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ANNEXES 1 to 4

ANNEXES

to the Commission Delegated Regulation (EU) .../... of XXX supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for assigning risk weights to specialised lending exposures

ANNEX I
Assessment criteria for project finance exposures

	Category 1	Category 2	Category 3	Category 4
Factor: financial strength				
(a) Sub-factor: market conditions	Few competing suppliers or substantial and durable advantage in location, cost, or technology. Demand is strong and growing.	Few competing suppliers or better than average location, cost, or technology but this situation may not last. Demand is strong and stable.	Project has no advantage in location, cost, or technology. Demand is adequate and stable.	Project has worse than average location, cost, or technology. Demand is weak and declining.
(b) Sub-factor: financial ratios (e.g. debt service coverage ratio (DSCR ¹), Interest Coverage Ratio (ICR ²), loan life coverage ratio (LLCR ³) and debt-to-equity ratio)	Strong financial ratios considering the level of project risk; very robust economic assumptions.	Strong to acceptable financial ratios considering the level of project risk; robust project economic assumptions.	Standard financial ratios considering the level of project risk	Aggressive financial ratios considering the level of project risk.
(c) Sub-factor: stress analysis on the basis of the income being generated during the tenor of the loan ⁴	The project can meet its financial obligations under sustained, severely stressed economic or sectoral conditions.	The project can meet its financial obligations under normal stressed economic or sectoral conditions. The project is only likely to default under severe economic conditions.	The project is vulnerable to stresses that are not uncommon through an economic cycle, and may default in an economic downturn.	The project is likely to default unless conditions improve soon.
(d) Sub-factor: financial Structure				
<ul style="list-style-type: none"> Amortisation schedule (sub-factor component) 	Amortising debt without bullet repayment	Amortising debt with no or insignificant bullet repayment	Amortising debt repayments with limited bullet payment	Bullet repayment or amortising debt repayments with high bullet repayment
<ul style="list-style-type: none"> Market/cycle and refinancing risk (sub- 	There is no or very limited exposure to	The exposure to market or cycle risk is	There is moderate exposure to market	There is significant exposure to

¹ The Debt Service Coverage ratio ('DSCR') refers to the ratio of the cashflow available for debt service which can be generated from the asset to the required repayment of the principal and the interest payments during the life of the loan, where the cashflow available for debt service is calculated by subtracting operating expenditure, capital expenditure, debt and equity funding, taxes and working capital adjustments from the revenues generated by the project.

² The Interest Coverage Ratio ('ICR') refers to the ratio of the cashflow available for debt service which can be generated from the asset to the required repayment of the interest payments during the life of the loan, where the cashflow available for debt service is calculated by subtracting operating expenditure, capital expenditure, debt and equity funding, taxes and working capital adjustments from the revenues generated by the project.

³ The Loan Life Coverage Ratio ('LLCR') refers to the ratio of the net present value of the cashflow available for debt service to the outstanding debt balance, and refers to the number of times the cashflow available for debt service which can be generated from the asset can repay the outstanding debt balance over the scheduled life of the loan, where the cashflow available for debt service calculated by subtracting operating expenditure, capital expenditure, debt and equity funding, taxes and working capital adjustments from the revenues generated by the project.

⁴ The tenor of a loan refers to the amount of time left for the repayment of a loan.

factor component)	market or cycle risk since the expected cashflows cover all future loan repayments during the tenor of the loan and there are no significant delays between the cashflows and the loan repayments. There is no or very low refinancing risk.	limited since the expected cashflows cover the majority of future loan repayments during the tenor of the loan and there are no significant delays between the cashflows and the loan repayments. There is low refinancing risk.	or cycle risk since the expected cashflows cover only a part of future loan repayments during the tenor of the loan or there are some significant delays between the cashflows and the loan repayments. Average refinancing risk.	market or cycle risk since the expected cashflows cover only a small part of future loan repayments during the tenor of the loan or there are some significant delays between the cashflows and the loan repayments. High refinancing risk.
(e) Sub-factor : foreign exchange risk	There is no foreign exchange risk because there is no difference in the currency of the loan and the income of the project or because the foreign exchange risk is fully hedged.	There is no foreign exchange risk because there is no difference in the currency of the loan and the income of the project or because the foreign exchange risk is fully hedged.	There is a difference in the currency of the loan and the income of the project, but the foreign exchange risk is considered low because the exchange rate is stable or because the foreign exchange risk is hedged to a large extent.	There is a difference in the currency of the loan and the income of the project, and the foreign exchange risk is considered high because the exchange rate is volatile and the foreign exchange risk is not hedged to a large extent.
Factor: political and legal environment				
(a) Sub-factor: political risk, including transfer risk, considering project type and mitigants	Very low exposure; strong mitigation instruments, if needed	Low exposure; satisfactory mitigation instruments, if needed	Moderate exposure; fair mitigation instruments	High exposure; no or weak mitigation instruments
(b) Sub-factor: force majeure risk (war, civil unrest, etc)	No or very low exposure to force majeure risk'	Limited exposure to force majeure risk	Significant exposure to force majeure risk which is not sufficiently mitigated	Significant exposure to force majeure risk which is not mitigated
(c) Sub-factor: government support and project's importance for the country over the long term	Project of strategic importance for the country (preferably export-oriented). Strong support from Government.	Project considered important for the country. Good level of support from Government.	Project may not be strategic but brings unquestionable benefits for the country. Support from Government may not be explicit.	Project not key to the country. No or weak support from Government.
(d) Sub-factor: stability of legal and regulatory environment (risk of change in the law)	Favourable and stable regulatory environment over the long term	Favourable and stable regulatory environment over the medium term	Regulatory changes can be predicted with a fair level of certainty	Current or future regulatory issues may affect the project
(e) Sub-factor: acquisition of all necessary supports and approvals for such relief from local content laws	Strong	Satisfactory	Fair	Weak
(f) Sub-factor: enforceability of contracts, collateral and security	Contracts, collateral and security are enforceable.	Contracts, collateral and security are enforceable.	Contracts, collateral and security are considered enforceable even if certain non-key issues may exist.	There are unresolved key issues in respect if actual enforcement of contracts, collateral and security.
Factor: transaction characteristics				

