Creditreform Rating AG Rating Sub-Methodology

Renewable Energy Financings and Securitizations

Creditreform Rating

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1 Introduction

In order to enable involved parties, investors and the interested public to understand a rating opinion of Creditreform Rating AG (hereinafter also “CRA”), this rating sub-methodology concerning renewable energy financings and securitizations is disclosed. This document will be updated periodically to reflect changes in the methodology. CRA's rating methodologies and code of conduct are freely available on the website www.creditreform-rating.de.

2 Scope

This methodology outlines CRA's rating approach, particularly but not exclusively for financial instruments[1] whose proceeds are used by way of securitization for equity or equity-like financing of renewable energy (RE) power plants or portfolios of renewable energy power plants. Specifically, when employing a "look-through" approach to the asset level, these are equity or equity-like investments (e.g., (subordinated) shareholder loans) in RE power plants. CRA currently includes the following technical power generation plants under RE: onshore wind farms, offshore wind farms and photovoltaic power plants (solar parks). The methodology may be applied in whole or in part to other technologies, such as hydropower plants, which would need to be evaluated on a case-by-case basis.

This methodology primarily encompasses financings of RE assets that are in operation (operational RE plants). RE plants that have not yet reached the completion stage can also be considered within this methodology, provided that the financing covers the completion stage of the RE power plant and the period between the start of construction (or potentially the construction permit) and completion is clearly definable. Pure project financing, which is intended to be sold before the start of construction or completion, is not covered by this methodology. Financings of operating companies active in the RE sector (i.e., corporates) are not included in this methodology. This methodology may also be applied when the issue proceeds resulting from the subscription of the rating object, upon a look-through to the asset level, are invested in debt instruments. For this type of rating, CRA reserves the option to select a complementary quantitative approach, contingent upon the number of structural layers involved. This methodology is not subject to geographic restrictions within its scope of application and is globally applicable. This methodology explicitly represents a sub-methodology of the overarching methodology "Rating of

[1] typically loans, bonds or notes

Financial Instruments (Issue Ratings)", as amended. Therefore, the sub-methodology supplements the publicly available rating methodology in the Institutional Investor Debt area. Accordingly, this sub-methodology addresses analysis components that primarily target the underlying assets associated with the financing level of RE power plants. Analysis aspects that pertain exclusively to the structural, operational and credit risks at the level of the rating object are covered by the aforementioned overarching methodology.[2]

The qualitative and quantitative analysis components of this sub-methodology are considered in CRA's rating process and are subject to ongoing review of content and methods.

3 Rating Statement and Requirements

3.1 Rating Statement

This methodology addresses whether the borrower in an RE transaction can meet their financial obligations from issuing a financial instrument - considering expected capital returns - in full and on time. CRA uses the rating scale published in the CRA document "Rating Criteria and Definitions" for RE ratings.

3.2 Data Requirements and Sources

CRA prepares and reviews ratings using robust and systematically compiled data sets. During the analysis of RE transactions, CRA utilizes various data sources to identify, derive, and validate rating-relevant qualitative and quantitative parameters. Key external data sources include arranger or servicer interviews as part of the rating analysis.[3] Credit proposal templates from financiers and sponsors as well as project-specific yield reports are examined, and regular market and macroeconomic research is conducted.

For new rating assignments, CRA typically considers various external yield reports for each RE asset, directly or indirectly obtained via the client. For details on the typical documents and information required for a CRA RE rating refer to Appendix I.

[2] For the subsequent risk analysis, the boundaries may occasionally be less clearly defined, so that both rating-relevant issues at the specific project level and issues that affect the overall financing structure up to the rating object are explicitly addressed in this sub-methodology.

[3] Specifically, rating analysis involves the review and analysis of all information and documents requested from the client for a specific RE rating.

4 Rating Methodology

4.1 Methodological Key Aspects

Levels of Analysis

During the rating process, CRA integrates both quantitative and qualitative elements of analysis. The inclusion of qualitative assessment criteria allows CRA to consider rating-relevant factors that cannot be fully quantified or incorporated into the CRA cash flow modeling, e.g. due to complex interdependencies or measurement-specific limitations.

