

## Migration Matrices and PD Profiles

Available for all RSU rating modules



### Overview

Information about rating transitions is crucial for banks in various areas of risk management. Once IFRS 9 comes into effect, modelling long-term migrations will become even more important. Thus, in addition

to the annual rating changes (one-year migrations) in the context of the Basel II/III regulations, multiannual migrations and the corresponding PD profiles will play an increasingly important part in the future.

### Solution

In the past rating transitions were often estimated from data provided by external suppliers. Especially since the introduction of the Basel II regulations many banks use internal rating models such as those provided by RSU. These banks have the possibility to derive rating transitions from their own (internal) data. As market leader for internal rating systems for wholesale banking RSU has an extensive data pool at its disposal that is unique in Germany. Using this data it is possible to derive migrations for twelve different asset classes from the internal models.

As a result the type and frequency of the migrations observed are closely related to the underlying rating systems, which is crucial for further use of the one-year migration matrices and multiannual PD profiles by financial institutions.

### Approach

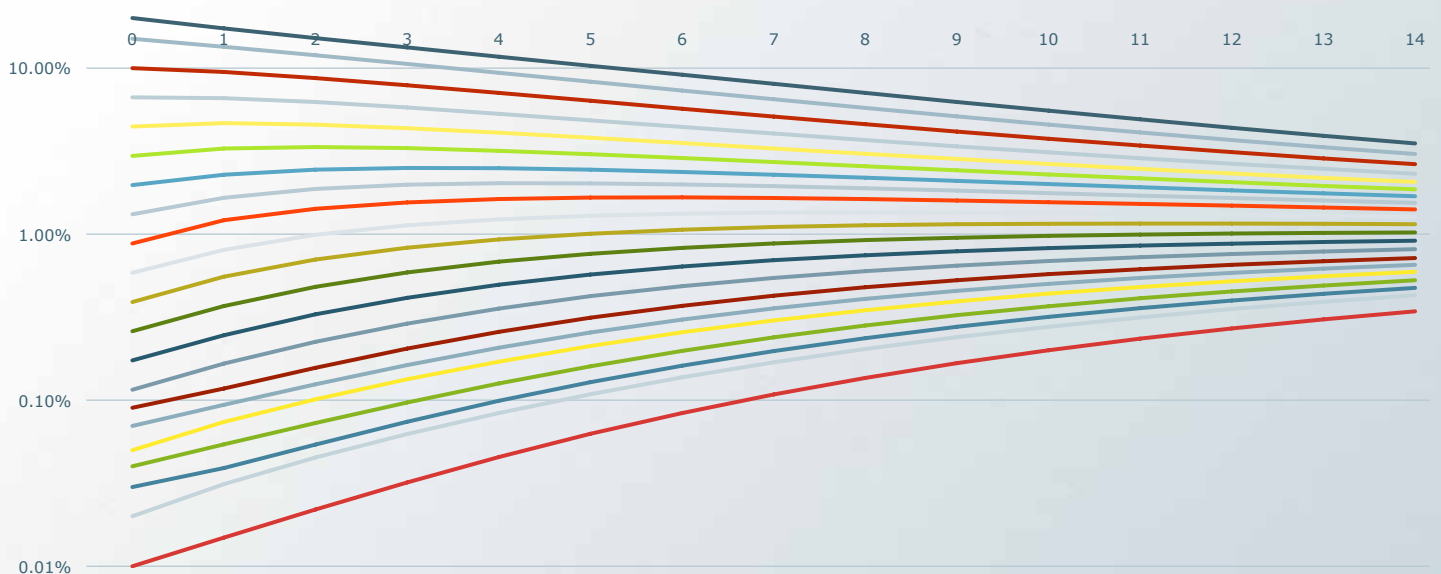
RSU offers one-year migration matrices and multiannual PD profiles for each of the twelve RSU modules. To ensure stable results over time a sufficient data basis is required. Where the data available is insufficient, for example in marginal areas, data from different modules is combined according to economically reasonable rules to achieve stability. Current results are based on a data history that ranges from 2004 to 2012, covering between 3,500 and 75,000 individual transitions depending on the module.

## Example presentation of results

### One-year migration matrix

		2nd rating																						
		0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	
1st rating	0	0%	0%																					
	1	0%	75%	14%	5%	2%	1%	1%	0%	0%	0%													
	2		6%	61%	20%	6%	3%	2%	1%	1%	0%	0%	0%	0%	0%			0%	0%					
	3		1%	13%	53%	17%	8%	4%	1%	1%	0%	1%	0%	0%	0%	0%								
	4		0%	4%	17%	44%	19%	9%	3%	2%	1%	0%	0%	0%	0%	0%				0%			0%	
	5		0%	1%	5%	14%	49%	17%	7%	4%	2%	1%	0%	0%	0%	0%	0%	0%	0%	0%			0%	
	6		0%	0%	1%	4%	14%	48%	18%	8%	3%	1%	1%	0%	0%	0%	0%	0%	0%			0%	0%	
	7		0%	0%	1%	1%	4%	16%	50%	16%	6%	3%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	
	8		0%	0%	0%	1%	2%	6%	17%	43%	18%	7%	3%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	
	9		0%	0%	0%	0%	1%	2%	6%	19%	42%	17%	7%	3%	2%	1%	0%	0%	0%	0%	0%	0%	0%	
	10			0%	0%	0%	0%	1%	2%	7%	21%	39%	16%	7%	3%	2%	1%	0%	0%	0%	0%	0%	0%	
	11			0%	0%	0%	0%	1%	2%	8%	20%	39%	14%	7%	4%	2%	1%	1%	0%	0%	0%	0%	0%	
	12			0%	0%	0%	0%	0%	1%	4%	9%	20%	36%	14%	7%	4%	2%	1%	1%	1%	1%	0%	0%	
	13			0%	0%	0%	0%	0%	0%	1%	2%	4%	11%	18%	34%	14%	7%	4%	2%	1%	1%	1%	0%	1%
	14				0%	0%	0%	0%	0%	1%	2%	5%	10%	17%	33%	13%	7%	4%	2%	2%	2%	1%	1%	1%
	15					0%	0%	0%	0%	0%	1%	3%	6%	10%	17%	33%	13%	7%	4%	2%	2%	1%	2%	2%
	16						0%	0%	0%	0%	1%	1%	3%	5%	10%	17%	33%	12%	6%	4%	2%	2%	3%	3%
	17					0%		0%	0%	0%	0%	1%	2%	3%	6%	9%	17%	33%	11%	6%	3%	4%	4%	4%
	18							0%	0%	0%	0%	0%	1%	2%	3%	5%	10%	17%	32%	12%	5%	6%	6%	6%
	19								0%	0%	0%	0%	0%	1%	2%	3%	6%	8%	14%	34%	10%	10%	10%	10%
	20									0%	0%	0%	0%	0%	1%	2%	2%	5%	8%	15%	30%	30%	20%	20%
21								0%	0%	0%	0%	0%	0%	1%	1%	2%	2%	3%	4%	7%	7%	52%	52%	

### Multiannual PD profiles



## Implementation

RSU provides Excel files containing the current migration matrices and PD profiles for each module. The current report on the periodic review of the migration matrices and PD profiles is also available (including a description of the data basis, rating systems used, underlying assumptions, and methodology).

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