

ACRA

Key concepts used by the Analytical Credit Rating Agency within the scope of its rating activities

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1 Scope of methodology

Within the scope of this Methodology, the Analytical Credit Rating Agency (ACRA, the Agency) outlines the key concepts used in its rating activities. The listed concepts are applicable to all credit rating objects unless their descriptions state otherwise. Several chapters in this Methodology are devoted to rating scales used in ACRA ratings.

This Methodology was formulated to ensure a consistent application of all ACRA methodologies, rating models, and key rating assumptions as a unified set of documents subject to the requirements of the Federal Law of 13 July 2015 No 222-FZ "On the Activities of credit rating agencies in the Russian Federation, On the amendments to Article 76.¹ of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and the invalidation of certain provisions of legal acts of the Russian Federation."

This Methodology shall be applied to all public and private documents issued by ACRA following the publication of the final version of this Methodology and prior to any revisions.

Any amendments or new interpretations of the concepts and definitions used by ACRA in its rating activities shall be incorporated in the up-to-date version of this Methodology.

Usage limitations

In certain cases, interpretations of the listed concepts or definitions may differ from the published version of this Methodology. In those instances, the correct interpretation of each concept or definition shall appear in both public and private ACRA documents.

Interpretations of the concepts and definitions outlined in this Methodology may also disagree with the interpretations of the analogous concepts and definitions used by third parties, including Rated Entities. Partial quotations of any public documents or circulation of any private ACRA documents may potentially misinterpret the meanings of concepts and definitions outlined in this Methodology.

Compliance with the Federal Law

As of the publication date of this Methodology, all concepts used by the Agency in its rating activities are in compliance with the requirements of the Federal Law of 13 July 2015 No 222-FZ "On the Activities of credit rating agencies in the Russian Federation, On the amendments to Article 76.¹ of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and the invalidation of certain provisions of legal acts of the Russian Federation," as well as the Federal Law No 39-FZ of 22 April 1996 "On the Securities Market" along with the its subsequent amendments and additions.

Every time amendments are made to Article 2 of the Federal Law of 13 July 2015 No 222-FZ, this Methodology shall be duly revised and the up-to-date version shall be made available to the public.

2 Key concepts used by ACRA in its rating activities

2.1. Credit ratings

Credit rating assigned to the Rated Entity (Issuer)

A credit rating assigned by ACRA to the Rated Entity constitutes the Agency's subjective opinion on the former's current and future ability (within a three-year horizon) to fulfill its outstanding financial obligations (creditability, financial accountability, and financial stability), expressed through the use of a relevant rating category within the corresponding rating scale.

Creditability (financial accountability, financial stability) shall be interpreted as the Rated Entity's ability to fulfill its financial liabilities. The Rated Entity's credit rating does not assess credit risk with regards to any debt financial instruments issued by this Rated Entity.

A credit rating does not serve as a recommendation to purchase, sell, or otherwise dispose of a security. Credit rating users shall perform their own independent assessments of their counteragents' creditability and not rely automatically on credit ratings.

Financial liability

Financial liability shall be interpreted as the Rated Entity's obligations with regards to the financial instruments it issues.

Credit rating of a financial liability or a financial liability issue program

A credit rating assigned by ACRA to a financial liability or financial liability issue program constitutes the Agency's subjective opinion on the Rated Entity's ability to fulfil its outstanding financial obligations with regards to individual debt financial instruments or total financial liabilities, expressed through the use of alphanumeric symbols reflecting the relevant rating notch within the corresponding rating scale.

The Agency takes into account the fundamental terms of a financial instrument, including its collateral structure, contractual subordination, and structural subordination, which can affect payments on this financial liability or instrument in case the Rated Entity defaults on this or any other financial liabilities or instruments.

Fundamental credit ratings

Fundamental credit ratings include credit ratings assigned to Rated Entities representing the corporate sector (or their financial liabilities or financial liability issue programs), banking institutions, non-banking financial institutions, insurance companies, as well as regional and municipal governments, except for ratings of financial instruments and structured financial obligations.

