Moody's Investors Service

Global Credit Research
Credit Opinion
1 APR 2009

Credit Opinion: Foroya Banki P/F

Foroya Banki P/F

Denmark

Ratings

Category	**Moody's Rating**
Outlook	Stable
Bank Deposits	A3/P-2
Bank Financial Strength	C-

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Key Indicators

Foroya Banki P/F

	[1]**2008**	**2007**	**2006**	**2005**	**2004**	**Avg.**
Total assets (DKK billion)	**10.11**	**9.62**	**7.21**	**6.37**	**5.60**	[2]**15.93**
Total assets (EUR billion)	**1.36**	**1.29**	**0.97**	**0.85**	**0.75**	**--**
Total capital (DKK billion)	**1.56**	**1.34**	**1.25**	**1.09**	**1.56**	[2]**0.08**
Return on average assets	**1.75**	**1.71**	**2.35**	**2.15**	**--**	**1.99**
Recurring earnings power [3]	**1.47**	**1.71**	**1.74**	**2.04**	**--**	**1.74**
Net interest margin	**3.80**	**3.55**	**3.54**	**3.89**	**--**	**3.70**
Cost/income ratio (%)	**56.15**	**59.94**	**57.81**	**53.91**	**49.94**	**55.55**
Problem loans % gross loans	**3.74**	**3.41**	**5.28**	**8.37**	**11.34**	**6.43**
Tier 1 ratio (%)	**20.70**	**18.00**	**23.80**	**27.60**	**47.40**	**27.50**

[1] As of December 31. [2] Compound annual growth rate. [3] Preprovision income % average assets

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a C- Bank Financial Strength Rating (BFSR) to Foroya Banki, which translates to a Baseline Credit Assessment (BCA) of Baa2. The rating reflects Foroya Banki's strong local franchise and solid financial fundamentals, particularly high capital adequacy and good core profitability. The BFSR also incorporates challenges arising from the bank's credit risk concentration and exposure to fishing-related industries which, although increasingly diversified, may still be volatile. It also takes into account the bank's increasing reliance on market funding if it maintains its expansion and continues to pursue savings disintermediation.

Foroya Banki is a leading bank in the Faroe Islands (a self-governing part of the Kingdom of Denmark) with about a 40% market share in lending and deposits. Its core customer base consists of individuals and SMEs. Its activities primarily consist of retail banking, corporate banking and markets and treasury.

In light of Foroya Banki's strong local franchise and importance to the local economy, Moody's believes that the home government of the Faroe Islands and the government of Denmark would support the bank in a stress scenario. There is past evidence of intervention on the part of the Faroese and Danish governments in the economic crisis of the early 1990s, since when the Faroe Islands has undergone economic, political and legislative restructuring. Given this external support assessment, under Moody's joint default analysis (JDA) methodology, the bank's long-term deposit ratings incorporate a two-notch uplift to A3 from the BCA of Baa2.

Thus, the deposit and debt ratings of Foroya Banki incorporate three elements: (i) the BFSR of C-, (ii) Moody's assessment of the moderate systemic support from both the Faroese and Danish governments (a component of JDA), and (iii) the seniority of its deposits and debt.

Credit Strengths

- Strong local market position on the Faroe Islands and importance to the local economy

- Solid earnings from core operations

- High capital adequacy

- Relatively large deposit base

- Improved asset quality, although more challenging times ahead

Credit Challenges

- High credit risk concentration in the loan portfolio, and exposure to fishing industries

- Unseasoned loan portfolio that could result in a deterioration in asset quality

- Weaker economic outlook likely to adversely affect asset quality

- Future revenue growth prospects given small home market and competition

- Some related-party lending

- Improving cost efficiency

- Further development and integration of risk and liquidity management practices

- Expansion to highly competitive market in Denmark

Rating Outlook

The outlook on all ratings is stable, reflecting the bank's strong local franchise and good capitalisation.

What Could Change the Rating - Up

Given the current economic outlook, we do not see upward pressure on the BFSR.

