

July 2026

VAST Ratings Non-Bank Financial Institutions (NBFIs) Methodology

Authors

Tiina Siilaberg

Chief Ratings Officer

TSiilaberg@vastratings.com

Daniel Um

Chief AI Architect

DanielUm@vastratings.com

NBFI

Non-Bank Financial Institutions (NBFIs) include a wide range of financial entities that perform credit intermediation, funding, or investment functions without holding a full banking license. These entities encompass leasing and finance companies, consumer credit providers, fintech lenders, asset managers and securities firms, among others. This methodology provides a comprehensive analytical framework for evaluating the creditworthiness of NBFIs.

NBFIs differ from traditional banks in their governance and decision-making frameworks. While large banks often emphasize risk aversion, hierarchy and capital preservation, NBFIs tend to prioritize growth, specialization and speed of execution. They frequently operate with leaner management structures and incentive systems closely tied to origination or asset performance. These cultural traits drive innovation but also introduce elevated exposure to cyclical and concentration risk, particularly where risk management processes are less formalized. The methodology presented here aims to bridge that gap, applying rating consistency and transparency to an industry defined by both creativity and volatility.

Unlike banks, which operate under comprehensive prudential regulation, NBFIs vary widely in oversight, structure, and strategic intent. Their agility and entrepreneurial character allow them to innovate rapidly, but also expose them to funding concentration and liquidity risks tied to market cycles. The diversity of business models, from consumer finance to asset-based lending and fintech platforms, underscores the need for a transparent, standardized methodology that can compare risk consistently across the sector.

BB (BB-) NBFi Benchmark

A **BB Benchmark** reflects an NBFi that is an established player occupying a solid position immediately behind industry leaders. The firm has achieved durable recognition within its sector, supported by a proven business model, a stable operating history and consistent access to funding. It demonstrates credible risk management and has weathered at least one significant credit cycle

Financially, this type of institution maintains adequate capitalization and liquidity, offering some resilience to stress. Leverage levels are typically moderate to somewhat elevated, reflecting a reliance on secured or structured funding channels. Earnings performance is steady and recurring, driven by repeat business and effective risk-based pricing, though modestly exposed to funding cost shifts and cyclical asset quality variation.

Overall, the BB Benchmark is a credible, moderately leveraged and competitively relevant NBFi, though still subject to higher funding sensitivity and narrower capital flexibility than investment-grade peers.

Analytical Framework Overview

The methodology is built around three analytical pillars: Liquidity & Funding, Leverage & Capital and Franchise. Each pillar captures distinct but interdependent dimensions of credit strength. The overall assessment is produced through a multiplicative scoring framework, ensuring that material weaknesses in one area constrain the final outcome. This approach reflects the systemic nature of credit risk, where fragility in one component can compromise overall stability.

This structure provides consistency and comparability across issuers while maintaining flexibility to accommodate sector-specific differences. It is designed to be transparent, replicable and adaptable as the financial landscape continues to evolve.

The analytical framework integrates quantitative precision with qualitative assessment, balancing objectivity and informed judgment. Each pillar, Liquidity & Funding, Leverage & Capital and Franchise, captures unique yet interdependent aspects of credit strength. Together, they form a holistic structure that reflects how NBFis operate and manage risk across market cycles.

Multiplicative Scoring Philosophy

Geometric aggregation constrains the outcome when any pillar is weak, which better reflects real-world failure modes (e.g., liquidity failure despite strong earnings). This avoids masking vulnerabilities via unrelated strengths. Traditional additive scorecards often allow exceptional performance in one area, such as earnings or capitalization, to mask underlying weaknesses in others. The multiplicative design eliminates this offsetting bias, enforcing a more disciplined assessment of balance and resilience.

The multiplicative aggregation framework ensures that weaknesses in any single pillar materially constrain the final rating. This contrasts with additive models, which can overstate credit strength by allowing strong metrics to offset weak ones. In reality, financial fragility often arises when one critical area such as liquidity or capitalization fails, regardless of strengths elsewhere.

The multiplicative structure is mathematically represented as follows:

$$\text{Composite Score} = \prod (\text{Metric})^{\text{Weight}}$$

Each metric score is normalized, so that BB Benchmark is 1.0 and other rating scenarios are:

AA	1.7
A	1.4
BBB	1.2
BB	1.0
B	0.75
CCC	0.5

Each metric is assigned a weight within the pillar. The final model implied rating is a product of all weighted metrics. This allows application of a transparent and consistent approach to immediately observable metrics, metrics with some adjustments, as well as those that were driven by committee judgment and expertise. The resulting geometric mean captures proportional risk and ensures that deterioration in one component exerts a compounding effect on the total credit assessment.