Expected credit rating of a financial liability

In the process of assigning a credit rating to a financial liability, when determining the Rated Entity's ability to fulfill its liabilities on specific financial liabilities or issued debt instruments, ACRA may draw its conclusions based on draft issue documentation. In those instances, a financial liability credit rating falls into the "Expected" category and is marked with the symbol "E." For fundamental credit ratings, the "Expected" status is assigned for a 90-day period, while for structured finance obligations it is assigned for a 180-day period. Once the final issue documentation is received, ACRA shall assign financial liability credit ratings to financial instruments, which may diverge from the "Expected" ones.

Standalone creditability assessment

Standalone Creditability Assessment (SCA) constitutes the Agency's subjective opinion on the Rated Entity's ability to fulfill its financial liabilities in a full and timely fashion but without taking into account the following factors:

- extraordinary external support from the maternal company / owners;
- extraordinary external support from the federal government;
- the Rated Entity's systemic value;
- other external factors capable of affecting the Rated Entity's creditability.

When performing SCA, the Agency shall use a rating scale analogous to the credit rating scale of the Rated Entity, although with lower case symbols (i.e., "aa").

Unrequested credit rating

An unrequested credit rating is a credit rating assigned by the Agency without executing an agreement with the Rated Entity, which is behind on payments on the rated financial liability or to a third party.

Unrequested credit ratings are marked with the symbol "U."

In certain cases, ACRA's rating analysts can interact with the Rated Entity in the framework of assigning an unrequested credit rating that is either initiated by the Rated Entity itself or by ACRA.

Credit ratings of territorial subjects of the Russian Federation and local government bodies (sub-sovereign credit ratings)

Under the federal law, credit ratings assigned by ACRA to territorial subjects of the Russian Federation and local government bodies, as well as to individual financial instruments, are placed in the category of sovereign credit ratings. Classifying these ratings as sovereign does not mean parity between credit risks of territorial subjects of the Russian Federation and local government authorities on one side and that of the Russian government on the other.

Credit ratings of supra-national banking institutions

Credit ratings assigned by ACRA to supra-national banking institutions and their individual financial instruments, fall into the sovereign credit rating category. Classifying these ratings as sovereign does not mean parity between credit risks of supra-national banking institutions and that of the Russian government.

2.2. Credit rating outlook and the “Rating under revision” status

Credit rating outlook

A credit rating outlook (outlook) is ACRA’s opinion on the probable change of the given credit rating within a certain time interval (typically, from 12 to 18 months). When making a credit rating outlook, the Agency accounts not only for the changes in the standalone creditability of the Rated Entity in question (or the credit quality of a financial liability) and its supporting factors, but the ongoing trends of the operational environment and the economy as a whole. Credit rating outlooks are assigned within the following four categories:

- positive, which indicates a probability of a rating improvement;
- negative, which indicates a probability of a rating deterioration;
- stable, which indicates a high probability that the rating will stay unchanged;
- developing, which indicates an equal probability of the rating either improving or deteriorating.

Credit rating outlooks shall not be assigned to credit ratings of structured finance instruments or liabilities.

An assigned credit rating outlook or any changes thereto do not necessarily precede any revisions of the credit rating itself.

Rating under revision

A Rated Entity’ credit rating may be assigned the “Rating under revision” status. This means that the Agency can revise a credit rating within a short-term period (typically, within a 90-day horizon). This status is assigned on the basis of identifiable events and short-term trends that can affect the creditability level of the Rated Entity or the credit quality of the financial liability in question.

ACRA performs a rating action with respect to the Rated Entity not later than 90 days after a “Rating under revision” status assignment. The ACRA Rating Committee is authorized to either withdrawing the “Rating under revision” status or keeping it unchanged. If the Committee decides to keep the “Rating under revision” status, ACRA shall perform the next rating action with regards to the Rated Entity not later than 90 days.

The “Rating under revision” status may be assigned to both fundamental ratings and credit ratings of structured finance instruments and liabilities.

ACRA identifies the following types of circumstances that may result in assigning the “Rating under revision” status:

- an event (a short-term trend deviation from the expected vector) occurred or will very likely occur within a 90-day horizon, and more information is required for decision-making;
- in the Agency's opinion, a significant change occurred in the Rated Entity's creditability or the credit quality of a financial liability, but presently, the degree of impact of this change cannot be easily assessed within the short-term.

