

RIDF Section 13. Sensitivity to Assumptions

Sensitivity of the Credit Rating to Assumptions Made by Fitch as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

The major assumptions made by Fitch in determining the announced credit ratings are discussed below, along with examples that illustrate the effect of the violation of those assumptions, where determinable.

Assumption

Fitch assumes the continued normal operation of relevant financial and/or funding markets, which may include a moderate amount of short-term disruption or volatility.

- *An issuer's ratings express an expectation of underlying business performance across a broad range of foreseeable business environments as opposed to unique or "tail risk" events. Given the confidence-sensitive nature of financial markets and interconnectivity of global financial flows contingency measures prepared to address near- and medium term liquidity needs could prove to be inadequate in a severe stress situation.*

Supranational entities are less vulnerable to short-term market disruption than commercial banks but could, under certain circumstances, find themselves facing market access constraints that could result in a significant change to the rating level.

Assumption

Fitch assumes that, in those cases where ratings are driven by support, the factors underpinning such support will hold true over a typical rating horizon.

- *The nature of a supranational entity's activities is such that it performs a necessary and sometime counter-cyclical political and/or economic function. This often means that there is a high propensity for shareholders to provide financial support in case of need.*

Despite a general move away from providing support to commercial banks in many jurisdictions, the motivation to do likewise in the supranational sector is limited. Accordingly, Fitch expects support to remain a key judgement in many supranational rating assessments.

Given the difference that could exist between a support-driven versus intrinsic-driven assessment, the effect of external support not being provided when needed could result in a significant change to the rating level.

Assumption

Fitch assumes that the issuer maintains financial, operational and risk management policies (e.g. leverage, asset/liability mix, concentration risk, liquidity, credit/market risk) broadly consistent with those currently disclosed to Fitch and/or the marketplace.

- *A supranational entity will naturally adjust its financial policies on a regular basis as it adapts to changes in strategy and to developments in the broader economic and business environment. In most cases, these may lead only to modest rating adjustments – a change in Outlook or a single-notch move. Where such changes are not broadly consistent with our prior expectations and step changes occur (e.g., a sharp shift in risk appetite or substantially weaker financial or risk management policies), this may result in material rating changes.*

Assumption

Fitch assumes that information provided by issuers and their agents, including legal opinions, and operating and financial information provided by third parties is valid, accurate and meets widely accepted levels of professional standards, subject to reasonable investigation by Fitch.

- *Fitch does not perform due diligence but rather relies on public and non-public information provided by the rated entity which includes audited financial statements, transaction documents, presentations and other ad hoc disclosure which Fitch subjects to a 'reasonable investigation'. Misleading or inaccurate issuer provided financial information may result in material downgrades – up to and including default – when ultimately uncovered.*

Assumption

Fitch assumes that the relevant key operating environments (e.g. legal, economic, political, regulatory) will remain consistent with expectations based on historical trends and currently available information, and will not be modified to the detriment of the issuer.

- *The external environment is a key rating consideration. A certain amount of volatility in any rating factor is expected through a cycle, with such volatility often more acute in developing rather than developed countries. The legal and political framework under which supranational entities operate is particularly important and step changes that are not broadly consistent with our prior expectations (for example a change to an assumption of preferred creditor status) may result in material rating changes.*