Analysis of RE Projects

The initial qualitative analysis aims to derive the rating case for the subsequent quantitative analysis. The asset-specific analysis focuses particularly on the following parameters:

- Project status (project risks, construction risks, operational risks),
- (Expected) energy yield and the underlying assumptions,
- Price assumptions considering the regulatory regime and/or power purchase agreements,
- Market price assumptions and their modeling,
- Counterparty/service provider analysis,
- Operational risks related to operation, maintenance, and management, as well as any financing risks involving third parties.

As a result, scores are generated for the subcategories of price risk, operational risk, and volatility risk.

Adjusted Asset-Manager Case

After validating the asset manager's assumptions during the RE projects analysis, CRA derives an "adjusted asset-manager case" for each asset. In the context of the adjusted asset-manager case, CRA aims to standardize key parameters of an asset's business plan as much as possible, considering internal CRA guidelines, to ensure that these can be fed into CRA's quantitative analysis tool (see also Section 4.5.2). The adjusted asset-manager case serves as the basis for the subsequently modeled rating base case.

Rating Base Case

Finally, CRA derives a rating base case from the adjusted asset-manager case. Certain parameters, such as asset term, recovery rates, and potential discounts on assets at the end of their term, are standardized according to CRA guidelines. Additional stress may be applied based on the scores determined in the RE projects analysis for price risk, operational risk, and volatility risk.

Default Modeling

In analyzing and modeling financial instruments in the RE sector, CRA uses a stochastic default approach. A simulation model is employed to determine the quantitative result for the rating object.

4.2 Structural Risks

4.2.1 Transaction Structure

In analyzing an RE transaction, CRA uses insights gained from the rating analysis and the provided transaction documents to capture the structural characteristics and particularities of the transaction and to assess them regarding inherent risks.

A distinction is typically made between single investments and portfolio investments. Especially in a portfolio of equity or equity-like investments, CRA assesses to what extent the RE special-purpose entities belonging to the portfolio are (externally) financed by the same counterpart and to what extent cross-collateralizations exist. The result of this analysis determines whether the RE projects can be considered separate investments within the cash flow analysis.

4.2.2 Priority of Payments and Credit Enhancements

CRA examines the expected cash flows over the lifetime of the rating object, including potential proceeds from the realization of collateral. Additionally, the structure's cost positions, payment priorities (waterfall), alternative repayment conditions (such as early repayments), and potential trigger events are recorded. Credit enhancements which are structural features intended to reduce the default risk of a transaction are also considered in this analysis. A credit enhancement can be established, for example, in the form of early amortization payments. Often, the analyzed transactions do not possess initial credit enhancements. These must first be built up over time through asset acquisition and performance. CRA generally considers credit enhancements in its quantitative analysis but may apply simplifications.

4.2.3 Eligibility and Investment Criteria

Particularly for dynamic portfolios, where there is a specific blind pool risk during the investment phase, CRA analyzes whether there are suitability or binding investment criteria that ensure all investments are made in a comparable structure while adhering to a specific risk profile as the portfolio is built and expanded. CRA distinguishes between binding and non-binding investment criteria. The latter are more like declarations of intent from the asset manager and can lead to a higher risk assessment, especially in connection with a high blind-pool proportion of the portfolio. For RE investments, CRA specifically

examines in which project lifecycle phases investments may be made and what associated risks may be taken on or explicitly excluded. Typical distinctions for RE projects include:

- Brownfield vs. greenfield plants,
- Plants with permission risks vs. ready-to-build plants,
- Plants with construction risks vs. operational plants.

Especially when construction risks are borne by a third party, such as the seller or manufacturer of the equipment, CRA takes the creditworthiness of this party into account to obtain a risk assessment.

4.2.4 Interest and Currency Risks

If the investments at portfolio level are equity investments, interest rate risks arise across the entire transaction structure. In the analysis of RE assets, interest rate risks are considered in particular over the planned holding period at the level of the respective special-purpose entity. An increase in interest rates for senior financing instruments after the expiration of a fixed interest period has, ceteris paribus, a negative impact on the cash flow of an RE asset. CRA accounts for negative interest rate effects on cash flow in its quantitative analysis. Currency risks can typically occur at both the level of the portfolio assets and between the borrower and potential investment vehicles, impacting planned cash flow streams. Especially in diversified regional or global portfolios, there is a possibility that the entire asset may be financed in a foreign currency or that only certain cash flows at the asset level are subject to exchange rate risks. For example, a power purchase agreement may be concluded in the functional currency, but operational costs must be paid in the respective local currency. CRA examines the entire transaction structure for the relevance of currency risks and considers these qualitatively.