The "Rating under revision" status is assigned within the following three categories:

- positive, which indicates a probability of a rating improvement;
- negative, which indicates a probability of a rating deterioration;
- developing, which indicates an equal probability of the rating either improving or deteriorating.

A "Rating under revision" status does not necessarily precede a credit rating revision.

In case the "Rating under revision" status is assigned, the Agency shall not assign a credit rating outlook. The "Rating under revision" status is assigned with its category stated (positive, negative, or developing).

2.3. Rating actions

Clauses stipulated in Chapter 2.3 of this Methodology are applicable to fundamental credit ratings, structured finance instrument ratings, and structured finance liability ratings.

Credit rating assignment

A credit rating assignment is an action performed by the Agency in order to determine the credit rating level and the relevant credit outlook level for the Rated Entity, which enters (or resumes) a credit rating agreement with the Agency. Credit rating assignments are carried out by the ACRA Rating Committee.

Credit ratings assigned by the Agency are posted on the Agency website www.acra-ratings.ru in the form of a press release announcing the fact of a credit rating assignment to the Rated Entity or any other rating action. The contents of the press release shall be made available to the general public.

When a prolonged time interval passes between a credit rating assignment and its publication (for instance, a publication of a private rating sustained over a several-year period), the Agency usually does not use the term "assignment." Instead, the Agency issues an announcement of the rating action and its simultaneous publication.

Credit rating confirmation

A credit rating confirmation is a credit rating review by the Rating Committee, which results in a decision to keep its level unchanged.

Credit rating revision

A credit rating revision is a credit rating review by the Rating Committee, which results in a credit rating level change: deterioration (by one or more levels with regards to the current level) or improvement (by one or more levels with regards to the current level).

A change of a credit rating outlook is a rating action; however, it is not the same as a credit rating revision.

Credit rating withdrawal

A credit rating withdrawal means that the Rated Entity (or financial liability) no longer has any current ratings assigned by ACRA. A credit rating withdrawal may be initiated by either the Rated Entity or the Agency.

The credit rating withdrawal procedure is carried out in accordance with the ACRA internal regulations and the agreement terms between ACRA and the Rated Entity. However, a decision by the Rating Committee to review its rating actions with regards to the Rated Entity (financial liability) when a credit rating is withdrawn, shall be made separately in each case. Such decisions are made primarily if there is a need to actualize the existing credit rating level or event assessment that immediately preceded the withdrawal.

ACRA is not authorized to withdraw its credit ratings on the basis of and/or in connection with decision taken by foreign governments, legal entities under international law or other entities, whose decisions are conditional upon the decisions by the above-listed entities, if such decisions, in ACRA's opinion, do not directly affect the Rated Entity's ability to fulfill its financial obligations, or credit risk obligations of a financial instrument or liability.

2.4. General Definitions

Methodology (rating methodology)

ACRA public documents that define the principles and forms of analysis of quantitative and qualitative factors, model applications and key rating assumptions on the basis of which the decision on the rating action decision are made.

Rated entity

A legal entity or a public-law entity, whose ability to meet its financial obligations (solvency, financial security, financial stability) is directly or indirectly evaluated in the credit rating. The Agency can assign credit ratings to financial obligations and instruments without assigning credit ratings to holders of the rated financial obligations or issuers of the rated financial instruments.

Control (significant influence) of the Regulator

RD(RU) rating indicates that the Rated Entity is controlled (significantly influenced) by the Regulator or another legally authorized organization (authority), e.g. in the case of provisional

administration appointment. As a rule, in such cases, the regulator can determine the priority of the Rated Entity's obligations or suspend payments to its creditors.

RD(RU) doesn't assume factual non-payments on any particular liabilities of the rated entity. However, in ACRA's opinion, organizations face higher uncertainty of payments on particular liabilities in the cases, when they fall under control (significant influence) of the Regulator or another legally authorized organization (authority).

Default and default ratings

The Agency identifies two types of default ratings within each rating scale, as follows:

- SD indicates that the Rated Entity is in default on one of its financial obligations. The Agency has reasons to believe that the debtor will continue to service its other financial obligations in a timely fashion.
- D indicates that the Rated Entity is in default on its financial obligations.

