

# Algo Credit Models

## CRS NON-INVESTMENT GRADE RATING MODELS



Algorithmics' CRS Non-Investment Grade Rating Models are specifically calibrated to produce a high level of accuracy for credits known to be non-investment grade such as small and medium size enterprises (SMEs), high-yield issuers, or credits in leveraged finance and workout portfolios.

### Clients apply the models in a variety of ways:

- As the basis of their credit rating system
- To rate portfolios of securitized assets
- To comply with regulatory requirements including the Basel II Capital Accord
- To benchmark and validate internal risk grades

### METHODOLOGY

Using historic financial statements and point-in-time equity market information, the CRS rating models generate 'agency like' ratings for both public and private firms. Analysts within an organization can evaluate credits through a consistent process, providing an accurate base-line credit rating across all industry sectors and geographies.

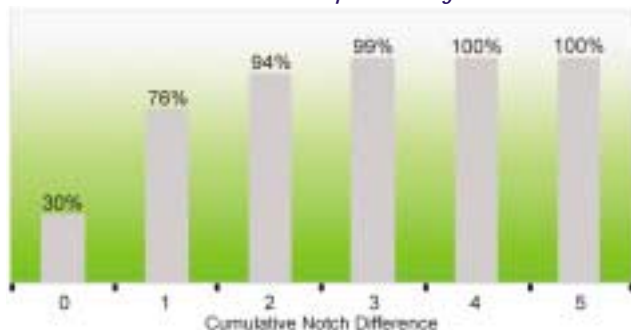
The models use a 'through-the-cycle' approach to output agency-like ratings, consistent with guidelines issued by the Basel Committee on Banking Supervision.

*"Banks may associate or map their internal grades to the scale used by an external credit assessment institution or similar institution and then attribute the default rate observed for the external institution's grades to the bank's grades."* - Basel Committee on Banking Supervision: International Convergence of Capital Measurement and Capital Standards

### KEY BENEFITS

- Provides global coverage for public and private corporations
- Produces consistent, statistically validated ratings for corporate credits
- Increases the efficiency of the corporate rating process
- Facilitates scenario and peer group analyses

Public NIG Corporate Rating Model



For non-investment grade corporates with traded equity, the model performance is within two notches of the agency rating for 94% of companies.

### PERFORMANCE AND VALIDATION

CRS Performance is measured by assessing how well the model predicts agency ratings. Validation is performed for several cuts of the data; by rating, country, time, industry sector and asset size.

### CRS CORPORATE RATING MODEL SUITE

**Public Non-Investment Grade Corporate Rating Model.** Calibrated for public companies known to be non-investment grade, this model performs to within two notches of agency ratings 94% of the time.

**Public Corporate Rating Model.** Calibrated for investment grade companies with listed equity, this model performs to within two notches of agency ratings 85% of the time.

**Public Utilities Rating Model.** Calibrated specifically for public companies in the utilities sector, this model performs to within two notches of agency ratings 82% of the time.

**Private Non-Investment Grade Corporate Rating Model.** Calibrated for private companies known to be non-investment grade, this model performs to within two notches of agency ratings 90% of the time.

**Private Corporate Rating Model.** Calibrated for investment grade private companies, this model performs to within two notches of agency ratings 81% of the time.

**Private Utilities Rating Model.** Calibrated specifically for private companies in the utilities sector, this model performs to within two notches of agency ratings 81% of the time.

### ABOUT ALGORITHMICS

Founded in 1989, Algorithmics is a recognized leader in enterprise risk management. Following its acquisition by the Fitch Group in January 2005, Algorithmics is the world's leading provider of enterprise risk management solutions and services that enable financial institutions to effectively understand and manage their financial risk. Algorithmics has over 200 clients, including more than 60 of the 100 largest financial institutions in the world.

Private NIG Corporate Rating Model



The model, appropriate for privately-owned non-investment grade corporations, performs to within two notches of the agency rating 90% of the time.

To learn more about Algorithmics  
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