4.2.5 Maturity Mismatches

RE projects typically have a limited life cycle, which is defined by both the wear and tear of the materials used and by regulatory or contractual restrictions (e.g., land lease contract term). As a result, the value tends to decline over time, ceteris paribus, unless value-enhancing measures, such as repowering, are part of the business plan. Therefore, the lifespan plays a crucial role in asset valuation. Depending on the asset manager's strategy and the structure of the contractual documents for the rated object, risks may arise from maturity mismatches especially for equity investments, with an indefinite lifespan by definition. CRA assesses maturity risks at all investment levels and reflects these risks in the quantitative analysis by applying valuation discounts where applicable.

4.2.6 Legal, Regulatory, and Tax Risks

CRA assesses potential structural flaws or risks in specific RE transactions, taking into account the complexity and the multiplicity of relevant jurisdictions. This assessment is based on the analysis of provided contracts and legal opinions.[4] If construction flaws or risks are identified from the results, analysts provide their assessment of these risks. CRA notes that particularly for investments with complex overall financing structures involving various contractual parties across technical, legal, supervisory, tax, and economic dimensions, there are contractual construction risks in international legal transactions that can only be evaluated from a commercial perspective by CRA.

For financings based on tax-optimized conditions, CRA assumes that the tax conditions will remain unchanged for the duration of these specific financial instruments, so that, ceteris paribus, the servicing of the financial instruments should generally be ensured. Any discontinuation or potential adjustment of tax conditions is considered by CRA as a contingent risk in the qualitative analysis. CRA points out that subsequent tax effects, especially those affecting the creditors of the financial instruments or investors, are not part of the analysis.

The discussion of legal, regulatory, and tax aspects does not constitute a legal opinion by CRA, nor does CRA internally create legal reviews as second opinions. CRA forms a commercial opinion on these documents; neither a legal review nor a due diligence review in the traditional sense takes place.

4.3 Operational Risks

4.3.1 Market

The market for RE transactions is a global and rapidly growing market. CRA's focus is particularly on the European market. CRA's market analysis follows a top-down approach. First, the country risk is determined using internal assessments. The analysis includes macroeconomic factors such as GDP growth rates, inflation, interest rate trends, and other factors that can impact RE assets. Second, the RE market in the target country is examined. Considerable differences often exist between countries in terms of support policies, government regulations within the energy sector, and the composition of the energy mix. For example: Support schemes like feed-in tariffs, tax credits, or subsidies might be revised or re-

[4] CRA would like to emphasize that a plausibility check of the contract documents can only be conducted on an ad hoc basis and that no contract law analyses are carried out.

moved, especially with changes in government or economic conditions. This can suddenly alter the financial viability of RE projects. Regulations may limit the ability of renewable energy producers to access the grid or prioritize traditional energy sources, complicating integration and reducing revenue. If the energy mix is already heavily skewed towards one renewable source, new projects in that sector may face decreased demand or lower pricing, impacting profitability. These factors are reviewed and factored into the risk assessment. An analysis of historical and future electricity prices is also part of the market evaluation.

4.3.2 Asset Manager

An important element of CRA's analysis of operational risk is the assessment of the relevant manager. In certain cases, the analysis of management-related operational risk may extend beyond the asset manager to include multiple parties, especially when advisors, AIFMs, or other relevant entities are involved. To ensure the relevance and reliability of the current management assessment, CRA may incorporate new and rating-relevant findings related to the relevant management unit(s) into the analysis as part of the monitoring process.

4.4 Credit and Portfolio Risks

The credit quality of an RE transaction is primarily determined by the ability of the borrower to meet interest and principal repayment obligations. The cash flows used to service these payment obligations are mainly generated at the asset level through operational activities. Additionally, cash flows may arise from recoveries, primarily through the realization of collateral or guarantees in case of performance issues or defaults.

