Nordic
Credit
Rating

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# Model description

# Financial institutions forecast model

## PURPOSE OF THE MODEL

1. We use our financial institutions forecast model (FI model) as an input when rating financial institutions according to our Financial Institutions Rating Methodology.

2. The FI model supports our standalone credit assessment in accordance with our criteria.

3. The FI model is a tool to create a forward-looking estimate of a financial institution's key financial ratios by forecasting its balance sheet and income statement for up to three years.

4. The FI model outputs have no direct impact on specific rating factors or scoring, though our assessments of key rating components are driven by forecast credit metrics of earnings, capital, funding, liquidity and asset quality which result from analytical inputs into the model.

## DESCRIPTION OF THE MODEL

5. The FI model consists of a detailed forecasting tool, peer comparison overviews, historical financial statements, and key metrics. It also allows the database to be updated.

6. The FI model enables analysts to forecast financial statements and other key components of financial institution ratings, such as capital, funding and liquidity metrics, and asset quality metrics.

7. The projections form the basis of the standard key metrics published in our full reports on rated issuers.

8. In rating committees, forecast ratios are compared with figures set out in our scoring guidelines for capital, funding and liquidity, credit risk, market risk, earnings and loss performance. However, the final decision on individual rating subfactors is never directly based on forecast or historical ratios; rather the ratios act as key inputs alongside other relevant considerations for each rating factor.

## ASSUMPTIONS UNDERLYING THE MODEL/KEY RATING ASSUMPTIONS

9. No assumptions are made in the FI model that are not subject to analytical inputs that can affect the final rating.

## INPUTS

10. Historical financial statements and other relevant reported metrics are input into the FI model from our internal database.

11. Analysts are responsible for inputting assumptions of growth rates, tax rates, dividend payout ratios, debt issuance, asset quality and other key inputs that affect the forecast. These inputs are allowed only in certain unlocked fields. Analytical inputs are saved in a forecast database and can be reloaded for future analysis.

## DATA USED IN THE MODEL

12. The FI model is forecasting tool designed for use with data prepared under established financial reporting standards for financial institutions.

## THE LIMITS AND WEAKNESSES OF THE MODEL

13. The FI model could be subject to incorrect inputs which subsequently result in inaccurate forecast metrics. We use analytical judgement and the committee process to establish if a forecast conforms with our expectations.

## MATERIAL CHANGES TO THE MODEL

14. The FI model includes a version log and changes require rigorous approval (four-eyes signoff). Checks and balances flag input errors and/or missing data and semantic versioning is used for all updates. Previous versions are maintained separately.

## RELATED METHODOLOGY AND PRINCIPLES

15. Financial Institutions Rating Methodology
16. Group and Government Support Rating Methodology
17. Rating principles

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