What Could Change the Rating - Down

The BFSR could be negatively affected by a deterioration in profitability and capital adequacy or a weakening of the risk profile. In addition, any problems with large exposures, deteriorating liquidity or eroding market share would exert downward pressure.

The deposit rating could be downgraded if (i) the BFSR were downgraded or (ii) Moody's assessment of external support were lowered although we view lower support assessment unlikely.

Recent Results and Developments

In 2008, Foroya Banki's net interest income increased by 20% from 2007 reflecting the full effect of strong lending growth in the previous year as well as margin increases. Loan growth slowed down significantly to 3.5% yoy. Earnings were negatively affected by a value adjustment of DKK76 million mainly related to the bank's share portfolio, which is primarily exposed to the Danish market, and by increasing loan loss provisions. Despite the negative items, the increase in the bank's net income reflected the sale of its majority shareholding in P/F Vestlax (aquaculture company) for a gain of DKK94 million. Foroya Banki's pretax income for 2008 rose to DKK200 million from DKK180 million in 2007. The cost-to-income ratio was 56% in 2008 compared with 60% in 2007.

Asset quality is satisfactory, but we caution that loan loss provisions are increasing in contrast to write-backs in

2005-2007. Capitalisation has remained high, as demonstrated by the core capital ratio of 20.7% at YE2008.

In October 2008, Foroya Banki announced that it had divested a majority of its shareholding in P/F Vestlax. In connection with the sale, the bank provided a convertible loan of DKK40 million. After the sale, the bank holds 1.9% of Vestlax Holding, which is the new owner of the company. In addition, the bank's associated company Bakkafrost owns 7.3% of Vestlax Holding.

In January 2009, the Danish government announced the second support package to the financial sector. The package comprises the recapitalisation of the financial sector and the extension of the guarantee scheme for the issuance of medium-term loans maturing at the latest on 31 December 2013. All solvent banks and mortgage credit institutions are eligible to participate; applications for the recapitalisation, which will be in the form of hybrid capital, must be submitted by 30 June 2009. Foroya Banki does not have plans to apply for a capital injection given its current solvency levels.

On 5 October 2008, the Danish government and the Danish banking sector agreed on a two-year guarantee scheme for all deposits and senior credits. The participating banks cover first loss under the scheme up to DKK35 billion (DKK15 billion in monthly guarantee commissions + up to DKK20 billion under a guarantee). Foroya Banki is participating in and covered by the scheme. It is expected to cost about DKK40 million for Foroya Banki in 2009 and 2010 (corresponds to about 20% of pre-tax profit in 2008) in guarantee commissions and in addition there will be a cost related to the guarantee. Moody's views the guarantee as being helpful from the liquidity point of view but notes that it will weigh on the profitability of the participating banks for the two-year period.

DETAILED RATING CONSIDERATIONS

Detailed considerations for Foroya Banki's currently assigned ratings are as follows:

Bank Financial Strength Rating

Moody's assigns a C- BFSR to Foroya Banki. The bank's BFSR is positively influenced by good financial fundamentals, particularly by high capital adequacy, and also by the overall good scores for the operating and regulatory environment. However, it also takes into account high credit concentration and some related party-lending, exposure to fishing-related industries including ownership stakes in two fish farming companies (the other holding was decreased to 1.9% in October 2008) as well as low geographic diversification. It is important to note that, while the bank's attitude to risk is conservative, adequate formal risk management procedures are still developing.

As a point of reference, the assigned BFSR is one notch below the C outcome of Moody's bank financial strength scorecard. We believe that C- is an appropriate measure for the bank's current financial strength, given the current challenges facing the bank, particularly in terms of risk positioning and also the more uncertain economic outlook.

Qualitative Factors (50%)

Factor 1: Franchise Value

Trend: Neutral

Headquartered in Torshavn, the capital of the Faroe Islands, Foroya Banki is a leading local bank in the region consisting of 18 islands and 48,000 inhabitants. The bank has been in its current form since 1994 when two Faroese banks Foroya Bank and Sjovinnubankin were merged. Its core customer base is individuals and small- and medium-sized enterprises (SMEs). Activities primarily consist of the following segments: retail banking, corporate banking and wealth management. Foroya Banki also has fully owned subsidiaries in non-life insurance (Trygd, acquired in 1997) and real estate brokerage (Skyn, established in 2006).

