Article Title: Guidance | Criteria | Governments | International Public Finance: Public-Sector Funding Agencies: Methodology And Assumptions Data: (EDITOR'S NOTE: —On Oct. 7, 2019, we republished this guidance document to align its title with that of the associated criteria.) Overview And Scope 1. This guidance document relates to our "Public-Sector Funding Agencies: Methodology And Assumptions" published on May 22, 2018, and provides additional information and guidance related to the analytical application of our public-sector funding agency (PSFA) criteria. It is intended to be read and applied in conjunction with those criteria. For a further explanation of guidance documents, please see the description at the end of this article. Guidance Liquidity gap analysis 2. Liquidity gap analysis is one of the key factors in our assessment of a PSFA's liquidity. The analysis compares sources of funds to use of funds, mostly over the next 12 months, stressed for adverse market and economic conditions (typically corresponding to a 'AAA' stress scenario). The stress analysis applies haircuts (reductions) to the sources of liquidity to reflect both credit and liquidity risks. Key Publication Information Related to "Public-Sector Funding Agencies: Methodology And Assumptions," published on May 22, 2018. We may revise this guidance from time to time when market dynamics warrant reevaluating the assumptions we generally use. 3. Credit risks speak to our assessment that the PSFA will be repaid on its exposures (securities and loans) in full and on the due date within the time horizon we are considering, which in the case of PSFAs is the next 12 months. In such case, the underlying creditworthiness of the assets matters. 4. Liquidity risks speak to our assessment that the PSFA will be able to sell its securities before their due date of payment (when it is beyond 12 months) in case of need to liquidate these assets. In such case, the liquidity of these assets matters. 5. We calibrate the credit risk haircuts we apply in our analysis of PSFAs consistently with the capital charges we apply in calculating the risk-adjusted capital (RAC) ratios under a 'AAA' stress test scenario, as detailed in "Risk-Adjusted Capital Framework Methodology," published on July 20, 2017. The credit risk haircuts depend on asset classes and ratings. 6. We assume unrated exposures to have highest credit risk and we therefore combine them with securities rated 'B+' or below (see table 17 of the PSFA criteria; reproduced below under "Appendix"). 7. However, based on the historical credit performance we have observed, we consider that such assumptions regarding exposure to unrated LRGs can potentially overestimate credit risks. Additionally, we have observed that there is a high correlation between credit risk and our institutional framework (IF) assessments. 8. As a result, for credit risk haircuts related to exposure to unrated LRGs, we apply the following mapping, unless country-specific features ask for another categorization. INSTITUTIONAL FRAMEWORK FOR LRGS RATING CATEGORIES FOR LIQUIDITY GAP ANALYSIS 1 and 2 'AA-' and above 3 and 4 'A+' to 'BBB-' 5 'BB+' to 'BB-' 6 or no IF assessment 'B+' and below 9. The above mapping only relates to credit risk haircuts. We continue to apply liquidity haircuts based on the weakest rating category of 'B+' and below as such unrated LRGs exposures are, in our view, less liquid than exposure to rated entities. 10. For all other (non-LRG) unrated exposures, we apply table 17 without any changes; meaning that we assess unrated exposures by asset class and classify them in the weakest rating category. Appendix Table 17 Credit And Liquidity Haircuts --LIQUIDITY RISK HAIRCUT (%)*-- ASSET CLASS CREDIT RISK HAIRCUT§ MATURING WITHIN THREE MONTHS MATURING BETWEEN THREE AND SIX MONTHS MATURING BETWEEN SIX AND 12 MONTHS MATURING BETWEEN ONE AND TWO YEARS MATURING BEYOND TWO YEARS Cash/demand deposits 0 UNENCUMBERED SECURITIES RATED 'AA-' OR ABOVE Sovereigns/supranationals/agencies 1 4 6 8 12 14 Local governments and sovereign-sponsored securitizations 1 14 18 26 34 38 Financial institutions 3 20 28 34 40 46 Covered bonds 2 20 28 34 40 46 Corporates 12 20 28 34 40 46 Structured finance 12 100 100 100 100 100 UNENCUMBERED SECURITIES RATED 'A+' TO 'BBB-' Sovereigns/supranationals/agencies 5 6 8 10 14 16 Local governments and sovereign-sponsored securitizations 6 16 20 28 36 40 Financial institutions 5 24 32 38 46 50 Covered bonds 3 24 32 38 46 50 Corporates 15 24 32 38 46 50 Structured finance 15 100 100 100 100 100 UNENCUMBERED SECURITIES RATED 'BB+' TO 'BB-' Sovereigns/supranationals/agencies 25 25 34 41 48 50 Local governments and sovereign-sponsored securitizations 30 40 54 66 77 80 Financial institutions 29 40 54 66 77 80 Covered bonds 19 40 54 66 77 80 Corporates 33 40 54 66 77 80 Structured finance 100 100 100 100 100 100 UNENCUMBERED SECURITIES RATED 'B+' OR BELOW OR UNRATED Sovereigns/supranationals/agencies 65 65 80 100 100 100 Local governments and sovereign-sponsored securitizations 69 80 100 100 100 100

Financial institutions 74 80 100 100 100 100 Covered bonds 49 80 100 100 100 100 Corporates 67 80 100 100 100 100 Structured finance 100 100 100 100 100 100 Loans and advances rated 'BBB-' or above 15 100 100 100 100 100 Loans and advances rated 'BB+' or below or unrated 33 100 100 100 100 100 Term deposits and placements at banks rated 'AA-' or above 3 100 100 100 100 100 Term deposits and placements at banks rated 'A+' to 'BBB-' 5 100 100 100 100 100 Term deposits and placements at banks rated 'BB+' to 'BB-' 29 100 100 100 100 100 Term deposits and placements at banks rated 'B+' or below or unrated 74 100 100 100 100 100 Derivatives 100 100 100 100 100 100 Publicly listed or privately held equity shares and funds 100 100 100 100 100 100 Other assets 100 100 100 100 100 100 *The liquidity risk haircut is applied to securities maturing beyond the ratio horizon, to reflect valuation risk. For example, when computing the one-year liquidity ratio, we apply credit risk haircuts to all assets maturing within one year, and we apply the respective “between one and two years” or “beyond two years” columns to longer dated securities. All assets other than unencumbered securities that are not maturing during the stress period are applied a haircut of 100%. §This credit risk haircut is applied to all assets maturing before the end of the ratio horizon, to reflect default risk. Revisions And Updates On Oct. 7, 2019, we republished this guidance document to align its title with that of the associated criteria. Related Criteria Public-Sector Funding Agencies: Methodology And Assumptions, May 22, 2018 Related Research Criteria And Guidance: Understanding The Difference, Dec. 15, 2017 This article is a guidance document for Criteria (Guidance Document). Guidance Documents are not Criteria, as they do not establish a methodological framework for determining Credit Ratings. Guidance Documents provide guidance on various matters, including: articulating how we may apply specific aspects of Criteria; describing variables or considerations related to Criteria that may change over time; providing additional information on non-fundamental factors that our analysts may consider in the application of Criteria; and/or providing additional guidance on the exercise of analytical judgment under our Criteria. Our analysts consider Guidance Documents as they apply Criteria and exercise analytical judgment in the analysis and determination of Credit Ratings. However, in applying Criteria and the exercise of analytic judgment to a specific issuer or issue, analysts may determine that it is suitable to follow an approach that differs from one described in the Guidance Document. Where appropriate, the rating rationale will highlight that a different approach was taken. Only a rating committee may determine a rating action and this report does not constitute a rating action.