Ship financing

Ratings on ship finance transactions, worldwide

Overview

The LB-Rating module Ship Financing is designed for assessing asset-backed ship finance transactions. It can be used without geographic limitation. A differentiated modelling approach allows to take into account the specifics of each vessel and loan type.

The simulation-based rating algorithm generates a large number of scenarios projecting future cash flows and ship values. In addition, qualitative factors are taken into account. The results produced by the rating model are the one-year probability of default (PD), the Loss Given Default ratio (LGD), and the expected loss (EL).

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

Scope of Application

The scope of application of the Ship Financing module comprises asset-backed ship financing transactions without geographic restrictions. Various types of ships and loans can be evaluated.

Limitations
Diversified companies must be rated with the Corporates module.

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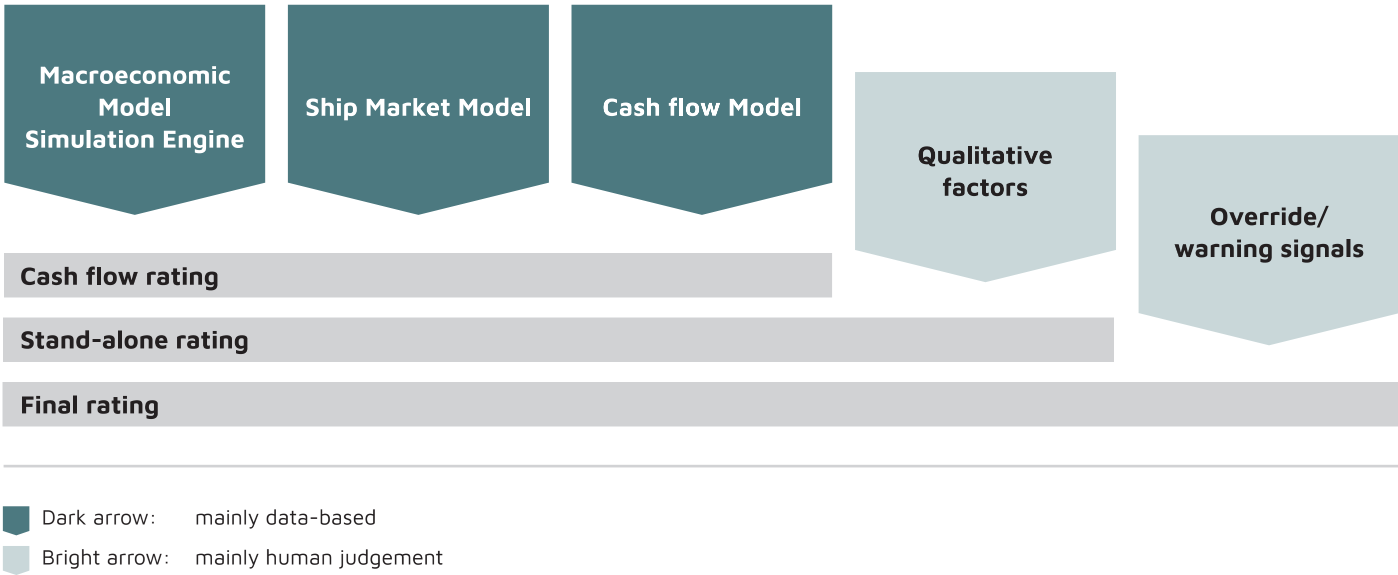
Rating process



Macroeconomic Model, Ship Market Model, Cash Flow Model

The rating system uses Monte Carlo simulations to generate a multitude of scenarios showing possible developments of the economy in general. Based on these scenarios, the ship market model generates projections of market developments for each type of ship including, for example, changes in charter rates. Finally, the future cash flows and ship values are simulated for the transaction in question, taking into account segment-specific factors (e.g. volatilities and correlations). For the risk assessment the simulated cash flows and ship values are set against the debt service.

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.

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