



RR Bank Rating Model

Product Explanation



RR CREDIT RATING MODEL

Bank Rating Model ⁽¹⁾

The Bank Rating Model is targeted to assess the credit risk and conduct the ratings of the financial institutions that a bank already has a working relationship with, has established lines or is going to have a relationship.

Bank Rating Model ⁽²⁾

$$\text{Total Score} = (w1)\text{Quantitative Score} + (w2)\text{External Ratings Score} + (w3)\text{Qualitative Score}$$

W: All factors are weighted based on our expert opinion to reach the total score. The weights can be adjusted according to the internal risk monitoring structure of the bank.

Bank Rating Model ⁽³⁾

- **Financial Score:** Financial score is derived from the past two period's financial data of the institution that is being rated. Calculated financial ratios are weighted and combined to derive the financial score. Seven factors and 21 ratios in total are used. Rating factors are as follows:
 - Margins
 - Efficiency
 - Profitability
 - Capital
 - Growth
 - Asset quality
 - Funding and Liquidity

Bank Rating Model (4)

Margins

Net Interest Margin
Net Interest Margin (adjusted for loan losses)

Efficiency

Fees and Commissions / Revenues
Cost / Income
Cost / Assets

Profitability

ROAE
ROAA
Operating ROAE
Operating ROAA

Capitalization

Total Capital Ratio
Tier 1 Capital Ratio
Equity/ Assets

Growth

Growth of Total Assets%
Growth of Gross Loans%

Loan Quality

NPL ratio
NPL reserve coverage
Unreserved NPL's / Equity
Cost of Risk

Funding and Liquidity

Loans/ Deposits
Customer Deposits/ Total Funding
Liquid Asset/ ST Liabilities
Long Term Funding / Total Non-deposit Funding

Bank relative size

Total asset size (Usbn)
Total equity size (Usbn)

Bank Rating Model ⁽⁵⁾

External Ratings Score: Model, uses external ratings of three largest global rating agencies that are assigned for financial institutions. The external ratings are first converted to scores then their average is used to form the external ratings score.

Bank Rating Model ⁽⁶⁾

Quantitative Score: Four different qualitative features are defined and scored by the user. Model converts the qualitative definition into a score and their average is used to form the qualitative rating. This feature provides some flexibility for banks to align their risk appetite and risk tolerance. These qualitative features are:

- Ownership and management
- Business track record
- Group relations
- Peer bank comparison

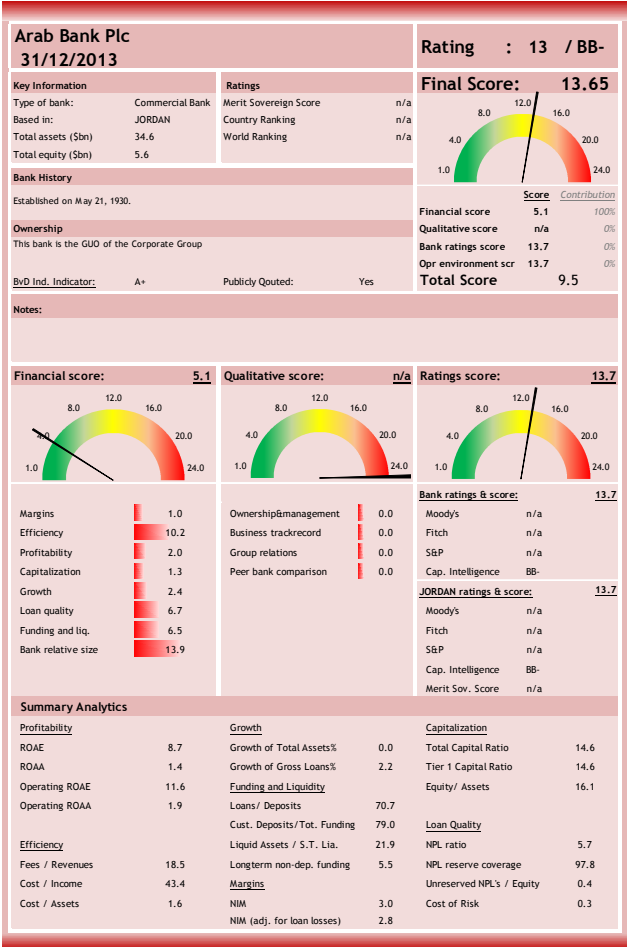
Bank Rating Model

- **Final Rating Score** is the weighted sum of quantitative, qualitative and external ratings score which is at the final stage connected to the sovereign ratings of the country that the bank is domiciled.

Input Screen

Bank Name	Arab Bank Plc 31/12/2013	Byblos Bank S.A.L. 31/12/2014	TBC Bank 31/12/2013
<input type="button" value="Run"/> <input type="button" value="Türkçe"/>	(JORDAN)	(LEBANON)	(GEORGIA)
Rating output	BB-	B	A-
Default			
Final Score	13.65	15.18	7.40
a) Financial analysis	5.07	4.60	7.40
b) Ratings Score	13.65	15.18	n.a.
c) Qualitative factors	n/a	n/a	n/a
Financial score contribution	100%	100%	100%
External ratings score contribution	0%	0%	0%
Qualitative Factors contribution	0%	0%	0%
a) Financial Score:	5.1	4.6	7.4
Margins	1.0	1.0	1.0
Efficiency	10.2	7.9	18.7
Profitability	2.0	3.6	1.0
Capitalization	1.3	1.0	1.0
Growth	2.4	1.0	12.4
Loan quality	6.7	6.9	4.6
Funding and liq.	6.5	1.5	9.1
Bank relative size	13.9	19.7	23.3
b) Ratings score:	13.7	15.2	n.a.
Rating score driven by:	Bank ratings	Bank ratings	No rating
Moody's	n/a	n/a	no rating
Fitch	n/a	n/a	no rating
S&P	n/a	n/a	no rating
c) Qualitative factors (*)	n/a	n/a	n/a
Ownership structure and management strength			
Business trackrecord			
Group relations			
Peer bank comparison			

Output Screen



Contacts

- In use currently at four banks
- To find out more please call Risk Reward Limited on 00 44 207 638 5558 or email info@riskrewardlimited.com