RSU Rating Service Unit

Module Project Finance

Ratings on financings of large individual projects, worldwide

Overview

The module Project Finance has been designed for the risk assessment of project financing transactions of large single projects worldwide and across a variety of industries. The specific characteristics of each project type are reflected through multi-level segmentation, where, for example, a main segment defined for power plants includes a subsegment PPA.

The simulation-based rating algorithm generates a multitude of scenarios to predict the potential development of the cash flows from and asset values of the financed project. In addition, a variety of qualitative factors is considered. The main results produced by the rating model are: one-year probability of default (PD), loss given default (LGD), and expected loss (EL).

The module Project Finance has been included in the annual validation cycle since 2005; it has been approved for the IRB Approach in Germany since the beginning of 2007.

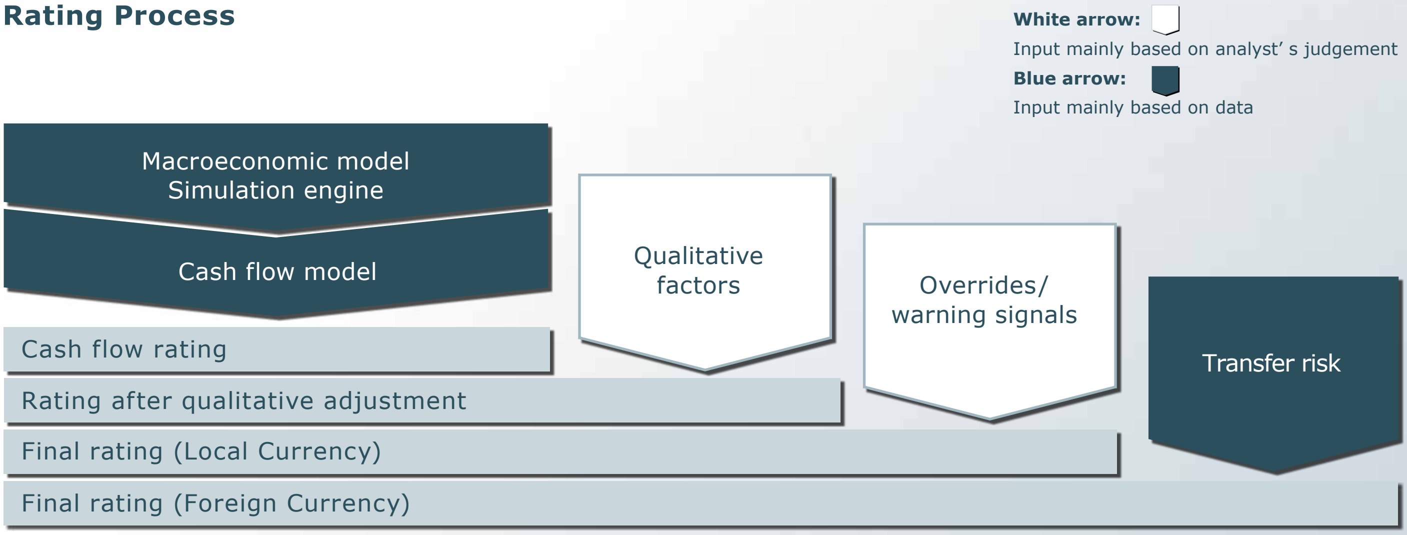
Scope

- The scope of the module Project Finance covers financings of special purpose companies (SPCs) whose assets are assigned to the creditor and whose value and ability to repay essentially depend on future cash flows.
- Typical projects include energy, private finance initiatives (PFI), transport, oil and natural gas, industrial plants, water and waste management, and telecommunications and media.
- Project finance transactions that do not entirely correspond to a pre-defined main segment or subsegment may be adapted, in specific cases, by means of a generic model structure.

Limitations

- Separate modules are provided for aircraft, ship, and commercial real estate financing.
- Typical leveraged buyouts, management buyouts and strategic acquisitions should be rated using the module Leveraged Finance.
- The module Corporates is suitable for ratings on diversified companies.

Rating Process



Macroeconomic Model (Simulation Engine) and Cash Flow Model

Through Monte Carlo simulations, a multitude of scenarios is generated to predict the general economic development. These scenarios are used to estimate the future cash flows and the corresponding net present value 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 value 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 catalog.

Overrides and Warning Signals

If, at the previous stages, exceptional risk-relevant circumstances have not been sufficiently taken into account, an adjustment of the rating may be necessary. For this purpose the system provides an override option and the possibility to release warning signals.

Transfer Risk

The additional risk of currency transfer restrictions in the SPC‘s home country is reflected by the foreign currency rating. This risk must be considered when the financing currency is different from the borrower’s home currency.

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