BUREAU VAN DIJK

bankscore

RATING MODEL

Where to use:

Bankscore is used for the evaluation of banks

Benefits:

- Include group and country risk factors in your analysis of banks
- Manually adjust the weightings of variables
- Set your own benchmarks for ratios
- Produce robust and consistent ratings over time
- Use within FACT along side other integrated models

Data source:

The Bankscope database covering 20,000 banks worldwide

Produced by:

- Originally developed by ABN AMRO Bank and Dresdner Bank
- Continually developed by BvD in cooperation with several European institutions

The Bankscore model provides banks with an internal rating system for assessing counterparties

The Bankscore rating is the result of a four step process. The four steps are:

1. Financial Assessment:

Bankscore calculates 12 ratios for the subject bank using the balance sheet and profit and loss accounts in Bankscope. These ratios are then compared with specialized peer groups (for example cooperative banks, real estate and mortgage banks) or regional peer groups, resulting in a score for each ratio. They incorporate:

Quantitative variables –

- **Capitalization** – Total Capital ratio measures the adequacy of Tier 1 plus Tier 2 capital. If this is not available Capital/Customer Loans and Capital/Total Assets are used to produce a score.
- **Profitability** – Operating result/Equity, PA Expenses/Operating result before PA and LLP and Interest expenses/Interest income reflects the efficiency with which equity is generating revenue and the cost/income structure.
- **Funding/liquidity** – Total funds/Customer loans ratio and the Net liquid assets/Short term funding ratio indicates whether a bank is able to meet its short term obligations.

Qualitative variables –

- **Asset quality** – LLP/Net interest and Net NPL/Loans are used to measure loan quality. The lowest score for both ratios is compared to worldwide benchmarks.
- **Market position** – An evaluation of the bank's strength in the market and its potential to diversify. This shows the banks ability to generate recurring earnings.
- **Diversification potential** – This shows the ability of a bank to spread its risk by diversifying its activities. The default score is based on the size of the bank.

The resulting score for this step is derived from assigning a weighting to each of these variables.

2. Country Analysis: Country scores including structural, cyclical and external liquidity/debt factors and banking system scores are incorporated.

3. Qualitative Amendments: Your credit analyst can then apply qualitative amendments from the areas of financial risk, specific risk, industry/business risk and outlook.

4. Group and State Support: Group and state support factors are either applied automatically depending on the size of the bank or manually. Certain factors can upgrade or downgrade a rating, including the bank's owner, size, market ranking and the country rating.

The analysis from all of these process steps results in a final rating score.

Bankscore methodology

Financial Assesment

- Quantitative variables
- Qualitative variables +
- **Individual result**

Country Analysis

- Country factor/
- Banking system score +
- **Interim score** =

Qualitative Amendments

- **Interim model rating**
- Qualitative amendments +
- =

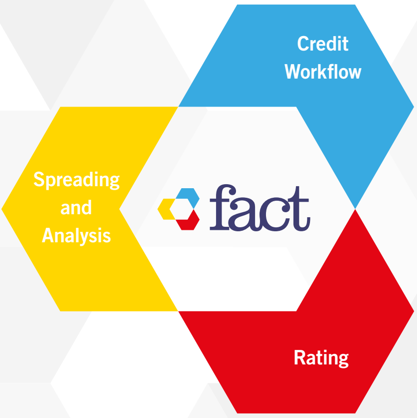
Internal Rating

- **Rating before support**
- Group/state support +
- Country cap
- **Internal proposed rating**
- Credit approval authority +
- **Approved rating**

Extensive expert knowledge has been incorporated in the rating methodology embedded in Bankscore.

Compliance

Bankscore is used by European Financial Institutions to comply with the Basel internal rating based approach.



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