(a) Sub-factor: design and technology risk	Fully proven technology and design	Fully proven technology and design	Proven technology and design — start-up issues are mitigated by a strong completion package	Unproven technology and design; technology issues exist and/or complex design.
(b) Sub-factor: construction risk				
<ul style="list-style-type: none"> Permitting and siting (sub-factor component) 	All permits have been obtained	Some permits are still outstanding but their receipt is considered very likely	Some permits are still outstanding but the permitting process is well defined and they are considered routine.	Key permits still need to be obtained and are not considered routine. Significant conditions may be attached.
<ul style="list-style-type: none"> Type of construction contract (sub-factor component) 	Fixed-price date-certain turnkey construction EPC ⁵ (engineering and procurement contract)	Fixed-price date-certain turnkey construction EPC	Fixed-price date-certain turnkey construction contract with one or several contractors	No or partial fixed-price turnkey contract and/or interfacing issues with multiple contractors
<ul style="list-style-type: none"> Likelihood to finish the project at the agreed time and cost (sub-factor component) 	It is almost certain that the project will be finished within the agreed time horizon and at the agreed cost.	It is very likely that the project will be finished within the agreed time horizon and at the agreed cost.	It is uncertain whether the project will be finished within the agreed time horizon and at the agreed cost.	There are indications that the project will not be finished within the agreed time horizon and at the agreed cost.
<ul style="list-style-type: none"> Completion guarantees⁶ or liquidated damages⁷ (sub-factor component) 	Substantial liquidated damages supported by financial substance and/or strong completion guarantee from sponsors with excellent financial standing	Significant liquidated damages supported by financial substance and/or completion guarantee from sponsors with good financial standing	Adequate liquidated damages supported by financial substance and/or completion guarantee from sponsors with good financial standing	Inadequate liquidated damages or not supported by financial substance or weak completion guarantees
<ul style="list-style-type: none"> Track record and financial strength of contractor in constructing similar projects (sub-factor component) 	Strong	Good	Satisfactory	Weak
(c) Sub-factor: operating risk				
<ul style="list-style-type: none"> Scope, nature and complexity of operations and maintenance (O & M) 	Strong long-term O&M contract ⁸ , preferably with contractual performance	The O&M activities are relatively straightforward and transparent, and	The O&M activities are complex and an O&M contract is necessary. There	The O&M activities are complex and an O&M contract is strictly necessary.

⁵ An Engineering and Procurement Contract ('EPC') or 'turnkey contract' refers to an agreement between the engineering and procurement contractor ('EPC contractor') and the developer, whereby the EPC contractor agrees to develop the detailed engineering design of the project, procure all the equipment and materials necessary, construct and deliver a functioning facility or asset to the developer, usually within an agreed time and budget.

⁶ A completion guarantee refers to a guarantee provided by the contractor to the project's lenders to undertake to deliver the project within the specified timeframe, and to pay for the cost overruns, if any.

⁷ A liquidated damage refers to a monetary compensation for a loss, detriment or injury to a person's rights or property, awarded by a court judgment or by a contract stipulation regarding breach of contract.

⁸ An Operation and Maintenance ('O&M') contract refers to a contract between the developer and the operator. The developer delegates the operation, maintenance and often performance management of the project to an operator with expertise in the industry under the terms of the O&M contract (i.e. scope, term, operator responsibility, fees, and liquidated damages).

contracts (sub-factor component)	incentives ⁹ , and/or O&M reserve accounts ¹⁰ , although an O&M contract is not strictly necessary to perform the required maintenance because the O&M activities are straightforward and transparent.	there is a long-term O&M contract, and/or O&M reserve account.	is a limited long-term O&M contract and/or reserve account.	There is no O&M contract. There is therefore the risk of high operational cost overruns beyond mitigants.
<ul style="list-style-type: none"> Operator's expertise, track record, and financial strength (sub-factor component) 	Very strong, or committed technical assistance of the sponsors	Strong	Acceptable	Limited/weak, or local operator dependent on local authorities
(d) Sub-factor: revenue assessment, including off – take risk ¹¹				
<ul style="list-style-type: none"> What is the robustness of the revenue contracts (e.g. off-take contracts¹², concession agreements, public private partnership income stream, and other revenue contracts)? What is the quality of the termination clauses¹³? (sub-factor component) 	Excellent robustness of the revenues	Good robustness of the revenues	Acceptable robustness of the revenues	The revenues of the project are not certain and there are indications that some of the revenues may not be obtained.
<ul style="list-style-type: none"> If there is a take-or-pay¹⁴ or fixed-price off-take contract (sub-factor component) 	Excellent creditworthiness of off-taker; strong termination clauses; tenor of contract comfortably exceeds the maturity of the debt.	Good creditworthiness of off-taker; strong termination clauses; tenor of contract exceeds the maturity of the debt.	Acceptable financial standing of off-taker; normal termination clauses; tenor of contract generally matches the maturity of the debt.	Weak off-taker; weak termination clauses; tenor of contract does not exceed the maturity of the debt.
<ul style="list-style-type: none"> If there is no take-or-pay or fixed-price off-take contract (sub-factor component) 	Project produces essential services or a commodity sold widely on a world market; output can readily be absorbed at projected prices even at lower than historic market.	Project produces essential services or a commodity sold widely on a regional market that will absorb it at projected prices at historical growth rates.	Commodity is sold on a limited market that may absorb it only at lower than projected prices.	Project output is demanded by only one or a few buyers or is not generally sold on an organised market.

