI's plans to sell them. The base risk profile assessment may be worsened as a result of this assessment.	[-3; 0]

Source: ACRA

4.3.1 Financial asset quality

The assessment of the quality of financial assets reflects the level of risk accepted by the IFI. Under this methodology, financial assets are understood as assets bearing credit risk (including loan portfolio, investments in debt securities, transactions in the interbank market), as well as contingent liabilities of a credit nature.

The assessment of the quality of financial assets is based on assessments of such indicators as Country Diversification and Risk Concentration, in accordance with Table 7.

TABLE 7. ASSESSMENT OF FINANCIAL ASSET QUALITY

COUNTRY DIVERSIFICATION (LINES)/ RISK CONCENTRATION (COLUMNS)	1	2	3	4	5
1	1	2	3	4	4
2	2	3	4	4	4
3	3	4	4	4	5
4	4	4	4	5	5

Source: ACRA

Country diversification. The indicator is assessed based on the calculated value of the ratio of credit-related claims attributable to the country holding the largest share in the portfolio to the total volume of the IFI's financial asset portfolio in accordance with Table 8. All elements of the ratio are calculated before deducting reserves for possible losses

TABLE 8. ASSESSMENT OF COUNTRY DIVERSIFICATION

COUNTRY DIVERSIFICATION SCORE	SHARE OF THE LARGEST COUNTRY
1	[0%; 15%)
2	[15%; 30%)
3	[30%; 50%)
4	[50%; 100%]

Source: ACRA

Risk concentration. The indicator is assessed based on the calculated value of the ratio of credit claims for the ten largest groups of related borrowers (counterparties, issuers) to the IFI's total capital in accordance with Table 9. All elements of this ratio are taken into account before deducting reserves for possible losses. ACRA may not include sovereign governments and central banks of countries in the largest groups if their credit rating is at least AA- under ACRA's international scale[4].

TABLE 9. ASSESSMENT OF RISK CONCENTRATION

RISK CONCENTRATION SCORE	CONCENTRATION ON LARGEST BORROWERS
1	[0%; 75%)
2	[75%; 100%)
3	[100%; 150%)
4	[150%; 200%)
5	[200%; ∞)

Source: ACRA

The resulting assessment of the quality of financial assets can be adjusted in accordance with Table 10. The final impact of adjustments is determined based on the mathematical sum of the value of individual adjustments, while the adjusted sub-factor score cannot be less than 1 or more than 5 points. A specific adjustment value is selected from the range expertly.

TABLE 10. ADJUSTMENT OF ASSET QUALITY

DESCRIPTION	RANGE
Share of non-performing assets. Estimated share of 90+ days overdue debt and non-performing debt (impaired but not overdue debt with a high probability of termination of service within the next 12–18 months; forced debt restructuring, in the absence of which the borrower would have difficulty servicing financial obligations) in the general portfolio of the IFI's financial assets and contingent liabilities of a credit nature (according to IFRS reporting and taking into account all available information). Debt is calculated before the deduction of reserves for possible losses.	[-2; 0]
Concentration of credit risks for non-performing assets. Existence of overdue/non-performing debt of a counterparty or a group of related counterparties, the total volume of which, after deduction of reserves, exceeds 20% of the IFI's capital.	[-2; 0]
Reserve coverage. If a negative adjustment was applied for the above indicators, but at the same time, the coverage of problem assets by reserves for possible losses is 100% or more, credit risks are recognized as partially realized, which allows the mentioned negative adjustments to be reduced or not applied. ACRA, as a rule, does not apply positive adjustments if the coverage of bad debts by reserves is less than 90%.	[0; 2]
Coverage of credit assets by guarantees/sureties. A high degree of coverage of credit assets by guarantees/sureties of companies with a credit rating (credit estimate) of ACRA at BBB- under the international scale or higher may lead to a positive adjustment.	[0; 2]

Source: ACRA

[4] In the absence of a credit rating (credit estimate), an assessment obtained on the basis of the principles described in ACRA's methodology (or in a number of methodologies) specialized for a particular rated entity with the involvement of specialists from one of the Agency's dedicated analytical groups can be used.

