T R U S T . T R A N S P A R E N C Y . I N D E P E N D E N C E

Rating Methodology for Commercial Banks

الوكالة الإسلامية الدولية للتصنيف

Islamic International Rating Agency

Serving the Islamic Ummah

Credit Rating Methodology for Commercial Banks

IIRA's rating framework for commercial banks comprises three broad areas of analysis. The assessment begins with system-wide external factors that may impact risk profile of commercial banks, followed by standalone operating profile of commercial banks in addition to an assessment of external support that may be available to the institution.

A. Operating Environment of Commercial Banks:

Economic and industry risks to which commercial banks are exposed, or may face over the rating horizon, define the operating environment of commercial banks. In the assessment of economic risk, it is important to understand the macroeconomic environment and expectations thereof, to allow IIRA an informed estimate of government policy response to address economic priorities and potential monetary policy direction. This allows us to gauge the direction of benchmark rates, their interplay with banking sector margins, credit offtake and available liquidity in financial markets, as well as identification of risks within economic sectors. The degree of a bank's resilience to economic cycles varies; nevertheless, economic forecasts form the core of expected health of the banking sector as a whole.

The regulatory environment for banks and monitoring effectiveness of the regulator is taken into account, whereby adherence to international standards of supervision serves to boost investor confidence and ratings assigned. Ratings are influenced by the ability of the regulators to ascertain the soundness of banks in the system and their capacity and willingness to intervene to prevent institutional failures. The transparency in the system as inculcated by the regulatory framework is also given due weight as well as the efficiency of the overall legal system in case of foreclosure events for customers' security repossession.

The structure of the financial system also plays a due role in the health of the banking sector. A well developed financial system where specialized financial arms exist and thrive, lend support to the banking sector. Both fragmentation as well as concentration, pose risks to the system, and therefore a well structured industry where institutions wield balanced market power, yields healthy competition and leads to investor protection and steady growth.

B. Standalone Operating Profile of Commercial Bank:

The assessment of standalone financial risk profile of an institution has three distinct dimensions. The first includes analyzing key quantitative factors including capitalization, asset quality in terms of both credit and market risk, earnings generation ability and stability in earning sources and an assessment of liquidity risk. The expected direction of economic forecasts and their impact on the above over the next two to three years forms an important input to our overall evaluation.

The second dimension includes an assessment of market position and outreach, which is reflected in market share of the institution, both currently, and in terms of market gains or losses in recent periods. Peer group identification and comparison is an important ingredient of standalone analysis to appropriately stack the performance and risk level.

IIRA also closely assesses institutional factors including organizational structure with an eye to the effectiveness and comprehensiveness of controls instituted within the entity and including risk management, compliance and financial control. Also of significance is a subjective evaluation of the institution's business strategy in terms of its impact on market position and quantitative indicators identified above and detailed in later sections, and the preparedness of the institution's control framework to support in the implementation of the strategy.

While earnings and risk profile of the institution are given due coverage in the analysis, IIRA is of the opinion that the bank's franchise value and the ability of the management to enhance and capitalize on this value, drives its financial strength over the long term and determines its resilience in the face of unexpected economic shocks. Therefore, it is entirely possible for commercial banks with weaker financial ratios to have higher ratings based on management quality, support factors and franchise; ratings are consequently not entirely driven by the financial profile of an institution.

IIRA has developed benchmarks for key quantitative areas including capitalization, asset quality, liquidity and profitability. Some of these have been laid down in the below sections of the methodology.

Quantitative

Capitalization

Strength of capitalization of a bank is reflected in its unimpaired capital base compared to its risk weighted assets. Generally known as Capital Adequacy Ratio (CAR), it is one of the most important tools of risk assessment of a bank and is hence regulated through mandatory minimum requirements. CAR at regulatory prescribed minimum is considered adequate and able to withstand normal business losses. CAR at levels higher than the regulatory limit are able to absorb greater than normal business losses and such banks are expected to survive longer periods of economic downturns or business adversities. A lower than prescribed CAR, indicates compromised ability to absorb losses with the bank becoming exposed to regulatory reviews. CAR, as a standalone metric, provides a fair assessment of the bank's ability to absorb losses, dovetailing it with earning potential, and giving a clearer picture of a banks' loss or risk absorption capacity over a time horizon. CAR is also reviewed along with asset quality of the bank; higher the risk of losses from performing portfolio, more the capital would be required to maintain capitalization levels. Besides CAR, equity in relation to total assets is also tracked in order to have an un-weighted view of capitalization indicators. The continued adequacy of capital as reflected in the growth in equity in relation to the growth in assets is of critical significance to ratings as a reflection of risk.

