



Insight beyond the rating.

DBRS Approach to Ratings Assignment

The New Issuer Goes to Market

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Overview



- What DBRS Ratings are
- Uses of DBRS Ratings
- The DBRS Ratings Scale
- Default Rates
- Methodologies
- Typical Covenants

- What DBRS Ratings are:
 - Opinions that reflect the creditworthiness of an issuer, a security or an obligation
 - Encompass historical trends and forward-looking measurements
 - An assessment of the willingness and ability to make timely payments of debt obligations
 - Timely and ongoing
- What DBRS Ratings are not:
 - Purchase or sale recommendations

DBRS Ratings

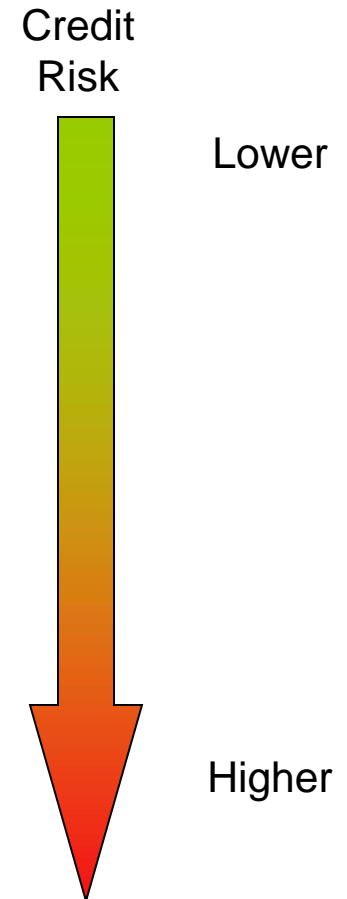


- Uses
 - New Public Issuance
 - Portfolio Management/Monitoring Aids
 - Pricing Grids on Bank Loans
 - Government Programs (TALF)

DBRS Rating Scale



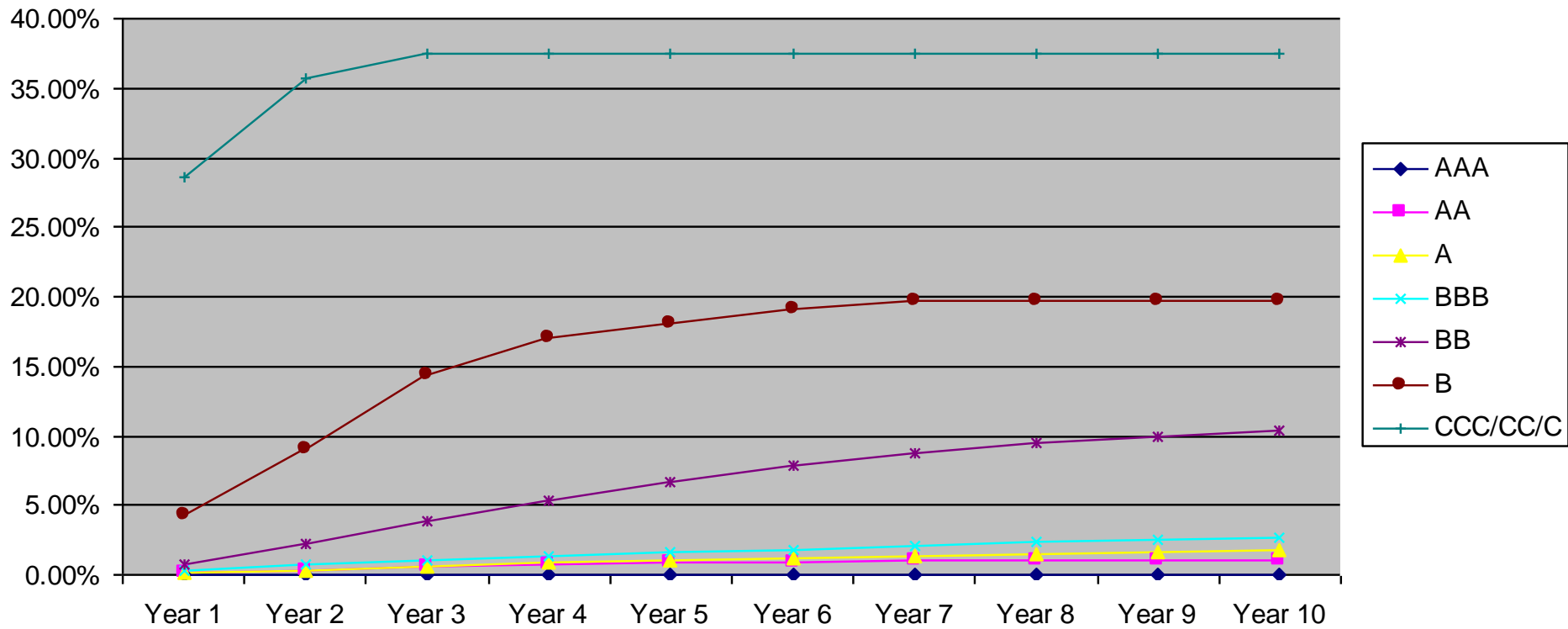
- Investment Grade
 - AAA: highest credit quality
 - AA: superior credit quality
 - A: good credit quality
 - BBB: adequate credit quality
- Non-Investment Grade
 - BB: speculative credit quality
 - B: highly speculative credit quality
 - CCC/CC/C: very highly speculative credit quality
 - D: in default or subject to a distressed exchange



