

modefinance

# MORE for Banks

## Rating Methodology for Banks

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## RATING – Relevant information

Prior to the credit assessment itself, according to step c) of modefinance rating process of issuance and review of credit ratings, the analysts are required to “assess the minimum information requirements to initiate and maintain a rating, which are met [...] on a qualitative basis when all the checks defined in the list of RATING Relevant Information (defined in RATING Methodology) are met [...]”.

The analysts have to check if the following conditions are met before proceeding with the analysis:

1. The last annual account is not older than 20 months i.e. it is possible until August 20xx+2 to refer to financial figures of 20xx/12/31st.
2. The financial figures (annual accounts) filed for the last two fiscal years are available and updated and the following financial items are available for both years (minimum requirement):
  - a) Shareholders' funds;
  - b) Total assets;
  - c) Gross Loans/Loans;
  - d) Customer Deposits;
  - e) Net Interest Income;
  - f) Profits (losses) for the period.
3. The figures are in thousands of euros. When filed in a different currency, the analysts have to apply the nearest exchange rate to the year end date of the financial accounts using the EUR as a cross-referencing point. The International Monetary Fund is the official source of information.
4. It is clear the main country of the bank and the specialization.
5. The financial figures show no sign of probable factual errors or discrepancies such as unbalances between total assets and total liabilities and equity, total revenues and total costs and net profits.

Moreover, the analysts have to respect the following guidelines:

1. The consolidated account is preferred when several accounts are available;
2. The interim reports are collected and analyzed (quarters) when available.

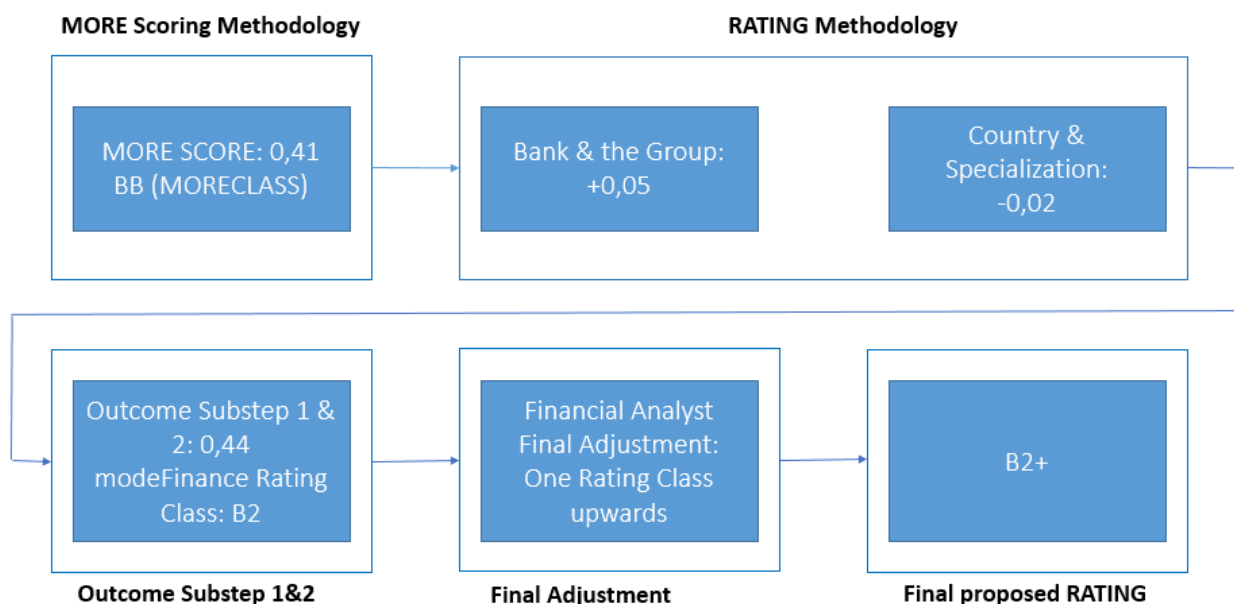
## RATING – Methodology (core)

According to step f) of modefinance rating process of issuance and review of credit ratings, the analysts are required to "assess some of the characteristics of the entity through a set of balanced scorecards, which imply respectively the taking into consideration of entity's financial strength, longevity, legal status and governance, group, specialization and country; this set of assessments, which is enriched by a final overall assessment, require substantial human intervention and lead to a potential change in the entity's overall score, and is actual part of modefinance RATING Methodology".

According to RATING Methodology, the assessment carried out in this phase are grouped in the following substeps:

1. **BANK AND THE GROUP:** considers entity's financial strength (asset portfolio analysis, share performance, diversification.), longevity, legal status, governance and group analysis. The main inputs of this phase are the official and public information by the textual parts of the annual accounts (explanatory notes). In those textual parts the analyst must focus the attention on potential source of risk (or risk attenuation) that are not evident merely from a numerical analysis i.e. guaranties, business management reports, audit reports, etc. The assessment includes the analysis of the mutual dependence inside the bank's group (if it is applicable).
2. **COUNTRY AND SPECIALIZATION:** covers the aspects of bank's position in the country (considering its specialization) and relevant news, influence of macroeconomic conditions, political risk and country-specific relevant news. Concerning country risk, the following aspects are considerate: Scale of the Economy, GDP Growth and Volatility, National Income, Inflation Level and Volatility, General government gross debt, Current account balance and political risk.
3. **FINAL ADJUSTMENT:** represents the effect of a final overall assessment of the entity performed by analysts. In this section, the analyst is required to perform a fine tuning of the final assessment taking into account all the information regarding the bank.