Foroya Banki has a market share of over 40% in both corporate and retail lending on the Faroe Islands. In addition, Trygd has a market share of 25% in the non-life insurance market. In November 2008, the bank reduced the number of branches in the local communities by five and now operates a total of nine branches. Foroya Banki's solid market position in its core market of the Faroe Islands is viewed by Moody's as an important factor underpinning the bank's ratings. The bank has also established small-scale operations also in Denmark. We note that banking in Copenhagen is competitive given a large number of banks and the current operating environment is challenging.

Overall, the bank has over 10,000 retail customers and over 1,300 corporate customers including the public sector. About half of the bank's earnings are derived from sources that Moody's regards as stable including retail banking and transaction services. We view earnings driven by corporate and specialised lending as less predictable in the long term than earnings from retail-based lending. The loan portfolio of DKK7.7 billion is divided between the retail sector (45%, of which over two-thirds are residential mortgages), the corporate sector (50%) and the public sector (5%).

The bank scores C for franchise value, which is mainly constrained by its low geographical diversification.

Factor 2: Risk Positioning

Trend: Improving

Foroya Banki was privatised in June 2007 and currently has more than 15,000 shareholders. The largest owner is the Financing Fund of 1992 with a stake of 33.4%. The fund was established through contributions from the Danish government and an investment fund of the Faroese government to support the two most troubled banks in the economic crisis of the early 1990s and it has been the owner since 1993. The bank's shares are quoted on the NASDAQ OMX Nordic Exchanges in Reykjavik and Copenhagen. Voting rights are restricted so that a single shareholder cannot have more than 10% of votes regardless of the shareholding.

The bank's corporate governance principles comply with the Icelandic governance recommendations issued by the NASDAQ OMX Nordic Exchanges in Reykjavik. The Board of Directors consists of six members, of which three are considered independent. The executive board has two members, of which the CEO has been employed by the bank for 15 years. We note that the bank has decreased its related-party lending by divesting most of its ownership in Vestlax in October 2008.

The bank's financial statements are prepared in accordance with the Faroese Banking Act as well as with the executive order and guidelines of the Danish Financial Supervisory Authority on presentation of financial statements by banks as applied on the Faroe Islands. Therefore the financial statements lack global comparability to accounts prepared under IFRS. From 2009, the bank starts to report according to IFRS. In addition, we note that the accounts are audited by a local accounting firm instead of a globally recognised accounting firm. The bank's public financial disclosures are adequate but limited -- for example, as regards the level of risk carried by the bank. In addition, we note that the bank has not prepared consolidated financial statements, which also limits the insight into the overall risks of the bank. However, from 2009 the bank starts to report consolidated accounts according to IFRS.

The bank's formal risk management procedures are still developing and we note that the risk management practices lack the sophistication of those of other players in the Nordic region. The bank has implemented Basel II from 1 January 2009, which should result in a more systematic measuring and quantifying of risks. Risk management is independent from the business lines and reporting to the CEO. Also related-party lending, accounting for 25% of core capital, is constraining the score for risk management.

Operating in and being supportive to its local area means that the bank has large customer exposures. We also note that the dependence on the fishing related industries (the Faroe Islands' exports mainly consist of fish products) has resulted in greater economic volatility in the Faroese economy compared to the more diversified economies. Foroya Banki's has a high borrower concentration -- the 20 largest exposures represent about 150% of core capital. About 30% of the 20 largest exposures are related to the fishing and fish farming (also referred to as aquaculture) industries. We also note a few large exposures to the shipping industry which are related to oil offshore supply services or transportation. However, the industry concentration of the total loan portfolio is limited -- lending to the fishing industry is the largest exposure representing about 10% of gross lending and about 50% of core capital. In addition there is some loan exposure to the fish farming industry (about 3%). Foroya Banki also has exposure to fish farming via direct ownership in Bakkafrost (33.7%) in which the bank became an owner as a consequence of the crisis in fish farming in 2003-2004. The bank considers the holding temporary. The exposure to the property sector is low at 3% and building and construction amounts to 5% of gross lending.