4.3.2 Risk management quality

The assessment of risk management quality reflects the general condition of the rated entity's risk management system. The sub-factor is assessed based on the description shown in Table 11.

TABLE 11. RISK MANAGEMENT QUALITY ASSESSMENT

ASSESSMENT	TYPICAL DESCRIPTION
Adequate	IFI has developed and operates a comprehensive risk management system with an emphasis on the best up-to-date global practices used by financial companies, which allows all types of risk to be identified and their acceptance to be managed. Risk appetite is transparent and taken into account at all levels of limits and covenants. Risk managers are involved in the risk management of the IFI's supervisory board and, in general, have the highest competence in the industry, apply a proactive risk management policy, and significantly influence decision-making (the likelihood of a positive decision on the back of a negative conclusion of risk management is absent or minimal). Quantitative assessment of risk appetite is carried out both along business lines and on an integrated basis for the entire IFI. The implementation of credit, market and operational risks, generally, does not affect the financial performance and capitalization of the IFI. Risk policies are updated both on a regular basis and ad hoc.
Satisfactory	The risk strategy generally corresponds to the profile and scope of the IFI's activities. The IFI risk management system is regulated and strictly complied with. Risk managers are involved in the risk management of the IFI's supervisory board. Quantitative assessment of risk appetite along business lines is carried out. Risk policies are updated on a regular basis. The staff has specialized and sufficient experience in the field of risk management. Facts of the implementation of credit, market and operational risks result from macroeconomic trends or difficult-to-predict events and have not led to a significant decrease in the capitalization of the IFI.
Weak	The risk strategy is insufficiently accurate and does not cover the areas of the IFI's activities. The risk management system is fragmentally regulated and is not complied with in all cases. Risk managers are not involved or perfunctorily involved in risk management activities of the IFI's supervisory board. Risk policies are updated irregularly and do not take into account changes in the operating environment. There have been significant financial losses as a result of materialization of credit, market and operational risks. Such losses could create the need to recapitalize the IFI. Minimum number of risk managers with minimal specialized work experience.

Source: ACRA

4.4 FUNDING AND LIQUIDITY

The assessment of the Funding and Liquidity factor reflects the IFI's ability to maintain a level of liquidity high enough to fulfil its obligations. The factor score is based on the scores for the Funding and Liquidity sub-factors in accordance with Table 12.

TABLE 12. FUNDING AND LIQUIDITY ASSESSMENT

FUNDING (LINES)/ LIQUIDITY (COLUMNS)	1	2	3	4	5
1	1	1	2	3	4
2	1	2	2	3	4
3	2	2	3	4	4
4	2	3	3	4	5
5	4	4	4	4	5

Source: ACRA

4.4.1 Funding

The funding score reflects the structural aspects of the resource base of the rated entity. The base score of the sub-factor is assigned based on the scores for Resource Base Concentration and Reliance on Interbank Loans (IBLs) in accordance with Table 13.

TABLE 13. BASE SCORE FOR FUNDING

RESOURCE BASE CONCENTRATION (LINES)/ RELIANCE ON IBLS (COLUMNS)	1	2	3
1	1	2	3
2	2	3	4
3	3	4	5

Source: ACRA

Resource base concentration. The indicator is assessed based on the calculated value of the Herfindahl-Hirschman Index in accordance with Table 14. The index is calculated based on the shares of funding source types in the IFI's liabilities.

TABLE 14. RESOURCE BASE CONCENTRATION SCORE

RESOURCE BASE CONCENTRATION SCORE	CONCENTRATION INDEX
1	[0%; 25%)
2	[25%; 50%)
3	[50%; 100%]

Source: ACRA

Reliance on IBLs. The indicator is assessed based on the calculated ratio of the share of funds raised from credit institutions to the total of the IFI's liabilities.

