FitchRatings

銀行評等準則

主要準則

範圍

本報告詳細說明瞭惠譽評等公司為銀行（包括商業銀行和政策性銀行）和全球銀行控股公司(BHC 或 HoldCo)及其發行債券授予新評等以及跟蹤現有評等的評等方法。在大多數情況下，本報告不適用於非銀行金融機構，其相關評等準則請參閱非銀行金融機構評等準則。在特定情形下，本報告可以與其他評等準則一起應用（見附件 7）。

關鍵評等理由

評等架構反映銀行特定信用情況：授予銀行的評等反映出對銀行信用狀況的具體評等理由（組成部分）。個別實力評等 (VR) 反映了銀行自身的信譽度，而支援評等 (SR) 和支援評等下限 (SRF) 則反映該行在需要時獲得外部支援的可能性。銀行的發行人違約評等 (IDR) 和債券評等則源自其VR 和支援評等。

IDR 取決於"較高者"方法：對銀行授予長期 IDR 時，惠譽通常採用"較高者"方法。惠譽認為銀行 IDR 可基於銀行的獨立財務實力（如其 VR 所反映的）或僅取決於外部的支援能力，最後以這兩者之中的較高者授予其長期 IDR。然而在極少數情況下，舉例而言，如果主順位債權人獲得大額次順位債緩衝的保護，則 IDR 評等可能在以VR為基礎上調升。對銀行IDR的評估通常為對第三方且非政府債權人持有之主順位債務的違約風險。

VR取決於五項因素：在評估銀行的自身信譽度及授予 VR 時，惠譽會考慮五項關鍵因素：經營環境、公司概況、管理及策略、風險偏好以及財務狀況。每項因素又可以分解為多項子因素。VR 是評估銀行經營可能失敗的風險，即違約或者需要獲得重大支援/使次順位債務吸收損失後才得以存續。

機構和主權支持：銀行的 SR 反映出惠譽對於該行在需要時獲得重大支援之可能性的觀點。支援通常來自銀行的股東（機構支持）或該銀行所在國家的政府（主權支持，亦反映在 SRF 中）。惠譽會同時考慮潛在支持者提供援助的能力和意願。

違約風險，債權回收預期：與其他金融行業一樣，銀行的長期債券評等，反映出惠譽對於其特定財務承諾（通常是證券）之整體信用風險水準的觀點。此觀點包括對特定債務違約之可能性（或"不償付"風險），以及在違約/不償付情況下回收債權之可能性的評估。

債務評等：若違約風險與 IDR 所涵蓋的風險一致，主順位無擔保債項的評等通常與銀行的長期 IDR 相符。但是，該評等也可能予以調升（例如，當某一類主順位債務獲得其它債務的保護）或調降（例如，當深度有效次級結構性可能降低回收率時）。次順位債務和混合債務通常在債務人 VR 的基礎上調降，調幅取決於不償付風險增加的程度（相對於經營失敗風險），以及違約時的債權回收預期。

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This criteria report replaces the master criteria report titled "Bank Rating Criteria," dated Oct. 12, 2018.

分析師

Global
Kevin Duignan
+1 212 908 0630
kevin.duignan@fitchratings.com

Alan Adkins
+44 20 3530 1702
alan.adkins@fitchratings.com

EMEA
James Longsdon
+44 20 3530 1076
james.longsdon@fitchratings.com

North America
Christopher Wolfe
+1 212 908 0771
christopher.wolfe@fitchratings.com

Latin America
Alejandro Garcia
+212 908 9137
alejandro.garcia@fitchratings.com

APAC
Jonathan Cornish
+852 2263 9901
jonathan.cornish@fitchratings.com

本報告包含中文摘譯與英文全文，譯文若與英文有出入，請以英文為準。
This report contains of summary Chinese translation and English full report. In the event of any dispute / misinterpretation, the English version shall prevail.

報告摘要和結構

I. 評等框架

惠譽對銀行及其發行債券授予發行人評等和債項評等。發行人評等包括：

- 長期 IDR
- 短期 IDR
- 個別實力評等
- 支援評等
- 支援評等下限
- 衍生交易對手評等

查看完整的評等定義, 請點選此處 。

II.個別實力評等（VR）

惠譽在個別實力評等中反映銀行的基本信譽度或自身的獨立信用狀況。VR 考慮五個關鍵因素：

- 經營環境
- 公司概況
- 管理及策略
- 風險偏好
- 財務狀況

關於個別實力評等框架細節, 請點選此處 。

III. 支援

最常見的支持來源是銀行股東（機構支持）和政府機構（主權支持）。銀行的 SR反映了惠譽對於該行在需要時獲得外部支援的可能性的觀點。若惠譽認為最可能的支持形態是主權支持，這也會反映在該銀行的 SRF 中，SRF 表明在假定的重大支援程度下該行的長期 IDR 可能下降到的最低水準。