Analytically, this approach mirrors the concept of the 'weakest link in the chain.' Just as a chain's strength is determined by its most vulnerable link, a financial institution's creditworthiness is determined by its weakest risk area. An additive framework, by contrast, would permit overcompensation masking serious vulnerabilities with unrelated strengths. The multiplicative method thus provides a truer reflection of systemic and interconnected financial risk.

Transparency

Each pillar comprises a combination of quantitative metrics and qualitative overlays. A key design principle of this methodology is transparency. Most quantitative inputs can be readily and programmatically calculated from standardized financial data to generate an initial, model-based credit estimate before any analyst judgment or qualitative adjustment.

Qualitative factors are then assessed through expert judgment and scored on a five-point ordinal scale corresponding to equivalent rating quintiles. The approach to these qualitative assessments is also intentionally transparent, enabling market participants to understand the reasoning, consistency and comparability underlying our rating process.

The overall pillar weights are approximately: Liquidity & Funding (40%), Leverage & Capital (30%) and Franchise (30%). Within each pillar, individual metrics carry relative weights reflecting their materiality. All scores are normalized and aggregated multiplicatively to produce the final composite score.

Pillar Breakdown

Below is the basic breakdown of pillars and their subcomponents.

Liquidity & Funding	Numerical Rating	Letter Rating
Short-Term Debt / Tangible Assets		
EBITDA/Interest Expense		
Liquidity Ratio		
Liquidity Assessment		
Leverage & Capital		
Debt/EBITDA		
Cost of Funds		
Debt / Equity		
Franchise		
Management and Risk Control		
Operating Income Growth - 5yr CAGR		
Size and Market Share		
Weighted Indicative Rating		BBB

Liquidity & Funding Pillar ($\approx 40\%$)

This pillar evaluates the institution's resilience under liquidity stress and its ability to meet obligations as they come due, even during market disruption. Strong liquidity management underpins credit stability, enabling firms to preserve market access and avoid forced asset sales. The assessment blends quantitative indicators (coverage, encumbrance, leverage) with a qualitative overlay capturing contingency planning, funding diversification and management discipline under pressure.

Liquidity strength is not only a function of absolute cash buffers but also of structural flexibility, the ability to draw on multiple funding sources, access secured and unsecured markets and adjust balance sheet composition without impairing core operations.

Short-Term Debt / Tangible Assets

Definition:

- Short-Term Debt = Recourse Debt and Debt like financial instruments on and off balance sheet due within the next 12 months.
- Tangible Assets = Total Assets – Intangible Assets (including goodwill)

This ratio measures the proportion of the balance sheet exposed to imminent refinancing (debt due within the next 12 months). Lower levels (typically below 5%) indicate prudent liability management and lower rollover risk. Firms with conservative maturity profiles, stable deposit-like funding, or committed credit lines score more favorably.

A well-balanced liability structure reduces liquidity volatility. Diversification of funding channels, including warehouse lines, securitizations, retail deposits and term facilities, mitigates concentration risk and cushions against market closure. Entities that rely heavily on wholesale or short-term secured funding are more vulnerable to liquidity freezes, particularly during systemic stress.

Expectations: Strong performers maintain maturity schedules aligned with asset cash flows, maintain prearranged liquidity backstops and actively monitor counterparty exposures. Rating assessments also consider the stability and depth of lender relationships.

EBITDA / Interest Expense

Definition:

- EBITDA = Net Income before taxes + Interest Expense + Depreciation + Amortization + one-time non-recurring expenses
- Interest expense = Cash Interest Expense on debt obligations + Non-Cash Interest Expense on debt obligations

Interest coverage reflects the institution's capacity to service funding costs from recurring operating earnings. A higher ratio indicates greater earnings resilience and funding independence. For finance-oriented NBFIs, this also signals prudent leverage and disciplined asset-liability management.

Beyond the numeric threshold, analysts evaluate the quality and volatility of EBITDA, whether it stems from predictable interest income, recurring fees, or volatile mark-to-market gains. Sustained coverage through economic cycles supports stronger liquidity assessments, as it signals that the institution can internally generate liquidity without asset liquidation. Entities should demonstrate consistent coverage even under moderate stress assumptions. Coverage ratios materially above peers typically align with conservative risk appetite and embedded pricing discipline.

Liquidity Ratio

This measures liquid assets relative to near-term liabilities, serving as a direct gauge of immediate funding adequacy. A higher ratio (e.g., >0.5x) reflects ample unencumbered liquidity to cover operational needs, debt maturities and contingent draws.