IIRA will continue to place more emphasis on quality of capital carried on the bank's balance sheet. In this regard, greater consideration is given to core capital which has a higher ability to absorb losses. Under Basle-III, items such as intangibles and goodwill are excluded from calculation of core capital. Moreover, deferred tax asset, given its dependence on future earnings, will also be adjusted to assess the impact on capitalization indicators.

IIRA will continue to track the bank's ability to comply with current and future regulatory requirements in the backdrop of future growth plans of individual banks. IIRA has defined benchmarks for Tier-1 and overall CAR for different rating bands. Banks in the investment grade rating must be compliant with Tier-1 and overall CAR while the highest rated banks are expected to have a cushion of at-least 3% over Tier-1 and overall CAR regulatory requirements.

Asset Quality

Key asset risk considerations include the trends in value of assets, indicated primarily by impairment emerging in investments and financings, as well as the marketability and earning potential of assets. Diversification in terms of asset classes, economic sectors, market segments and counterparty groups and businesses provides resilience to economic cycles and is assessed to estimate the viability of the asset risk and return proposition.

Rapid loan growth when accompanied with lower underwriting standards may result in asset quality pressures for banks which are more visible in economic downturns. Growth is also monitored within various financing segments in order to track whether it is manifested in high risk segments which are also a potential source of credit risk.

Quality of loans & financings portfolio is assessed through measurement of credit risk as indicated by the degree of non-performance, portfolio risk metrics and concentration risk in the portfolio. Credit risk is estimated by examining the risk classification of the portfolio under a regulatory framework, or a bank's internal classification of assets based on a quantitative, validated scoring model or an external rating system, prescribed as alternate methods of credit risk valuation under the Basle regime. With implementation of IFRS 9, risk classification and risk disclosure has improved further; stage 2 and stage 3 financings serve as important indicators of the risk profile of assets. The evolution of these indicators also provides important information of the portfolio's response to changing economic environment. Relating the quantum of high risk assets, including assets classified non-performing or considered high risk, is related to risk buffers like capital of the bank, to guage whether a bank has the ability to absorb potential losses in both foreseeable and unforeseeable scenarios. The relative resilience of institutions to such losses makes for the most significant factor input to ratings assigned.

IIRA goes a step further to categorize economic sectors in terms of their vulnerability to macroeconomic shocks and arrives at portfolio risk levels based also on relative concentration of asset portfolio to such economic segments and further stresses its observations based on expected economic trends. Concentration in one or few sectors may lead to abnormal credit and earning loss in situations where these sectors come under economic or business cycle stress.

The quality of credit portfolio is also dependent on the counterparty concentration in the portfolio. A well-diversified lending portfolio may result in lower asset quality pressures as compared to a lending portfolio which features concentration and may result in quality strain in case of impairment in large financings.

Built in buffers like general provisions and collateral cover of the portfolio, are seen as mitigating factors to credit risk estimates. The extent of provision coverage on overall non-performing portfolio is important to assess the extent of uncovered exposure being carried on the books. IIRA has defined benchmarks of net impairment for various rating bands with banks in the 'AAA' rated category expected to have net non-performance of 1% or less.

Assets are also evaluated in terms of degree of marketability. Higher quantum of readily sellable assets with minimum market discount is viewed favorably. Estimates of marketability are made based on market data for listed assets; volatile market prices call for deeper haircuts to values. For unlisted assets, evidence of latest transaction on similar assets or an informed view on asset values is arrived at through a combination of bank's internal data and analytical judgment.