As default, ACRA understands the following:

1. Violation of continuity of financial and economic activities of the Rated Entity, including:
 - termination of its business activity without a universal legal succession of its rights and obligations to other business entities;
 - positive ruling on its bankruptcy case in court;
 - seizure of its property by a third party, as a result of which the Rated Entity can no longer conduct business activities;
 - performance of a bankruptcy procedure in line with the current legislature, if, in ACRA's opinion, this procedure will likely lead to one of the situations described as default in Paragraph 2.
2. The Rated Entity's current and/or future inability (according to the Agency) to service its financial obligations that are based on one of the following credit events or their combination:
 - unexecuted or delayed principal or interest payments in accordance with the Rated Entity's contractual obligations (with the exception of missed payments that fall within the contract-stipulated grace period);
 - coming into effect of the obligation acceleration provision due to a coming into effect of acceleration provisions on any other similar obligation (cross-acceleration);
 - coming into effect of the obligation acceleration provision due to a declared default on any other similar obligation (cross-default);
 - waiver or moratorium, which prompts the counterparty to refuse a payment or dispute its legal obligations;

- debt restructuring that entails a unilateral withdrawal, deferment, changes in the debt repayment schedule and/or interest rate that are viewed as less favorable by the creditors;
- asset substitution under the stress scenario, in which the following two conditions are met simultaneously:
 - the Rated Entity offer its creditors new or restructured debt (in combination with other assets), discounted cash receipts on which are smaller than the discounted cash receipts on the original debt;
 - this operation allows the Rated Entity to avoid bankruptcy or default on future payments;
- withdrawal or non-renewal of the Rated Entity's business operating license.

In certain cases, the Agency may not consider past due payments in recognition of default, if the delayed payment occurred due for technical or administrative reasons, was not linked to the Rated Entity's creditability, and was resolved within a short time period (usually up to three working days).

In structured finance transactions, a partial write-off of the principal debt amount of the issuer's financial obligation may not be an event of default, including cases in which financial instrument credit quality improvement mechanisms are used along with contractual subordination on multiple issue deals.

Default of Rated Entities under Non-Credit Obligations

If ACRA's methodology application scope includes assessing risk of loss by investors into non-credit obligations of a rated entity, then, current and/or future inability of the rated entity, in ACRA's opinion, to service its obligations in a timely manner and in full, or discontinuity of rated entity's business operations, shall be recognized as an event of default.

3 Structured finance instruments and liabilities credit rating

A credit rating assigned by ACRA to structured finance instruments and liabilities is the Agency's subjective opinion on the likelihood and magnitude of losses related to the rated liabilities of a specialized entity (or similar issuers and rated entities), depending on the ability of the specialized entity to fulfill its financial liabilities secured by monetary collaterals and/or collateralized property owned by this specialized entity and/or third parties.

A rating assigned by ACRA to structured finance instruments and liabilities may be a subjective opinion on the likelihood of timely payments on both the individual components of a liability (for example, only interest payments) and the liability in total (interest and principal amount payments).

Credit ratings of structured finance instruments and liabilities usually reflect:

- credit quality of several assets in collateral portfolios of financial liabilities of a specialized company (or other issuers and rated entities);
- legislative and contractual arrangements that define a special legal status of a specialized company and reduce the probability of its bankruptcy;
- procedure of cash distribution between holders of one or more issues by a specialized company and its transaction counterparties;
- credit and operational risks associated with transaction counterparties, and their impact on the credit quality of a specialized company's financial liabilities;
- mechanisms to support credit quality and/or liquidity of a specialized company's financial liabilities.

ACRA differentiates credit ratings of structured finance instruments and liabilities and fundamental credit ratings, reflected in the national rating scale for the Russian Federation, and applies to the (ru.sf) indicator to all credit ratings of structured finance instruments and liabilities.