Cumulative Default Rates



Global Corporate Average Cumulative Default Rates (1976-2010)



Methodology Approach



- Detail the rating approach for majority of sectors in which DBRS operates
- Transparent but not prescriptive (not meant to supplant actual ratings analysis)
- Last 12 months DBRS has published or updated
 - 29 corporate methodologies
 - 18 structured finance methodologies
 - 9 more coming soon

DBRS Methodology Approach

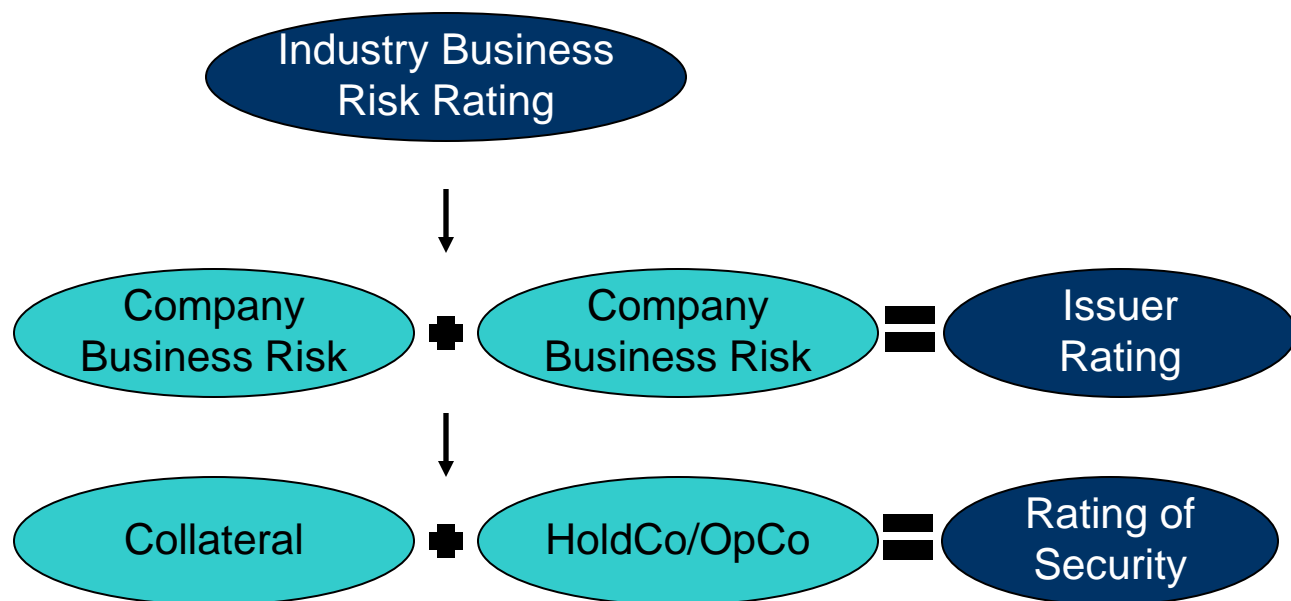


Three Stages of DBRS Rating Analysis

- Stage 1: Business Risk Rating (BRR)

- Stage 2: Issuer Rating

- Stage 3: Rating the Security



Stage 1: Business Risk Rating



- 5 Key Areas
 - Profitability and Cash Flow
 - Competitive Landscape
 - Stability
 - Regulation
 - Other industry-specific conditions

Stage 2: Issuer Rating



- Business Risk Profile
 - May be better or worse than the industry average
 - Some factors are more critical than others in a particular industry
- Financial Risk Profile
 - Earnings
 - Cash Flow and Coverage
 - Balance Sheet and Financial Flexibility
- Other

Stage 3: Rating the Specific Issue



- Hierarchy Approach
 - Secured
 - Unsecured
 - Subordinate
- Corporate Structure
 - Holding Company vs. Operating Company
- Other

Covenants and Other Structural Features



- Investment Grade
 - Change of Control clauses
 - Debt/Cap (possible in some BBB-range)
 - Typically not very restrictive
- Non-Investment Grade
 - Typically more highly structured
 - Debt Service Coverage Ratio; EBIT/Interest
 - Debt Service Reserve
 - Often secured by Assets of the Company
 - May restrict acquisitions

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