

## FINANCIAL INSTITUTION SECTOR

PEFINDO's rating methodology for Financial Institutions (Banking, Multifinance, Securities & Insurance) covers the assessment of the three major risks, namely **Industry Risk**, **Business Risk** and **Financial Risk**. PEFINDO also applies **the parent support methodology** in assigning the rating. The parent support methodology will be applied for private companies while for companies owned by the central or regional government, PEFINDO will apply the **Government Related Entities (GRE) rating methodology**.

### INDUSTRY RISK ASSESSMENT

Assessment of risk for each type of industry is based on a thorough analysis of the five major risk factors as follows:

**Industrial growth and stability**, which is related to supply and demand conditions, prospects, market opportunities, industry stages (initial, development, mature, or decrease), and the type of products offered in the relevant industry (products that are complementary vs. the product can be substituted, specific vs. general, and so on).

**Revenue and cost structures of the industry**, which includes examination of the composition of the revenue stream, the ability to raise prices (the ability to easily pass on cost increases to customers / end users), funding and operational costs, cost structure and composition, the composition of fixed costs versus variable costs, and funding procurement.

**Competition within the industry**, which includes an assessment of the characteristics of the industry to determine the level of barrier to entry for new players. Assessment also includes the analysis of the number of players in the industry, its closest competitor, the potential for price wars, and others to determine the level of existing competition and to come.

**Regulation (Regulatory Framework)**, limiting the number of players, license, tax policies, requirements related to the health of companies, government pricing policies, and other requirements.

**Financial Profiles** of industry is generally assessed by analysis of several financial benchmarks taken from several large companies in the industry that most can represent their respective industries. Industry Financial Performance Analysis includes analysis of capitalization, asset quality, profitability, and liquidity.

### BUSINESS & FINANCIAL RISK ASSESSMENT

Meanwhile, the Business Risk Assessment & Financial Risk Assessment will depend on the respective industry sector.

**DISCLAIMER**

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