Quality of liquidity matters: cash, central bank-eligible assets and investment-grade securities receive full recognition, while illiquid or encumbered assets are discounted. Institutions maintaining diversified, high-quality liquidity portfolios with tested access to repo and capital markets rank stronger. Well-managed firms maintain liquidity cushions sized for extreme but plausible outflows and regularly test their liquidity contingency plans under stress scenarios.

Liquidity Assessment

Liquidity assessment is scored on a 1–5 scale with 1 indicating poor liquidity and 5 indicating excellent liquidity. The assessment considers internal and external sources of liquidity the company has available to service their obligations.

Internal sources of liquidity include cash flow generation relative to various obligations and company policies including capital expenditures, dividend policy and share buyback programs. In general, companies with strong positive free cash flow (defined as cash flow from operations – capital expenditures – dividends) will receive a component score of 4 or 5. If free cash flow is breakeven, a score of 3 may be considered. Negative free cash flow indicates weak or poor liquidity and the company's inability to cover its every-day cash needs. A score of 2 or 1 is assigned in case of negative free cash flow.

External sources of liquidity include access to revolving credit facility or any other line of credit. However, not only the size of the facility but also availability under the facility and maturity of the facility is considered. In addition, we consider the company's ability to comply with various covenants governing the credit facility. If the company's credit facility is sizeable with significant ability to borrow and ample headroom under the covenants a score of 5 or 4 is assigned. However, if the company's borrowing ability is somewhat constrained by outstanding borrowings and covenants then a score of 3 is assigned. Companies with very limited borrowing ability will receive a score of 2 and companies that are either in default or close to default will receive a score of 1. In addition to credit facilities, we also consider alternative sources of liquidity in the form of potential asset sales. External sources of liquidity also considers the consistency and behavior of funding sources during stress. Entities with transparent

reporting, covenant flexibility and demonstrated rollover access are scored more favorably. Those reliant on confidence-sensitive or short-term wholesale funding face weaker assessments.

Liquidity assessment also considers the company's overall debt maturity profile and the company's ability to support its operations by cash, unencumbered assets and committed facilities. The assessment analyzes the readiness to meet near-term debt maturities – both on and off balance sheet. Strong coverage through pre-funding, amortizing structures, or committed lines reflects prudent liability management and reduces refinancing risk. Heavy maturity clustering or reliance on short-term rollovers weakens the profile.

In addition, liquidity assessment considers funding concentration and counterparty diversity. Evaluates the breadth and reliability of funding sources. A diverse mix across secured/unsecured channels and counterparties enhances resilience. Dependence on a few lenders or facilities increases exposure to withdrawal risk and market disruption.

Metric	Interpretation
Short-term Debt / Tangible Assets	Lower ratio = stronger liquidity position
EBITDA / Interest	Higher ratio = stronger interest coverage
Liquidity Ratio	Higher = stronger liquidity buffer
Liquidity Assessment	Internal and external sources of liquidity. Score 1 to 5 with 5 representing excellent liquidity and 1 poor liquidity.

Leverage & Capital Pillar ($\approx 30\%$)

The Leverage & Capital pillar evaluates an institution's solvency, balance sheet resilience and capacity to absorb losses. It reflects how effectively management aligns leverage, funding costs and capital composition with the firm's risk profile and earnings stability. Sustainable leverage and disciplined capital policies are essential indicators of long-term credit strength and market confidence.

Total Debt / EBITDA

Definition:

- Total Debt = Short-term + Long-term debt (on and off balance sheet). In general, only recourse debt is considered.
- EBITDA = Net Income before taxes + Interest Expense + Depreciation + Amortization + one-time non-recurring expenses

This ratio serves as the core leverage measure, indicating how many years of normalized earnings would be required to repay adjusted debt. Moderate leverage levels (typically below 3.0x) reflect conservative balance sheet management and higher financial flexibility. Elevated ratios suggest thinner cushions against earnings volatility or asset impairment.

The analysis also considers earnings quality, whether EBITDA reflects recurring, cash-based income or is influenced by one-time gains or aggressive accounting. Entities that maintain stable leverage across cycles, even during portfolio growth or M&A, are viewed more favorably. Expectations: consistent deleveraging, retained earnings growth and proactive refinancing policies contribute to stronger credit profiles.