4.4.1 Analysis of Renewable Energy Projects

To derive assumptions for the rating base case parameters and determine potential additional stress, CRA analyzes the following aspects in particular:

Volume and volatility risk:

In determining the expected (annual) energy yield, CRA typically relies on external yield reports provided by the asset manager. For newly build RE power plants lacking sufficient historical data, CRA generally expects two independent reports and, if applicable, an external third opinion on previously prepared reports. The reports should include not only the expected average annual energy yield (P-50 case) but also other cases with a probability of exceedance (i.e., the probability of exceeding certain annual energy yields), such as P-75 and P-90 cases, which reflect the uncertainties in the expected energy yield. For RE

projects that have been in operation for several years, CRA expects, at best, an (external) validation of the generated yields to date in comparison with the original forecast values. In such cases, CRA may also conduct its own yield calculations based on historical data. Typically, yield reports initially present gross energy yields based on a technical availability of 100% of the power plant. For a robust economic analysis, yield losses, such as those due to wake losses (for wind farms), malfunctions, maintenance, shutdown requirements as per operating permits and electrical transmission losses up to the grid operator's feed-in point, must also be subtracted. CRA analyzes the extent to which potential losses have been considered in the (adjusted) asset manager case.

Using P-50 values and additional P-cases, CRA calculates the standard deviation of the P-50 value, which is a measure of yield volatility (uncertainty in yields). The higher the degree of uncertainty or the range of possible yield fluctuations, the higher the stress CRA applies to volatility. CRA differentiates volatility risk as follows:

Table 1. Volatility Risk

Volatility risk:	Deviation (Score):
High	> 15%
Medium	<= 15%
Low	<= 5%

Price risk

The amount of electricity sold is generally subject to price risks over the planned asset life. In some countries, there are government support schemes that can significantly mitigate price risks, such as the Renewable Energies Act in Germany. Additionally, the market is increasingly shifting towards selling electricity directly on the open market or through power purchase agreements (PPAs), where some or all of the electricity produced is sold, providing (partial) hedging against price risks.

CRA applies stress to the calculated electricity prices, the extent of which depends on the price risks present over the entire project duration. A price risk score is assigned, considering factors such as the asset's lifespan, the duration and portion of production secured by contract, and the creditworthiness of the electricity buyers. Special attention is given to PPAs that could introduce volume risks, where fixed energy delivery is required regardless of actual production levels. If such contracts exist, related cost risks are assessed under operational risk. CRA differentiates price risk as follows:

Table 2. Price Risk

Price risk:	Score:
High	<40%-0%
Medium	<75%-40%
Low	100%-75%

Operational Risk

Operational risks pertain to the economic operation of an RE power plant and the costs associated with ongoing operations. CRA conducts a scoring to assess operational risks, particularly to identify cost risks over the asset life. This scoring considers the following parameters in particular:

- Planned project life,
- Existence and term of a maintenance and/or service contract,[5]
- Existence and term of contracts for technical management,
- Creditworthiness of the main project parties/service providers,[6]
- Term of the land lease agreements

The result of the assessment differentiates operational risk as follows:

Table 3. Operational Risk

Operational risk:	Score:
High	<40%-0%
Medium	<75%-40%
Low	100%-75%

If a RE project company is subject to a power purchase agreement that may result in delivery volume risks (fixed (base load) delivery volumes), CRA may apply additional stress under operational risk if the

[5] For onshore wind farm investments in particular, (manufacturer-side) full maintenance contracts are common, which cover a large part of the costs arising from maintenance and servicing for a certain period (typically contracts for 15-20 years plus extension options). The contractual remuneration is usually made up of fixed and variable cost components. As far as possible, CRA tries to take these cost structures into account in its own models. CRA does not carry out a detailed substantive or legal analysis of the extent to which certain cost components are not included in the contract.

[6] Manufacturer, Full maintenance operator, technical operator, others if applicable.

RE project company cannot meet the defined volumes during specific periods and therefore must purchase electricity on the market or make compensatory payments (claim damages).

