Appendix A: Slotting criteria

Table 1 Supervisory rating grades for project finance exposures

	Strong	Good	Satisfactory	Weak
Financial strength				
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 (eg debt service coverage ratio (DSCR), loan life coverage ratio (LLCR), project life coverage ratio PLCR), 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.
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.
Financial structure				
Duration of the credit compared to the duration of the project.	Useful life of the project significantly exceeds tenor of the loan.	Useful life of the project exceeds tenor of the loan.	Useful life of the project exceeds tenor of the loan.	Useful life of the project may not exceed tenor of the loan.
Amortisation schedule.	Amortising debt.	Amortising debt.	Amortising debt repayments with limited bullet payment.	Bullet repayment or amortising debt repayments with high bullet repayment.
Political and legal environment				
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.
Force majeure risk (war, civil unrest, etc).	Low exposure.	Acceptable exposure.	Standard protection.	Significant risks, not fully mitigated.
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.
Stability of legal and regulatory environment (risk of change in 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.
Acquisition of all necessary supports and approvals for such relief from local content laws.	Strong.	Satisfactory.	Fair.	Weak.
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 of actual enforcement of contracts, collateral and security.
Transaction characteristics				
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.

	Strong	Good	Satisfactory	Weak
Construction risk				
Permitting and siting.	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.
Type of construction contract.	Fixed-price date-certain turnkey construction EPC (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.
Completion guarantees.	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.
Track record and financial strength of contractor in constructing similar projects.	Strong.	Good.	Satisfactory.	Weak.
Operating risk				
Scope and nature of operations and maintenance (O&M) contracts.	Strong long-term O&M contract, preferably with contractual performance incentives, and/or O&M reserve accounts.	Long-term O&M contract, and/or O&M reserve accounts.	Limited O&M contract or O&M reserve account.	No O&M contract: risk of high operational cost overruns beyond mitigants.
Operator's expertise, track record, and financial strength.	Very strong or committed technical assistance of the sponsors.	Strong.	Acceptable.	Limited/weak or local operator dependent on local authorities.
Off-take risk				
(a) If there is a take-or-pay or fixed-price off-take contract:	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.
(b) If there is no take-or-pay or fixed-price off-take contract:	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 growth rates.	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.
Supply risk				
Price, volume and transportation risk of feed-stocks; supplier's track record and financial strength.	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.
Reserve risks (eg natural resource development).	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.

	Strong	Good	Satisfactory	Weak
Strength of sponsor				
Sponsor track record, financial strength, and country/sector experience.	Strong sponsor with excellent track record and high financial standing.	Good sponsor with satisfactory track record and good financial standing.	Adequate sponsor with adequate track record and good financial standing.	Weak sponsor with no or questionable track record and/or financial weaknesses.
Sponsor support, as evidenced by equity, ownership clause 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.
Security package				
Assignment of contracts and accounts.	Fully comprehensive.	Comprehensive.	Acceptable.	Weak.
Pledge of assets, taking into account quality, value and liquidity of assets.	First perfected security interest 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.
Lender's control over cash flow (eg cash sweeps, independent escrow accounts).	Strong.	Satisfactory.	Fair.	Weak.
Strength of the covenant package (mandatory prepayments, payment deferrals, payment cascade, dividend restrictions…).	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.
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.

Table 2 Supervisory rating grades for income-producing real estate exposures

	Strong	Good	Satisfactory	Weak
Financial strength				
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 project's design and capabilities may not be state of the art compared to new projects.	Market conditions are weak. It is uncertain when conditions will improve and return to equilibrium. The project is losing tenants at lease expiration. New lease terms are less favourable compared to those expiring.
Financial ratios and advance rate.	The property's debt service coverage ratio (DSCR) is considered strong (DSCR is not relevant for the construction phase) and its 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 DSCR (not relevant for development real estate) and LTV are satisfactory. Where a secondary market exists, the transaction is underwritten to market standards.	The property's DSCR has deteriorated and its value has fallen, increasing its LTV.	The property's DSCR has deteriorated significantly and its LTV is well above underwriting standards for new loans.
Stress analysis.	The property's resources, contingencies and liability structure allow it to meet its financial obligations during a period of severe financial stress (eg interest rates, economic growth).	The property can meet its financial obligations under a sustained period of financial stress (eg 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 would limit its ability to fund capital expenditures and 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.
Cash-flow predictability				
(a) For complete and stabilised property.	The property's leases are long-term with creditworthy tenants and their maturity dates are scattered. 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.	Most of the property's leases are long-term, with tenants that range in creditworthiness. The property experiences a normal level of tenant turnover upon lease expiration. Its vacancy rate is low. Expenses are predictable.	Most of the property's leases are medium rather than long-term with tenants that range in creditworthiness. 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.	The property's leases are of various terms with tenants that range in creditworthiness. 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.
(b) For complete but not stabilised property.	Leasing activity meets or exceeds projections. The project should achieve stabilisation in the near future.	Leasing activity meets or exceeds projections. The project should achieve stabilisation in the near future.	Most leasing activity is within projections; however, stabilisation will not occur for some time.	Market rents do not meet expectations. Despite achieving target occupancy rate, cash flow coverage is tight due to disappointing revenue.
(c) For construction phase.	The property is entirely pre-leased through the tenor of the loan or pre-sold to an investment grade tenant or buyer, or the bank has a binding commitment for take-out financing from an investment-grade lender.	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.	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 permanent financing.