Deposits are the primary source of funding -- at YE2008 deposits represented 66% of funding (YE2007: 67%, YE2006: 79%, YE2005: 98%) and the rest is market funding. The five largest deposits represent over 10% of total deposits but in general the deposit base is well diversified. However, due to strong loan growth, the bank's reliance on market funding has increased in recent years and consists mainly of interbank funding. About 30% of market funding matures within one year. The current composition of Foroya Banki's funding is satisfactory and benefits from a large deposit base but the maturity profile of market funding is relatively short. However, we view positively the bank's efforts to diversify the funding base. Going forward, we will continue to monitor the recent trend of a smaller proportion of deposits and higher reliance on market funds, given the more volatile nature of interbank funding.

As regards the liquidity of the Danish banking system, it should be noted that, due to the generally tightened liquidity situation, the Danish central bank temporarily extended its lending facilities. In December 2008, Foroya Banki was granted a credit facility of DKK673 million by the central bank, which will be available until September 2010.

The bank had liquid assets amounting to 19% of total assets at YE2008. The securities portfolio accounted for about 50% of the liquid assets and the rest is in cash and interbank deposits. The securities portfolio consists mainly of Danish mortgage bonds, government bonds and some bank senior bonds but also includes almost 10% of shares (mainly listed on NASDAQ OMX Copenhagen) and investment funds. The shareholding represents about 6% of core capital. The interest rate risk in relation to a 100 bps change in interest rates was 2.3% at YE2008. Foreign currency position is negligible. We also note that the bank is exposed to some market risk, although relatively low given its conservative investment strategy, via its non-life insurance company Trygd.

The overall score on risk positioning is D and is constrained by the bank's high credit risk concentration. We have assigned an improving trend, reflecting the steps taken in risk management, liquidity management and financial reporting transparency.

Factor 3: Regulatory Environment

Foroya Banki is regulated by the Danish Financial Supervisory Authority and Faroese credit institutions are members of the Danish Deposit Guarantee Fund. Refer to the latest Banking System Outlook for Denmark, published in November 2008, to obtain a detailed discussion on the regulatory environment.

Factor 4: Operating Environment

Trend: Neutral

Moody's assigns an A score for the overall operating environment of Denmark, which consists of A scores for Economic Stability, Integrity and Corruption, and Legal System -- in accordance with the World Bank Efficiency index.

Since the economy of the Faroe Islands has been less stable in the past 20 years (standard deviation of the GDP growth of over 6%) than the economy of Denmark, we adjust the score for economic stability to C. The overall adjusted score for the operating environment of Foroya Banki is therefore B+.

Quantitative Factors (50%)

Factor 5: Profitability

Trend: Weakening

Foroya Banki's pre-tax profit was 11% higher in 2008 than in the previous year, reflecting an extraordinary gain from the sale of Vestlax, a fish farming company, amounting to DKK98 million. However, when excluding the extraordinary gain, pre-tax profit was 43% lower than in 2007. The result was adversely affected by negative value adjustments and increasing loan loss provisions. Net interest income continued to grow reflecting increasing margins, and the full effect of strong loan growth in 2007. In 2008 the loan growth however slowed down to 3.5% and is expected to be low also in 2009. The net interest margin in 2008 was 3.8% compared to 3.6% in 2007. Risk-weighted recurring earning power (Pre-provision income as % of Average risk-weighted assets) declined to 2.0% in 2008 compared to 2.3% in 2007 and 2.6% in 2006. There was also some volatility in the result of the non-life insurance subsidiary Trygd in 2008. The company has decided not to renew its marine insurance policies in 2009 which should decrease overall risk and volatility.