The following diagram is a representation of the process of rating described in the present methodology:



The rating proposed to the Rating Team for approval is based on the entity’s final score and final adjustment: step g) of the rating process “based on the entity's final score, the head analyst formally proposes a rating to the Rating Team” should be interpreted that the head analyst will propose a rating class according to the substeps 1,2,3 of the present methodology.

# Description of Analyst Guideline

## General Instructions

In Substeps 1. and 2. envisaged in RATING Methodology, each analyst is required to perform the analysis of the possible influence to the bank's creditworthiness of certain specific aspects. The outcome of each Substep (consisting respectively of 3 and 5 "micro" factors) is always decided according to the "Direct assignment score table" (see table below), which describes the meaning of each possible outcome of the analysis.

Considering mapping table modefinance uses to convert credit scores [0,1] to (provisional) rating classes, the lower the score the higher the opinion of creditworthiness. Therefore, if qualitative factors are judged by analysts as having credit risk mitigating effects on the bank's overall credit risk, the outcome will have a negative score.

If, on the other hand, the qualitative effect is judged as a threat which can actually or potentially determine an increase in the entity's overall credit risk, the outcome will have a positive score.

When substantial information is missing and a sound analysis is not possible, the score should be set to 0.

In addition to the general considerations described above, the analysts have always the possibility to detect whether particular and important conditions of the factors under analysis may imply radical and exceptional influence on the entity's creditworthiness and therefore deserve special treatment. In any of these circumstances, the analyst is required to flag an "Important warning", summarizing the relevant factors as well as their influence to the creditworthiness of the entity under rating, and saving the relevant documents and sources of information.

Important warnings are useful to be considered by the Final Rating Team when taking the final decisions on rating as of step h) of processes of issuance and review of credit ratings. In the final meeting of the Rating Team, the team may confirm proposed rating (at majority), override steps of the process and approve a different rating (only with unanimity), or let the rating be not issued or withdrawn (otherwise).

# Specific Instructions

## Substep 1. Bank and the Group

### *Bank's financial strength:*

The analysts have to assess the financial strength and the risk profile of the bank.

The analysts have to follow this process:

1. Financial analysis;
2. Share Performance;
3. Asset portfolio composition;
4. Market share.

### *Longevity and Legal Status:*

The analysts have to evaluate the bank reputation and the "years in business". They also have to monitor the status of the bank, making sure it's not subject to receivership, or negative events, or it has received/is receiving governmental support, or it has a "bail-in" process.

### *Governance & Group Analysis*

The analysts shall consider the possible influences of the governance of the rated entity.

In particular, the analyst should focus his/her attention on:

1. Transparency of the governance (absence of black records, conflict of interests, etc...);
2. Influence of governance;
3. Quality and content of public disclosure;
4. Independence and integrity of audit process (if available);
5. Board structure and composition;
6. Role and independence of outside directors (if available);
7. Director and executive compensation, evaluation and succession policies (if available).

### *Final score on "Bank and the Group"*

The final global score of "Bank and the Group" Area is determined by the analysts with the only following constraint: it must be comprised between the minimum and maximum partial score assigned for any of the 3 factors separately considered.

## **Substep 2. Country and Specialization**

### *The position in the country*

The analyst will compare and rank the analyzed bank, within the peer of comparable as defined in section 1.2.

Once defined the peer of comparables, the analyst will analyze the following factors:

1. Size (and ranking) of the bank, based on total asset;
2. Ranking of the bank in terms of collection;
3. Ranking of the bank in terms of profitability (based on Return on Equity);
4. Ranking of the bank in terms of asset quality (based on Quality Loans).

### *Impact of relevant news on the industry*

The analysts have to read carefully any news that can be available on the sector and published in the last three months.

According to the available information the analysts have to express a score according to his/her opinion (by basing the assessment of the "direct assignment score table").

### *Influence of the macro economic conditions on the bank*



The analysts have to express an opinion on the influence that the macro economic conditions of the country in which the bank operates, could have. The study must be based on the observation of:

1. Scale of the Economy (Real GDP);
2. GDP Growth and Volatility;
3. National income (GDP per capita);
4. Inflation level and Volatility;
5. General government gross debt (as % of GDP);
6. Current account balance (as % of GDP);
7. Cost of the sovereign debt.

*Influence of the political risk on the bank*

The analysts have to express an opinion on the influence that the political risk of the country could have on the bank.

According to the available information the analysts have to express a score according to his/her opinion (by basing the assessment of the "direct assignment score table").

In the section Influence of the relevant news on country the Important Warning has to be used in such cases:

- natural disasters;
- environmental disaster;
- famine;
- medical disaster;
- complex emergencies;
- similar case which has to be clearly described and documented by the analyst.

*Final score on "Country and Specialization"*

The final global score of "Country and specialization" Area is determined by the analysts with the only following constraint: it must be comprised between the minimum and maximum partial score assigned for any of the 5 factors separately considered.

### **Substep 3. Final Adjustment**

In this substep of the methodology, the analyst has the possibility of modifying the rating class which will be proposed to the Rating Team, of one class upwards or downwards.

The analyst shall consider first the provisional rating class which will be the result of mapping the final score (MORE score +/- Substep 1 +/- Substep 2) into modeFinance Rating classes, as in the table presented in [link](#).

## Disclaimer

The present Corporate Credit rating is issued by modefinance under EU Regulation 1060/2009 and following amendments.

The facts of this report are believed to be correct at the time of publication but cannot be guaranteed.

For the quality assessment of information, please check Key Rating Information and Disclosures part of the present report.

The credit rating was notified to the rated entity in order to identify potential factual errors, as prescribed by the CRA Regulation.

A Summary of Notification and Appeal Process is reported in the dedicated paragraph.

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