Financial market regulators around the world are increasingly seeking to ensure that more efficient and transparent approaches are used for bank credit analysis, to decrease systemic risk in the global financial markets. The large universe of unrated banks poses a credit risk challenge for counterparty risk analysts, especially for banks domiciled or mainly operating in the more esoteric markets, and has led to a greater need for counterparty risk analysts to use modeled credit information.

Financial Implied Ratings (FIR) from Fitch Solutions provide an indicator of the standalone financial strength for 23,800 banks including more than 20,500 unrated banks, using a 19-point scale starting from ‘aaa’ at the upper end, down to ‘c’ at the lower end of the credit spectrum. Using a multinomial logistic regression, Fitch Solutions Financial Implied Ratings distinguish the obligor bank’s credit quality with a 90% match within 3 notches for the in sample universe. Financial Implied Ratings also provide an indicator of how close a bank is to being in a different rating, enabling banks to be ranked within a rating band and importantly, an indicative way to detect whether credit quality is deteriorating or improving over time.

Model Methodology
In developing its Financial Implied Ratings (FIR) Model, Fitch Solutions was able to leverage its established position as the industry’s leading provider of bank credit intelligence in order to build a data intensive statistical model. The Financial Implied Rating is based on a set of financial ratios derived from Fitch's proprietary fundamental data and its BMI Country Risk Indices. The results generated by the model are then calibrated against Fitch Ratings’ Viability Ratings. The FIR model methodology has been developed using post financial crisis data to ensure that it performs robustly through the full business cycle.

Subscribe to Fitch Solutions Financial Implied Ratings (FIR) or license the FIR Model
Financial Implied Ratings for more than 23,800 banks are available through all four delivery channels supported by Fitch Connect: Web, Excel Add-In, Feeds and the API, the Application Programmable Interface.

Alternatively, clients can license the Fitch Solutions Financial Implied Ratings Model to implement in their own environment, and can then choose to use either Fitch’s fundamental data for banks or a combination of their own financial data inputs.
Financial Implied Ratings

Data Inputs

Fitch Solutions Financial Implied Ratings Model uses three data input types.

<table>
<thead>
<tr>
<th>Ordinal Logistical Regression</th>
<th>Calibration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three Financial Ratios</td>
<td>Viability Ratings</td>
</tr>
<tr>
<td>Reported financial data extracted from Fitch’s proprietary bank fundamentals database to calculate:</td>
<td>Based on the rated bank universe, the validation results indicate a good match between the published Fitch Viability Rating and Fitch Solutions Financial Implied Ratings expressed on the VR scale. Overall, 90% of the Financial Implied Ratings expressed on the VR scale fall within three rating bands of the equivalent published Fitch Viability Rating.</td>
</tr>
<tr>
<td>• Total Assets</td>
<td></td>
</tr>
<tr>
<td>• Operating Profit/Average Total Assets</td>
<td></td>
</tr>
<tr>
<td>• Loan Impairment Charge/Average Gross Loans</td>
<td></td>
</tr>
<tr>
<td>BMI Country Risk Indices</td>
<td></td>
</tr>
<tr>
<td>A BMI Country Risk Index quantifies the risk of a shock, such as an economic crisis or a sudden change in the political environment that could affect those conducting business within a country.</td>
<td></td>
</tr>
</tbody>
</table>

The modeling data set uses both interim and annual fundamental financial data from Fitch Bank Fundamentals and selects only uncorrelated variables that are statistically significant.

Data Outputs and Validation

The main data output of the Fitch Solutions Financial Implied Ratings Model is a standalone measure of the financial strength and credit risk for the universe of rated and unrated banks which can be directly utilized in the bank’s internal credit risk assessment framework. Standardized and consistent data is provided to help market participants monitor their institution’s exposure to credit and counterparty risk, and to validate and benchmark their own credit opinions while meeting regulatory requirements.

Financial Implied Ratings are expressed on the 19-point subset of the Fitch Ratings’ Viability Rating (VR) scale excluding default. This approach offers a valuable tool for measuring the credit risk of the unrated banks.

Model Recalibration

Quarterly model recalibration ensures that the latest data and any inherent trends are incorporated into the model. While determining the initial creditworthiness is the first and the most critical step in credit risk management, it is recognized that assessing creditworthiness over time is also vitally important.

About BMI Research

Established in 1984, BMI Research provides independent political, macroeconomic, industry and financial market analysis based on using a systematic research approach, to help its clients keep up to date with emerging trends, operational risks and investment opportunities. BMI is part of Fitch Group.

fitchconnect.com | fitchsolutions.com
Unrated Bank Global Coverage

Financial Implied Ratings are available for more than 20,500 unrated banks domiciled in approximately 200 countries.

Business Benefits:

- Analyze modeled credit and counterparty credit risk for 20,500 unrated banks globally, in addition to the rated bank universe of more than 3,300 banks.
- Access high quality Financial Implied Ratings for Banks that are within three notches of Fitch Ratings Viability Ratings in more than 90% of instances for the rated bank universe.
- Validate and benchmark results from internal risk models by using a suite of additional bank credit risk indicators.
- Recognize a ‘warning indicator’ of credit deterioration or strengthening based on tracking market sentiment.
Fitch Connect is an innovative, robust and comprehensive credit analytics platform designed to service the individual data consumption models of credit risk professionals.

Web
A powerful and intuitive desktop interface that delivers the comprehensive suite of Fitch proprietary content along with advanced analytical tools and functionality that includes custom views, search and discovery, portfolio, benchmarking, league tables and alerts.

Excel Add-In
Access the full Fitch Connect data set using a Microsoft Excel interface. Leverage pre-built templates developed by Fitch Solutions for single entity tear sheets, peer and summary analysis for banks and sovereigns. Customize and save templates to generate and populate internal financial risk analysis models.

API
Using the Application Programmable Interface (API) clients gain on-demand access to Fitch Solutions data that can easily be integrated by them into their own proprietary or third party off-the-shelf workflow systems.

Feeds
Proprietary data from Fitch Solutions can be delivered as delimited or non-delimited files for clients to ingest into their own internal database environment. Flexible file structures, multiple file formats and a client defined delivery schedule facilitate data feed set-up and ease of use.

Client Services
A dedicated team of client service professionals based in New York, London, Frankfurt, Madrid, Hong Kong and Tokyo provide ‘follow the sun’ support.
emeaclientservices@fitchsolutions.com
usclientservices@fitchsolutions.com
asiaclient.services@fitchsolutions.com

Learn More
Take a tour of Fitch Connect – the powerful and intuitive platform that delivers the credit ratings and research of Fitch Ratings, Financial Implied Ratings, a curated news service and fundamental data including the world’s most extensive coverage of bank financials.
Request a demo by visiting us at fitchconnect.com
Contact us at fitch.connect@fitchsolutions.com

About Fitch Solutions
Fitch Solutions is an industry-leading provider of credit, debt market and macro intelligence solutions, and the primary distributor of Fitch Ratings content. Today, 90% of the world’s leading banks and financial institutions, as well as multinational companies, government agencies and consulting firms across the globe depend on Fitch content to inform their business decisions.
Fitch Solutions is part of Fitch Group, a global leader in financial information services with operations in more than 30 countries. Fitch Group is majority-owned by Hearst.