主權支援評等的關鍵因素包括：

- 主權支援的能力
- 主權支援銀行業的傾向
- 主權支援特定銀行的傾向

機構支援評等的關鍵因素包括：

- 母公司支援的能力
- 母公司支援的傾向
- 子公司司法管轄區的國家/地區風險

關於支援評等框架細節, 請點選此處

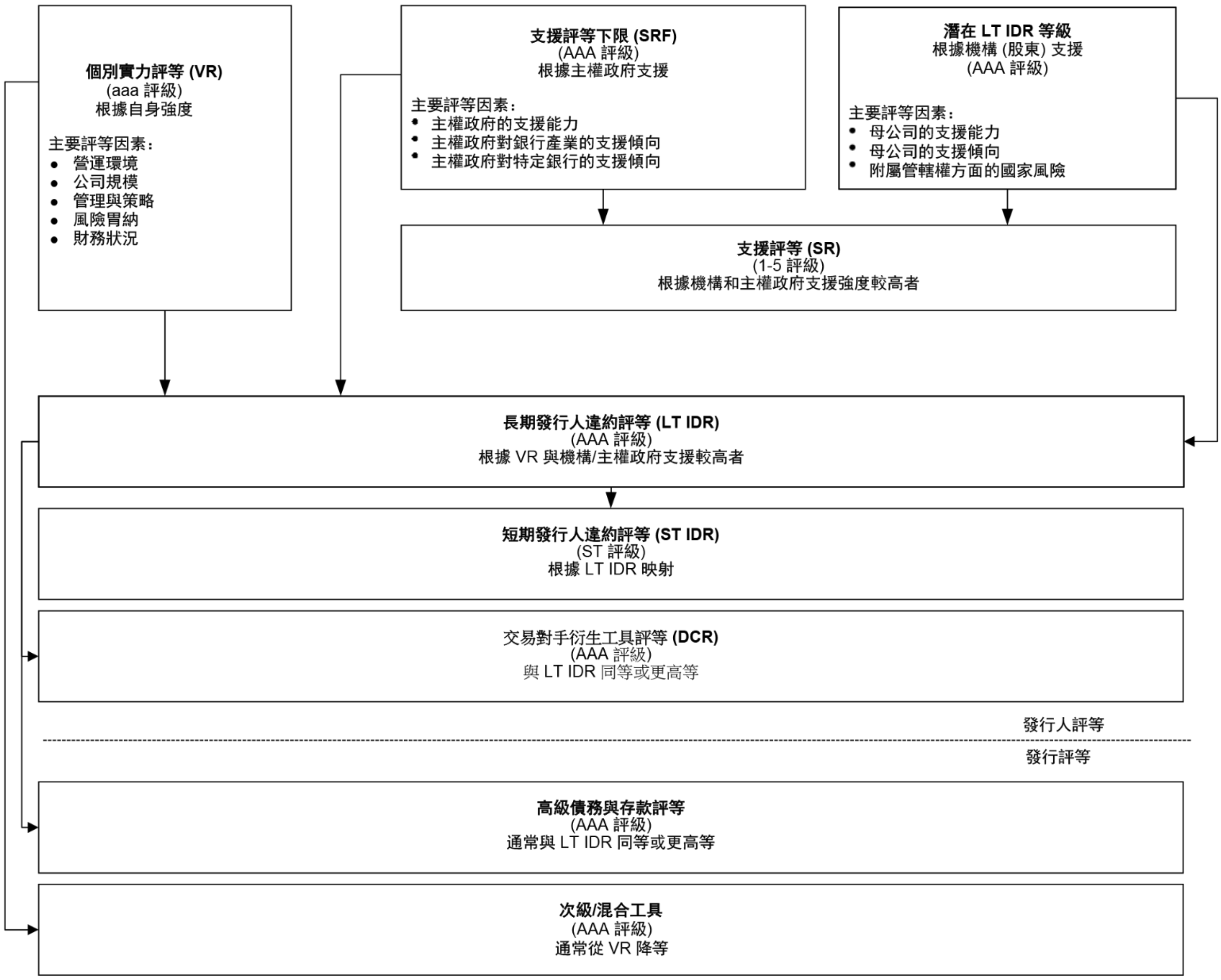
IV. 債務發行評等

銀行的主順位、次順位/混合和其他發行證券的評等包括對特定債務違約可能性（或"不償付"風險）的評估，以及違約/不償付時債權人回收債權之可能性的評估。

V. 附件

銀行評等準則特定方面、適用之銀行評等框架示例以及特定評等程式相關的額外資訊點選此處。

銀行評等架構 (簡化版)