We note that the guarantee payments in relation to the Danish guarantee scheme will put some pressure on the bank's overall profitability over the two-year period until 30 September 2010. The annual guarantee commission will amount to DKK40 million and in addition to that there are payments related to the guarantee.

Net interest income represents the bulk of the bank's operating income whilst fees and commissions accounted for about 15% in 2008. Fees and commissions stem from guarantees, credit transfers, loan-related fees and securities brokerage. Income from financial instruments varied from 3% to 7% of operating income in 2005-2007 but was negative in 2008.

The score for Foroya Banki's profitability is B. We have assigned a weakening trend reflecting our expectation of higher provision levels going forward due to the more challenging economic outlook as well as slower loan growth. The increasing cost of funding could also put pressure on profitability.

Factor 6: Liquidity

Trend: Neutral

The bank has good knowledge and overview of its liquidity position. With liquid assets accounting for around 19% of total assets, which are mainly in interbank deposits and Danish mortgage and government bonds as well as some equities, its liquidity is satisfactory.

Retail deposits, as a primary source of funding, are still at a good level but have been steadily declining over recent years. The deposit-to-loan ratio was about 70% at YE2008 and the deposit base remained pretty stable compared to year-end 2007. As interbank funding is traditionally more volatile, Moody's will continue to closely monitor the bank's funding profile. The funding is currently not very diversified but we note the bank's efforts to expand its funding sources and widen the investor base.

The score for liquidity is D+, which is a combination of a D score for liquidity management and a C score for the liquidity ratio.

Factor 7: Capital Adequacy

Trend: Neutral

Foroya Banki's capital position is strong -- the core capital ratio was 20.7% at YE2008 (18.0% at YE2007). The bank is not allowed to pay a dividend in 2008 or 2009 as part of its participation in the first banking package by the Danish government. The bank's target is to keep the core capital ratio above 12% -- a higher level is viewed as necessary due to concentration risks. Foroya Banki has not issued any hybrid capital.

The Basel II legislation was implemented in the Faroe Islands on 1 January 2009. Foroya Banki will be using the standard method for capital requirement calculation. As a result of a lower risk-weight on mortgage loans under Basel II, the bank expects to release some capital.

The bank's score for capital adequacy is A.

Factor 8: Efficiency

Trend: Neutral

The cost efficiency of the bank has deteriorated somewhat in recent years -- the cost-to-income ratio was 56% in 2008 compared to 60% in 2007 and 50% in 2004.

Higher expenses in recent years have been partly related to an increasing number of employees and higher wages, but going forward there could be less upward pressure on wages. In 2007, the bank closed five small branches and in November 2008 it decided to close another five branches, which should positively affect the bank's cost efficiency. The cost of funding is also rising as the bank is increasingly using market funding.

We expect some pressure to remain on the bank's cost efficiency due to the implementation of more advanced risk management systems, investments related to the change to Basel II and IFRS accounting standards, as well as higher cost of funding and expansion to Denmark. The bank's target is to keep the cost-to-income ratio below 50%.

The bank's score for efficiency is C.

Factor 9: Asset Quality

Trend: Weakening

Foroya Banki's overall asset quality metrics have improved over the past few years and the problem loan ratio is currently at a satisfactory level. We, however, note an increase in provisions in 2008, which related to some fishing industry exposures and a building project in Torshavn. At YE2008, problem loans (measured as provisions) represented 3.7% of gross loans compared to 3.4% at year-end 2007. In addition, the non-accrual amount due increased significantly in 2008 to 2.9% of gross loans at YE2008 from 0.3% at YE2007. The positive developments in fish farming -- after problems in 2003/2004 -- were reflected in positive loan loss provisions in 2005-2007. We note that in the past the bank has been rather conservative in terms of provisioning as it has not been reporting under IFRS. However, the provision levels are likely to be affected by the bank's transition to IFRS in 2009.

The loan portfolio displays some unseasonality due to strong loan growth over the past few years -- +36% in 2007 and +29% in 2006. In 2008, however, loan growth slowed down to 3.5% and low growth is expected also for 2009. In addition, the loan book has high single-name concentration. We note that exposure to the fishing sector as well as to the property and construction sectors accounts for less than 10% of the loan portfolio.

