

Fitch Bank Credit Model - now in Bankscope

The Fitch Bank Credit Model is a statistical model that produces a Financial Implied Rating and daily Implied CDS Spread for over 11,000 banks across the globe. The Financial Implied Rating is a measure of a bank's one-year forward, stand-alone financial strength rating that provides a valuable input for bank credit decision-making process. Together with the Implied CDS Spread, it offers a comprehensive and consistent risk assessment approach that meets regulatory and compliance requirements.

The Fitch Bank Credit Model helps you meet the growing need for a variety of financial and market-based indicators to monitor your institution's exposure to credit and counterparty risk and to understand your regulatory and capital adequacy requirements

This new model also helps you evaluate banks that aren't traditionally assessed by rating agencies and validate and benchmark your own credit opinions.

The two elements explained:

1. The **Financial Implied Rating** is derived from financial ratios. It takes into account regional-specific factors as well as proprietary bank default data.
2. The daily **Implied CDS Spreads** are calculated using only statistically significant factors, including aggregated information from the CDS market, the Financial Implied Rating, additional financial ratios, distance-to-default information derived from the equity market plus other market variables.

Key benefits - get access to:

- a new method to review non-agency rated banks
- credit and counterparty risk for compliance purposes via a standard and consistent method and data input
- additional credit risk indicators to validate and benchmark your results from internal models
- a new source of expertise, seamlessly integrated in Bankscope - with no additional IT requirement
- analysis within a matter of minutes and share with interested parties
- highly relevant analysis – the model has been developed post credit crisis and performs robustly through the full business cycle

Fitch Bank Model Highlights

Financial Implied Rating

Output

- Financial Implied Rating supplied for over 11,000 banks
- Expertise from Fitch Ratings with its long-standing position as the global leader in bank ratings
- Forward-looking assessment of the stand-alone financial strength of a bank
- Ten-point rating scale from A – F (interim scores A/B, B/C, C/D, D/E)
- Expanded universe of credit risk indicators for banks
- Three years of history available

Methodology

- Modelling data-set sources annual fundamental financial data from Fitch Solutions' proprietary Company Financials
- Only uncorrelated variables that are statistically significant at 5% level are included
- Three global ratios (e.g. Loans to Assets Ratio) and four regional ratios (e.g. Deposits to Loans Ratio for Developed Countries) are entered into the Financial Implied Rating Model to ensure that the model recognises the specific risks of financial institutions and covers all aspects of credit quality
- Regional inputs are incorporated for more accurate and representative rating distributions for each of the regional financial markets
- The probability of a bank belonging to each rating category are calculated - the one with highest probability is considered the Financial Implied Rating

Implied CDS Spread

Output

- Implied CDS spread supplied for over 5,800 banks
- Calculated daily
- Models next day five-year senior CDS spread for global financial institutions
- Three years of history available

Methodology

- Determined daily using the bank's Financial Implied Rating Mapped Spreads, financial fundamental information, distance-to-default information derived from the equity market plus other market variables
- Incorporates Fitch Solutions' proprietary technical variables, such as Financial Implied Rating Mapped Spread and Foreign Currency Long Term Rating Mapped Spread to integrate the dynamics of the financial CDS markets, as well as other industries, into the model predictions
- Uses a barrier option model to quantify the likelihood that a firm will default based on the market value of assets, historical equity price volatility, and both short and long term debt
- Modelling data set uses only the most liquid five-year senior CDS data as determined by Fitch Solutions' proprietary Liquidity Score model



BUREAU VAN DIJK

info@bvdinfo.com
bvdinfo.com