MOODY'S
RATINGS

Rating Action: Moody's Ratings assigns definitive ratings to five classes of notes issued by Bauhinia ILBS 3 Limited

17 Oct 2025

US$427.90 million of securities rated

Hong Kong, October 17, 2025 -- Moody's Ratings (Moody's) has assigned definitive ratings to five classes of notes issued by Bauhinia ILBS 3 Limited (the Issuer).

The complete rating action is as follows:

Issuer: Bauhinia ILBS 3 Limited

US$117,000,000 Class A1-SU Senior Secured Floating Rate Notes due 19 October 2045 (the "Class A1-SU Notes"), Definitive Rating Assigned Aaa (sf)

US$229,900,000 Class A1 Senior Secured Floating Rate Notes due 19 October 2045 (the "Class A1 Notes"), Definitive Rating Assigned Aaa (sf)

US$32,000,000 Class B Senior Secured Floating Rate Notes due 19 October 2045 (the "Class B Notes"), Definitive Rating Assigned Aa1 (sf)

US$33,000,000 Class C Senior Secured Floating Rate Notes due 19 October 2045 (the "Class C Notes"), Definitive Rating Assigned A3 (sf)

US$16,000,000 Class D Senior Secured Floating Rate Notes due 19 October 2045 (the "Class D Notes"), Definitive Rating Assigned Ba1 (sf)

The Class A1-SU Notes, Class A1 Notes, Class B Notes, Class C Notes and Class D Notes are referred to herein as the "Rated Notes." In addition to the Rated Notes, the issuer issued US$22,594,000 of subordinated floating rate notes.

RATINGS RATIONALE

This is a project finance and corporate infrastructure collateralized loan obligation (CLO) cash flow securitization. The notes are initially collateralized by a portfolio of 33 bank-syndicated senior secured project finance loans and corporate infrastructure loans and bonds to 28 projects predominantly in Asia-Pacific, the Middle East, the Americas and Europe. The portfolio is not expected to be actively traded during the replenishment period.

To evaluate the credit quality of the initial portfolio, we assigned credit estimates to most assets, while a handful of assets are assessed by reference to our ratings.

Our ratings of the Rated Notes have taken into account the following key characteristics of the initial target portfolio at closing.

1. High credit quality portfolio: The WARF of the identified portfolio is 799 before applying the credit estimate notching adjustments, and 926 after applying the credit estimate notching adjustments. The WARF of the project finance loan portion of the portfolio is 781 before applying the credit estimate notching adjustments, and 952 after applying the credit estimate notching adjustments. The WARF of the corporate infrastructure loans and bonds portion of the portfolio is 851 before and after applying the credit estimate notching adjustments.

2. Mostly project finance loans with high asset recovery prospects: The weighted average mean recovery rate of the portfolio assumption is about 63.1%. The portfolio consists of predominantly bank-syndicated senior secured project finance loans (73.7% of the pool), which historically have had high recovery rates. The remaining portion of the pool consists of corporate infrastructure loans and bonds (26.3%). About 9.3% of the portfolio benefit from external credit support provided by export credit agencies or insurers and 3.0% of the portfolio benefit from credit support from highly rated entity, which will improve loan recovery prospects.

3. High project and sector concentrations: With only 28 projects, the portfolio is highly concentrated, with a large exposure to a few projects and in sub-sectors such as power renewables solar (21.5%), oil (21.0%), LNG (15.3%), gas distribution or transmission (11.9%) and data centers (11.5%). Certain projects also involve common off-takers, operators or sponsors. The exposures to the two largest obligor groups are about 10.7% and 9.0% of the portfolio, respectively, greater than the subordination of the Class C and D Notes. There are five other projects which each of them comprises about 5% or more of the portfolio. A significant credit deterioration of one of the largest projects would have a negative rating impact on the Rated Notes.

4. High country risk: Of the identified portfolio, about 38% portfolio exposure is to uncovered exposures (portions of assets not covered by export credit agencies or insurers) of projects located in countries with single-A or below foreign-currency country ceilings (FCC). The geographical distribution of the portfolio is widely diversified across 12 countries in different regions, and exposure to top three countries which have non-Aaa FCC are Brazil (11.6%, Baa1 FCC), India (9.3%, A3 FCC) and Mexico (9.0%, A1 FCC). The subordination of the Class C Notes is 8.6%, which is lower than the uncovered exposure to projects located in Brazil (11.6%, A3 local-currency country ceiling).

5. High participation exposures: The issuer invested in a portion of the portfolio via funded participation agreements with either The Hong Kong Mortgage Corporation Limited (HKMC, rated Aa3 with stable outlook), the sponsor and collateral manager (16.5% exposure), or with rated bank(s) (6.8% exposure) at closing, instead of being the lender of record. The issuer will rely on HKMC or the rated participation bank(s) to enforce its rights against the borrowers and be exposed to the credit risk of HKMC and these rated bank(s). This loan participation risk has been taken into account in the modeling.

6. Fixed rate and non-USD assets hedged with non-balance guaranteed swaps: assets from four borrowers, representing 13.8% of the identified portfolio are either not denominated in US dollars (12.0%) or paying fixed US dollars interest rate (1.8%). Cross-currency and fixed-floating interest rate swaps have been entered with two swap counterparties to hedge the asset-liability risk. The swaps are not balance-guaranteed, and the issuer may need to use interest or principal collections to make marked-to-market swap termination payment if the swap is terminated early following asset default or prepayment. This risk has been taken into account in the modeling.