來源：惠譽

I. 評等框架

授予銀行的評等反映出對銀行信用狀況的具體評等理由（組成部分）。惠譽評估銀行自身的信譽度 (VR)，以及在需要時獲得外部支援的可能性（SR 和 SRF）。IDR 和債券評等源自 VR 和支援評等，其中支援評等體現了惠譽對於支援的評估。

本節概述授予銀行及其發行的國際評等和國內評等，將涵蓋如下內容：不同評等所衡量的項目、何時授予評等、授予的評等範圍，以及如何（廣泛而言）決定評等水準。本節首先探討銀行發行人的國際評等（ I.1 至 I.6小節），其次是發行債項評等 (I.7)，最後是所授予的國內評等 (I.8)。

第 II、III、IV 和 V 節將分別詳述授予 VR、支援評等（SR 和 SRF）、BHC 和營運公司子公司（OpCo）評等以及發行評等的評等準則。不希望詳細查看惠譽評等架構的讀者，請跳到這些章節。簡化版的架構示意圖如銀行評等架構 (簡化版)所示。

I.1. 長期發行人違約評等

衡量項目

對銀行而言，與對其他產業的發行人類似，IDR 表達了惠譽對銀行財務義務之相對違約風險的意見。根據惠譽的評等定義，IDR 所謂的違約風險通常係指對財務義務的不支付，而不支付“最能反映該實體的經營失敗”。惠譽認為當銀行無法支付其債務，最能反映該行在經營上無法挽回的失敗，其中債務通常是指該行發行的主順位債務且債權人為非政府的第三方。因此，銀行 IDR 通常即表示對違約可能性的看法，包括通過不良債務交換 (DDE、Distressed Debt Exchange) 的方式履行這些義務。

不良債務交換：在考慮一個債務重組或交換是否應歸類為 DDE 時，以下兩種情況均適用：與原始合約條款相比，重組會導致重大扣減；重組或交換操作旨在避免破產、類似破產或介入行動（包括銀行清算）或傳統的支付違約。如果 IDR 參考債務受 DDE 約束，則發行人 IDR 將降級至違約級別；如果 DDE 限於次順位債務，銀行 IDR 將不會降級至違約級別，但惠譽通常會將發行人 VR 降至“f”（如果目前不是）。

有關進一步討論，請參閱下文的“銀行 IDR 的評估內容：參考債務的定義”。

銀行 IDR 的評估內容：參考債務的定義

銀行的 IDR 通常[1] 表示惠譽對第三方非政府債權人持有之主順位債務違約風險的意見，惠譽認為，這些債務的不償付最能反映該行之經營失敗。根據惠譽的評等定義，與其他行業的發行人一樣，銀行違約可能有多種形式，包括在有效的補救期內未能償付債務、救助、DDE 或發行人進入破產程序。在銀行清算程序之過程中進行的"凍結"不會自動觸發違約級別評等，前提是這是一個合理的短期行為。

銀行的 SR 和 SRF 也針對相同的參考債務進行評等，反映了惠譽對一個銀行的外部支援是否足以使其避免對第三方非政府債權人持有之主順位債務發生違約的意見。然而，VR 評估了銀行經營失敗的風險，惠譽認為該風險可以通過對次順位債務和主順位債務的不償付來反映，而這意味著 VR 參考的債務更為廣範圍（見下文，VR 的評估內容：銀行經營失敗）。

銀行的 IDR 通常不反映次順位債務之違約風險，或者對共同控制的實體和政府機構義務之違約風險。

但若惠譽認為上述任何債務之不償付有跡象顯示發行人在第三方私人債權人之主順位債務所面臨的違約壓力更高，則可能會將該行的長期 IDR 降至非常低的級別，例如"CCC"級或更低。此外，如果次順位債務違約觸發了破產程序，或導致主順位債務無法贖回的情況加速惡化，則次順位債務的不償付可能會很快導致銀行的 IDR 降至違約級別。

惠譽對銀行 IDR 參考債務之定義的基本原理如下：

主順位與次順位債務

銀行次順位債務的不償付或違約風險往往（儘管並非總是）大於其主順位債務的違約風險。例如，這可能是因為合約規定在持續經營假設的基礎上，次順位債務將吸收虧損；或者惠譽認定如果銀行經營失敗，主順位債務更有可能從外部（通常是政府）支援中受益。