Devaluation of financial instruments or liabilities

Financial instruments or liabilities, including hybrid securities and preferred shares (as defined by ACRA), may be subject to devaluation, if the amount of payments received (or is very likely to be received) by an investor from a debtor turns out to be lower than the amount that could be expected by the investor in case the debtor has no financial problems or if there are no impediments to such payments from third parties. Devaluation can occur even if contractual issue terms or the contractual agreement with the investor do not provide the investor with legal means of preventing or overcoming the effects of such impediments and obstacles (e. g., the right of filing a bankruptcy lawsuit against the debtor).

Devaluation allows to detect deterioration in debtor solvency before the actual default and may serve as a timelier indicator of investment portfolio's negative dynamics.

ACRA may consider an issuer's financial instrument or liability devalued if:

1. An event occurs that matches the definition of default (see "Default and default ratings").
2. Any delays in scheduled payments occur, acceptable under the contract terms and pertaining to dividends, interest, principal amount of the outstanding preferred shares, other hybrid instruments, or to debt interest payments in the form of structured finance instruments and liabilities. Such delays can occur, among other cases, for issues of instruments with high credit risk that provide a possibility of converting interest debt into additional principal debt amount ("Pay in Kind", "Pay If You Can", and "Pay If You Want" bond types).
3. There was a significant deterioration in credit quality of structured finance instruments and liabilities, which indicates a very high probability and magnitude of future losses.

4. Assets were written off, or their value deteriorated, or debt restructuring was carried out by replacing troubled assets that serve as pledge or collateral, preferred shares or other hybrid instruments due to financial difficulties that resulted in:
 - the principal amount due to the investor decreasing in accordance with the issue agreement or other agreements pertaining to the transaction,or
 - the debtor offering investors a restructuring of existing debt or its replacement with a pool of securities, cash, or assets, with the proposed measures allowing the debtor to avoid payment delays, permissible under the terms of the agreement (see Paragraph 2).

Replacement of troubled assets subject to devaluation is similar to replacement of troubled assets subject to default, with the difference being that in the first case replacement of troubled assets is aimed at preventing an event of devaluation, but not an event of default.

A partial write-off of the principal amount of structured financial securities allowed by their issue covenants, shall be seen as devaluation, while non-payment of the principal amount in breach of contract shall be seen as default. After a partial write-off, the principal amount may not return to its previous size, which will lead to an immediate and final loss of interest revenues.

The instrument subject to devaluation may change its status over time from devalued to fully restored (for example, in case of payment in full of the deferred amount) and back to devalued.

Ratings of liabilities to counterparties in structured finance transactions (RLC)

Ratings of liabilities to counterparties in structured finance transactions are assigned to financial contracts and reflect the risk for one or more contractors that is associated with default of a specialized company on one/several of its liabilities within the contact scope.

To classify RLCs, the ACRA rating scale for structured finance liability instruments is used, with further disclosure of the nature of RLCs in press releases, transaction reports, and other materials accompanying credit rating assignments by ACRA.

Ratings of structured interest-only instruments (RSI)

Interest-only liabilities are obligations to pay an amount constituting part of interest payments on one or more securities, which are used as collaterals and/or underlying assets in structured finance transactions.

RSIs reflect the probability and magnitude of losses on interest-only structured instruments that arise from credit losses on the underlying assets and/or collateralized assets in structured finance transactions. As a rule, interest-only structured instruments do not contain principal payment obligations. Other types of non-credit risk (e. g., levels of early securities redemption) are not reflected in the RSIs, although such risk elements may affect payments to holders of interest-only structured instruments.

To classify RSIs, ACRA uses a rating scale for liabilities of structured finance instruments, with further disclosure of the nature of RSIs in press releases, transaction reports, and other materials accompanying credit rating assignment by ACRA.

When analyzing structured finance transactions, ACRA may assign other assessments, which are not credit ratings, including: a counterparty reliability assessment, a lender assessment, a servicer assessment, and a depository assessment. The definitions of these types of assessment are listed in "Key Concepts Used by the Analytical Credit Rating Agency for assigning non-credit ratings".

Opinion regarding changes (ORC)

At times, transaction parties include in their transaction documentation certain provisions for the Rating Agency's opinions confirming that certain changes in the deal structure, amendments to transaction documents, and other actions or events will not result in a downgrading or withdrawal of the current rating.