7. Floating rate basis mismatch: The issuer is exposed to floating rate basis mismatch as all the rated notes interest payments are linked to daily compounded overnight Secured Overnight Financing Rate (SOFR), while (on an after-swap basis) 67% of the initial target portfolio are linked to daily compounded overnight SOFR and 33% are linked to term SOFR.

8. Construction risk: Three data center projects, representing around 11.5% of the portfolio, are in various stages of construction, including data centers that are either in advanced stages of construction or operational. The credit estimates of these loans factor in the construction risk.

We used a loan-by-loan Monte Carlo simulation framework in our CDOROM™ to model the portfolio loss distribution for this project finance CLO.

At a portfolio level, we note that:

1. The WARF of the portfolio, after applying the credit estimate notching adjustments, is 926.

2. The weighted average mean recovery rate assumption of the portfolio (before adjustment for swap termination) is about 63.1%.

3. The average asset correlation of the portfolio is about 23.8%.

We have assumed three years of recovery delay for the project finance loans and 1.5 years of recovery delay for the corporate infrastructure loans and bonds.

In addition to the quantitative factors that we model, we have also considered qualitative factors, including the structural protections in the transaction, the risk of an event of default, the legal environment and specific documentation features. All information available, including macroeconomic forecasts, inputs from our other analytical groups, market factors, and judgments regarding the nature and severity of credit stress on the transaction, influenced the rating decision.

The target portfolio was fully acquired on the closing date, with all loans fully drawn. The transaction has a three-year reinvestment period, during which the collateral manager may direct the issuer to use unscheduled principal collections, undrawn lending commitments that are cancelled or have expired, principal amount of loans refinanced, and proceeds from the sale of credit-risk, defaulted or non-eligible sustainability assets to purchase new assets. The purchase of new assets is subject to certain conditions, including the satisfaction of the interest and par coverage tests.

After the reinvestment period, the collateral manager may no longer direct the issuer to purchase additional assets, and unscheduled principal collections and proceeds from the sale of assets will be used to amortize the notes in sequential order.

The transaction incorporates interest and par coverage tests that, if triggered, divert interest and principal proceeds to pay down the notes in the order of seniority. Apart from this, the issuer will use scheduled principal collection to amortize the Rated Notes in sequential order. The Class A1-SU Notes and Class A1 Notes rank pari passu to each other.

This is the third CLO transaction of HKMC, the collateral manager of the transaction. The CLO transaction is managed by the Infrastructure Financing and Securitisation Division of HKMC. HKMC was established in Hong Kong SAR, China in 1997 and is wholly owned by the Hong Kong Government through the Exchange Fund, with reported total assets of HKD221.8 billion as of the end of December 2024. HKMC invested in the subordinated notes issued by the issuer.

HKMC provided a bridging sponsor loan to the issuer at closing to fund the transaction's fees and expenses reserve account, and to support the liquidity of the issuer in meeting interest payments on the rated notes on the first payment date. In addition, HKMC provided a multipurpose sponsor loan to the issuer at closing to fund payments to procure or renew risk protections as and when necessary to safeguard the issuer against risks associated with the underlying assets, or to settle hedging related payments.

RATINGS METHODOLOGY:

The principal methodology used in these ratings was "Project Finance and Infrastructure Asset CLOs" published in July 2024 and available at https://ratings.moodys.com/rmc-documents/425583. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

Factors that would lead to an upgrade or downgrade of the ratings:

The performance of the Rated Notes is sensitive to the performance of the underlying portfolio and the credit quality of the counterparties to the transaction, which in turn depend on uncertain economic and credit conditions that may change. The collateral manager's investment decisions and management of the transaction will also affect the performance of the Rated Notes.

Further details regarding our analysis of this transaction may be found in the related new issue report, available soon on www.moodys.com.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

In rating this transaction, Moody's CDOROM™ is used to model the expected loss for each tranche. Moody's CDOROM™ is a Monte Carlo simulation tool which takes each underlying asset default probability as input. Each underlying asset default behavior is then modeled individually with a standard multi-factor model incorporating both intra- and inter-industry correlation. The correlation structure is based on a Gaussian copula. Each Monte Carlo scenario simulates defaults and if applicable, recovery rates, to derive losses on a portfolio.

For a synthetic transaction, the model then allocates losses to the tranches in reverse order of priority to derive the loss on the tranches. By repeating this process and averaging over the number of simulations, Moody's can derive the expected loss on the tranches. For a cash transaction, the portfolio loss, or default, distribution produced by Moody's CDOROM™ may be input into a separate cash flow model in accordance with its priority of payment to determine each tranche's expected loss.

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

For ratings issued on a program, series, category/class of debt or security, certain regulatory disclosures applicable to each rating of a subsequently issued bond or note of the same series, category/class of debt, or security, or pursuant to a program for which the ratings are derived exclusively from existing ratings, in accordance with Moody's rating practices, can be found in the most recent Credit Rating Announcement related to the same class of Credit Rating.

For provisional ratings, the Credit Rating Announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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The first name below is the lead rating analyst for this Credit Rating and the last name below is the person primarily responsible for approving this Credit Rating.

Where the credit rating announcement include multiple issuers and different lead rating analyst and/or different persons primarily responsible for approving such ratings, their name and title information can be found in the body of the announcement or in the associated From-To-List (FTL) linked above, if applicable.

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