因此，為了明確起見，亦為了對銀行大部分的負債結構進行評等，銀行的 IDR 通常僅反映主順位債務的違約風險。惠譽對次順位債務之信用風險水準的看法，將通過這些工具的債券評等以予反映。

第三方與集團內債務

基於三個主要原因，銀行 IDR 通常不會對從共同控制下的實體（例如母公司/姊妹行或相關的非金融公司）所取得的資金之違約風險進行評等。首先，對這些貸款的預期可能不會像對無關聯債權人的貸款相同，例如在債務到期時，有關聯的債權人可能不會總是預期借款人直接還款，而是讓其展期。其次，惠譽認為，在評估一個實體是否對集團內債務"違約"時，不具備較高的透明度，比如如何評估到期展期是否為"自願"或"被迫"的。第三，惠譽通常不會將共同控制下的實體視為其評等的主要使用者，因為在大多數情況下，它們有權直接獲得有關借款人財務狀況的相關資訊。

私人與政府債權人

銀行 IDR 通常不會對源於中央銀行和其他國家政府機構之債務的違約風險進行評估。這反映了作為最終放款人的中央銀行與商業銀行之間的特殊關係，事實上，如果在中央銀行作為債權人的債務發生到期展延或重組，這種重組在應當被視為"自願"還是"被迫"上，存在相當大的模糊性。此外，通常很難及時確定一家銀行是否償付了對中央銀行的債務。

儘管如此，如果中央銀行、銀行監管機構或其他政府機構採取行政措施干預某銀行或者為該行申請破產，惠譽將把該行的 IDR 降至違約水準。

[1]例如，依據惠譽的評等定義，銀行清算時，其評級將會降至 “D”.

主順位債務的不同類別

某些情況下，銀行可能會對某些類別的第三方私人部門主順位債務發生違約，但仍繼續履行其它類別債務。例如，銀行可能仍會繼續對存款提供服務 - 即針對所有存款或只是其中的零售客戶，而對其他全部或部分的批發性債務違約或重組。

如果惠譽認為，銀行對於不同類別的主順位債務存在明顯不同的違約風險水準時，IDR 將對風險最高的（重要）類別進行評等。如果銀行對於某個重要類別的第三方私人部門主順位債務產生違約，但對於其他類別繼續履行義務，則其 IDR 將降至‟RD”（Restricted Default, 限制性違約）。

在全球的許多地方，處理‟大而不倒”是一個重要的政策目標。儘管最後的準則仍在落實中，但保持足夠大的‟損失吸收能力”是該過程的一部分。符合監管資本資格（或者部分合格或曾經合格）的次順位債券將被視為具備損失吸收的能力。然而，不符合監管資本資格（或在清算時與法定資本同等順位）的其他負債，也可能具備損失吸收的能力，但可能需要以某種方式從屬於某些其他的運營負債。這種‟主順位次級”或‟主順位非優先”負債通常構成發行人IDR 之參考債務的一部分。因此，此類負債的違約通常會導致發行人 IDR 降級為‟RD”　或‟D”。

長期 IDR 並不具體地針對銀行通過分行經營的每個外國司法管轄區之移轉和匯兌風險，也不反映分行特定的清算風險。因此，惠譽不大可能將銀行的海外分支機構之負債視為 IDR 評等的參考債務，例如由於當地司法管轄區的支付限制而導致的到期債務違約通常不會導致該行的 IDR 降級至‟RD”。

何時授予評等

惠譽會授予幾乎所有具有國際評等的銀行長期 IDR。主要的例外是當一個銀行僅發行短期債務時，則只授予短期 IDR，但這種情況比較罕見。

如果惠譽認為有必要分別強調外幣和本幣的償付義務違約之風險水準，則可個別授予銀行外幣和本幣長期 IDR。例如，當惠譽認為不同貨幣的債務違約風險存在重大差異（出於銀行自身或其受到的支援性原因，又或者因償還外幣債務的法律限制風險較大），或者當本幣 IDR 的授予為銀行國內評等過程的一部分時（參見第 I.8 節）。

按何種評等範疇進行評等

長期 IDR 按‟AAA‟評等範疇授予（請參見*長期發行人違約評等*表格）。

[2]例如，持續經營的主順位主權工具，如果調低帳面價值/轉換能夠使其恢復生存能力，這種“高觸發”的調低帳面價值/轉換功能不太可能被視為銀行 IDR 的參考評等。

如何決定評等水準

對銀行授予長期 IDR 時，惠譽通常採用"較高者"方法。具體而言，惠譽首先僅根據銀行的獨立財務實力（如其 VR 所反映的，如有授予）確定其可以達到的長期 IDR；或者僅根據其支援水準確定長期 IDR，無論是政府當局的主權支援（如 SRF 所反映的）還是通常來自股東的機構支援。然後在沒有國家上限所代表的特殊限制下（見下文），惠譽（幾乎總是）以這兩者之中的較高者授予其長期 IDR。