⁹ Performance incentives or performance based contracting refer to strategic performance metrics which directly relate contracting payment to these performance metrics. Performance metrics may measure availability, reliability, maintainability, supportability.

¹⁰ An O&M reserve account refers to a fund into which money is deposited to be used for the purpose of meeting the costs of operation and maintenance of the project.

¹¹ Off-take risk refers to the risk that the demand for the output or service does not exist at the price at which it is provided or the off-taker is unable or refuses to honour his commitment to purchase the output or service.

¹² An off-take contract refers to a contract between a producer of a resource/product/service and a buyer ('off-taker') of a resource to purchase/sell portions of the producer's future production. An off-take contract is normally negotiated prior to the construction of a facility in order to secure a market for the future output of the facility. The purpose is to provide the producer with stable and sufficient revenue to pay its debt obligation, cover the operating costs and provide certain required return.

¹³ A termination clause refers to a provision in a contract which allows for its termination under specified circumstances.

¹⁴ A take-or-pay contract refers to a contract in which it is agreed that a client buys the output or service from the supplier or the client pays the supplier a penalty. Both the price and the penalty are fixed in the contract.

	growth rates.			
(e) Sub-factor: supply risk				
<ul style="list-style-type: none"> Price, volume and transportation risk of feed-stocks; supplier's track record and financial strength (sub-factor component) 	Long-term supply contract with supplier of excellent financial standing.	Long-term supply contract with supplier of good financial standing.	Long-term supply contract with supplier of good financial standing — a degree of price risk may remain.	Short-term supply contract or long-term supply contract with financially weak supplier — a degree of price risk definitely remains.
<ul style="list-style-type: none"> Reserve risks¹⁵ (e.g. natural resource development) (sub-factor component) 	Independently audited, proven and developed reserves well in excess of requirements over lifetime of the project.	Independently audited, proven and developed reserves in excess of requirements over lifetime of the project.	Proven reserves can supply the project adequately through the maturity of the debt.	Project relies to some extent on potential and undeveloped reserves.
Factor: strength of sponsor (including any public private partnership)				
(a) Sub-factor: financial strength of the sponsor	Strong sponsor with high financial standing	Good sponsor with good financial standing	Sponsor with adequate financial standing	Weak sponsor with clear financial weaknesses
(b) Sub-factor: track record of the sponsor and its country/sector experience	Sponsor with excellent track record and country/sector experience	Sponsor with satisfactory track record and country/sector experience	Sponsor with adequate track record and country/sector experience	Sponsor with no or questionable track record or country/sector experience
(c) Sub-factor: sponsor support, as evidenced by equity, ownership clause ¹⁶ and incentive to inject additional cash if necessary	Strong. Project is highly strategic for the sponsor (core business — long term strategy).	Good. Project is strategic for the sponsor (core business — long term strategy).	Acceptable. Project is considered important for the sponsor (core business).	Limited. Project is not key to sponsor's long term strategy or core business.
Factor: security package				
(a) Sub-factor: assignment of contracts and accounts	Fully comprehensive	Comprehensive	Acceptable	Weak
(b) Sub-factor: pledge of assets, taking into account quality, value and liquidity of assets	First perfected security interest ¹⁷ in all project assets, contracts, permits and accounts necessary to run the project	Perfected security interest in all project assets, contracts, permits and accounts necessary to run the project	Acceptable security interest in all project assets, contracts, permits and accounts necessary to run the project	Little security or collateral for lenders; weak negative pledge clause ¹⁸

¹⁵ Reserve risk refers to the risk that the accessible reserves are smaller than estimated.

¹⁶ An ownership clause refers to a provision that states that a project cannot be owned by a different entity than the actual owner (sponsor).

¹⁷ First perfected security interest refers to a security interest in an asset (mortgaged as a collateral) protected from claims by other parties. A lien is perfected by registering it with appropriate statutory authority so that it is made legally enforceable and any subsequent claim on that asset is given a junior status.

¹⁸ A negative pledge clause refers to a provision that indicates that the institution will not pledge any of its assets if doing so gives the lenders less security.

