

Module Banks

Quantitative and qualitative factors,
banking system rating, market factors



Overview

The module Banks has been designed to evaluate the solvency of companies whose main activity is banking-type business. Its underlying model can be adjusted to reflect the individual developmental status of the company's home country, i.e. developed country, newly industrializing country or emerging market.

The rating algorithm is based on a scorecard approach where numerous quantitative and qualitative factors are combined using appropriate weightings. In particular,

the assessment of the country-specific banking system has an important impact on the calculation. Market data are taken into account to reflect current economic developments. This results in a rating grade that corresponds to the one-year probability of default (PD).

The module Banks has been included in the annual validation cycle since 2005; it has been approved for the IRB Approach in Germany since the beginning of 2007.

Scope

The scope of the module *Banks* covers companies whose main activity is banking-type business, irrespective of their legal form or home country.

Typical borrowers are universal banks, financial supermarkets, bank holdings, financing institutions, cooperative banks, credit unions, savings banks, building societies, savings and loan associations, investment banks, regional banks, public sector banks, and supranational banks.

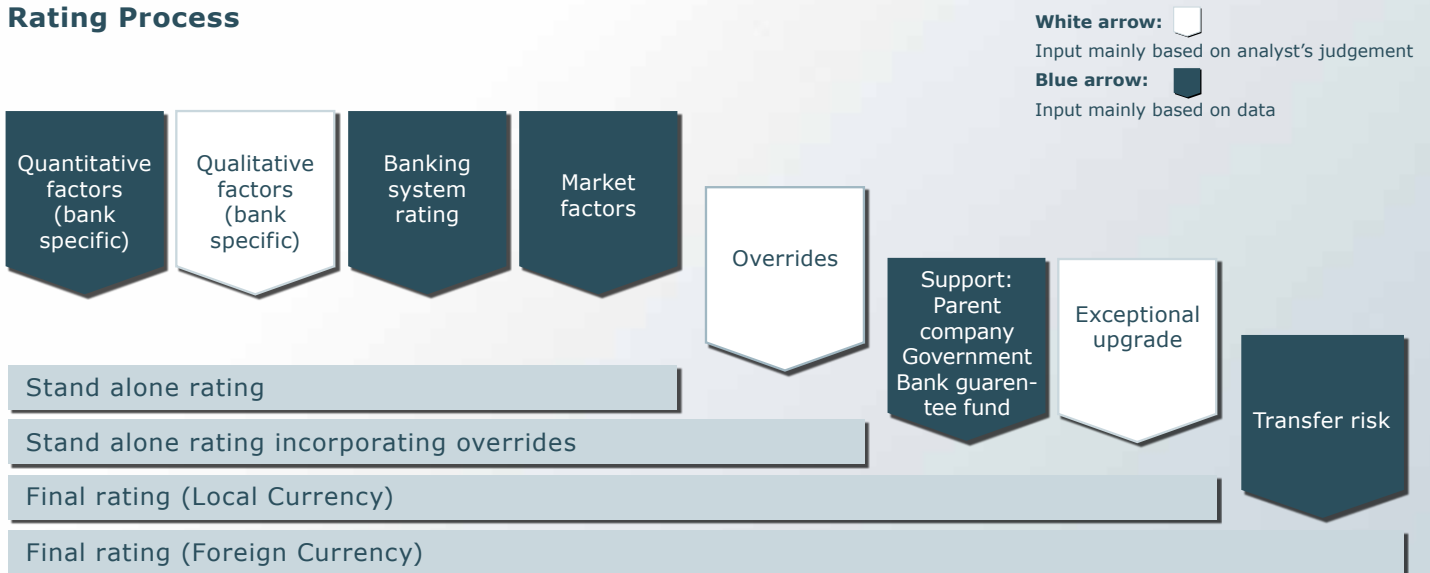
The module can also be applied to companies without banking license provided their main activity is banking-type business.

Limitations

The module is not suitable for the assessment of derivative vehicles, private equity companies, factoring companies, leasing companies, and central banks.

A separate module, the module *Funds*, is provided for investment funds.

Rating Process



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In addition to a multitude of quantitative and qualitative factors, the banking system rating has a major impact on the calculation. The banking system rating reflects the risk-relevant characteristics of a country's banking system and is derived from both fundamental data and qualitative information. To take account of current economic developments the rating model incorporates bank-specific CDS information as well as a cyclical factor, which is calculated from current risk assessments of banks on the financial markets using the Merton model.

Overrides

If, at the previous stages, exceptional risk-relevant circumstances have not been sufficiently taken into account, an adjustment of the rating may be necessary. For this purpose the system provides an override option: from a standardized list the analyst can select override criteria which may lead to a rating upgrade or downgrade.

Support and Exceptional Upgrade

Intra-group relations and guarantee schemes may have both positive and negative effects on the rating result. Up to three parent companies, one governmental entity, and one bank guarantee fund may be recorded as support providers for the purposes of the risk assessment. Moreover, excellent external ratings may, under certain circumstances, warrant an exceptional manual upgrade.

Transfer Risk

The additional risk of currency transfer restrictions in the company's or the support provider's home country is reflected in the foreign currency rating. This risk must be considered when the financing currency is different from the borrower's home currency.

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