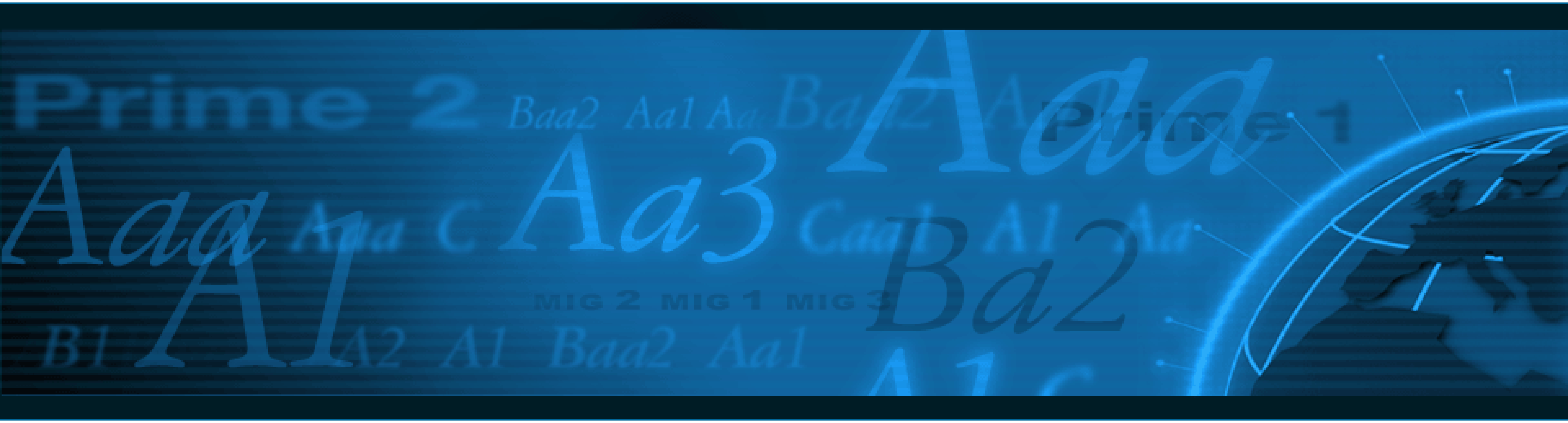
A Brief Introduction to MERIS Rating Services – Banks Ratings



MERIS

Middle East Rating & Investors Service

Agenda

I) About MERIS

II) Credit Rating Concept

III) Rating Process

IV) Banks Rating Approach

V) Conclusions

I) About MERIS

- **MERIS (Middle East Rating & Investors Service)** was established as a joint venture between **Moody's Investors Service** (among the world's foremost credit rating agencies) and **FinBi** (Finance & Banking Consultants International).

- **MERIS** is supported by the technical assistance and expertise of **Moody's**. **MERIS** focuses on issuing independent credit ratings, opinions of the relative creditworthiness of issuers or issues, research and analysis to various corporate and banking market participants at the national level.

- **MERIS** is currently focused on providing credit rating service, extensive credit rating analysis and credit research in Egypt. **MERIS** territory also extends to cover other countries in the Middle East.

*Additional information about **MERIS** is available at www.merisratings.com*

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II) Credit Rating Concept

What Does a Credit Rating Mean?

- Credit rating provides an **independent** and **rigorous** credit opinion about an entity or about a fixed-income security. It is an assessment of the ability and willingness of an entity or an issuer to honor full and timely payments on its financial commitments.
- Credit rating provides a clear and easily understood **ranking** of the credit quality of a security across different markets which can help facilitate **comparability**.

II) Credit Rating Concept

What Does a Credit Rating Mean?

- Credit ratings can enhance **transparency** and **efficiency** in the debt capital markets. Transparency is a key issue that **investors** are looking for in today's world.
- Applying for a credit rating signals a willingness by the issuer to be transparent.

National Scale Ratings (NSRs)

- A NSR is **an opinion of the relative creditworthiness** of entities and issues in a **particular country**.
- NSRs are not designed to be compared between countries, rather they address relative risk within a given country.

NSR Criteria:

- NSRs take into account the intrinsic financial strength of the obligor.
- External support factors to the issue may be taken into consideration.
- Balance between qualitative and quantitative analysis.

MERIS National Rating Scale

Quality of credit	long term	short term	
Highest Credit	AAA		Investment Grade
Very High Credit	AA+ AA AA-	Prime-1	
Upper-Medium	A+ A A-		
Medium Grade	BBB+ BBB BBB-	Prime-2 Prime-3	
Weak Quality	BB+ BB BB-		Speculative Grade
Poor Quality	B+ B B-	Not Prime	
Very Poor	CCC+ CCC CCC- CC C		

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Principal Benefits of NSR - Issuers

- Can enhance transparency, which is a major requirement for today's capital markets and for investors.
- Facilitates wider access to the local & global capital markets and investors.
- Can offer means of communicating opinion on creditworthiness to key counterparties from an internationally recognized neutral and independent body.
- Can provide means of comparison to other institutions in the same country.
- May be useful to facilitate repeat issuance.
- Provides issuers with an independent assessment against which to benchmark their own creditworthiness.
- Rating may expand your investor base and decrease your cost of borrowing.
- May help issuers to formulate internal capital plans and funding strategy.