TABLE 15. RELIANCE ON IBL SCORE

RELIANCE ON IBL SCORE	SHARE OF IBLS IN LIABILITIES
1	[0%; 10%)
2	[10%; 25%)

3	[25%; 100%]

Source: ACRA

The resulting base score for funding can be adjusted in accordance with Table 16. The final adjustment is determined as the mathematical sum of individual adjustments (but may not exceed 2 points), while the adjusted sub-factor score may not be less than 1 or more than 5 points. A specific adjustment value is selected from the range expertly.

TABLE 16. FUNDING ADJUSTMENTS

DESCRIPTION	RANGE
Analysis of raised funds by maturity. The IFI's activities are generally aimed at financing long-term projects. The use of short-term funding to finance such projects may impair the score.	[-2; 2]
Availability, compliance and consequences of non-compliance with covenants in loan agreements. Covenants in loan agreements, as well as cases of their compliance (non-compliance) determine the history of the IFI's relations with lenders, which affects the propensity of financial institutions to fund the IFI's activities.	[-2; 2]
Diversification of funding sources by geographical markets. In some cases, geographic diversification can strengthen the stability of the funding structure, especially in periods of macroeconomic instability in certain jurisdictions of presence.	[-2; 2]
Qualitative assessment of wholesale funding. IFIs traditionally rely on funds from large lenders and securities issues to fund their own activities. The Agency takes into account the risks of sudden outflow of creditors' funds associated with high concentration, threatening loss of access to debt markets, etc.	[-2; 0]
Assessment of difficulties in refinancing debt raised from capital markets.	[-2; 0]

Source: ACRA

4.4.2 Liquidity

The liquidity score reflects the share of highly liquid assets (HLAs) on the IFI balance sheet and the coverage of short-term liabilities by HLAs. The base score for the sub-factor is assigned based on scores for the Share of HLAs in Assets and the Coverage of Short-Term Liabilities with HLA in accordance with Table 17.

TABLE 17. BASE SCORE FOR LIQUIDITY

HLAS TO ASSETS (LINES)/ COVERAGE OF CREDIT LIABILITIES BY HLAS (COLUMNS)	1	2	3	4	5
1	1	1	2	3	3
2	2	2	3	3	4
3	2	3	4	4	5
4	3	3	4	4	5

Source: ACRA

Share of HLAs in assets. The indicator is assessed based on the calculated ratio of HLAs to assets of the rated entity (the minimum value over the past 36 months is applied[5]) in accordance with Table 18.

TABLE 18. SCORE FOR THE SHARE OF HLAS IN ASSETS

[5] If data for the full past three years is unavailable, available information shall be used to calculate liquidity metrics.

SCORE FOR THE SHARE OF HLAS IN ASSETS	RATIO OF HLAS TO ASSETS
1	[5%; 100%]
2	[3%; 5%)
3	[1%; 3%)
4	[0%; 1%)

Source: ACRA

Coverage of Short-Term Liabilities by HLAs. The indicator is assessed based on the calculated ratio of HLAs to short-term liabilities of the rated entity (the minimum value over the past 36 months is applied) in accordance with Table 19.

TABLE 19. SCORE FOR THE COVERAGE OF SHORT-TERM LIABILITIES WITH HLAS

SCORE FOR COVERAGE	RATIO OF HLAS TO SHORT-TERM LIABILITIES
1	[3; ∞)
2	[2.5; 3)
3	[1.5; 2.5)
4	[1; 1.5)
5	[0; 1)

Source: ACRA

The resulting base score for liquidity can be adjusted in accordance with Table 20. The final adjustment is determined as the mathematical sum of individual adjustments (but may not exceed 2 points), while the adjusted sub-factor score may not be less than 1 or more than 5 points. A specific adjustment value is selected from the range expertly.