對於銀行授予長期 IDR 時，惠譽通常採用「較高者」方法，其主要原因有二。首先，它有助於避免評等壓縮。其次，它避免了以基於對銀行自身實力與主權或股東提供支援能力之間的關聯度之預測做出的評等。然而，如下面陰影方塊中的文字所述，在極少數情況下，銀行授予的長期IDR 級別可能高於（或低於）「較高者」方法所建議的級別。

在某些情況下，銀行的信用狀況會相對迅速的惡化，而其他情況下，則可能在相對較長的時間內保持疲弱（例如，銀行所在國的主權評等較低，但相對穩定）。相比前者，後者更有可能對"CCC"級別使用修正符號"+"或"-"。

長期發行人違約評等等級

類別	簡要說明
AAA	最高信用品質
AA	極高信用品質
A	高信用品質
BBB	良好信用品質
BB	投機信用品質
B	高度投機信用品質
CCC	重大信用風險
CC	極高水準信用風險
C	超高水準信用風險
RD	限制性違約
D	違約

修正符號"+"或"-"可附加於從"AA"至"CCC"各違約類別的評等上，用以表示級別內的相對狀態

來源： 惠譽

I.2. 國內評等

評等目的

國內評等範疇所表達之信用狀況，係指評等對象相對於單一國家或貨幣聯盟內的全部發行機構及發行項目之信用狀況。

何時授予評等

國內評等最常用於新興市場國家，其在國際評等具有次級或低投資級別的主權評等。

按何種評等範疇進行評等

國內評等根據長期（'AAA'）和短期（'F1'）評等等級授予，但使用國家/地區尾碼將其標識為國內評等。跨境發行產品所加尾碼為債務發行所在國家，而不是銀行的所在國。在一些貨幣聯盟國家/地區，可能會共用一個國家/地區尾碼（例如南非和納米比亞國內評等使用'zaf'（尾碼）。

如何決定評等水準

國內評等授予的基礎是按照本國"最佳信譽度或發行人"應為'AAA'評等。 隨後，會對在相同的國內評等範疇內的發行人進行比較分析，並使用全面的國內評等等級進行評估，以建立起信譽度的相對等級。

惠譽根據"銀行評等準則"為銀行授予國內評等，因為該準則描述了惠譽如何評估相關定性和定量的因素，從而反映發行人及其財務義務的風險狀況。惠譽並不授予以國內評等範疇為基礎的個別實力評等，但授予國內評等的過程與授予國際評等所使用的評等架構一致，例如對個體自身實力與外部支援的分析。

惠譽採取以下步驟授予國內評等：

1. 借助國際或國內同行作為起點，運用"銀行評等準則"的定性和定量因素進行比較分析。該流程有助於在國內和/或國際範圍內，將該行與其他同行和非銀行發行人的信用風險進行初始相對定位和排序。
2. 惠譽將在相關情況下評估評等對應表，以保持發行人的國際評等和更細化且針對具體國家之國內長期評等的相關性。
3. 在需要授予短期評等的情況下，將使用本報告章節 I.2 中概述的相同程序和原則確定國內短期評等。除非有特殊情況（例如有第三方保證的特定債務），否則國內範圍的短期債券評等，將與該行的國內短期發行人評等一致。
4. 根據本報告章節 IV 中概述的同一框架，國內長期債券評等與發行人的國內長期評等一致或略有調整。

惠譽不發佈銀行國內評等的評等導航。

II. 個別實力評等

VR 衡量銀行的自身的信譽度，並反映惠譽對該行經營失敗的可能性之看法。在授予 VR 時，惠譽將銀行在日常業務中獲得的 "一般性支援" 包含在內，但將提供給已經或處於經營失敗中的銀行以恢復其生存能力的 "重大支援" 排除在外（另請參見第 I.3 節）。