(c) Sub-factor: lender's control over cash flow (e.g. cash sweeps ¹⁹ , independent escrow accounts ²⁰)	Strong	Satisfactory	Fair	Weak
(d) Sub-factor: strength of the covenant package (mandatory prepayments ²¹ , payment deferrals ²² , payment cascade ²³ , dividend restrictions ²⁴ ...)	Covenant package is strong for this type of project. Project may issue no additional debt.	Covenant package is satisfactory for this type of project. Project may issue extremely limited additional debt.	Covenant package is fair for this type of project. Project may issue limited additional debt.	Covenant package is Insufficient for this type of project. Project may issue unlimited additional debt.
(e) Sub-factor: reserve funds (debt service, O&M, renewal and replacement, unforeseen events, etc)	Longer than average coverage period, all reserve funds fully funded in cash or letters of credit from highly rated bank	Average coverage period, all reserve funds fully funded	Average coverage period, all reserve funds fully funded	Shorter than average coverage period, reserve funds funded from operating cash flows

¹⁹ A cash sweep refers to the mandatory use of excess free cash flows to pay down outstanding debt rather than distribute it to shareholders.

²⁰ An independent escrow account refers to an account held in the sponsor's name by a bank under the support of an escrow account agreement between the lender and borrower providing for irrevocable instructions from the borrower to the effect that all operational revenue or proceeds from sale of assets of the project will be paid into this account, and where the bank is authorised to make payments from available funds only as agreed in the project financing documents.

²¹ A mandatory prepayment refers to a provision that requires the borrower to prepay a portion of the debt with certain proceeds if and when received before the maturity date.

²² A payment deferral refers to a provision that indicates that the borrower is allowed to start making payments at some specified time in the future.

²³ A payment cascade refers to a provision whereby the project's cash flows are summarised using a cash flow waterfall, which shows the priority of each cash inflow and outflow.

²⁴ A dividend restriction refers to a provision that defines the circumstances in which the lender is able to prevent equity distributions.

ANNEX 2
Assessment criteria for real estate exposures

	Category 1	Category 2	Category 3	Category 4
Factor: financial strength				
(a) Sub-factor: market conditions	The supply and demand for the project's type and location are currently in equilibrium. The number of competitive properties coming to market is equal or lower than forecasted demand.	The supply and demand for the project's type and location are currently in equilibrium. The number of competitive properties coming to market is roughly equal to forecasted demand.	Market conditions are roughly in equilibrium. Competitive properties are coming on the market and others are in the planning stages. The design and capabilities of existing comparable properties are not state of the art as compared to new projects.	Market conditions are weak. It is uncertain when conditions will improve and return to equilibrium. Comparable properties in the market are losing tenants at lease expiration. New lease terms of comparable properties are less favourable compared to those existing.
(b) Sub-factor: financial ratios, i.e. Indicators of the borrower's ability to repay	The property's financial ratios, measured by the property's debt service coverage ratio (DSCR ²⁵) or interest coverage ratio (ICR ²⁶), are considered strong and are expected to remain strong taking into account the past evolution in financial ratios. DSCR or ICR is not relevant and should not be calculated for properties that are in the construction phase.	The property's financial ratios, measured by the property's DSCR or ICR, are considered good and are expected to remain good taking into account the past evolution in financial ratios. The DSCR or ICR is not relevant and should not be calculated for properties that are in the construction phase.	The property's financial ratios measured by the property's DSCR or ICR are satisfactory and are expected to remain satisfactory taking into account the past evolution in financial ratios. The DSCR or ICR is not relevant and should not be calculated for properties that are in the construction phase.	The property's financial ratios, measured by the property's DSCR or ICR are weak and are expected to remain weak taking into account the past evolution in financial ratios. The DSCR or ICR is not relevant and should not be calculated for properties that are in the construction phase.
(c) Sub-factor: advance ratio, i.e. the loan-to-value (LTV ²⁷) ratio as an indicators of the borrower's willingness to repay	The property's loan to value ratio (LTV) is considered low given its property type. Where a secondary market exists, the transaction is underwritten to market standards.	The property's LTV is considered satisfactory given its property type. Where a secondary market exists, the transaction is underwritten to market standards.	The property's LTV is considered relatively high given its property type.	The property's LTV ratio is well above underwriting standards for new loans.

²⁵ The Debt Service Coverage ratio ('DSCR') refers to the ratio of the cashflow available for debt service which can be generated from the asset to the required repayment of the principal and the interest payments during the life of the loan, where the cashflow available for debt service is calculated by subtracting operating expenditure, capital expenditure, debt and equity funding, taxes and working capital adjustments from the revenues generated by the project.

²⁶ The Interest Coverage Ratio ('ICR') refers to the ratio of the cashflow available for debt service which can be generated from the asset to the required repayment of the interest payments during the life of the loan, where the cashflow available for debt service is calculated by subtracting operating expenditure, capital expenditure, debt and equity funding, taxes and working capital adjustments from the revenues generated by the project.

²⁷ The Loan-to-Value ratio ('LTV') refers to the ratio of the loan amount to the value of the pledged assets.