TABLE 20. LIQUIDITY ADJUSTMENTS

DESCRIPTION	RANGE
Share of HLAs in total assets. A high share of HLAs generally reflects a lower risk of liquidity losses as a result of repayments on borrowed funds. Otherwise, a less comfortable (compared to other IFIs) position in liquidity may impair the score.	[-2; 1]
Coverage of interest payments.	[-1; 1]
Liquidity position (gap) for the period of 1–36 months. A shortage of funds required to cover liabilities on the 1–36-month horizon may impair the liquidity score. In addition, ACRA takes into account the risks of outflow of funds of low credit quality lenders (as per the Agency's view), as well the risks of short-term deposits in other credit institutions. A large share of short-term liabilities may result in significant liquidity outflows or liquidity shortage on repayment.	[-2; 2]

Source: ACRA

4.5 ANALYTICAL ADJUSTMENTS TO THE SCA

ACRA assumes that certain factors may exist that are not taken into account in any of the components of the SCA, therefore, the initial SCA can be adjusted in the range of three notches if such factors exist.

Positive adjustment factors include the following situations:

- The rated entity is undergoing operational transformation (for example, a change in shareholders/members) that will certainly lead to a significant increase in its creditworthiness;
- The rated entity has a stable competitive advantage that increases its creditworthiness but is not reflected in the SCA.

Negative adjustment factors include the following situations:

- The rated entity is undergoing operational transformation that will certainly significantly impair its creditworthiness;
- High likelihood of regulatory or judicial claims that may significantly impair the rated entity's creditworthiness.

The above list is not exhaustive.

5 EXTERNAL SUPPORT

ACRA views external extraordinary support from member states to an IFI as a separate component of the rating analysis.

5.1 KEY PRINCIPLES

External support is assessed based on two sub-factors: the degree of support and the supporting entity's creditworthiness assessment (hereinafter, SECA). The final credit rating is determined depending on the balance of the SCA and SECA.

In most cases, the IFI has no dominant founder, so the potential range of credit rating values, taking into account support, is assessed for each member state, and the final rating may be within the range of rating values calculated for the member state whose support has the greatest impact on the IFI's credit rating.

However, there may be situations in which the IFI has a dominant founder. In this case, the credit rating, taking into account the support, is assigned based on the range of values determined by the analysis of the dominant founder.

ACRA may disregard support from a member state whose share in the IFI's charter capital is small (generally, no more than 7%) and/or whose degree of support is assessed below high.

5.2 DEGREE OF SUPPORT

5.2.1 Determining the degree of support

ACRA identifies the following categories that characterize the degree of support to a rated entity:

Very high	Highest support category. It means parity with the supporting entity or parity with a discount. In the case of a very high likelihood of support, a credit rating may be assigned without calculating the SCA.
High	This category of support means a significant positive adjustment to the SCA.
Medium	This category of support means a moderate positive adjustment to the SCA.
Low	This category of support means a minimal positive adjustment or no adjustment to the SCA.

The category of support is determined based on the cumulative support score in accordance with Table 21. The cumulative score is determined in accordance with the support scorecard.

TABLE 21. DETERMINING THE DEGREE OF SUPPORT

DEGREE OF SUPPORT	CUMULATIVE SUPPORT SCORE
Very high	(10; 20]
High	(7; 10]
Medium	(4; 7]
Low	[-10; 4]

Source: ACRA

5.2.2 Support scorecard

The support scorecard shown in Table 22 contains a set of factors reflecting various characteristics that affect the degree of support. The cumulative support score is the mathematical sum of estimates of support factors. Support factor scores are determined based on a set of qualitative characteristics that determine their category (I to IV, where I is the best category) in accordance with Appendix 2.

TABLE 22. SUPPORT SCORECARD

FACTOR	SCORE			
	I	II	III	IV
Propensity to Provide Support	4	0	-4	-10
Exclusivity of Functions	12	6	3	0
Control Forms and Methods	4	3	1	0

Source: ACRA

The Propensity to Provide Support factor assesses the possibility of support from the supporting entity and generally reflects the supporting entity's readiness to provide extraordinary support. Any barriers, legislative and/or other restrictions with respect to support result in a lower score.

The Exclusivity of Functions factor assesses various reasons for the supporting entity to provide support to the rated entity. The supporting entity is generally more interested in providing support in cases where there may be tangible consequences of an IFI's default followed by the termination of its exclusive functions, or there are significant risks to the implementation of the strategy in case of default.