After considering an ORC request, ACRA may present its opinion in the form of a letter and/or press release containing the ORC. The decision to issue an ORC is subject to ACRA's sole discretion. ACRA may not provide an ORC even if the condition for its receipt is specified in the parties' transaction documentation (when ACRA is not one of the parties).

An ORC reflects the Agency's view exclusively on the fact that only the changes or events specified in the ORC request and only at the time of issuing the ORC, shall not result in a downgrading or withdrawal of the ACRA rating of a structured financial instrument or liability. An ORC is not regarded as a confirmation, amendment or withdrawal of the rating; these terms are defined in the relevant sections of this Methodology. Issuing an ORC does not imply ACRA's approval of or consent to changes or events described in the ORC request.

4 National rating scale for the Russian Federation

To classify the credit rating levels for rated entities whose operations are concentrated primarily in the Russian Federation, the Agency uses the national rating scale for the Russian Federation, which is an alphanumeric notation system.

The ACRA national rating scale is used exclusively to assign fundamental credit ratings and is not used to assign credit ratings to structured finance instruments and liabilities.

The ACRA national rating scale allows to compare only the credit ratings assigned by the Agency within the Russian Federation.

In economic terms, credit ratings on the national scale assigned by ACRA reflect relative default probabilities of rated entities (or their securities) compared to the highest creditability level in the Russian economy, which, in ACRA's opinion, pertains to liabilities of the Russian government and a number of their derivatives.

Table 1. ACRA national rating scale for the Russian Federation

Category	Rating	Description
AAA	AAA(RU)	Maximum creditability level assigned to rated entities, securities issues, or financial liabilities. The highest credit rating under the national scale of the Russian Federation, according to the Agency. The credit rating of financial liabilities of the Government of the Russian Federation.
AA	AA+(RU)	High creditability level compared to other rated entities, securities, or financial liabilities in the Russian Federation; although, according to ACRA, slightly lower than AAA(RU).
	AA(RU)	
	AA-(RU)	
A	A+(RU)	Moderately high creditability level compared to other rated entities, securities or financial liabilities in the Russian Federation; however, somewhat sensitive to adverse changes in the business, financial, and economic environment inside the Russian Federation.
	A(RU)	
	A-(RU)	
BBB	BBB+(RU)	Moderate creditability level compared to other rated entities, securities, or financial obligations in the Russian Federation, with a higher sensitivity to adverse changes in business, financial and economic environment inside the Russian Federation.
	BBB(RU)	
	BBB-(RU)	
BB	BB+(RU)	Moderately low creditability level compared to other rated entities, securities, or financial liabilities in the Russian Federation. Creditability is stable in the short term, but there is high sensitivity to adverse changes in the business, financial, and economic environment inside the Russian Federation.
	BB(RU)	
	BB-(RU)	
B	B+(RU)	Low creditability compared to other rated entities, securities, or financial liabilities in the Russian Federation. At this stage, the entity can still fulfil its debt liabilities in a full and timely fashion but is highly vulnerable to unfavorable commercial, financial, and economic conditions inside the Russian Federation.
	B(RU)	
	B-(RU)	
CCC	CCC(RU)	Very low creditability level compared to other rated entities, securities, or financial liabilities in the Russian Federation. There is a possibility of failure by the Rated Entity to fulfil its debt liabilities in the short term. Timely fulfillment of debt obligations is largely dependent upon favorable commercial, financial, and economic environment inside the Russian Federation.
CC	CC(RU)	Very low creditability level compared to other rated entities, securities, or financial liabilities in the Russian Federation. There is a high probability of the Rated Entity defaulting on its debt liabilities in the short term. Timely fulfillment of debt liabilities hinges on favorable external economic and financial environment inside the Russian Federation, as well as on good creditor relations.
C	C(RU)	Very low creditability level compared to other rated entities, securities, or financial obligations in the Russian Federation. There is a high probability of the Rated Entity defaulting on its debt liabilities in the short term. Timely fulfillment of debt liabilities is highly unlikely without concessions from creditors.
RD	RD(RU)	The Rated Entity is controlled (or significantly influenced) by the regulator. As a rule, in such cases, the regulator may determine the priority of liabilities or suspend payments to creditors.
SD	SD(RU)	The Rated Entity is in default on one of its financial liabilities, but the Agency believes that the Rated Entity will continue to timely service its other financial liabilities.
D	D(RU)	The Rated Entity is in default on its financial liabilities.