Asset Quality is also viewed in terms of potential to affect returns either by becoming non-performing or becoming non-encashable and requiring provisions.

Quality and Earning Stability

The level of basic earnings and its sustainability is the focal point in assessing profitability as an entity's integral strength. Basic earnings of an institution exclude the effect of any one time gains, provisions and taxation. Profitability determines an institution's ability to build reserves and be able to provide for unrealized losses, without affecting the bank's existing capital base. The sustained earning potential of an institution is a key determinant of franchise value and effective management and allows a bank to continually invest in new products and technology. Sizable growth in earnings in a particular year will not contribute towards the ratings, if achieved through sources believed to be volatile.

Business position and earning potential is a function of the concentration or diversification in the business services offered, the franchise value enjoyed by the bank and the distribution of its earning streams. The variety of funded and non-funded services available to the customers of the bank and the efficacy of their delivery leads to the development of franchise value which when done effectively over a period of time, becomes intertwined in supporting each other. It is to be noted here that while franchise value takes a considerable time to accumulate, its loss may occur much faster with few lapses. Majority of bank's earnings emanate from loans & financings and investments (fixed income and market based) followed by trade related activities.

A review period and time series analysis of net return margin to total revenue as well as fee and commissions to total revenue individually and for peer group would indicate the relative risk position of a bank and its evolution over time. The trend and contribution of one-off gains/losses to total revenue would reveal the business strategy and stability of income stream of a bank.

Ability to absorb provisioning expenses over a business cycle, reflects on affordability of asset quality risks over time. In any given year during a business cycle (10 years or a period of one economic downturn), if provisioning charges do not exceed half of net profits of the year over a business cycle, than bank's earnings (before provisioning and taxes) are expected to have the capacity to absorb future provisioning charges. IIRA has defined benchmarks for pre-tax economic ROAA (excluding non-recurring income) for various rating bands. Average provisions will be used for the purpose of calculating economic ROAA to account for volatility in provisioning charges during a particular year. Banks rated investment grade are expected to have a pre-tax ROAA of around 1%.

Liquid Resources

Assessment of liquidity risk is undertaken to determine the extent to which a bank would be able to withstand adverse market and economic conditions without resorting to significant support from the central bank or stressed market borrowings. Estimation of liquidity risk inevitably takes into consideration the bank's market access. Banks with diversified, stable deposit bases can afford greater flexibility in liquidity management and reserve at lower levels. Therefore behavioral profiling of depositors, as reflected in Net Stability Funding Ratio (NSFR) introduced by Basel-3, takes on significance. If calls on liquidity can be quickly and cost effectively replenished, the bank has more cash to invest in higher yielding and relatively less liquid avenues like financings. A ratio over 100% is indicative of the bank being able to meet its liabilities as its assets mature and any excess over it suggest room to respond to tightened liquidity conditions, as and when these arise.

Total market based funding of the bank in relation to total liabilities and assets are tracked by IIRA in order to monitor reliance of the bank to cost sensitive, usually wholesale, counterparties, considered less stable as compared to funds raised through deposits, particularly retail depositors. Within deposits mobilized by a bank, analysis would focus on core vs. non-core deposits and retail vs. corporate deposits to qualitatively assess deposit composition. A broad-based deposit base measured through concentration profile, would provide insight into liquidity risk characteristics at the bank. Market access is also benchmarked through demonstrated access to capital markets in terms of raising both equity and/or debt in a timely, and cost-effective manner.

It is important also to study the maturity mismatches between assets and liabilities on the maturity bucket timeline. Net interbank ratio is computed at frequent intervals (at least quarterly) to estimate whether the bank is a net lender or borrower, particularly in stressed market conditions.

Liquid assets carried on balance sheet provide cushion to the bank for meeting liabilities which may arise unexpectedly. The Liquidity Coverage Ratio, also introduced by Basle III offers a comprehensive measure to estimate liquidity maintained on books. Defined benchmarks for liquid assets in relation to deposit & borrowings only account for high quality liquid assets in its calculation. Liquid assets are further adjusted for any assets funded by liquid interbank liabilities or assets which are likely to be used in the settlement of immediate or very short-term, liabilities. Non-performing/weak credit quality assets as well as encumbered assets are not incorporated in this calculation. Liquid assets to short term liabilities and liquid assets to total borrowings are other common ratios for determination of liquidity profile on standalone and for peer group comparison. For smaller banks, minimum liquidity ratio for qualifying to higher rating bands is relatively higher than that for larger banks, due to a lower risk appetite of smaller banks.

