RSU Rating Service Unit

Module Corporates

Corporate ratings, worldwide

Overview

The module Corporates has been designed to evaluate the solvency of companies worldwide and across a variety of industries. Through a differentiated modeling approach, the module reflects the distinctive characteristics of the different world regions.

The rating algorithm is based on a scorecard approach where quantitative and qualitative factors are combined using appropriate weightings. For companies listed on the stock exchange, the module additionally implements an option pricing based model. The balance sheet factors are considered in accordance with applicable financial accounting standards. This results in a rating grade that corresponds to the one-year probability of default (PD).

The module Corporates has been in use since 2003, and 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.

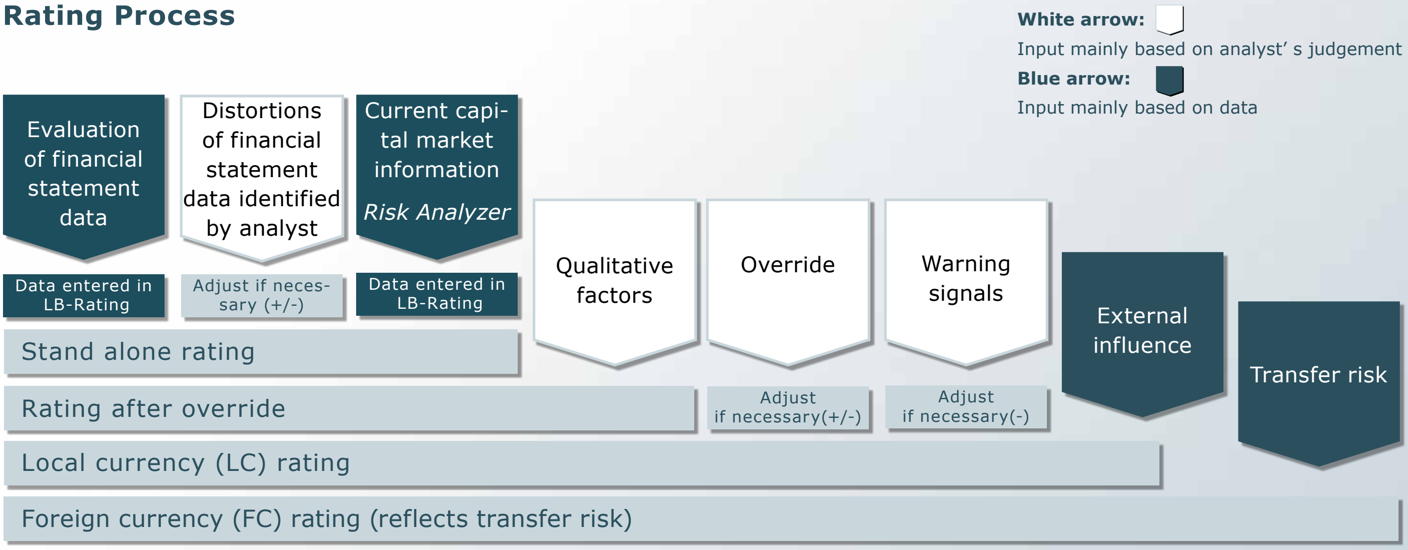
Scope

- The scope of the module Corporates covers corporate customers worldwide and across a variety of industries.
- The module is suitable for the whole range of economic sectors unless specific modules exist for individual industries.
- Both listed and unlisted companies can be evaluated.
- The module integrates current financial accounting standards.
- Public-sector and municipal companies are also covered.

Limitations

- Specific modules are provided for banks, insurance, and leasing companies.
- The module Leveraged Finance covers typical leveraged buyouts, management buyouts, and strategic acquisitions.
- Separate modules are provided for project and object finance (projects, real estate, ships, aircraft), which incorporate the specific characteristics of each type of specialized lending.

Rating Process



Quantitative Submodel

The quantitative submodel is supplied with figures from the balance sheet and the income statement. The data can be entered manually, or imported via an interface to the balance sheet analysis system. For listed companies, the rating model implements an additional, option price based evaluation approach. This ensures that the risk assessment is based on current as well as future-oriented information embodied in the company's share price.

Qualitative Submodel

In addition, a series of qualitative factors is considered for the risk assessment. This is done by evaluating various aspects of a company and its environment in standardized form. To ensure a consistent approach, the appropriate assessments must be selected from a predefined answer catalog. The combination of the quantitative and the qualitative submodel leads to the statistical stand alone rating.

Overrides and Warning Signals

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 and the possibility to release warning signals: from a standardized list the analyst can select criteria which may lead to a rating upgrade or downgrade.

Guarantee Scheme / Support and Transfer Risk

Intra-group relations and guarantee schemes may have both positive and negative effects on the rating result. Furthermore, the additional risk of currency transfer restrictions in the company's or the support provider's home country is taken into account. This risk must be considered when the financing currency is different from the borrower's home currency.

RSU
Rating Service Unit GmbH & Co. KG
Karlstraße 35
80333 Munich
Germany

Tel +49.89.442340-0
Fax +49.89.442340-999

marketing@rsu-rating.de
www.rsu-rating.com