The unsecured part of the loan portfolio, which is not covered by collateral, accounts for 38% of gross loans at YE2008. It is mainly related to corporate loans.

As regards the mortgage loans, the housing market has been booming, particularly in the capital (Torshavn), and house prices doubled in the period 2000-2007. However, in 2008 house prices started to decline (on average -12%) and the downward trend is expected to continue. The majority of the mortgages are floating rate and about 90% of the mortgages are below the maximum LTV of 80%. The indebtedness of Faroese households is relatively low -- about 60% of GDP vs. well above 100% in Denmark.

The bank scores C+ for asset quality. We view the trend as weakening given the more challenging economic environment, which is likely to adversely affect the bank's asset quality going forward.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns a global local currency (GLC) deposit rating of A3 for Foroya Banki. The rating is supported by the bank's own Baa2 BCA and -- in accordance with Moody's joint default analysis (JDA) methodology -- receives a two-notch uplift resulting from our assessment of the moderate probability of systemic support from both the local government of the Faroe Islands, which owns 33.4% of the bank, and the Aaa local currency deposit ceiling of Denmark, which is considered the ultimate support provider. The support consideration is based on the bank's importance to the local economy of the Faroe Islands, where it has about a 40% market share in lending and deposits.

Foreign Currency Deposit Rating

Foroya Banki's A3 foreign currency deposit rating is unconstrained given that Denmark has a country ceiling of Aaa.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. Bank Financial Strength Ratings do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honour its domestic or foreign currency obligations. Factors considered in the assignment of Bank Financial Strength Ratings include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although Bank Financial Strength Ratings exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the Bank Financial Strength Rating as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, Moody's Bank Deposit Ratings are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, and includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Credit Assessment. In calculating the GLC rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in case a stress situation occurs and the degree of dependence between the issuer rating and the LCDC.

Nationale Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to a high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be reminded that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt obligations may also be constrained by the country ceiling for foreign currency bonds and notes, however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Foroya Banki P/F

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (50%)						**C**	
Factor: Franchise Value						**C**	**Neutral**
Market Share and Sustainability	**x**						
Geographical Diversification					**x**		
Earnings Stability			**x**				
Earnings Diversification [2]							
Factor: Risk Positioning						**D**	**Improving**
Corporate Governance [2]				**x**			
- Ownership and Organizational Complexity	--	--	--	--	**--**		
- Key Man Risk	--	--	--	--	--		
- Insider and Related-Party Risks	--	--	--	--	--		
Controls and Risk Management			**x**				
- Risk Management				x			
- Controls	x						
Financial Reporting Transparency				x			
- Global Comparability				x			
- Frequency and Timeliness	x						
- Quality of Financial Information				x			
Credit Risk Concentration	**--**	**--**	**--**	**--**	**--**		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		
Liquidity Management				**x**			
Market Risk Appetite		**x**					
Factor: Operating Environment						**A**	**Neutral**
Economic Stability	**x**						
Integrity and Corruption	**x**						
Legal System	**x**						
Financial Factors (50%)						**C+**	
Factor: Profitability						**B**	**Weakening**
PPP % Avg RWA - Basel I			2.28%				
Net Income % Avg RWA - Basel I	2.71%						
Factor: Liquidity						**D+**	**Neutral**
(Mkt funds-Liquid Assets) % Total Assets			4.32%				
Liquidity Management				x			

Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 ratio (%) - Basel I	20.83%						
Tangible Common Equity / RWA - Basel I	20.85%						
Factor: Efficiency						**C**	**Neutral**
Cost/income ratio			57.97%				
Factor: Asset Quality						**C+**	**Weakening**
Problem Loans % Gross Loans			4.15%				
Problem Loans % (Equity + LLR)		17.38%					
Lowest Combined Score (15%)						**D+**	
Economic Insolvency Override						**Neutral**	
Aggregate Score						**C**	
Assigned BFSR						**C-**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information
[2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral