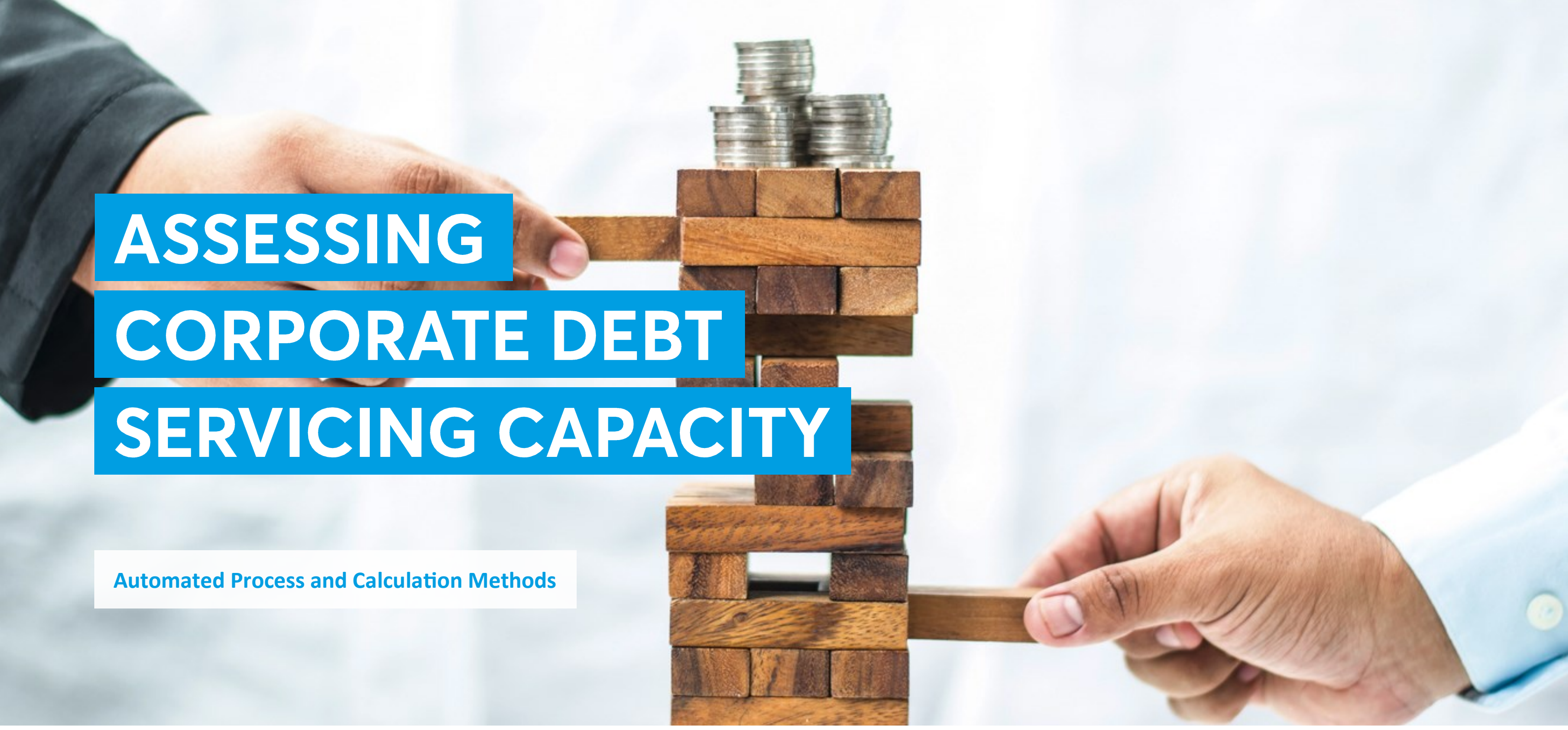

ASSESSING CORPORATE DEBT SERVICING CAPACITY

Automated Process and Calculation Methods

Assessments of Debt Servicing Capacity are a Key Element of Loan Approval Processes and Feature in the German Regulations for Minimum Risk Management Requirements (MaRisk)

Loan approval processes generally assess corporate debt servicing capacities on the basis of projected cash flows. Credit providers, before making larger financial commitments, may analyze annual financial statements or net income accounts to derive the debtor's debt servicing capacity. When smaller loans are requested, however, analyses of annual financial statements or net income accounts are rarely performed: decisions must be made quickly, and relevant data are either unavailable or can only be procured through an administrative effort that seems disproportionate and unwarranted by the circumstances.

Creditreform Rating has developed a new 2-stage model that allows its clients to assess debt serving capacities for both large and modest financial commitments. Our tried and tested interface solutions support your data provision as well as your integration and implementation processes.

Debt servicing capacities are established in four steps:

Input Credit Provider

- Name, address
- Corporate sales revenue*
- Annual financial statement*

Input Creditreform

- Solvency index
- Industry sector
- Headcount
- Sales revenue
- Payment history
- Annual financial statement

Model

- Model I: Cash-Flow (standard)
- Model II Cash-Flow (streamlined)

Result

- Debt service limit
- Debt servicing capacity

*Optional: If unavailable, information can be requested from the Creditreform commercial report.

Creditreform Rating

Model I: Cash flow method

Model I follows the standard loan approval process of banks.

This model is based on a full annual financial statement and assesses corporate debt servicing capacity on the basis of projected cash flows.

	Adjusted operating income
+	Ordinary depreciation
+ –	Changes in long-term provisions
=	Extended cash flows
–	Withdrawals and dividends
=	**Debt service limit**
–	Current interest expenses
–	Pro-rata redemption payments
=	**Dept servicing capacity**

Model II: Statistical estimation method

If no annual financial statement is available to inform the approval process, Model II allows an assessment of corporate debt servicing capacities based on an in-depth empirical analysis of typical cash flow structures and financial ratios of German companies from different industies, with different risk profiles and of different size. These assessments of debt servicing capacity also take into account the specific economic circumstances of individual creditors.

The calculation method is explained below as an example:

Samlpe company:

Sales revenue: 3,014,610 €

Industry: Production of baked goods (WZ 10710)

Risk Category 2 (derived from the Creditreform solvency index)

Companies of similar legal stucture, companies from the same industry and companies from the same categories of size and risk generally share certain typical cash flow structures that have an impact on their individual debt service capacity.

Example

	Sales revenue	**3,014,610 €**
–	Personnel expenses	1,349,540 €
–	Material expenses	628,190 €
–	Other expenses (cash items)	698,581 €
=	**Debt servicing capacity**	**338,229 €**

Info provided by the company or by the Creditreform commercial report

Industry-specific mean values are established on the basis of validated parameters

Any other information (such as payment history and financial information) liable to affect projections of the company's ability to make compulsory payments of interest and principal will also be taken into account.

Want to find out more? Then please do not hesitate to contact us. We are looking forward to receiving your phone call or your eMail.