

## **Rating Procedure Description**

pursuant to Section 2 of the Rating Procedure Rules appended to  
Section 4a of the By-laws of the Deposit Protection Fund

*(valid as of 1 January 2007)*

*Please note: The present English translation is furnished for information purposes only.  
The original German text is binding in all respects.*

**[Section 1: Assignment to rating categories]**

In accordance with Section 4a of the By-laws of the Deposit Protection Fund, all member banks are rated annually in regard to their financial standing. The rating procedure provides for classification into 22 categories (AAA - D).<sup>1</sup> Assignment to the individual rating categories takes place on the basis of an aggregate score.<sup>2</sup>

**[Section 2: System orientation]**

Under the rating procedure, major quantitative and qualitative aspects of the financial profile and business profile are evaluated by means of a system of ratios and criteria. The rating procedure is geared to legally independent universal banks. However, where special groups of banks are concerned, it may be adapted to take due account of business, banking-law or other specificities.<sup>3</sup>

**[Section 2: Rating basis]**

Rating is based on the respective annual financial statements audit report, certified by a public accountant, and the questionnaire which banks are required to complete.<sup>4</sup> Other pertinent information, e.g. from deposit protection audit reports and audits pursuant to Section 44 of the German Banking Act, is additionally taken into account.

The basis for rating is generally the non-consolidated financial statements. Where the non-consolidated financial statements have very limited information value, the consolidated (sub-group) financial statements are used. Similarly, rating of foreign branches may be based on the Head Office financial statements.

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<sup>1</sup> For the individual rating categories, see Section 5 of the "Rating Procedure Rules".

<sup>2</sup> In exceptional cases, where significant rating aspects are not captured or not captured adequately by the rating procedure, the rating category corresponding to the total score can be adjusted by means of the "individual bank-specific features" criterion

<sup>3</sup> Business specificities apply to banks operating chiefly in the retail lending and specialised finance sectors, as well as mortgage and ship mortgage banks, investment firms and banks with special functions. Legal specificities concern mainly branches of foreign banks. Also, the rating procedure has to be adapted for legally independent banks domiciled abroad, to which Section 3 of the "Rating Procedure Rules" is applied.

<sup>4</sup> If it fails to provide rating data or provides data that is inadequate because of its limited information value, the bank concerned may – after expiry of a period allowed for subsequent submission of the relevant data – be assigned to a correspondingly lower rating category.

**[Section 3: Determination of the financial standing indicator]**

The rating procedure focuses on determining a financial standing indicator (total score) that is the basis for assignment to the respective rating categories. The total score is the sum of weighted point scores from the aggregated 'financial profile' and 'business profile' parameters.

The financial profile captures and evaluates the quantitative aspects of the annual financial statements (liable capital resources and earnings situation) by means of ratios.

The business profile shows the qualitative aspects of a member bank. Here, the focus of analysis, which is geared in each case to banks' main lines of business, is on

1. the conceptual orientation, the anticipated market development, the competitive position of the bank concerned in its market and the current performance trend
2. risk management, including the organisation and effectiveness of internal control and management systems, electronic data processing (EDP) systems, accounting and internal auditing.
3. external risk-coverage potential as a means of procuring further liable capital, and
4. the risk situation, in which the types of risk affecting business are assessed both separately and on an aggregated basis along with their possible impact on the financial situation of the bank concerned.

Both the ratios and the evaluations of the qualitative aspects are converted by means of transformation curves into point scores which are weighted accordingly and aggregated to produce a total score.