(d) Sub-factor: stress analysis on the basis of the income being generated during the tenor of the loan ²⁸	The property's resources, contingencies and liability structure allow it to meet its financial obligations during a period of severe financial stress (e.g. interest rates, economic growth).	The property can meet its financial obligations under a sustained period of financial stress (e.g. interest rates, economic growth). The property is likely to default only under severe economic conditions.	During an economic downturn, the property would suffer a decline in revenue that significantly increase the risk of default.	The property's financial condition is strained and is likely to default unless conditions improve in the near term.
(e) Sub-factor: cash-flow predictability				
<ul style="list-style-type: none"> For complete and stabilized property (sub-factor component) 	<p>The property's leases are long-term with creditworthy tenants and their maturity dates are scattered, or a public private partnership guarantees a considerable part of the tenancy contracts.</p> <p>The property has a track record of tenant retention upon lease expiration. Its vacancy rate is low. Expenses (maintenance, insurance, security, and property taxes) are predictable.</p>	<p>The majority of the property has several tenant lease contracts that are long-term, and with tenants that have on average a high creditworthiness, and with scattered maturity dates. A public private partnership may guarantee part of the tenancy contracts. Where the property has only one lease contract or one tenant has a very significant share in the income generated by the property, this tenant is of excellent creditworthiness and the contract includes covenants that ensure lease payments until the end of the project life or beyond.</p> <p>The property experiences a normal level of tenant turnover upon lease expiration. Its vacancy rate is low. Expenses are predictable.</p>	<p>Most of the property's leases are medium rather than long-term with tenants that range in creditworthiness. A public private partnership may guarantee only a minor part of the tenancy contracts. Where the property has only one lease contract or one tenant has a very significant share in the income generated by the property, this one tenant, the contract includes covenants that ensure lease payments until the end of the project life or beyond but the tenant has moderate creditworthiness.</p> <p>The property experiences a moderate level of tenant turnover upon lease expiration. Its vacancy rate is moderate. Expenses are relatively predictable but vary in relation to revenue.</p>	<p>The proportion of short term leases is significant with tenants that range in creditworthiness, or the property has only one lease contract, or one tenant has a very significant share in the income generated by the property, where that tenant has a low creditworthiness and/or the contract does not include the necessary covenants that ensure lease payments until the end of the project life or beyond.</p> <p>The property experiences a very high level of tenant turnover upon lease expiration. Its vacancy rate is high. Significant expenses are incurred preparing space for new tenants.</p>
<ul style="list-style-type: none"> For complete but not stabilized property (sub-factor component) 	The cashflows obtained from the leasing activity, for instance obtained from a public private partnership, meet or exceed the expected cashflows used in the valuation of the property. The project should achieve stabilization in the near future.	The cashflows obtained from the leasing activity, for instance obtained from a public private partnership, meet or exceed the expected cashflows used in the valuation of the property. The project should achieve stabilization in the near future.	Most of the cashflows obtained from the leasing activity meet the expected cashflows used in the valuation of the property, however, stabilization will not occur for some time.	The cashflows obtained from the leasing activity do not meet the expected cashflows used in the valuation of the property. Despite achieving target occupancy rate, cash flow coverage is tight due to disappointing revenue.
<ul style="list-style-type: none"> For construction phase (sub-factor component) 	The property is entirely preleased through the tenor of the loan ²⁹ or pre-sold to a tenant or buyer of high creditworthiness, or the bank has a binding commitment for	The property is entirely pre-leased or pre-sold to a creditworthy tenant or buyer, or the bank has a binding commitment for permanent financing from a creditworthy lender, for instance through a public	Leasing activity is within projections but the building may not be pre-leased and there may not exist a take-out financing. The bank may be the permanent lender.	The property is deteriorating due to cost overruns, market deterioration, tenant cancellations or other factors. There may be a dispute with the party providing the

²⁸ The tenor of a loan refers to the amount of time left for the repayment of a loan.

²⁹ The tenor of a loan refers to the amount of time left for the repayment of a loan.

	take-out financing from a tenant or buyer of high creditworthiness, for instance through a public private partnership.	private partnership.		permanent financing.
Factor: political and legal environment				
(a) Sub-factor: legal and regulatory risks	Jurisdiction is very favourable to repossession and enforcement of contracts.	Jurisdiction is generally favourable to repossession and enforcement of contracts.	Jurisdiction is generally favourable to repossession and enforcement of contracts, but repossession might be long and/or difficult.	Poor or unstable legal and regulatory environment. Jurisdiction may make repossession and enforcement of contracts lengthy or impossible.
(b) Sub-factor: political risk, including transfer risk, considering property type and mitigants	Very low exposure; strong mitigation instruments, if needed	Low exposure; satisfactory mitigation instruments, if needed	Moderate exposure; fair mitigation instruments	High exposure; no or weak mitigation instruments
Factor: asset/transaction characteristics				
(a) Sub-factor: location	Property is located in highly desirable location that is convenient to services that tenants desire.	Property is located in desirable location that is convenient to services that tenants desire.	The property location lacks a competitive advantage.	The property is located in an undesirable location.
(c) Sub-factor: design and condition	Property is favoured due to its design, configuration, and maintenance, and is highly competitive with new properties.	Property is appropriate in terms of its design, configuration and maintenance. The property's design and capabilities are competitive with new properties.	Property is adequate in terms of its configuration, design and maintenance.	The property's configuration, design and maintenance have contributed to the property's difficulties. Weaknesses exist in the property's configuration, design or maintenance.
(d) Sub-factor: property is under construction	Construction budget is conservative and technical hazards are limited. Contractors are highly qualified and have high credit standing.	Construction budget is conservative and technical hazards are limited. Contractors are highly qualified and have good credit standing.	Construction budget is adequate and contractors are ordinarily qualified and have average credit standing.	Project is over budget or unrealistic given its technical hazards. Contractors may be under qualified and have low credit standing.
(e) Sub-factor: financial structure:				
<ul style="list-style-type: none"> Amortisation schedule (sub-factor component) 	Amortising debt without bullet repayment	Amortising debt with no or insignificant bullet repayment	Amortising debt repayments with limited bullet payment	Bullet repayment or amortising debt repayments with high bullet repayment
<ul style="list-style-type: none"> Market/cycle and refinancing risk (sub-factor component) 	There is no or very limited exposure to market or cycle risk since the expected cashflows cover all future loan repayments during the tenor of the loan and there are no significant delays between the cashflows and the loan	The exposure to market or cycle risk is limited since the expected cashflows cover the majority of future loan repayments during the tenor of the loan and there are no significant delays between the cashflows and the loan	There is moderate exposure to market or cycle risk since the expected cashflows cover only a part of future loan repayments during the tenor of the loan or there are some significant delays between the cashflows and the loan repayments.	There is significant exposure to market or cycle risk since the expected cashflows cover only a small part of future loan repayments during the tenor of the loan or there are some significant delays between