VR 的授予基於以下五項關鍵評等因素：

- 經營環境
- 公司概況
- 管理及策略
- 風險偏好
- 財務狀況

惠譽針對這些因素與財務狀況的子因素個別授予以'aaa'範疇為基礎的評等，惠譽亦對公司概況、管理及策略以及風險偏好的子因素授予類別評等。各項因素都與決定 VR 有關，但是它們的相對重要性在各個銀行間會有所不同，取決於經營環境和各個機構的具體情況，並且可能會隨時間而改變。因此，惠譽並未給每項因素或子因素分配固定的權重，而是在決定 VR 時確定每個關鍵評等因素的相對重要性。惠譽在其"評等導航"中發佈相對重要性指標，以及每個關鍵評等因素和每個財務狀況子因素的趨勢/展望。

上面列出的前四個關鍵評等因素主要為定性因素，然而惠譽在評估經營環境或其他適用和相關的情況下亦使用定量措施，如市場份額和業務足跡（公司概況）和限制結構（風險管理）等。這些獨立或組合到一起的定性因素提供了考量過定量財務指標的背景。有關詳細資訊，請參見隨後的相關章節。

惠譽的因素和子因素評估框架係基於對"核心"和"補充"屬性的考慮。絕大部分的情況下，對所有或大多數的銀行所進行的分析皆考量到核心屬性，並在一些情況下（但不是全部）也會考量到補充屬性。評等準則的應用會考慮所有的屬性，但如果某個屬性不存在或者對信用狀況不重要時，它就無助於分析或幫助有限。在每項因素和子因素的分析中，各屬性的重要性和影響程度因銀行而異。如果基於一個補充屬性的評等因素是主要評等理由時，該屬性可能會給 VR 的分析帶來較大的影響。

惠譽對銀行經營環境的評估，往往會對其他 VR 因素的評估產生重大影響。這是因為經營環境可能會影響銀行資產品質和資本的易損性、收益的可持續性和資金的穩定性等等。經營環境也可能影響對非財務因素的評估，例如銀行市場地位的品質（公司概況）、戰略的執行（管理及策略）以及與授信準則相關的風險（風險偏好）。除非惠譽認為銀行與其經營環境狀況無關，經營環境通常會作為 VR 和其他關鍵評等因素評分的約束條件（但不是上限）。在較弱的市場中經營的銀行，其因素評分將在很大程度上反映內在的不確定性和潛在波動性。然而，當銀行在一個或多個因素上取得適當且較高評分的情況下，由於經營環境影響力和約束性較高，因此對該行授予的 VR 仍有可能與其經營環境評等相似。

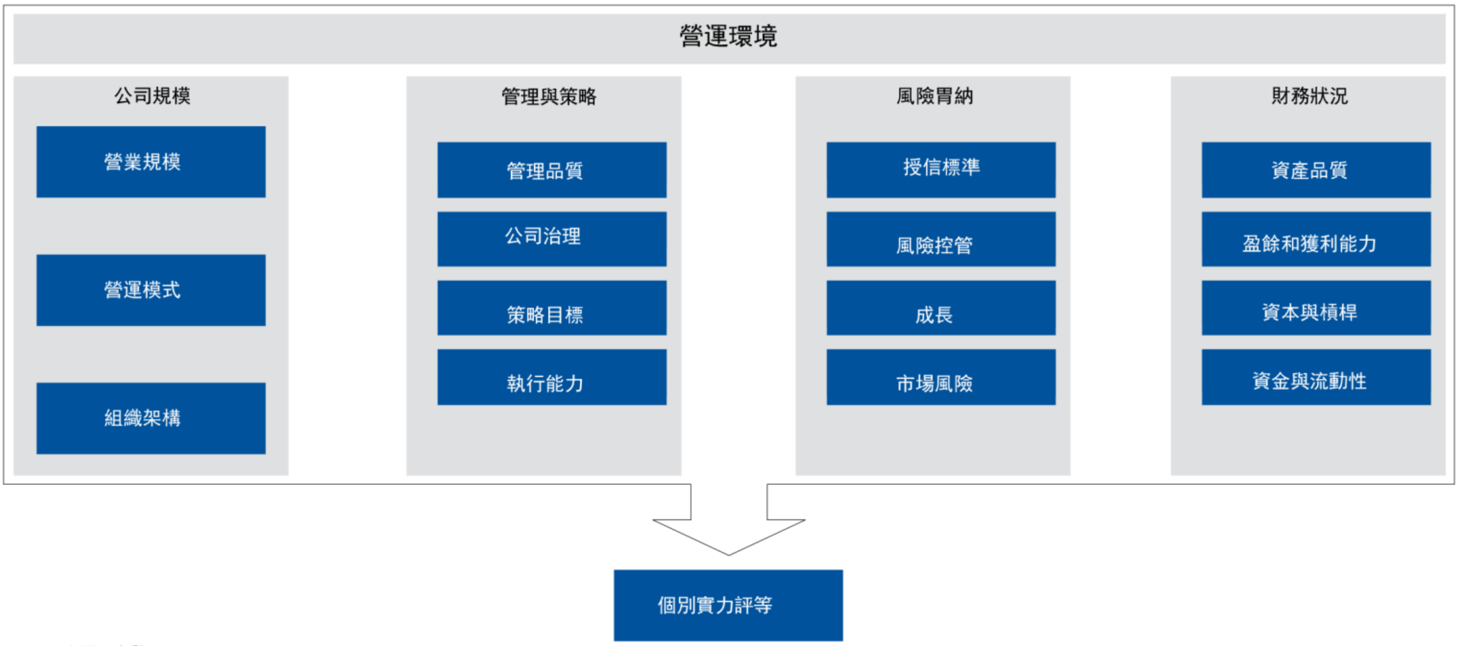
對於每個評等因素，惠譽均提供了子因素/評等類別指標，為該評等類別給出了代表性性質。這些性質不一定是對該因素或子因素的評估有著全面性或決定性影響。例如，銀行可能會滿足與多個類別相關的一些特性，或者由於銀行背景的特定情況，某些特性可能根本不適用。在這些情況下，惠譽將應用最適合的類別。

