METHODOLOGY

ICRA
RATING
ISO 9001 : 2015

ICRA CREDIT RATING METHODOLOGIES

ICRA FI Credit Rating Methodology

ICRA Financial Institutions Credit Rating Methodology The ICRA Financial Institutions Credit Rating Methodology is designed following the foundational principles of BASEL III accords as well as CAMELS Framework. This combination of globally recognized standards in ICRA approach under- scores the commitment to elevating local credit assessments to international benchmarks. By integrating these frameworks, we ensure a meticulous evaluation of financial institutions, aligning with global best practices while catering to the unique nuances of the local financial landscape. This reflects our dedication to delivering precise, transparent, and globally competitive credit ratings.

ICRA FI CREDIT RATING METHODOLOGY

COMPONENTS	WEIGHTAGE
Business Model/Profile Review Size of the Business Competitive Advantages Uncertainty (Future Revenues & Profitability) Concentration Risk	15%
Management Quality Governance, Regulatory, and Legal Compliance Board of Directors Management Team Ownership	10%
Industry Risk Country Risk with Economic, Political, and Social Stability Industry Risk	15%
Financial Analysis Performance Financial Position Cash Flows	20%
Ratio Analysis Capital Adequacy Earnings Asset Quality Liquidity	40%

CAMELS FRAMEWORK

The CAMELS Framework is a widely accepted supervisory tool used by regulatory authorities and financial institutions to assess the overall health and stability of financial institutions. The acronym "CAMELS" stands for six key components:

- (C) Capital Adequacy
- (A) Asset Quality
- (M) Management
- (E) Earnings
- (L) Liquidity
- (S) Sensitivity

BASEL III PRINCIPLES

The CAMELS Framework is a widely accepted supervisory tool used by regulatory authorities and financial institutions to assess the overall health and stability of financial institutions. The acronym "CAMELS" stands for six key components:

BASEL III Pillars		
Minimum Caital Requirements	Supervisory Review Process	Market Discipline (Disclosure)

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Rating Assignment Criteria

Financial Institution Ratings

ICRA Financial Institution Rating Methodology is designed to cater to small to large banks in the country. The rating assignment calculation has been designed in a way that appeals to a wide audience in the financial institution industry. Based on the in dept analysis, the risk team would assign the respective scores or select the desired classifications for each factor when arriving at the final score based on the "ICRA Weighted Average Credit Scoring Model for Financial Institutions" (WACS).

COMPONENTS	WEIGHTAGE	MAXIMUM SCORE	ASSIGNED SCOURE (OUT OF 10)
Business Model/Profile Review Size of Business Competitive Advantages Uncertainty (Future Revenues & Profitability) Concentration Risk	**15.0%** 7.5% 2.5% 2.5% 2.5%	10 10 10 10	E F G H
Management Quality Governance Regulatory and Legal Compliance Board of Directors Management Team Ownership	**10.0%** 2.0% 2.0% 4.0% 2.0%	10 10 10 10	I J K L
Industry Risk Country Risk with Economic, Political and Social Stability Industry Risk	**15.0%** 7.5% 7.5%	10 10	M N
Financial Analysis Performance Financial Position Cash Flows	**20.0%** 7.5% 7.5% 5.0%	10 10 10	O P Q
Ratio Analysis Capital Adequacy Earnings Asset Quality Liquidity	**40.0%** 10.0% 10.0% 10.0% 10.0%	10 10 10 10	R S T U

SCORING CHART

9	10	STRONG
7	8	GOOD
5	6	MODERATE
3	4	WEAK
1	2	BAD

Final Score (ICRA WACS Model for Fis) =

[(7.5% E) + (2.5%°F) + (2.5%*G) + (2.5%*H) + (2.0%*1) + (2.0%*J) + (4.0%*K) + (20%*L) + (7.5%*M) + (7,5%*N) + (7.5%*0)+(7.5% P) + (5.0%*Q) + (10.0%*R) + (10.0%*s) + (10.0%*T) + (10.0%*U)] *10