Source: ACRA

5 Structured finance sector national rating scale for the Russian Federation

To classify the credit rating levels for structured finance instruments and liabilities in the Russian Federation, ACRA uses the national rating scale for the structured finance sector for the Russian Federation, which is an alphanumerical notation system. The ACRA national rating scale (see “The national rating scale for the Russian Federation”) is used exclusively to assign fundamental credit ratings and is not used to assign credit ratings to structured finance instruments and liabilities.

The indicator (ru.sf) that is used to rate structured finance instruments and liabilities indicates that such instruments and underlying securities may have different risk profiles.

The addition of this indicator (ru.sf) is intended to eliminate any supposition that credit ratings of structured finance instruments and liabilities and the fundamental credit ratings that are located on the same levels of corresponding rating scales, have the same credit quality.

However, ACRA methodologies have been developed with the purpose of achieving comparability of structured finance sector credit ratings and fundamental credit ratings within the scope of collecting long-term default statistics.

For some structured finance instruments and hybrid securities, for which events of default on financial liabilities are either not defined or fail to match investor expectations in terms of payment regularity and timeliness, ratings reflect the likelihood of devaluation (as defined above in this Methodology) and related financial losses.

Table 2. The structured finance sector national rating scale for the Russian Federation

Category	Rating	Description
AAA	AAA(ru.sf)	Structured finance liabilities or instruments with the AAA(ru.sf) rating are considered by the Agency to have the highest credit quality under the national scale for the Russian Federation, with minimal credit risk; the credit rating of financial liabilities secured by the guarantee of the Government of the Russian Federation.
AA	AA+(ru.sf)	High level of credit quality compared to other rated structured finance liabilities and instruments in the Russian Federation; however, as a rule, slightly lower than that of rated liabilities and instruments with the AAA(ru.sf) credit rating.
	AA(ru.sf)	
	AA-(ru.sf)	
A	A+(ru.sf)	Moderately high level of credit quality compared to other rated structured finance liabilities and instruments in the Russian Federation, but with some sensitivity to adverse changes in the business, financial and economic environment inside the Russian Federation and to their impact on parameters of underlying assets, collaterals, and other assets securing rated structured finance liabilities and instruments, as well as operating risks.
	A(ru.sf)	
	A-(ru.sf)	
BBB	BBB+(ru.sf)	Moderate level of credit quality compared to other rated structured finance liabilities and instruments in the Russian Federation, but with a higher sensitivity to adverse changes in the business, financial and economic environment inside the Russian Federation and to their impact on parameters of underlying assets, collaterals, and other assets securing the rated structured finance liabilities and instruments, as well as operating risks.
	BBB(ru.sf)	
	BBB-(ru.sf)	

BB	BB+(ru.sf)	Moderately low level of credit quality compared to other rated structured finance liabilities and instruments in the Russian Federation, with little to no risk of sharp deterioration in credit quality in the short term. However, displays higher sensitivity to adverse changes in the business, financial, and economic environment inside in the Russian Federation and to their impact on parameters of underlying assets, collaterals, and other assets securing the rated structured finance liabilities and instruments, as well as operating risks.
	BB(ru.sf)	
	BB-(ru.sf)	
B	B+(ru.sf)	Low level of credit quality compared to other rated structured finance liabilities and instruments in the Russian Federation. At this stage, the entity can still fulfil its debt liabilities in a full and timely fashion; however, there it is highly vulnerable to adverse business, financial and economic conditions inside the Russian Federation and their impact on the parameters of underlying assets, collaterals, and other assets securing the rated structured finance liabilities and instruments, as well as operating risks.
	B(ru.sf)	
	B-(ru.sf)	
CCC	CCC(ru.sf)	Very low level of credit quality compared to other rated structured finance liabilities and instruments in the Russian Federation. There is a possibility of failure to fulfill rated liabilities in the short term. Timely fulfillment of rated liabilities depends on favorable business, financial, and economic conditions inside the Russian Federation and their impact on the parameters of underlying assets, collaterals, and other assets securing the rated structured finance liabilities and instruments, as well as measures to reduce operating risks.
CC	CC(ru.sf)	Very low level of credit quality compared to other rated structured finance liabilities and instruments in the Russian Federation. There is an increased probability of default on rated obligations in the short term. Timely fulfillment of rated liabilities depends on favorable business, financial and economic conditions in the Russian Federation and their impact on the parameters of underlying assets, collaterals, and other assets securing the rated structured finance liabilities and instruments, as well as measures to reduce operating risks.
C	C(ru.sf)	Very low level of credit quality compared to other rated structured finance liabilities and instruments in the Russian Federation. There is a high probability of default on rated obligations in the short term. Timely fulfillment of liabilities is highly unlikely without attracting additional sources capable of improving credit quality and reducing operating risks.
D	D(ru.sf)	The Rated Entity (or financial liability) is in default on its structured finance liabilities.