Cost of Funds

The market-based cost of funds serves as a real-time signal of investor confidence and perceived credit risk. Cost of funds considers the current interest rate associated with the company's obligations. A lower cost of funds reflects solid market access, diversified lender relationships and a credible risk narrative. Conversely, rising cost and high-cost funding indicate reduced financial flexibility.

Beyond absolute cost, analysts assess stability and composition whether the firm's borrowing costs are insulated by long-term funding, matched tenors and fixed-rate structures. Firms that actively manage refinancing windows and communicate transparently with investors tend to sustain lower spreads and better liquidity alignment.

Furthermore, overall debt profile and maturity laddering is considered in the cost of funds.

Debt / Equity

Definition:

- Debt = Short-Term Debt + Long-Term Debt

- $\text{Equity} = \text{Total Assets} - \text{Total Liabilities}$

Debt-to-equity highlights the capital cushion available to absorb operating losses or valuation shocks. Lower debt to equity generally levels correspond with conservative capitalization, while higher levels reflect more aggressive financial policies or reliance on leverage to drive returns.

The assessment distinguishes between permanent and temporary leverage - for instance, whether balance sheet expansion stems from temporary funding lines or core capital structure changes. Entities that retain profits, raise capital opportunistically, or manage shareholder distributions prudently exhibit stronger solvency profiles.

Expectations: stability of retained earnings, conservative dividend policies, minimal reliance on hybrid instruments and alignment between growth and capitalization levels are all positive indicators.

Metric	Interpretation
Debt / EBITDA	Core leverage measure
Cost of Funds	Market-based cost of credit
Debt / Equity	Capital cushion indicator

Franchise Pillar (≈ 30%)

The Franchise pillar captures the institution's long-term durability, strategic coherence and market credibility. It extends beyond financial ratios to assess how management quality, governance culture and competitive advantages translate into sustained market relevance. The Franchise profile reflects the company's ability to generate, retain and grow business through cycles: balancing innovation with prudent risk management and disciplined capital allocation.

Operating Income Growth (5-Year CAGR)

Definition:

- Organic operating income growth = Total operating income 5-year CAGR

Sustained revenue expansion signals an institution's competitive strength, customer relevance and adaptability. A 5-year compound annual growth rate (CAGR) above 10% typically reflects successful execution of a scalable business model and effective market capture, while mid-single-digit growth often corresponds with stable but mature franchises.

Quality of growth is as important as its pace organic growth supported by recurring fee income, disciplined pricing and customer retention carries more weight than expansion driven by one-off gains or high-risk loan book expansion. Rating analysis distinguishes between cyclical recovery and genuine franchise advancement.

Management and Risk Control

Governance quality and risk culture underpin the sustainability of any franchise. Institutions with experienced, credible management teams and clearly articulated risk frameworks exhibit greater adaptability and stakeholder confidence. The review covers decision-making transparency, incentive alignment and the balance between ambition and prudence. It also considers management's tolerance for leverage, responsiveness to market conditions and transparency in capital decisions. Clear targets, credible stress testing and board oversight support higher overlay scores.

Management and Risk Control is measured on a 1–5 scale with 5 indicating excellent management and risk controls and 1 indicating poor performance in the management and risk control area. Firms scoring 5 foster a culture of accountability, board independence and proactive risk communication, enabling consistent market access even during stress periods. Firms with measured growth ambitions, rigorous underwriting standards and an embedded risk culture that prioritizes long-term franchise value over short-term gains receive stronger assessments. Conversely, aggressive risk-taking, opaque reporting, or frequent strategy shifts weigh negatively on this component.

Management and Risk Control factor provides a forward-looking, judgment-based view of an institution's capital management discipline and overall leverage philosophy. It supplements ratio analysis by capturing strategy, governance and behavior through economic cycles—factors that determine whether current

solvency levels are sustainable. This factor takes into consideration how consistently management maintains prudent leverage through growth and stress. Firms that deleverage promptly after acquisitions or shocks and avoid rapid re-leveraging demonstrate sound balance sheet discipline and a long-term solvency mindset. In addition, the management and risk control factor evaluates the stability of dividend and retention practices relative to risk exposure. Predictable capital buffers, measured payouts and organic capital generation signal strength; erratic distributions or thin retained earnings indicate weaker policy coherence. Furthermore, acquisition strategy and post-transaction capital restoration is considered along with balanced funding between debt and equity and timely deleveraging after M&A, reflecting strong governance. Repeated or debt-heavy acquisitions without clear recovery plans weaken the profile.

Size and Market Share – 10%

Size and market positioning shape both resilience and strategic flexibility. Larger institutions typically possess greater capacity to absorb shocks, fund growth internally and withstand market volatility. Scale reduces vulnerability by spreading fixed costs across a wider base and by limiting dependence on any single product, customer, or funding source.