II.1 經營環境評估

本評估的重要性

惠譽評估某機構獨立信譽度的第一步是審查其經營環境，即評估在特定轄區開展銀行業務的風險程度。在很大的程度上，基於經營環境對風險狀況與其它方面的影響力，其評分可能作為 VR 和其他因素評分的制約原因（但不是正式上限）。無論銀行在其他因素或子因素上的評分如何，對其所授予的 VR 顯著高過其經營環境評估的情況都十分罕見。例外情況可能包括採取極低風險營運模式，或其他評等因素表現非常優異的銀行，這使其在該營運環境中明顯為「非典型」銀行。在這類情況下，惠譽需要確認該行能夠從本質上成功緩解會限制評等的營運環境風險。

個別實力架構



來源：惠譽

若處於營運環境分數相對較高的司法管轄區，銀行 VR（以及其他因素評分）一般會明顯低於營運環境評分，反映出營運模式、風險偏好或管理層採取的其他策略決策及其對財務指標的影響。若處於營運環境評分相對較低的司法管轄區，營運環境通常會構成評等上的侷限，因為惠譽預估該營運環境所造成的脆弱性或波動性，會在銀行信用狀況的許多方面形成限制。

惠譽對營運環境的評估包括與特定司法管轄區的銀行業相關主權風險和廣泛國家風險。然而，此評估不涵蓋移轉和匯兌風險，該類風險個別反映在惠譽的「國家上限」當中。

經營環境評估很有可能顯著低於相關的主權評等，從而導致銀行在司法管轄區內的 VR 也顯著低於相關的主權評等。舉例來說，若經濟環境對銀行來說相對疲弱，但主權評等獲得政府資助和主權資產負債表之特定因素支持，則可見此情形。

營運環境評分

惠譽針對其受評等銀行所在的每個市場授予國家營運環境評分。大部分主要在一個特定國家營運的銀行，會被授予該市場的國家營運環境評分。然而，部分銀行 (即主要在某個國家的特定區域營運，或在其母國之外有重大營運者)，其被授予的營運環境分數則可能與國家評分不同。請參閱調整*Adjustments to the Implied Operating Environment Score (Regional Focus and International Operations)*[7]。

惠譽針對國家授予營運環境評分的首要步驟，是根據下列兩個核心指標導出其隱含的評分：人均國內生產總值和世界銀行的經商便利度排名[8]。惠譽確信，要判定銀行於可接受風險程度下的業務量生成能力，這些核心指標擁有最強大的解釋能力。因此，它們也是判定全球營運環境評分的核心因素。國家的隱含分數乃是根據下方矩陣導出：

[7]若某個國家內的司法管轄區擁有明顯異於國家整體的銀行營運環境，惠譽可能會針對該司法管轄區個別授予營運環境評分。

[8]惠譽針對每個國家計算百分等級，亦即所有在經商便利度指標中較低分國家 (包括其主權政府未經惠譽評分之國家) 的百分比。

營運環境評分

經商便利度 (百分比等級)	>85	70-85	55-70	40-55	<40
人均國內生產總值 (千美元)					
>45	aa	aa	a	a	bbb
35-45	aa	a	a	bbb	bb
15-35	a	bbb	bbb	bb	b
6-15	bbb	bb	bb	b	b
<6	bb	b	b	b	b