	repayments. There is no or very low refinancing risk.	repayments. There is low refinancing risk.	Average refinancing risk.	the cashflows and the loan repayments. High refinancing risk.
Factor: strength of sponsor/developer (including any public private partnership)				
(a) Sub-factor: financial capacity and willingness to support the property.	The sponsor/ developer made a substantial cash contribution to the construction or purchase of the property. The sponsor/developer has substantial resources and limited direct and contingent liabilities. The sponsor/developer's properties are diversified geographically and by property type.	The sponsor/ developer made a material cash contribution to the construction or purchase of the property. The sponsor/developer's financial condition allows it to support the property in the event of a cash flow shortfall. The sponsor/developer's properties are located in several geographic regions.	The sponsor/ developer's contribution may be immaterial or non-cash. The sponsor/developer is average to below average in financial resources.	The sponsor/ developer lacks capacity or willingness to support the property.
(b) Sub-factor: reputation and track record with similar properties.	Experienced management and high sponsors' quality; strong reputation and lengthy and successful record with similar properties	Appropriate management and sponsors' quality. The sponsor or management has a successful record with similar properties.	Moderate management and sponsors' quality. Management or sponsor track record does not raise serious concerns.	Ineffective management and substandard sponsors' quality. Management and sponsor difficulties have contributed to difficulties in managing properties in the past.
(c) Sub-factor: relationships with relevant real estate actors	Strong relationships with leading actors such as leasing agents	Proven relationships with leading actors such as leasing agents	Adequate relationships with leasing agents and other parties providing important real estate services	Poor relationships with leasing agents and/or other parties providing important real estate services
Factor: security package				
(a) Sub-factor: nature of lien	Perfected first lien ³⁰	Perfected first lien	Perfected first lien	Ability of lender to foreclose is constrained.
(b) Sub-factor: assignment of rents	The lender has obtained an assignment for the majority of the rents. They maintain current tenant information that would facilitate providing notice to remit rents directly to the lender, such as a current rent roll and copies of the project's leases.	The lender has obtained an assignment for a significant part of the rents. They maintain current tenant information that would facilitate providing notice to the tenants to remit rents directly to the lender, such as current rent roll and copies of the project's leases.	The lender has obtained an assignment for a relatively small part of the rent. The lender has not maintained current tenant information that would facilitate providing notice to the tenants to remit rents directly to the lender, such as current rent roll and copies of the project's leases.	The lender has not obtained an assignment of the leases.

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Lenders in some markets exclusively use loan structures that include junior liens. Junior liens may be indicative of this level of risk if the total LTV inclusive of all senior positions does not exceed a typical first loan LTV.

(c) Sub-factor: quality of the insurance coverage	Very good quality	Good quality	Appropriate quality	Substandard quality
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ANNEX 3
Assessment criteria for object finance exposures

	Category 1	Category 2	Category 3	Category 4
Factor: financial strength				
(a) Sub-factor: market conditions	Demand is strong and growing, strong entry barriers, low sensitivity to changes in technology and economic outlook.	Demand is strong and stable. Some entry barriers, some sensitivity to changes in technology and economic outlook.	Demand is adequate and stable, limited entry barriers, significant sensitivity to changes in technology and economic outlook.	Demand is weak and declining, vulnerable to changes in technology and economic outlook, highly uncertain environment.
(b) Sub-factor: financial ratios, i.e. DSCR ³¹ or ICR ³²	Strong financial ratios considering the type of asset. Very robust economic assumptions.	Strong / acceptable financial ratios considering the type of asset. Robust project economic assumptions.	Standard financial ratios for the asset type	Aggressive financial ratios considering the type of asset
(c) Sub-factor: advance ratio, i.e. loan-to-value (LTV ³³) ratio	Strong LTV ratio considering the type of asset	Strong/good LTV ratio considering the type of asset	Standard LTV ratio for the asset type	Aggressive LTV ratio considering the type of asset
(d) Sub-factor: stress analysis on the basis of the income being generated during the tenor of the loan ³⁴	Stable long-term revenues, capable of withstanding severely stressed conditions through an economic cycle	Satisfactory short-term revenues. Loan can withstand some financial adversity. Default is only likely under severe economic conditions	Uncertain short-term revenues. Cash flows are vulnerable to stresses that are not uncommon through an economic cycle. The loan may default in an economic downturn	Revenues subject to strong uncertainties; even in normal economic conditions the asset may default, unless conditions improve
(e) Sub-factor: market liquidity	Market is structured on a worldwide basis; assets are highly liquid.	Market is worldwide or regional; assets are relatively liquid.	Market is regional with limited prospects in the short term, implying lower liquidity.	Local market and/or poor visibility. Low or no liquidity, particularly on niche markets.

