Project finance

Ratings on large-scale projects worldwide

Overview

The LB-Rating module Project Finance is designed for assessing large-scale projects across countries and industry sectors. Projects are distinguished according to their specific characteristics. For example, the main project category “Power Plants” includes a subsegment “PPA”.

The simulation-based rating algorithm generates a series of scenarios on the development of the cash flows from the asset values of the financed project. Qualitative factors are also taken into account. The rating system provides estimates of the one-year probability of default (PD), the Loss Given Default ratio (LGD) and the Exposure at Default (EAD).

Annual reviews of Project Finance started in 2005. The module was approved for the IRB Approach in early 2007.

Scope of Application

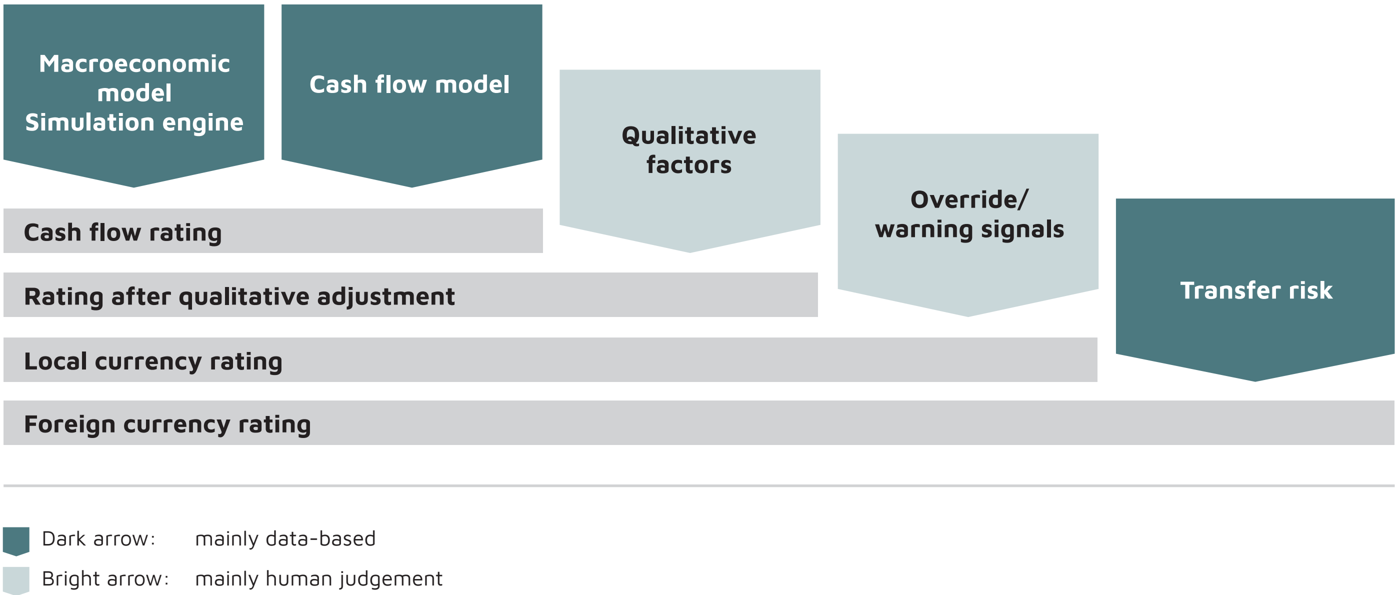
- The scope of application of the Project Finance module consists of special purpose companies (SPCs) whose assets are assigned to the creditor and whose value and solvency essentially depend on future cash flows.
- Typical project sectors include energy, private finance initiatives (PFI), transport, oil and natural gas, industrial plants, water and waste management and telecommunications and media.
- Projects that fall outside the defined segments can be covered, under certain conditions, by applying a generic model structure.

Limitations

- Separate modules are available for aircraft, ship and commercial real estate financing.
- Traditional leveraged buyouts, management buyouts and strategic acquisitions should be rated with the Leveraged Finance module.
- The Corporates module should be used to rate diversified companies.

RSU RATING

Rating process



Macroeconomic model (simulation engine) and cash flow model

A series of scenarios is generated by means of Monte-Carlo simulations to predict the general economic development. These scenarios are used to estimate the future cash flows and the corresponding net present values for the project in question, taking into account segment-specific factors (for example volatilities and correlations). To determine the risk, the simulated cash flows and net present values are set against the debt service to be paid.

Qualitative Factors

The cash flow rating is complemented by qualitative aspects. To ensure a consistent approach, the appropriate assessments must be selected from a predefined answer list.

Overrides and Warning Signals

If there are exceptional circumstances that have not been sufficiently taken into account otherwise, analysts can override a rating or enter a warning signal and change the rating manually.

Transfer risk

The additional risk of restrictions on foreign currency transfers in the SPC's home country is taken into account in the foreign currency rating. This risk must be considered when a loan is not denominated in the obligor's domestic currency.

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