4.4.2 Portfolio Structure Analysis

As part of an integrated portfolio structure analysis, CRA assesses whether investments are static or dynamic portfolios with blind pool risks. CRA also identifies potential concentration risks related to the structure of the financed RE portfolio. Concentration risks concerning the investment amount of a portfolio investment are primarily assessed quantitatively by CRA. Concentration risks related to location (geography), currency, project risk, manufacturer, service provider, and sponsor are qualitatively considered. Such risks can counteract a positive diversification effect and generally increase the credit risk of a transaction.

4.5 Cash Flow Modeling

Based on the findings of the structural analysis, specific and quantitatively measurable characteristics of the given transaction, such as interest and repayment terms, costs and fees (at the level of the issuance and investment vehicle), as well as trigger mechanisms and payment priorities, are incorporated into the cash flow model.[7]

4.5.1 Simulation Approach

CRA employs a stochastic default approach for analyzing and modeling financial instruments in the RE sector. A simulation model is used to determine the quantitative rating for financing RE assets. This model is based on average energy production and its volatility, calculated using the P-cases of expected average annual energy yields provided by external experts, engineering firms or historical data. The model generates randomized annual energy yields.

A portfolio asset is considered in default if its annual revenue fails to cover debt service and operational costs, even after accounting for any liquidity reserves.

The cash flow model incorporates project-specific assumptions such as investment volumes, project duration, energy yields, electricity prices, operating costs and financing costs, and upon maturity of the

[7] CRA explicitly reserves the right to make simplifications, particularly in the case of waterfall structures with various payment stages and reference values.

rated financial instrument, it is determined whether the principal and interest have been fully and timely repaid.

CRA notes that it may undertake simplifications in the modeling of individual assets.

Additionally, CRA may utilize complementary quantitative models, particularly in scenarios where the transaction structure comprises multiple layers, and the proceeds from the subscription of the rated object are invested in debt instruments. In such cases, the RE simulation model can be employed to derive the probabilities of default for individual loans, which serve as input factors for a quantitative model.

4.5.2 Adjusted Asset Manager Case and Rating Base Case

The RE project analysis is initially used to create the adjusted asset manager case. For portfolios with multiple assets, this analysis is conducted on an asset-specific basis. Profitability calculation of an asset is standardized and segmented in relation to key positions, such as energy yield, electricity price, operational costs, and financing costs, so that these figures can be integrated into CRA's quantitative model.

If revenue consists of multiple components, CRA calculates an implicit electricity price, for instance, when part of the electricity is sold through a power purchase agreement and the rest at market price. CRA also considers performance losses of solar modules over their lifespan (degradation).

For operational costs, CRA divides costs into variable and fixed components, also applying simplifications within the cost structure. Variable costs are generally tied to revenue whereas variable cost components are typically associated to the following contracts:

- (full) maintenance contracts, (technical and commercial) management contracts, land lease agreements, management fees and direct marketing contracts of the production.
- Profit-based taxes (e.g., trade tax) are often assumed as variable cost components at the level of the special-purpose entity for simplicity.

The lifespan of assets is crucial to profitability. According to CRA's experience, the operational lifespans estimated by asset managers for wind and solar farms have consistently increased over recent years. CRA aligns its lifespan assumptions with current market trends, using a maximum lifespan of 30 years in credit analysis and assuming no residual value for wind or solar farms after this period. Relevant financing costs include annual interest and repayments as well as potential interest rate hedging costs.

In a second step, the rating base case is established by adjusting certain parameters from previous analysis. If an asset's lifespan exceeds the maturity of the rated instrument, CRA may calculate residual values based on cash flows beyond the maturity and may apply additional haircuts.

In the event an asset defaults in the cash flow simulation, CRA can apply different recovery rates. CRA distinguishes between RE project companies that are (additionally) financed with debt and those financed only with equity or equity-like instruments. For debt-financed RE project companies, CRA assumes zero recovery for owners and assigns a 0% recovery rate. For projects financed entirely by equity, CRA sets recovery rates based on analysts' evaluation, typically not exceeding 50%. Moreover, scoring results for volatility risk, price risk and operational risk are used to derive stress levels for the rating base case.