Market Position

Market position of a bank is mainly determined in terms of the deposits mobilized by the bank in comparison to total deposits mobilized by the overall banking industry. Banks having a sizeable market share benefit from economies of scale and may also have greater pricing power, both as borrowers and also as lenders. Moreover banks, after having achieved a certain market share, gain systemic importance in the domestic context. Market share has a sizeable weight within IIRA’s overall rating scorecard, and for higher rating bands, it may well become a differentiating factor.

A higher market share is considered a strength to the risk profile, and would generally be accompanied with a larger, geographically diversified branch network. It is generally both a cause and result of strong franchise value, which is defined as potential of sustainably earning superior returns.

Qualitative Factors

The cornerstone of IIRA's qualitative assessment is an evaluation of corporate governance practices. Islamic Banks in particular are governed under principles of fiduciary responsibility, which further elevates the importance of a governance framework and includes an evaluation of organs of Shari'a governance. Our approach to evaluating Islamic banks is therefore distinctive and is better laid out in the Fiduciary Rating Methodology; https://iirating.s3-us-west-.amazonaws.com/Docs/Fiduciary-Methodology-Final-Apr-2021.pdf

The control procedures implemented at the bank and the effectiveness of control reporting lines are a significant rating factor. The Board of Directors' track record of laying out and steering a long -term strategy is factored into the ratings. The stability of the management as indicated through succession plans and employee turnover ratios affect the continuity of the management's long-term plans, and instability in management will discount the assessment of the strategy. Control measures undertaken by the management including contingency plans and the degree of centralization are separately analyzed. Factors such as effectiveness of credit appraisal and monitoring procedures are also given due weight.

Information systems in place are assessed for their adequacy as an integral element of internal controls in terms of their ability to generate and transfer data and ensure its timely availability to management for decision making. It is important to assess the ease of flow of information between functions, diverse report generating capability and the service efficiency of the internal and external sources in maintenance and development of the system. The IT security policies and disaster recovery plans are critical for system reliability and sustenance and would grow in importance as more branchless platforms are inducted into the banking field. The capacity of the existing or planned IT platform to develop or assimilate such technology based products is assuming greater importance going ahead.

The effectiveness of internal audits, their frequency and their usage by the management is also counted towards the strength of systems and procedures. Risk management function is assessed for its ability to track overall risk profile of the assets & liabilities of a commercial bank. Risk assessment of credit, market and return rate risk in the portfolio and the asset/liability maturity mismatch is also taken into account. The stress testing undertaken by risk management serves as a useful tool in gauging the strength of risk buffers in the face of surge in any risk metrics. The extension of stress testing to contingent liabilities and their size also has a direct bearing on the liquidity profile of the bank. Gaining increasing levels of importance is the compliance function, the effectiveness of which is assessed by evaluating independence of its reporting lines, the frequency of its review at the highest level of responsibility being the Board of Directors, the adequacy of its human and system based resources and the scope of its activities.

The delivery channels of commercial banks are dependent upon business strategy. Delivery channels also have to be aligned with the type of asset and/or liability business which the commercial bank plans to market. To assess the suitability of delivery channels, trends in growth of branches are compared to growth of deposits and further analyzed for trends in composition and cost effectiveness.

C. External Support Available to the Bank

External support may be factored into ratings after evaluation of some key factors. Barring scenarios where explicit support can be counted upon like in case of guarantees, and in which case, ratings may be equated to that of the guarantor, implied support may also be considered resulting in assigned ratings to be notched up from standalone ratings.