Source: ACRA

6 International rating scale

In order to categorize ratings assigned to rated entities operating in various jurisdictions, the Agency applies an international rating scale.

The ACRA International Rating Scale is used solely to assign base credit ratings and not to assign credit ratings to structured finance instruments and obligations.

The ACRA International Rating Scale allows for comparing credit ratings assigned by the Agency under the international scale, at the supranational level.

In the economic terms, ACRA ratings assigned under the international scale reflect a relative probability of default of rated entities or issues of securities.

Table 3. ACRA international rating scale

Category	Rating	Description
AAA	AAA	The highest rating. An entity or an issue of securities or a financial obligation rated AAA demonstrates the maximum creditworthiness and the minimum sensitivity to unfavorable changes in business, financial and economic conditions, either domestic or international, and other external factors.
AA	AA+	High creditworthiness as compared to other rated entities or issues of securities or financial obligations. Low sensitivity to unfavorable changes in business, financial and economic conditions, either domestic or international, and other external factors. In ACRA's opinion, the rating is insignificantly lower than that of entities rated AAA.
	AA	
	AA-	
A	A+	Moderately high creditworthiness as compared to other rated entities or issues of securities or financial obligations. Certain sensitivity to unfavorable changes in business, financial and economic conditions, either domestic or international, and other external factors.
	A	
	A-	
BBB	BBB+	Moderate creditworthiness as compared to other rated entities or issues of securities or financial obligations. Higher sensitivity to unfavorable changes in business, financial and economic conditions, either domestic or international, and other external factors.
	BBB	
	BBB-	
BB	BB+	Moderately low creditworthiness as compared to other rated entities or issues of securities or financial obligations. The creditworthiness is sustainable in the short-term, but there is high sensitivity to unfavorable changes in business, financial and economic conditions, either domestic or international, and other external factors.
	BB	
	BB-	
B	B+	Low creditworthiness as compared to other rated entities or issues of securities or financial obligations. The rated entity is able to perform debt obligations when due and in full, but it is highly vulnerable to unfavorable business, financial and economic conditions, either domestic or international, and other external factors.
	B	
	B-	
CCC	CCC	Very low creditworthiness as compared to other rated entities or issues of securities or financial obligations. The rated entity may potentially fail to perform its debt obligations in the short term. Timely performance of debt obligations largely depends on favorable business, financial and economic conditions, either domestic or international, and other external factors.
CC	CC	Very low creditworthiness as compared to other rated entities or issues of securities or financial obligations. There is an elevated likelihood of failure by the rated entity to perform its debt obligations in the short term. Timely performance of debt obligations largely depends on favorable business, financial and economic conditions, either domestic or international, and other external factors, as well as on relations with creditors.

C	C	Very low creditworthiness as compared to other rated entities or issues of securities or financial obligations. There is a high likelihood of failure by the rated entity to perform its debt obligations in the short term. Timely performance of debt obligations is extremely unlikely without favorable attitude of creditors.
D	D	A rated entity or a financial obligation is in default.

Source: ACRA

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75, Sadovnicheskaya embankment, Moscow, Russia
www.acra-ratings.com

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