4.5.3 Scenario and Sensitivity Analysis

The information gathered during the rating process is used to construct Best-, Base-, and Worst-Case assumptions regarding the parameters of the cash flow model. Additionally, sensitivity analyses are conducted to examine how the quantitative Base-Case result changes with variations in individual parameters, which allows for an assessment of the impact of uncertainty and risk concerning the input parameters and the resulting changes in the evaluation of the rated entity. The range of variation of the input parameters and the scope of the scenario- and sensitivity analyses as a whole depends mainly on the underlying portfolio and the rating date in relation to the life cycle of the rating object and the portfolio.

4.6 Qualitative Analysis

In the rating process, CRA combines both quantitative and qualitative elements to derive a final rating result. The incorporation of qualitatively captured evaluation criteria allows CRA to consider rating-relevant aspects that, due to complex interrelationships or measurement-specific limitations, cannot be fully or only partially operationalized in the CRA cash flow modeling. Qualitative parameters relevant to a rating are captured and processed through a scoring approach in the analysis. The qualitative assessments from the scoring model are summarized so that, based on the results of the quantitative analysis, a systematic upgrade or downgrade by several notches can be applied to determine the final rating of the financial instrument. Key evaluation criteria included in the CRA scoring approach are listed in Appendix II, though this list is not exhaustive.

Appendix I: CRA Documentation Requirements (Exemplary)

Initial Rating

1. Incorporation Documents: Commercial registry excerpts, bylaws, meeting minutes, etc.
2. Terms & Conditions / Information Memorandum of the issuance
3. Audited Annual Financial Statements of the borrower of the rating object
4. Subscription/Purchase Agreements, Fund/Sub-Fund Limited Partnership Agreements, Prospectuses, Private Placement Memorandum
5. Cash Flow Model / Fund Model: Fully integrated with premise structure
6. Detailed Information on Issuance-Related Cost and Fee Structures
7. Investment memoranda
8. External (wind/solar) yield reports
9. Due Diligence Reports (technical, tax, legal)
10. Other project contracts (leases/land contracts, (full) maintenance/service agreements, power purchase agreements, etc.)
11. Final loan decisions/waivers, financing agreements
12. Interest and Amortization Schedules: Linked by formula for total financing
13. The Last Three Annual Financial Statements of the cash flow-generating entities
14. Track Record: Asset Manager/Servicer
15. Summary Documents regarding risk management and investment process
16. Transaction Documents
17. Summary Legal Due Diligence of individual transactions (Review Memos)
18. Deal Pipeline

Monitoring

1. Current Fund/Investor Reporting (at least quarterly)
2. Audited Annual Financial Statements of the borrower
3. Updated Cash Flow Model / Fund Model
4. Ongoing Documentation of source of funds (emissions) / use of funds
5. Ongoing Drawdown and Distribution Notices
6. Updated Interest and Amortization Plans (linked by formula)
7. Updated Annual Financial Statements of the cash flow-generating entities
8. Current Quarterly or Semi-Annual Figures
9. Updated Track Record: Asset Manager/Servicer
10. Updated Deal Pipeline

Appendix II: Notching-Relevant Criteria (Excerpt)

A prerequisite for considering any of the criteria listed below in CRA's qualitative rating analysis (Notching) is always to verify the relevance of the specific criterion for the pertinent transaction, and to confirm that this criterion has not been or could not be adequately considered in the quantitative rating analysis.

Structural Risks (among others):

1. Collateral Structure Configuration
2. Availability of Relevant Additional Collaterals
3. Complexity and Transparency of the Overall Transaction
4. Investments in equity of the underlying assets
5. Possibility of Leveraged Financing at the Investment Vehicle Level
6. Mismatch of Maturities within the Transaction Structure
7. Professionalism of Transaction Contracts
8. Presence of Conflicts of Interest within the Transaction Structure
9. Ongoing Legal or Tax Risks
10. Currency Risks
11. Placement Risks
12. Etc.

Operational Risks, Portfolio, and Credit Risks (among others):

1. Relevant Market or Industry Developments
2. Track Record of the Asset Manager
3. Blind-Pool Risks Combined with the Degree of Restriction of Investment Criteria
4. Project Risks
5. Country Risks
6. Regulation Level of the Underlyings
7. Etc.