³¹ The Debt Service Coverage ratio ('DSCR') refers to the ratio of the cashflow available for debt service which can be generated from the asset to the required repayment of the principal and the interest payments during the life of the loan, where the cashflow available for debt service shall be calculated by subtracting operating expenditure, capital expenditure, debt and equity funding, taxes and working capital adjustments from the revenues generated by the project.

³² The Interest Coverage Ratio ('ICR') refers to the ratio of the cashflow available for debt service which can be generated from the asset to the required repayment of the interest payments during the life of the loan, where the cashflow available for debt service shall be calculated by subtracting operating expenditure, capital expenditure, debt and equity funding, taxes and working capital adjustments from the revenues generated by the project.

³³ The Loan-to-Value ratio ('LTV') refers to the ratio of the loan amount to the value of the pledged assets.

³⁴ The tenor of a loan refers to the amount of time left for the repayment of a loan.

Factor: political and legal environment				
(a) Sub-factor: legal and regulatory risks	Jurisdiction is favourable to repossession and enforcement of contracts.	Jurisdiction is favourable to repossession and enforcement of contracts.	Jurisdiction is generally favourable to repossession and enforcement of contracts, even if repossession might be long and/or difficult.	Poor or unstable legal and regulatory environment. Jurisdiction may make repossession and enforcement of contracts lengthy or impossible.
(b) Sub-factor: political risk, including transfer risk, considering object type and mitigants	Very low exposure; strong mitigation instruments, if needed	Low exposure; satisfactory mitigation instruments, if needed	Moderate exposure; fair mitigation instruments	High exposure; no or weak mitigation instruments
Factor: transaction characteristics				
(a) Sub-factor: amortisation schedule	Amortising debt without bullet repayment	Amortising debt with no or insignificant bullet repayment	Amortising debt repayments with limited bullet payment	Bullet repayment or amortising debt repayments with high bullet repayment
(b) Sub-factor: market/cycle and refinancing risk	There is no or very limited exposure to market or cycle risk since the expected cashflows cover all future loan repayments during the tenor of the loan ³⁵ and there are no significant delays between the cashflows and the loan repayments. There is no or very low refinancing risk.	The exposure to market or cycle risk is limited since the expected cashflows cover the majority of future loan repayments during the tenor of the loan and there are no significant delays between the cashflows and the loan repayments. There is low refinancing risk.	There is moderate exposure to market or cycle risk since the expected cashflows cover only a part of future loan repayments during the tenor of the loan or there are some significant delays between the cashflows and the loan repayments. Average refinancing risk.	There is significant exposure to market or cycle risk since the expected cashflows cover only a small part of future loan repayments during the tenor of the loan or there are some significant delays between the cashflows and the loan repayments. High refinancing risk.
(c) Sub-factor: operating risk				
• Permits / licensing (sub-factor component)	All permits have been obtained; asset meets current and foreseeable safety regulations.	All permits obtained or in the process of being obtained; asset meets current and foreseeable safety regulations.	Most permits obtained or in process of being obtained, outstanding ones considered routine, asset meets current safety regulations.	Problems in obtaining all required permits, part of the planned configuration and/or planned operations might need to be revised.
• Scope and nature of O & M contracts (sub-factor component)	Strong long-term O&M contract ³⁶ , preferably with contractual performance incentives, and/or O&M reserve accounts	Long-term O&M contract, and/or O&M reserve accounts ³⁷ (if needed)	Limited O&M contract or O&M reserve account (if needed)	No O&M contract: risk of high operational cost overruns beyond

³⁵ The tenor of a loan refers to the amount of time left for the repayment of a loan.

³⁶ An Operation and Maintenance ('O&M') contract refers to a contract between the developer and the operator. The developer delegates the operation, maintenance and often performance management of the project to an operator with expertise in the industry under the terms of the O&M contract (i.e. scope, term, operator responsibility, fees, and liquidated damages).

³⁷ An O&M reserve account refers to a fund into which money is deposited to be used for the purpose of meeting the costs of operation and maintenance of the project.

