Banks

Quantitative and qualitative factors, banking system rating, market factors

Overview

The LB-Rating module Banks is designed for assessing banks and similar businesses. Its underlying model distinguishes between developed countries, newly industrializing countries and emerging markets to reflect the individual developmental status of a bank's home country.
The rating algorithm is based on a scorecard approach, which combines numerous quantitative and qualitative factors. In particular, the assessment of the domestic banking system plays an important part. Market data are taken into account to cover current economic developments. The system produces a rating that corresponds to the one-year probability of default (PD).

Annual reviews of Banks started in 2005; the module was first approved for the IRB Approach in early 2007.

Scope of Application

- The scope of application of the Banks module consists of companies whose main activity is banking, irrespective of their legal form or home country.
- Typical obligors include universal banks, financial supermarkets, bank holdings, financing institutions, cooperative banks, savings banks, building societies, mortgage banks, investment banks, regional banks, public sector banks and supranational banks.
- Companies without a banking license can also be rated with the module provided that their main activity is banking.

Limitations

- The module should not be used to rate derivative vehicles, private equity companies, factoring companies, leasing companies and central banks.
- A separate module is available for rating investment funds.

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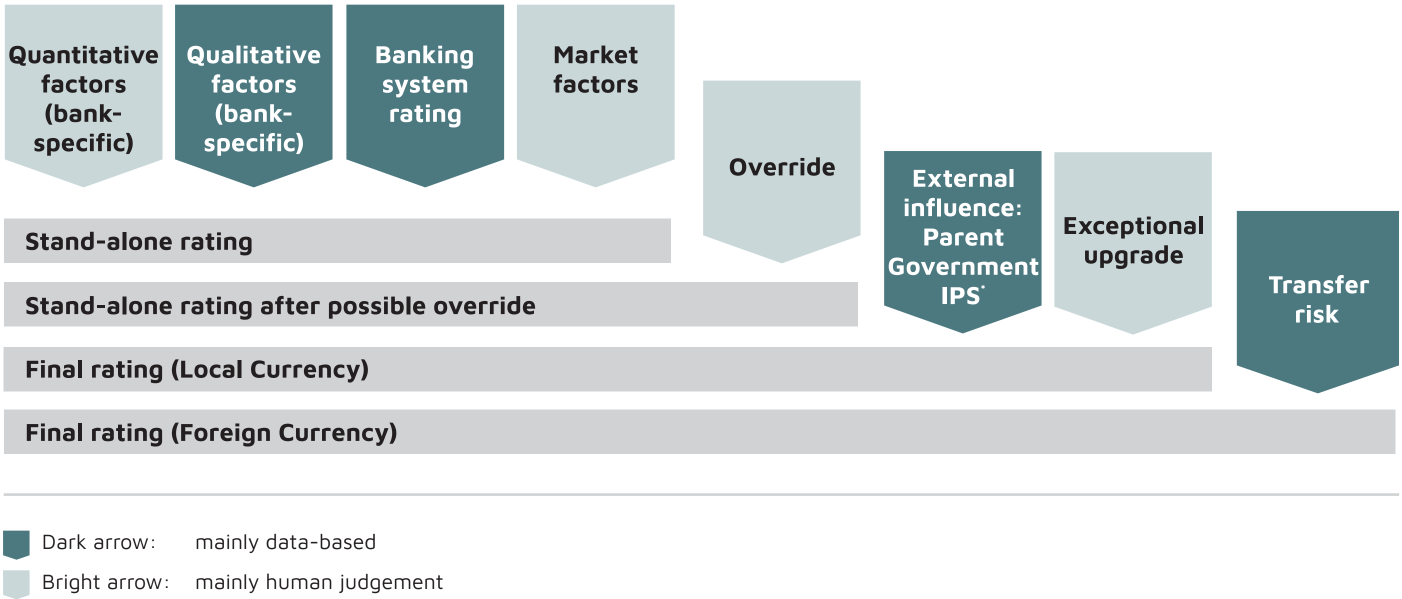
Rating process



Quantitative and Qualitative Factors, Banking System Rating, Market Factors

In addition to a number of quantitative and qualitative factors, the rating model takes the banking system rating into account. The banking system rating reflects the relevant characteristics of the obligor's domestic banking system and is derived from both fundamental data and qualitative information. To cover current economic developments the rating model also incorporates bank-specific CDS information as well as a cyclical factor, which is calculated from current risk assessments of banks on the financial markets using the Merton model.

Overrides

If there are exceptional circumstances that have not been sufficiently taken into account otherwise, analysts can override a rating and change it manually.

External Influence and Exceptional Upgrade

Intra-group relations and guarantee schemes may have positive or negative effects on the rating result. Up to three parent companies, one governmental entity and one institutional protection scheme can be taken into account as sources of external influence. Moreover, excellent external ratings may, under certain circumstances, warrant an exceptional manual upgrade.

Transfer Risk

The additional risk of restrictions on foreign currency transfers in the obligor's or a relevant third party's home country is reflected in the foreign currency rating. This risk must be considered when a loan is not denominated in the obligor's domestic currency.

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