

## Annex 5

### Illustrative IRB Risk Weights

1. The following tables provide illustrative risk weights calculated for four asset classes types under the internal ratings-based (IRB) approach to credit risk. Each set of risk weights for unexpected loss (UL) was produced using the appropriate risk-weight function of the risk-weight functions set out in Part 2, Section III. The inputs used to calculate the illustrative risk weights include measures of the PD, LGD, and an assumed effective maturity (M) of 2.5 years.

2. A firm-size adjustment applies to exposures made to small- and medium-sized entity (SME) borrowers (defined as corporate exposures where the reported sales for the consolidated group of which the firm is a part is less than €50 million). Accordingly, the firm size adjustment was made in determining the second set of risk weights provided in column two given that the turnover of the firm receiving the exposure is assumed to be €5 million.

**Illustrative IRB Risk Weights for UL**

<b>Asset Class:</b>	<b>Corporate Exposures</b>		<b>Residential Mortgages</b>		<b>Other Retail Exposures</b>		<b>Qualifying Revolving Retail Exposures</b>	
<b>LGD:</b>	45%	45%	45%	25%	45%	85%	45%	85%
<b>Maturity: 2.5 years</b>								
<b>Turnover (millions of €)</b>	50	5						
<b>PD:</b>								
0.03%	14.44%	11.30%	4.15%	2.30%	4.45%	8.41%	0.98%	1.85%
0.05%	19.65%	15.39%	6.23%	3.46%	6.63%	12.52%	1.51%	2.86%
0.10%	29.65%	23.30%	10.69%	5.94%	11.16%	21.08%	2.71%	5.12%
0.25%	49.47%	39.01%	21.30%	11.83%	21.15%	39.96%	5.76%	10.88%
0.40%	62.72%	49.49%	29.94%	16.64%	28.42%	53.69%	8.41%	15.88%
0.50%	69.61%	54.91%	35.08%	19.49%	32.36%	61.13%	10.04%	18.97%
0.75%	82.78%	65.14%	46.46%	25.81%	40.10%	75.74%	13.80%	26.06%
1.00%	92.32%	72.40%	56.40%	31.33%	45.77%	86.46%	17.22%	32.53%
1.30%	100.95%	78.77%	67.00%	37.22%	50.80%	95.95%	21.02%	39.70%
1.50%	105.59%	82.11%	73.45%	40.80%	53.37%	100.81%	23.40%	44.19%
2.00%	114.86%	88.55%	87.94%	48.85%	57.99%	109.53%	28.92%	54.63%
2.50%	122.16%	93.43%	100.64%	55.91%	60.90%	115.03%	33.98%	64.18%
3.00%	128.44%	97.58%	111.99%	62.22%	62.79%	118.61%	38.66%	73.03%
4.00%	139.58%	105.04%	131.63%	73.13%	65.01%	122.80%	47.16%	89.08%
5.00%	149.86%	112.27%	148.22%	82.35%	66.42%	125.45%	54.75%	103.41%
6.00%	159.61%	119.48%	162.52%	90.29%	67.73%	127.94%	61.61%	116.37%
10.00%	193.09%	146.51%	204.41%	113.56%	75.54%	142.69%	83.89%	158.47%
15.00%	221.54%	171.91%	235.72%	130.96%	88.60%	167.36%	103.89%	196.23%
20.00%	238.23%	188.42%	253.12%	140.62%	100.28%	189.41%	117.99%	222.86%

## Annex 6

### Supervisory Slotting Criteria for Specialised Lending

Table 1 – Supervisory Rating Grades for Project Finance Exposures

	Strong	Good	Satisfactory	Weak
<b>Financial strength</b>				
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
Financial ratios (e.g. <i>debt service coverage ratio (DSCR)</i> , <i>loan life coverage ratio (LLCR)</i> , <i>project life coverage ratio (PLCR)</i> , and <i>debt-to-equity ratio</i> )	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
Stress analysis	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 a normal downturn	The project is likely to default unless conditions improve soon