	(if needed)			mitigants
<ul style="list-style-type: none"> Operator's financial strength, track record in managing the asset type and capability to re-market asset when it comes off-lease (sub-factor component) 	Excellent track record and strong re-marketing capability	Satisfactory track record and re-marketing capability	Weak or short track record and uncertain re-marketing capability	No or unknown track record and inability to re-market the asset
Factor: asset characteristics				
(a) Sub-factor: configuration, size, design and maintenance (i.e. age, size for a plane) compared to other assets on the same market	Strong advantage in design and maintenance. Configuration is standard such that the object meets a liquid market.	Above average design and maintenance. Standard configuration, maybe with very limited exceptions — such that the object meets a liquid market	Average design and maintenance. Configuration is somewhat specific, and thus might cause a narrower market for the object.	Below average design and maintenance. Asset is near the end of its economic life. Configuration is very specific; the market for the object is very narrow.
(b) Sub-factor: resale value	Current resale value is well above debt value.	Resale value is moderately above debt value.	Resale value is slightly above debt value.	Resale value is below debt value.
(c) Sub-factor: sensitivity of the asset value and liquidity to economic cycles	Asset value and liquidity are relatively insensitive to economic cycles.	Asset value and liquidity are sensitive to economic cycles.	Asset value and liquidity are quite sensitive to economic cycles.	Asset value and liquidity are highly sensitive to economic cycles.
Factor: strength of sponsor (including public private partnership)				
(a) Sub-factor: sponsors' track record and financial strength	Sponsors with excellent track record and high financial standing	Sponsors with good track record and good financial standing	Sponsors with adequate track record and good financial standing	Sponsors with no or questionable track record and/or financial weaknesses
Factor: security package				
(a) Sub-factor: asset control	Legal documentation provides the lender effective control (e.g. a first perfected security interest ³⁸ , or a leasing structure including such security) on the asset, or on the company owning it.	Legal documentation provides the lender effective control (e.g. a perfected security interest, or a leasing structure including such security) on the asset, or on the company owning it.	Legal documentation provides the lender effective control (e.g. a perfected security interest, or a leasing structure including such security) on the asset, or on the company owning it.	The contract provides little security to the lender and leaves room to some risk of losing control on the asset.
(b) Sub-factor: rights and means at the lender's disposal to monitor the location and condition of the asset	The lender is able to monitor the location and condition of the asset, at any time and place (regular reports, possibility to lead	The lender is able to monitor the location and condition of the asset, almost at any time and place.	The lender is able to monitor the location and condition of the asset, almost at any time and place.	The lender's ability to monitor the location and condition of the asset are limited.

³⁸

First perfected security interest refers to a security interest in an asset (mortgaged as a collateral) protected from claims by other parties. A lien is perfected by registering it with appropriate statutory authority so that it is made legally enforceable and any subsequent claim on that asset is given a junior status.

	inspections).			
(e) Sub-factor: insurance against damages	Strong insurance coverage including collateral damages with top quality insurance companies	Satisfactory insurance coverage (not including collateral damages) with good quality insurance companies	Fair insurance coverage (not including collateral damages) with acceptable quality insurance	Weak insurance coverage (not including collateral damages) or with weak quality insurance

ANNEX 4
Assessment criteria for commodities finance exposures

	Category 1	Category 2	Category 3	Category 4
Factor: financial strength				
(a) Sub-factor: degree of over-collateralisation of trade	Strong	Good	Satisfactory	Weak
Factor: political and legal environment				
(a) Sub-factor: country risk	No country risk	Limited exposure to country risk (in particular, offshore location of reserves in an emerging country)	Exposure to country risk (in particular, offshore location of reserves in an emerging country)	Strong exposure to country risk (in particular, inland reserves in an emerging country)
(b) Sub-factor: mitigation of country risks	Very strong mitigation: Strong offshore mechanisms Strategic commodity 1st class buyer	Strong mitigation: Offshore mechanisms Strategic commodity Strong buyer	Acceptable mitigation: Offshore mechanisms Less strategic commodity Acceptable buyer	Only partial mitigation: No offshore mechanisms Non-strategic commodity Weak buyer
Factor: asset characteristics				
(a) Sub-factor: liquidity and susceptibility to damage	Commodity is quoted and can be hedged through futures or OTC instruments. Commodity is not susceptible to damage.	Commodity is quoted and can be hedged through OTC instruments. Commodity is not susceptible to damage.	Commodity is not quoted but is liquid. There is uncertainty about the possibility of hedging. Commodity is not susceptible to damage.	Commodity is not quoted. Liquidity is limited given the size and depth of the market. No appropriate hedging instruments. Commodity is susceptible to damage.
Factor: strength of sponsor (including public private partnership)				
(a) Sub-factor: financial strength of trader	Very strong, relative to trading philosophy and risks	Strong	Adequate	Weak
(b) Sub-factor: track record, including ability to manage the logistic process	Extensive experience with the type of transaction in question. Strong record of operating success and cost efficiency.	Sufficient experience with the type of transaction in question. Above average record of operating success and cost efficiency.	Limited experience with the type of transaction in question. Average record of operating success and cost efficiency.	Limited or uncertain track record in general. Volatile costs and profits.

(c) Sub-factor: trading controls and hedging policies	Strong standards for counterparty selection, hedging, and monitoring	Adequate standards for counterparty selection, hedging, and monitoring	Past deals have experienced no or minor problems	Trader has experienced significant losses on past deals
(d) Sub-factor: quality of financial disclosure	Excellent	Good	Satisfactory	Financial disclosure contains some uncertainties or is insufficient
Factor: security package				
(a) Sub-factor: asset control	First perfected security interest ³⁹ provides the lender legal control of the assets at any time if needed.	First perfected security interest provides the lender legal control of the assets at any time if needed.	At some point in the process, there is a rupture in the control of the assets by the lender. The rupture is mitigated by knowledge of the trade process or a third party undertaking as the case may be.	Contract leaves room for some risk of losing control over the assets. Recovery could be jeopardised.
(b) Sub-factor: insurance against damages	Strong insurance coverage including collateral damages with top quality insurance companies	Satisfactory insurance coverage (not including collateral damages) with good quality insurance companies	Fair insurance coverage (not including collateral damages) with acceptable quality insurance companies	Weak insurance coverage (not including collateral damages) or with weak quality insurance companies

³⁹

First perfected security interest refers to a security interest in an asset (mortgaged as a collateral) protected from claims by other parties. A lien is perfected by registering it with appropriate statutory authority so that it is made legally enforceable and any subsequent claim on that asset is given a junior status.