Important considerations while evaluating external support of sponsors is

a) The standalone strength of the sponsor which refers to its market position and its financial capacity,

b) The sponsors ability to influence government policy which may impact the operating environment of the entity being rated,

c) Evidence of past support,

d) Shared franchise creating a strong incentive to bailout when needed,

e) Degree of ownership of a clear dominant sponsor. These factors can result in 0-3 notches uplift from standalone ratings.

Given these, the nature of the sponsoring entity may directly affect our support level evaluation. Typically sovereign ownership results into significant up notch of standalone ratings given its relatively superior ability to bail out in case of need, its influence on business environment in addition to government owned entities often being used as vehicles for rolling out policy measures, and preferential treatment in business. For commercial banks, this may translate into funds placed by publicly held entities or the government itself, in addition to a history of state sponsored bailouts in several jurisdictions.

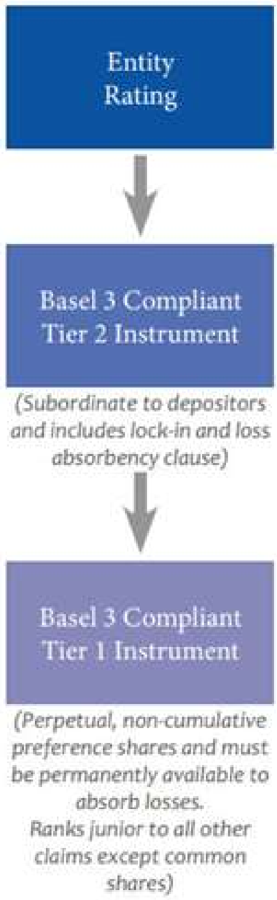
On the other hand, being owned by another financial institution and specially if the franchise is shared, there exists a strong incentive for support to avoid default at subsidiary level. Financial institution support may also translate into significant uplift of ratings depending on the relative strength of such financial institution, and especially if such a parent is a foreign entity, resident in a higher rated country than the subsidiary with limited restrictions on financial outflows.

Non-financial corporate ownership does not usually translate into rating uplift given that even highly rated entities may not be able to muster the financial capacity and liquidity required to bail out a commercial bank in distress.

Support mechanisms are counted towards credit enhancements provided a viable mechanism is in place for the timeliness of the support. The timeliness of discharging financial obligations is crucial in the rating definition, highlighting the fact that it is not the eventual repayment capacity that the ratings drive to establish, rather the timeliness of that repayment, which is to be benchmarked.

Third party support may also play a role in driving ratings. It is at its most effective in the form of sovereign support. Though the presence of implicit support from the sovereign prevents economy-wide repercussions of a failed bank and may result in a higher credit rating, explicit support weighs in more substantially in the assignment of ratings.

Rating Bank Capital Instruments



The issue specific rating takes into account the relative priority of claim of a particular class of debt/vis-à-vis the other outstanding obligations of that particular entity/financial institution. This means that issue specific rating takes into account both the probability of default on an entity level basis and the recovery prospects associated with a particular debt issue. As a general rule, the set of creditors that will be settled first in a bankruptcy scenario will be assigned the highest ratings, whereas hybrid capital classes, having lower priority claim on a company's assets, attain correspondingly lower ratings. This essentially means that IIRA will first arrive at the issuer rating, which is also the rating applicable to senior unsecured creditors or in other terms the depositors and then the ratings of individual debt issues may be determined based on their specific features.

In recent times, we have seen the emergence of instruments that enjoy priority above depositors, through backing by a strong pool of assets, and therefore may be rated above entity ratings. However, these instruments must be supported by clear legislation and an enforceable structure; ratings will accordingly be notched up depending on the quality of assets underlying such an instrument.

Tier-2 Instruments

IIRA will rate subordinated debt (eligible as Tier-2 instruments under Basel 2) issued by commercial banks, a notch or two below its entity rating given that these are ranked below the banks' unsecured, senior debt (depositors) in priority.

IIRA will exercise its judgement in notching by one or alternatively two notches based on the extent of non-performance risk in addition to the risk stemming from lower priority of the Tier-2 issuances, (common to all such instruments). Non performance risk in turn is assessed as a function of the proportion of liabilities senior to Tier-2 instruments as well as the balance sheet health which is evaluated based on asset quality, profitability and capital buffers excluding the planned tier 2 instrument.