The Control Forms and Methods factor assesses the supporting entity's shareholding in the IFI, as well as methods of control over the IFI. A significant share in charter capital, operational and strategic control in the absence of regulatory pressure and plans to withdraw from the IFI indicate a high degree of control, which encourages the provision of support.

5.3 SUPPORTING ENTITY CREDITWORTHINESS ASSESSMENT

In this methodology, the SECA reflects the ability of the supporting entity to provide support expressed in terms of ACRA's rating scale. The SECA serves as an auxiliary factor of the IFI rating analysis, it is not a credit rating and does not indicate the credit quality of any debt instrument.

If the supporting entity is assigned an ACRA credit rating (credit assessment), this credit rating is be used as the SECA.

If the supporting entity has not been assigned an ACRA credit rating (credit assessment), an SECA is assigned based on the principles described in ACRA's methodology(-ies) specific to a particular rated entity with the involvement of analysts from a relevant analytical group of ACRA. The analysis can be based on both publicly available information and data provided by the rated entity. The SECA shall be reviewed with the same periodicity as the credit rating of the rated entity.

By default, an SECA in a foreign currency is used to determine the level of support. In some cases, by the decision of the rating committee, an SECA in the national currency can be used.

6 ASSIGNING A CREDIT RATING AND AN OUTLOOK

6.1 RATED ENTITY'S CREDIT RATING

6.1.1 If the supporting entity is weaker

If the SECA is lower than the SCA of the rated entity, ACRA will assign the IFI a credit rating on par with its SCA. For SCAs of the ccc/c level, the credit rating can be CCC, CC or C. A specific rating will be selected from the mentioned range by the rating committee based on the Key Concepts Used by the Analytical Credit Rating Agency within the Scope of Its Rating Activities.

6.1.2 If the supporting entity is stronger

If the SECA is comparable to or higher than the rated entity's SCA, ACRA will determine the adjustment based on the rated entity's SCA, SECA and the degree of support in accordance with Table 23.

TABLE 23. ASSIGNING A CREDIT RATING TAKING SUPPORT INTO ACCOUNT

DEGREE OF SUPPORT	CREDIT RATING RANGE
Very high	SECA -1 to SECA[6]
High	SCA + 2 to SCA + 3
Medium	SCA + 1 to SCA + 2
Low	SCA to SCA + 1

Source: ACRA

A positive adjustment to the SCA for any degree of support cannot result in a credit rating higher than the SECA.

A positive adjustment to the SCA is only possible if the SECA is determined at no lower than B under ACRA's international scale. In other cases, the credit rating will be determined in accordance with the approach used if the supporting entity is weaker.

A specific credit rating will be selected from the range of possible values by the rating committee based on a comparison of the rated entity with peer IFIs, as well as other factors.

6.2 CREDIT RATING OUTLOOK

A credit rating outlook reflects ACRA's opinion on the likely change in the credit rating within a certain time interval (generally from 12 to 18 months).

When determining the credit rating outlook, ACRA takes into account the likely change in the rated entity's own creditworthiness (or the credit quality of a financial instrument) and support factors, as well as trends in the operating environment and the economy.

The presence of or a change in the credit rating outlook does not necessarily precede a change in the credit rating.

[6] This table shows deviations in the notches of the rating sale. For example, for the 'very high' degree of support, a credit rating may be assigned at parity with the SECA or at parity with a discount of not more than one notch of the rating scale.

6.3 CREDIT RATINGS OF FINANCIAL INSTRUMENTS

Credit ratings assigned to financial instruments reflect the expected losses in case of default, calculated, among other things, taking into account the estimated recovery rate. Credit ratings are assigned to financial instruments in accordance with the Methodology for Assigning Credit Ratings to Financial Instruments under the International Scale.

Appendix 1

KEY INDICATORS USED IN THE ANALYSIS

This appendix contains a list of the key indicators used in the analysis of the IFI's creditworthiness, the procedure for their calculation, and a brief description. This list is not exhaustive.

