

RMG Credit Scoring Model

OVERVIEW

RMG Financial
Consulting

Established in 2003

Consulting Services for Credit Departments

- Policy development, including establishing credit limits
- Middle Office support
- Best practices and educational seminars on financial analysis

Credit Evaluations / Reviews

- Due diligence and financial analysis of counterparties transacting in the energy sector (aka “Credit Reviews”)

Credit Scoring Model

- Built on our over 30-years of experience as analysts in the energy sector, utilizing our knowledge of industry best practices and performing credit evaluations and extensive research
- Turnkey, User-friendly

About the Credit Scoring Model

Multivariate Weighted Average Model: Maps financial and non-financial indicators to a series of scoring tables (the “Scorecards”) and calculates a weighted average of results to produce an implied rating or “Score”

Employs a straightforward methodology that is easy to understand and includes multiple layers:

- Financial metrics / indicators
- Credit Ratings (optional to the user , and as available)
- Qualitative Indicators (optional to the user)

Is intended as part of a larger process of evaluation, including credit reviews, to establish:

- Creditworthiness
- Credit Limits

Provides an **implied rating** that acts as a ratings system that is consistent across an entire portfolio of counterparties, including unrated companies (essentially a “common language”)

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Excel-based:

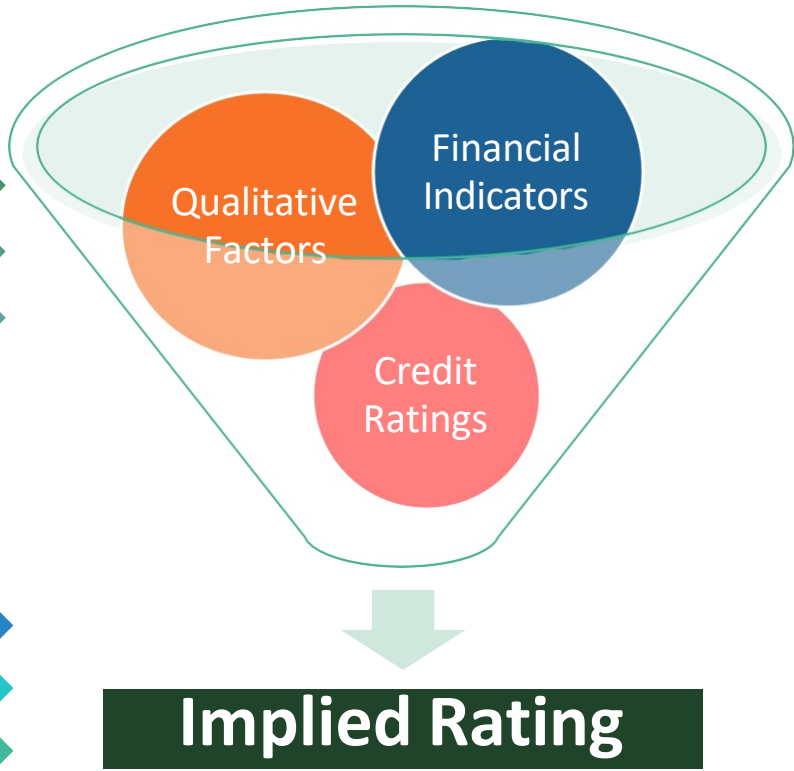
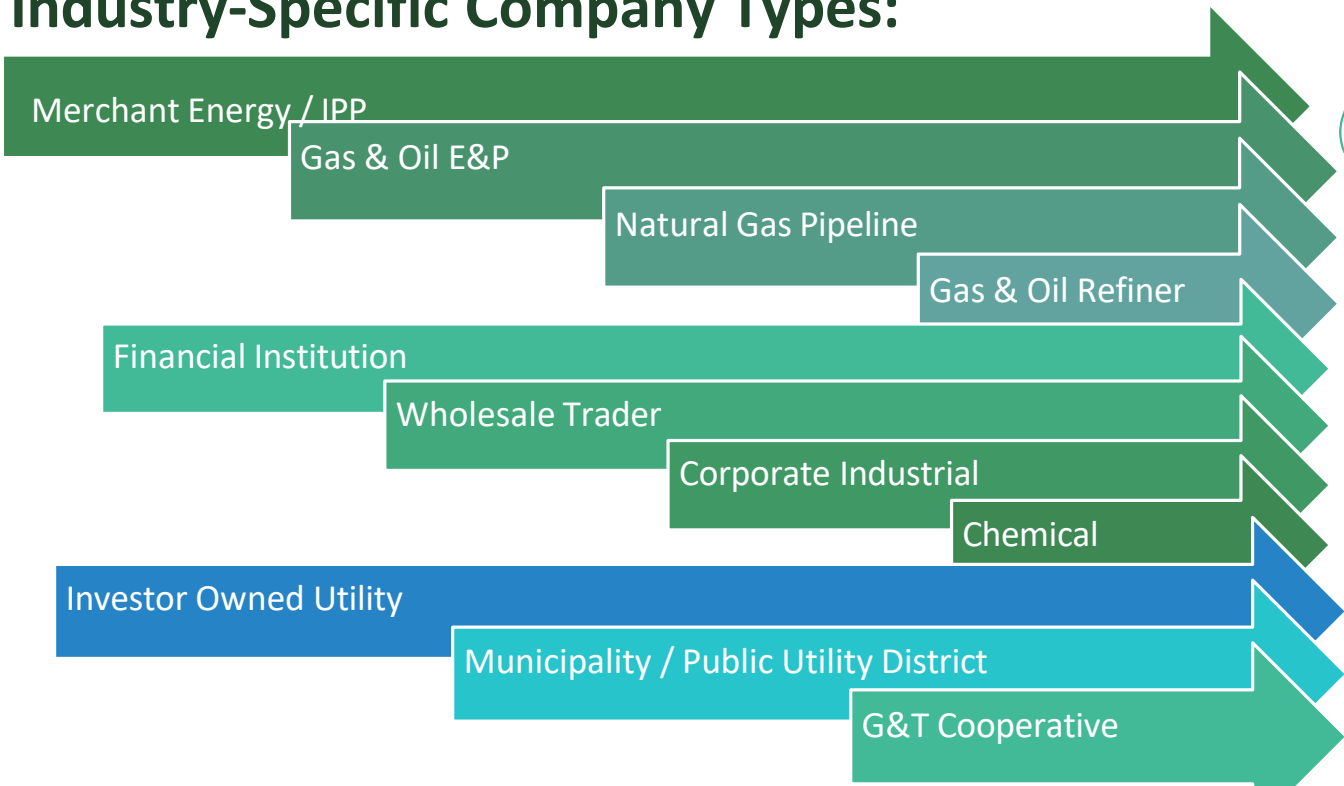
- ❑ Ease of use – a product we are all used to working with
- ❑ Customizable – ability to make modifications to fit a company’s specific needs
- ❑ Transparency – ability to follow formulas through to see how it works