Size and Market Share is measured on a 1–5 scale with 5 being the strongest and 1 weakest. A Company scoring a 5 is a very well-diversified NBFI that benefits from multiple layers of stability: balanced revenue streams across segments, a mix of wholesale and retail clients and diversified funding channels ranging from secured facilities to capital markets access. This diversity mitigates concentration risk and enhances optionality: management can reallocate focus, pricing, or funding toward more favorable markets when conditions change.

However, size alone is not sufficient. The analysis emphasizes the *quality* of diversification, whether it reflects strategic breadth or fragmented opportunism. Institutions that demonstrate coherent, risk-aware growth across business lines and geographies receive stronger franchise assessments than peers relying on single-product or single-market dominance.

Companies scoring 5 or 4 are larger, diversified firms that are expected to maintain stable share and funding access even under market stress. Companies scoring 3 or below are smaller or specialized entities. They can achieve higher scores if they show disciplined focus, high retention and defensible niches that offset their more concentrated profiles.

Metric			Interpretation
Operating Income Growth (5yr CAGR)			Higher = consistent market growth
Management / Risk Appetite			Qualitative governance assessment.
Size / Market Share			Scale and competitive presence

Surveillance and Ongoing Monitoring

Upgrades and Downgrades

Upgrade Triggers: Sustained improvements across multiple pillars, such as longer/stronger committed funding, reduced leverage with better coverage and durable franchise strengthening (e.g., market-share gains, governance enhancements).

Downgrade Triggers: Weakening liquidity coverage or maturity bunching without credible remedies, rising leverage or capital quality deterioration, risk-appetite drift, governance setbacks, or adverse regulatory/judicial actions. Model-indicated lower bands, corroborated by forward indicators, typically precede rating changes.

Frequency and Scope

All rated Non-Bank Financial Institutions (NBFIs) are subject to [-] surveillance. The annual cycle typically involves a full update of financial statements, capital metrics and funding profiles, along with a refreshed assessment of qualitative pillars such as governance and franchise strength. Between formal review cycles, interim updates may occur as new information becomes available. Enhanced frequency semiannual or quarterly may apply to issuers with heightened credit sensitivity, complex funding structures, or rapid growth trajectories.

Data Collection and Review Process

Surveillance begins with the submission and validation of the “data pack,” which includes audited and interim financial statements, debt maturity ladders, covenant-compliance certificates, portfolio-level statistics and management commentary. Where feasible, quantitative data (e.g., asset quality ratios, leverage, liquidity coverage) are programmatically ingested to refresh model outputs and flag deviations from baseline projections. Analysts reconcile these updates against prior expectations, with particular attention to funding diversification, capital buffers and asset-liability mismatches. Qualitative inputs including management turnover, strategy shifts, regulatory changes are captured through periodic issuer engagement and industry monitoring.

Event-Driven Reviews

Outside the normal cycle, ratings are subject to immediate re-evaluation if developments arise that could reasonably alter the issuer’s creditworthiness. Triggers may include significant debt issuance or repayment, covenant breaches, deteriorating portfolio performance, regulatory investigations, mergers or divestitures, or systemic market dislocation. Such reviews may result in a rating affirmation, change, or placement on watch. Placement on a Rating Watchlist signals an elevated probability of near-term rating action and includes an explicit directional bias (Positive, Negative, or Evolving). Ratings that are placed on watchlist should be resolved within 90-days.

Credit Outlooks

Outlooks provide forward-looking guidance on the likely rating direction over the next 12 to 18 months under base-case assumptions. A Stable outlook reflects balanced risks, Positive indicates improving fundamentals, and Negative points to emerging pressures on fundamental performance, liquidity, capital, or governance. Outlook revisions are typically based on structural, rather than transitory, developments and are accompanied by a written rationale describing the key assumptions and catalysts that could lead to future rating changes.

Governance and Consistency

Each surveillance action affirmation, outlook revision, placing on watchlist, upgrade, or downgrade is subject to internal peer review and rating-committee approval. Committees ensure consistent application of criteria and weighting frameworks, especially across comparable NBFIs with similar business models or geographic exposure. This governance process strengthens transparency, mitigates analyst bias and ensures ratings remain anchored in the methodology's quantitative and qualitative parameters.

Contact

info@vastratings.com

Authors

Tiina Siilaberg

Chief Ratings Officer

TSiilaberg@vastratings.com

Daniel Um

Chief AI Architect

DanielUm@vastratings.com