TABLE 1. KEY INDICATORS

INDICATOR	CALCULATION FORMULA
Adequacy of total capital	(Total capital (as per IFRS) – ACRA's adjustments) / (Assets + Credit-linked contingent liabilities (as per IFRS) – High-liquid short-term assets)
Return on equity	Sum of weighted ROE for the past three years; weights for the full past year and previous years: 0.5; 0.3; 0.2
Share of non-performing assets in the portfolio of financial assets, %	(Overdue assets (90+) + Non-performing assets + Forcibly restructured assets) / Total financial assets
Concentration of risks by non-performing assets	(Overdue assets (90+) + Non-performing assets of a counterparty or a group of related counterparties – Loss reserve) / Capital (as per IFRS)
Coverage by reserves	Loss reserve for non-performing asset / (Overdue assets (90+) + Forcibly restructured assets + Non-performing assets)
Share of high-liquid assets in total assets, %	High-liquid assets = Cash + Cash held in central banks of the countries of high credit quality (in ACRA's opinion) + Cash held in nostro accounts in banks of high credit quality (in ACRA's opinion) + High-liquid obligations (in ACRA's opinion) + ACRA's adjustments (including those related to securities encumbered with repurchase agreements)

Source: ACRA

Appendix 2

QUALITATIVE ASSESSMENT OF SUPPORT FACTORS

TABLE 1. PROPENSITY TO PROVIDE SUPPORT

SCORE CATEGORY	TYPICAL DESCRIPTION
I	Documented obligations of the member state to provide the IFI with support in the form of liquidity or capital that go beyond the obligations of the member state as a founder of the IFI. At the same time, there is no history of missing contributions to the IFI's charter capital.
II	There is no history of missing contributions to the IFI's charter capital, contributions are provided in full and on time as stipulated by agreements.
III	As of the assessment date, there are prerequisites for a decline in the member state's propensity to support the IFI due to, among other things, certain tensions between member states. Contributions are made with a breach of some requirements stipulated by agreements between member states (for example, some contributions were not paid to the IFI's charter capital).
IV	Regular non-payment of contributions to the IFI's charter capital; refusal to pay contributions upon request. Political barriers (for example, tensions between member states). Economic barriers caused by the risk of impairment of the member state's financial sustainability when supporting the IFI (due to, among other things, the effect of scale).

Source: ACRA

TABLE 2. EXCLUSIVITY OF FUNCTIONS

SCORE CATEGORY	TYPICAL DESCRIPTION
I	Functions performed by the IFI are critically important for the national economy or the economy of a group of member states. The IFI's default may impair the macroeconomic conditions. Projects the IFI is part of may not be financed out of commercial sources, or the funding costs are unacceptably high.
II	Functions performed by the IFI are important to certain projects of strategic importance for the member state. Other financial organizations may be less interested in such projects due to their low profitability or increased risks. The IFI's default may cause significant reputational risks for a member state.
III	Functions performed by the IFI promote economic growth in a member state, but financing provided by the IFI may be partially substituted with commercial one. The IFI's default may cause moderate reputational risks for a member state.
IV	Functions performed by the IFI may be entrusted to other organizations without any significant damage to the economy of a member state. The IFI's default would not cause reputational risks for a member state.

Source: ACRA

TABLE 3. CONTROL FORMS AND METHODS

SCORE CATEGORY	TYPICAL DESCRIPTION
I	A member state is a key shareholder of the IFI and it actually determines the structure and membership of the IFI's managing bodies and shapes and implements the development strategy. There is no intention to withdraw from the IFI.
II	A member state's influence on some decisions regarding the management and development of the IFI in certain cases is higher than the influence of other member states; however, no major changes to the IFI's strategy is possible without their approval. There is no intention to withdraw from the IFI.
III	A member state's ability to influence the IFI's development is similar to that of other member states. There is no intention to withdraw from the IFI.
IV	A member state's share in the IFI is small compared to other member states or it has started to withdraw from the IFI/has declared its intention to withdraw from the IFI.

Source: ACRA