Standardized financial entry points:

- ❑ Model is turn-key with pre-defined data entry points; however, worksheets are also modifiable by the user to track specific line items (i.e. Impairments, Regulatory Assets, etc)
- ❑ Ability to make **adjustments** to bring financial statements from GAP reporting into a more economic view point, including:
 - ✓ Adjustments to Equity to calculate Tangible Net Worth value
 - ✓ Layering in Off-balance Sheet Debt for a clearer picture of all debt-like obligations
 - ✓ Adjusting Cash Flows to reflect debt-like obligations
 - ✓ Viewing Earnings absent “one-time” events (like asset sales or discontinued operations)

About the Credit Scoring Model

Industry-Specific Company Types:



The model recognizes that there are unique financial characteristics to each Company Type in producing an implied score

About the Credit Scoring Model

Credit Scoring by Company Type:

- ❑ With many types of players in the energy industry, the RMG Credit Scoring Model has specific scorecards for the various types of company types – 11 currently
 - ✓ And we continue to develop more as needed or on request by our clients
- ❑ Each company type has a specific scorecard that takes into account the unique business profile and inherent risks/rewards of each.
 - ✓ Financial ratios and how they are weighted change based on the Company Type
- ❑ A numeric score from 1 to 10 is generated from the process that is also translated into a credit lettergrade.
- ❑ We **back-test and validate** our scorecards **annually** against hundreds of companies
 - ✓ Ensures model continues to perform well and account for industry or financial reporting changes
 - ✓ Results are provided to our clients in a written report so they can see how the model is performing across company types

Credit Limit Assignment:

- From the overall credit score produced by the model, a **calculated credit limit** is provided
- The model allows the user to set minimum and maximum limits
- Provides a choice of industry-standard methods to calculate credit limits
 - ✓ Pre-defined percentage of a specific financial marker (tangible net worth, operating cash flow or working capital) that are industry standard (others may be added)
 - ✓ Debt ratings matrix
 - ✓ Or combination of the above
- Model can be modified easily to reflect a company's specific needs or credit policies for assigning limits



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