	Strong	Good	Satisfactory	Weak
Asset characteristics				
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's location, configuration, design and maintenance have contributed to the property's difficulties.
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.	Weaknesses exist in the property's configuration, design or maintenance.
Property is under construction.	Construction budget is conservative and technical hazards are limited. Contractors are highly qualified.	Construction budget is conservative and technical hazards are limited. Contractors are highly qualified.	Construction budget is adequate and contractors are ordinarily qualified.	Project is over budget or unrealistic given its technical hazards. Contractors may be under qualified.
Strength of sponsor/developer				
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.
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.
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.

	Strong	Good	Satisfactory	Weak
Security package				
Nature of lien.	Perfected first lien.(a)	Perfected first lien.(a)	Perfected first lien.(a)	Ability of lender to foreclose is constrained.
Assignment of rents (for projects leased to long-term tenants).	The lender has obtained an assignment. 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. 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. 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 not obtained an assignment of the leases or has not maintained the information necessary to readily provide notice to the building's tenants.
Quality of the insurance coverage.	Appropriate.	Appropriate.	Appropriate.	Substandard.

(a) Lenders in some markets extensively 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.

Table 3 Supervisory rating grades for object finance exposures

	Strong	Good	Satisfactory	Weak
Financial strength				
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.
Financial ratios (debt service coverage ratio and loan to value ratio).	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.
Stress analysis.	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 a normal downturn.	Revenues subject to strong uncertainties; even in normal economic conditions the asset may default, unless conditions improve.
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.
Political and legal environment				
Political risk, including transfer risk.	Very low; strong mitigation instruments, if needed.	Low; satisfactory mitigation instruments, if needed.	Moderate; fair mitigation instruments.	High; no or weak mitigation instruments.
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.
Transactions characteristics				
Financing term compared to the economic life of the asset.	Full payout profile/minimum balloon. No grace period.	Balloon more significant, but still at satisfactory levels.	Important balloon with potentially grace periods.	Repayment in fine or high balloon.
Operating risk				
Permits/licensing.	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.	Strong long-term O&M contract, preferably with contractual performance incentives, and/or O&M reserve accounts (if needed).	Long-term O&M contract, and/or O&M reserve accounts (if needed).	Limited O&M contract or O&M reserve account (if needed).	No O&M contract: risk of high operational cost overruns beyond mitigants.
Operator's financial strength, track record in managing the asset type and capability to remarket asset when it comes off-lease.	Excellent track record and strong remarketing capability.	Satisfactory track record and remarketing capability.	Weak or short track record and uncertain remarketing capability.	No or unknown track record and inability to remarket the asset.

	Strong	Good	Satisfactory	Weak
Asset characteristics				
Configuration, size, design and maintenance (ie 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.
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.
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.
Strength of sponsor				
Operator's financial strength, track record in managing the asset type and capability to remarket asset when it comes off-lease	Excellent track record and strong remarketing capability.	Satisfactory track record and remarketing capability.	Weak or short track record and uncertain remarketing capability.	No or unknown track record and inability to remarket the asset.
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.
Security package				
Asset control.	Legal documentation provides the lender effective control (eg a first 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 (eg 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 (eg 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.
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 inspections).	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 is limited.
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.

Table 4 Supervisory rating grades for commodities finance exposures

	Strong	Good	Satisfactory	Weak
Financial strength				
Degree of over-collateralisation of trade.	Strong.	Good.	Satisfactory.	Weak.
Political and legal environment				
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).
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.
Asset characteristics				
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.
Strength of sponsor				
Financial strength of trader.	Very strong, relative to trading philosophy and risks.	Strong.	Adequate.	Weak.
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.
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.
Quality of financial disclosure.	Excellent.	Good.	Satisfactory.	Financial disclosure contains some uncertainties or is insufficient.
Security package				
Asset control.	First perfected security interest 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.
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.