However, ratings may converge for an instrument issued by an entity rated 'AAA'. This equation primarily hold for those 'AAA' rated banks which are significantly important financial institutions (SIFIs) and where capital buffers are comfortably over IIRA's benchmark for the assigned ratings and anticipated to remain so throughout the rating horizon, under reasonable conditions. In cases where an instrument (issued only for liquidity purposes) is outstanding and compares favorably in either priority or non-performance risk vis-à-vis Basel 3 Tier-2 instrument, than notching between the entity and Tier 2 instrument will take place even for 'AAA' rated banks.

Tier-1 Instrument

Basel 3 Tier-1 instrument, must be perpetual, non-cumulative preference shares and must permanently be available to absorb losses. Additional features for Basel 3 Tier-1 instruments include full discretion to the issuer over the amount and timing of dividend/ coupon payment i.e. failure to pay should not constitute event of default. Moreover, dividend coupon should only be paid from earnings of the year. Also, Basel 3 Tier-1 instrument needs to include a conversion option at a pre-specified trigger event.

Basel 3 compliant Tier-1 instruments may be rated two to four notches below the issuer's entity ratings given their low priority in settlement of claims and higher non-performance risk. Here also, as in case of determining the appropriate notch down for Tier-2 instruments, the extent of notching of Tier-1 capital is determined by the confluence of the proportion of obligations above Tier-1 issuances as well as the general health of the bank, as indicated by its financial position. IIRA will place particular emphasis on quantum, veracity, stability and diversity of a bank's income streams and asset quality of performing portfolio while assigning ratings to Tier-1 instruments.

For Tier-1 instruments issued by 'AAA' rated Banks, notching difference may be limited to one notch in case entity and Tier-2 instrument are equated. A minimum differential of one notch below Tier-2 will be maintained under all circumstances to signify the difference in priority of both the instruments, implying that a notch down of Tier-2 instruments will cause an automatic downward revision of the issuer's Tier 1 capital.

While the legal and regulatory framework may not consider a missed coupon payment on such instruments as a default; the credit rating methodology employed by IIRA would treat such missed payments as a default like situation given the investors' need for focus on the certainty of full and timely payments. In such an event ratings will indicate the status of having missed expected payment. Once the instrument becomes performing again, IIRA will reassess the instrument based on issuer's future repayment ability.

Explaining the Rating Scale

A credit rating is an independent third party opinion of the capability and willingness of an entity to repay its obligation in a timely and complete manner. IIRA assigns both long and short term rating opinions to entities, where long term indicates a period of up to 3 years while short term signifies a period of up to one year. The long-term rating scale is spread across 20 notches from 'AAA' to 'D'; 'AAA' ratings denote highest credit quality and lowest probability of default while a 'D' rating denotes a defaulted obligation. Any rating below the 'BBB' rating band is considered a non-investment grade rating.

The short-term rating comments on the liquidity profile and near-term vulnerability of default of the rated entity or missed payment in case of hybrid capital instruments. Short-term rating scale is spread across 6 notches from 'A-1+' to 'C' with 'A-1+' denoting the highest certainty of timely payments while a 'C' rating denotes doubtful capacity of timely payment of obligations. Relationship between short and long-term ratings has also been developed by IIRA.

IIRA assigns ratings of debt instruments on the same rating scale as used for entity ratings of commercial banks. However, no short term rating is assigned to debt instruments as IIRA comments on the overall repayment ability over the term of the particular instrument.

