

## CASE STUDY

# Global commercial bank gains efficiencies using tool to assess Project Finance

### THE CLIENT:

A leading commercial bank

### USERS:

Project Finance credit risk, modeling and origination teams

This commercial bank (bank) manages a portfolio of hundreds of Project Finance issuers for its clients worldwide. The bank's credit risk team conducts an in-depth credit analysis at origination and ongoing reviews as part of the bank's surveillance process. Additionally, the credit risk team shares these credit analyses with the bank's internal departments including loan origination, portfolio management and risk modeling. Given the importance of these analyses to several banking departments, the bank was interested in upgrading its Project Finance credit scoring process. By working with S&P Global Market Intelligence (Market Intelligence), the bank achieved these goals, increasing their efficiency when evaluating the creditworthiness of project finance entities.



## Pain Points

The credit risk team had been struggling with its existing solution from a different provider, which did not meet the bank's needs.

- **Probability of Default (PD) Project Finance scoring tool:** the analysts often had to override the results, adding even more time to the credit assessment process.
- **Loss Given Default (LGD) scoring tool:** the bank was using a corporate LGD model which was yielding unreliable results
- **Client support:** the credit risk team reported longer than preferable wait times to access support.
- **Overall time commitment:** the overall process was cumbersome; the bank was looking for a faster and more reliable solution.

The client's risk management group looked to Market Intelligence for a solution that would address its needs.

**The existing Project Finance solution the bank was using was more than 10 years old and was lacking a Project Finance specific LGD solution.**



## The Solution

Market Intelligence recommended the Project Finance Credit Assessment PD and LGD Scorecards, an Excel-based suite credit scoring solution enabling users to:



### Assign credit scores to the bank's entire Project Finance portfolio

Our Project Finance Scorecard offers broad and global scope of application including:

- **Power Generation and Transmission projects**, including wind, hydro, biomass, nuclear and solar thermal
- **Transportation projects**, including toll roads, bridges, tunnels and ports
- **Oil and Gas projects**, including refinery processing, pipelines and storage
- **Public Private Partnership / Private Finance Initiative projects**, including schools, stadiums, hospitals, and museums
- **Generic projects** that do not fit in the any of the categories above



### Assess and score construction risk

The Project Finance PD Scorecard derives an SACP score for the operations risk of a project. The operations phase SACP reflects our assessment of the likelihood that a project would meet its financial commitments during the operations phase.



### Assess and score operations risk

The Project Finance PD Scorecard derives a standard-alone credit profile (SACP) score for the construction risk of a project. The construction phase SACP assesses the likelihood that a project will be adequately funded to be built and completed on time and within budget, and that the project will be capable of operating as designed and as expected. Once completed the emphasis shifts to the operations risk.



### Estimate Project LGD

The Project Finance LGD Scorecard provides an LGD credit risk assessment framework which enables estimation of individual project specific LGDs.



## Key Benefits

The Project Finance PD and LGD Credit Assessment Scorecards have a global scope of application and are designed to address all major segments and sub-segments of Project Finance transactions. Key benefits include:

- **Productivity gains** with a fully developed and globally implemented project finance scoring solution.
- **Reliably assess sponsor's impact** on project credit risk, which depends on the sponsor's role and expertise in that role.
- **Improve assessment of Greenfield** projects based on dedicated assessment framework for construction risk.
- **Estimate project-specific LGD** based on the economic value of the project, which in general tends to be lower than average LGD of corporate Small and Medium Enterprises.
- **Methodology transparency** of the Scorecard including all risk factors, weights, benchmarks, and scoring algorithms.
- **Training and ongoing analytical assistance** to help groups understand the range of available capabilities and continue to get the most out of the solutions.
- **Quickly get up to speed** in project finance credit analysis with our easy to use Scorecard User Guides and 24/7/365 global customer support team.
- **Validation support** through annual technical documentation that explains Scorecard methodology and testing.
- **Extensive coverage and continually growing** database of Project Finance transactions managed through our Project Finance consortium.

*[Click here to learn more about the Project Finance Credit Assessment Scorecards](#)*

## Contact Us

### **Asia-Pacific**

+852-2533-3565

### **Europe, Middle East & Africa**

+44-207-176-1234

### **The Americas**

+1 877 863 1306

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