# Corporates

## Corporate ratings, worldwide

### Overview

The LB-Rating module Corporates is designed for assessing companies worldwide and across a variety of industries. Its underlying model distinguishes between different world regions.
The rating algorithm is based on a scorecard approach, which combines quantitative and qualitative factors. It includes an option pricing-based model for processing additional information on listed companies. Financial reporting information is taken into account in accordance with the relevant accounting standards. The system produces a rating that corresponds to the one-year probability of default (PD).

Corporates has been in use since 2003; annual reviews started in 2005. The module was first approved for the IRB Approach in early 2007.

### Scope of Application

- The scope of application of the Corporates module consists of corporate obligors worldwide and across a variety of industries.
- The module is suitable for all economic sectors for which no dedicated module is available.
- Both listed and unlisted companies can be evaluated.
- Commonly applied financial reporting standards are taken into account.
- Public-sector and municipal companies are also covered.

**Limitations**

- There are separate modules for rating banks, insurance companies and leasing companies.
- The module Leveraged Finance covers typical leveraged buyouts, management buyouts and strategic acquisitions.
- There are also separate modules for specialized lending (projects, real estate, ships, aircraft), which are tailored to the specific characteristics of these types of exposure.

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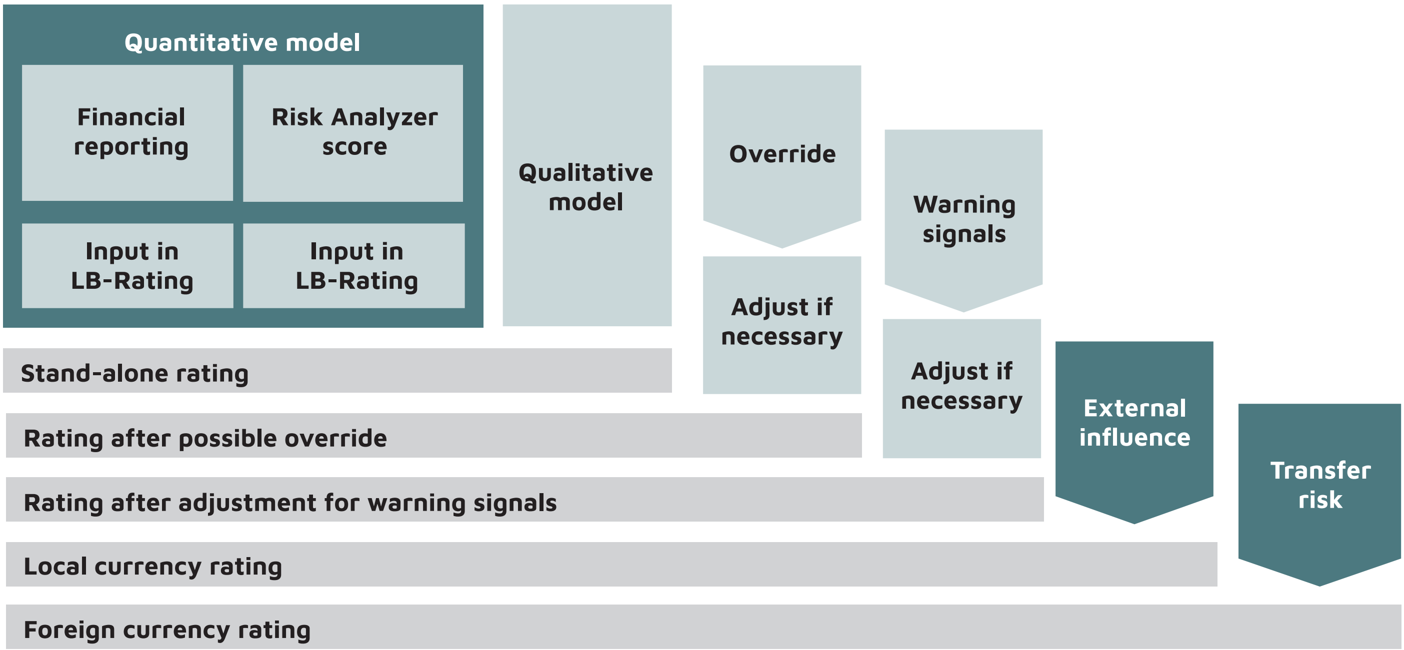
## Rating process




Dark arrow: mainly data-based
Bright arrow: mainly human judgement

## Quantitative Model

The quantitative model is based on data from the balance sheet and income statement. The data can either be entered manually or be imported from a financial statement analysis system. For listed companies, the model includes an additional option pricing-based component (Risk Analyzer score). This ensures that the risk assessment is based on current and forward-looking information embodied in the obligor's share price.

## Qualitative Model

In addition, a number of qualitative factors are 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 list. The combination of the quantitative and the qualitative model leads to the statistical stand-alone rating.

## Overrides and Warning Signals

If there are exceptional circumstances that have not been sufficiently taken into account otherwise, analysts can override a rating or enter a warning signal and change the rating manually.

## External Influence and Transfer Risk

Intra-group relations and guarantee schemes may have positive or negative effects on the rating result. In addition, the risk of restrictions on foreign currency transfers in the obligor's or a relevant third party's home country is taken into account. This risk must be considered when a loan is not denominated in the obligor's domestic currency.

**RSU GmbH & Co. KG**
Karlstraße 35 | 80333 München | Germany
Tel. 0049 89 442340-0
infos@rsu.one | www.rsu.one

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