Principal Benefits of NSR - Investors

- Can enhance transparency and reduce uncertainty.
- Reduces information gap between issuers and investors, giving investors greater confidence.
- Can widen investment horizons beyond state boundaries.
- Independent indicator of credit quality.
- Can help understanding and managing credit risk.
- Strategic tool for portfolio management techniques.
- May facilitate secondary market liquidity.

What a Rating will Not Tell You?

- Rating agencies do not make recommendations to buy or sell.
- Credit ratings are a measure of relative risk and not a measure of relative value.
- Rating agencies do not “price” debt.
- Rating agencies are not auditors or investigators. They depend on audited financial statements as well as on the information provided by the rated entity in the rating process.
- Rating is not a guarantee against loss. It is an opinion about the relative probability of default and loss.

III) Rating process

Typical Time Frame for a First-Time Rating

Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8

- Processing Initial Information
- Management Meetings
- Credit Rating Analysis
- Rating Report Draft
- Rating Committee Discussion
- Press Release & Final Rating Report

Note: This time frame applies as of the date of availability of information.

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Rating Process

- Initial Meeting – possible first glance???
- Execution of a Rating Agreement.
- Analytical team assigned consisting of minimum two analysts (lead and a backup).
- Preliminary Information Requirement List sent to customer.
- Processing Initial Information.
- Management Meetings.
- Preparation of the Report.
- Rating Committee.
- Communication of the Rating.

Not a black box exercise, it is an open dialogue process.

Deliverables

- Credit Rating Report
- Rating Certificates
- Press Release
- Responses to inquiries from institutional investors, research needs, questions and/or information requirements

Once a Rating is Assigned....

- Rating and key credit opinion is made widely available.
- On-going monitoring of published ratings and annual review meetings with the company.
- Change the rating or confirm it whenever appropriate (i.e. issues such as M&A activity, debt issuance, etc. should always be discussed with the rating company).
- We promote continuous communication between **MERIS** analysts and rated companies.

Standards of MERIS Professional Conduct

- Protection of Confidential Information
- Independence and Objectivity
- Integrity
- Compliance with Applicable Laws and Regulations
- Real and Apparent Conflicts of Interest

IV) Banks Rating Approach

Banks Rating Approach

- **Our Banks Rating Approach is based on:**

A) Fundamental Credit Factors: These factors are used to determine our **Baseline Credit Assessment (BCA)**, which reflects our opinion of a bank's intrinsic, or standalone, financial strength relative to the other local banks.

B) Support and Structural Analysis: It's our approach to incorporate our expectations related to various forms of external support, from affiliated entities, or from governments.

Banks Rating Approach - Cont'd

A) Fundamental Credit Factors:

Baseline Credit Assessment (BCA):

1. Macro Profile: Captures the bank's operating and economic environment. It includes: economic variables, such as GDP growth, as well as domestic banking indicators in terms of asset quality & capital, funding & liquidity, and profitability.

Banks Rating Approach - Cont'd

A) Fundamental Credit Factors:

Baseline Credit Assessment (BCA):

2. Financial Profile: Captures the bank's financial health, gauging key **Solvency and Liquidity Ratios**, together with supplement financial metrics.

Solvency: The combination of a bank's risks, and its capacity to absorb any resultant losses from capital and earnings.

Liquidity: The combination of the mismatch between the maturity of a bank's assets and its liabilities, the reliability of its funding, and its capacity to meet cash outflows from liquid reserves.

Banks Rating Approach - Cont'd

A) Fundamental Credit Factors

Baseline Credit Assessment (BCA):

3. Qualitative Factors: adjust financial profile to reflect **Non-Financial Qualitative Judgments**. There are three qualitative factors, which are:

- **I- Business Diversification:** the breadth of a bank's business activities, whether it is dependent on a single business, or spread across multiple activities, exposing it to or protecting it from problems in a single activity.

Banks Rating Approach - Cont'd

A) Fundamental Credit Factors

Baseline Credit Assessment (BCA):

- **II- Opacity and Complexity:** the extent to which a bank's inherent complexity may heighten management challenges and the risk of strategic errors, and the degree to which financial statements are a reliable guide to its fundamentals.

- **III- Corporate Behavior:** the extent to which a bank's strategy, management and its corporate policies may reduce or increase its overall risk profile.

Banks Rating Approach - Cont'd

B) Support and Structural Analysis

- **Affiliate Support:** where an entity may be supported by other entities within a group, or occasionally affiliated third parties, thus reducing its probability of default.
- **Government Support:** where an entity may be supported by public bodies, such as local, regional, national or supranational institutions, again reducing the risk for some or all instruments.

V) Conclusion

Why Do You Need A Credit Rating For Your Bank?

- Credit Rating, both locally and internationally, provides **Transparency** to the outside world from an independently recognized body.

- A rating can **facilitate access** to a wider pool of debt capital market.

- Rating is a **mandatory** requirement for bond issuance according to Egyptian law.

Why Do You Need A Credit Rating For Your Bank? - Cont'd

- Investment horizons are widening well beyond state boundaries. Credit worthiness, which is established by credit rating, is becoming ***a main investment criterion worldwide***. Investors, both foreign and local, may deal with banks according to where these banks stand on both local and international rating scales. Investors use credit ratings as benchmarks to compare between the creditability of banks.

- You may wish to seek a credit rating irrespective of bond issuance – ***eases pressure and allows sufficient time and flexibility***. *It is* ***best to rate when not under pressure***.

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