Commercial Banks Ratios & Definitions

Asset Quality

Gross infection	Non performing loans / gross advances
Net infection	NPL - provision for NPL / net advances
Provisioning Coverage	Provisions / NPLs

Profitability

Return on Markup bearing assets	Interest income on assets / Average markup bearing assets (based on 5 point)
Average cost of deposits	Deposit Financial expenses / Average deposits (based on 5 point)
Average cost of borrowing	Financial expenses / Average borrowings (based on 5 point)
Spreads	Return on Markup bearing Assets - Average cost of borrowing
Net Mark-up Margin	Net Finance Income / Markup Bearing Earning Assets
Core Earnings	Net Interest Income + Fee Commission Income + Income from Forex + Dividend Income - Admin Expenses
Efficiency	Admin Expenses / Net Interest Income + Fee Commission Income + Income from Forex + Dividend Income
Basic ROAA	Core Earnings / Average total assets
Basic ROAE	Core Earnings / Average Net Worth
Overheads	Admin Exp / Avg total assets
Pre-tax economic ROAA	(Core Earnings - Average Provisions)/Average Assets

Capitalization

Total equity to Total Assets	Net worth / Total Assets
Tier 1 Capital Adequacy Ratio (CAR)	Tier 1 Capital / Risk weighted Assets
Capital Adequacy Ratio (CAR)	Tier 1 Capital + eligible Tier 2 capital / Risk Weighted Assets
Net NPLS in relations to Tier 1 Equity	(Gross NPLs - Provisions)/ Tier 1 Equity

Funding/Liquidity

Advances to Deposits Ratio	Total loans / total deposits (Adjusted for Export Refinance Scheme)
Liquid Assets to Deposits and Borrowing	High Quality Liquid Assets/ Total Borrowings and Deposits

RATING SCALE & DEFINITIONS

Medium to Long Term

IIRA uses a scale of AAA to C to rate credit worthiness of the issuer and long term issues with AAA being the highest possible rating and C being the lowest possible rating.

AAA: Highest credit quality. Represent the least credit risk.

AA: High credit quality. Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A: Good credit quality. Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB: Adequate credit quality. Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB: Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B: Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC: Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC: A high default risk.

C: A very high default risk.

D: Defaulted obligations.

Note: IIRA appends modifiers + or - to each generic rating classification from AA through B. The modifier + indicates that the obligation ranks in the higher end of its generic rating category; no modifier indicates a mid-range ranking; and the modifier - indicates a ranking in the lower end of that generic rating category.

Short Term

IIRA uses a scale of A1+ to C to rate credit worthiness of the issuer and its short term obligations, with A1+ being the highest possible rating and C being the lowest possible rating.

A1+: Highest certainty of timely payment. Short-term liquidity, including internal operating factors and / or access to alternative source of funds, is outstanding and safety is just below risk free short-term obligations.

A1: High certainty of timely payment. Liquidity factors are excellent and supported by good fundamental protection factors. Risk factor are minor.

A2: Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A3: Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B: Speculative investment characteristics. Liquidity may not be sufficient to ensure timely payment of obligations.

C: Capacity for timely payment of obligations is doubtful.

The long term obligations rated BBB- and above are considered investment grade while obligations rated BB+ and below are sub-investment grade.

IIRA is sponsored by multilateral development institutions, leading banks, other financial institutions and rating agencies. Its shareholders operate from eleven countries which constitute the agency's primary marketing focus.

The short term obligations rated A3 & above are investment grade while short term obligations rated B and C are sub-investment grade.

Symbols

Plus/minus (+/-) signs: A plus (+) or minus (-) sign may be added to the ratings to show the relative standing of the obligor/Sovereign within a category. These signs are only added to the ratings from 'AA' to 'B'.

Outlook: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change.

A1: High certainty of timely payment. Liquidity factors are excellent and supported by good fundamental protection factors. Risk factor are minor.

Rating Watch-list: IIRA places entities and issues on 'Watch-list' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). A 'Watch-list' announcement means that the status of the assigned rating(s) is uncertain and an event or deviation from an expected trend has occurred or is expected and additional information is necessary to take a rating action.

Definition of Default: Default is defined as an issuer's failure to meet its obligation on time. The circumstances leading to default are obligor's unwillingness to pay or inability to pay.

Suspension: In the event that IIRA deems that, as a result of lack of cooperation with regard to the provision of information or for any other reason, it is not possible to assess the current status of the assigned rating will be suspended.

Withdrawal: Rating(s) are withdrawn in the following situations:

a) Non-renewal / cancellation of the rating agreement.

b) Maturity of a rated issue.

c) Cessation of an entity for any reason.