ISCA Infrastructure & Project Finance Qualification

Project Risks and Financing

Sample Questions and Answers

i. Multiple Choice Questions

Questions	Answer	Explanation
1) Which of the following risks does not exist during the construction phase? a. Political risk b. Site risk c. Financing risk d. Demand risk	d	Demand risk falls under the operational phase.
2) Which of the following is an objective of a risk identification workshop? a. To quantify the risks identified b. To identify a risk expert whose role is to facilitate the workshop c. To identify all material project risks d. To allocate the risks between the contracting parties	c	The objectives of the risk identification workshop are to identify as many risks to the project as possible, categorise the risks and identify a risk expert for each risk whose role is to further refine the preliminary analysis in terms of description, consequence, and numerical risk estimates in the following stages in the risk quantification process.

Questions	Answer	Explanation
3) Which statement about Ordinary Share Capital is normally incorrect? a. Has priority over preference shareholders in receiving dividends b. Has the right to vote in general meetings c. Participates in the ownership of the company d. Has residual share of the economic value when business winds up	a	Preference shares have priority over ordinary shares in receiving dividends. The other statements are correct.
4) Which statement about project financing is incorrect? a. Creditors typically have limited or no recourse to project sponsors b. Risks are assessed and evaluated across the sponsor's portfolio of assets c. Highly structured and time-consuming financing arrangements d. Project cash flows are segregated from the sponsoring entity	b	The characteristics of project finance are identified within options a, c and d. Option b states a characteristic of corporate financing and not project financing as required in the question. Project financing considers the risks relating to the specific project financed and not the risks across the sponsor's portfolio of assets.

ii. <u>Structured Questions</u>

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<tr><th>Questions</th><th>Answer</th></tr>
<tr><td>
1) Calculate the DSCR for a project with the following information:
<table>
<tr><th></th><th>SGD 000</th></tr>
<tr><td>Revenue</td><td>400,000</td></tr>
<tr><td>Operating expense</td><td>250,000</td></tr>
<tr><td>Operating Profit</td><td>150,000</td></tr>
<tr><td>Interest expense</td><td>9,000</td></tr>
<tr><td>Profit before Tax (PBT)</td><td>141,000</td></tr>
<tr><td>Tax expense</td><td>42,300</td></tr>
<tr><td>Net profit</td><td>98,700</td></tr>
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Assume the debt principle repayment for this year is $55 million and that there is no change in working capital.
</td><td>1.68 – DSCR could be derived using the formula CFADS / debt service. In this question, DSCR = (400,000-250,000-42,300) / (55,000 + 9,000) = 1.68, by substituting the relevant values into the equation.</td></tr>
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Questions	Answer
2) Describe five steps in a well-designed risk management process.	Steps in a well-designed risk management process include: i. Risk identification - Identify the list of risks that can affect the project. Record all the identified risks in a risk register. ii. Risk assessment - Develop a risk assessment criteria matrix to identify the risks that can significantly affect the project iii. Risk quantification - Quantify the significant risk by using an appropriate method to understand the impact of the risks in dollar value iv. Risk allocation - Allocate the risks to the contracting party who can manage them best v. Risk management - Implement risk mitigation, as well as monitoring and reporting procedures to manage risk