Source: Fitch

人均國內生產總值有助解釋營運環境評分，因為它通常與企業盈餘和家庭收入程度密切相關，這兩者又有助判定銀行的業務量和銀行能夠承受的營運風險。經商便利度排名[9]有助解釋營運環境分數 (尤其針對較低收入經濟體)，因為惠譽視其與企業產業的透明度和穩定度相關，所以能藉此判定銀行在適當程度的風險下生成業務量之能力。

惠譽通常運用這些指標源於其最新報告的歷史值，並從中推導出營運環境隱含評分。然而，惠譽在當年 (或僅年底時) 也可能改用人均國內生產總值的預測值 (若惠譽認為此值合理可信且實質上與最新提報的歷史值不同)。若惠譽認為兩個核心指標中任一個的未來數值有可能與其最新數值顯著不同，則惠譽也會調整隱含評分以做出最終評分 (請參閱調整隱含營運環境評分)。若某司法管轄區未被授予經商便利度排名，惠譽將透過人均國內生產總值與對該轄區市場的企業透明與穩定度的評估以決定其隱含的經營環境評分。

[9] 此排名反映監管環境對設立和營運當地企業的有利程度，並以下列十項主題之分數作為基準：設立公司；取得建築許可；供電；財產登記；取得信用；保護少數投資人；繳稅；跨國交易；合約執行和解決無力清償問題。
[10] 若惠譽認為營運環境極為強健或疲弱，這些調整可能導致營運環境評分為「aaa」，或「ccc」（或更低）。
[11] 若尚未授予主權評等，惠譽將考量主權信用評價（若有），或者更廣泛地納入主權信用狀態中任何明顯的優劣因素。

II. Support支援

當銀行經營失敗或正處於該過程中時，它們通常不會違約，而是謀求獲得重大支持使其能夠繼續履行義務。重大支援通常僅在發生經營失敗之時或之前提供。其他情況下（例如當銀行的償付能力減弱並且資本比率處於監管“緩衝區”時），可以預先提供重大支援以防止最終違約。

正如本報告第 I 節所述，最常見的支持來源是銀行股東（機構支持）和政府機構（主權支持）。實體的 SR，反映了惠譽對於該實體在需要時獲得外部支援的可能性的觀點。如果惠譽認為最可能的支持形式是主權支持，這也將反映在銀行的 SRF 中。下文第 III.1 節將著重討論主權支持，第 III.2 節討論機構支持。

III.1. 主權支援

在評估政府支持銀行的可能性時，惠譽將主要考量銀行所在國之主管機關的潛在援助。這是因為，該銀行所在國之主管機關最有可能既有防範銀行違約的動機，又具備監管和法律權力從而得以介入。然而，在極少數情況下，惠譽還可能評估由國家主管機關和國際公共機構向經營失敗的銀行共同提供支援的可能性。

在評估主權支持時，惠譽將考慮相關立法和監管因素，並在可能的情況下與主管機關代表討論並詢問他們向銀行業提供支援的方式。

在評估主權支援的可能性時，惠譽的分析側重於主權提供支援的能力和傾向性這兩方面的因素。考慮傾向性時，既包括對作為一個整體的銀行業提供支援的意願，也包括向特定受評銀行提供支援的意願。惠譽還將分別考慮銀行的政策性角色以及銀行與政府的緊密程度的影響。

III.1.1 主權提供支援的能力

本評估的重要性：就銀行獲得政府支援而言，主權必須能夠並有願意提供支援。如果主權提供支援的能力受到更多限制，這時支援通常不太可能，從而導致較低的 SR 和 SRF。

主權評等和支援評等下限

主權評等	支援傾向性較高情況下 D-SIB[a] 的典型 SRF
AAA, AA+	A+ 至 A-
AA, AA-	A 或 A-
A 類別	低於主權評等1-2等級
BBB 類別	低於主權評等0-2等級
BB 類別	低於主權評等0-1等級
B 類別及以下	與主權評等等同

[a] 國內系統重要性銀行
來源：惠譽

在評估政府向銀行業提供支援的能力時，惠譽的出發點是主權自身的評等（或惠譽信用意見，如果意見是 “B”類別或更低）。主權評等幾乎總是針對所在國的國家主權，但有時可能是有意願支持銀行或銀行控股公司的第三方主權。在極少數情況下，如果惠譽未授予信用評等或信用意見，惠譽將不會授予受主權支持的 SR/SRF（無評估）或對其授予“5/無下線”（例如，無法確實地評估主權信譽或無法解決主權能力/傾向支援疑慮）。

雖然主權評等只反映了惠譽對政府償還其自身債務的可能性的看法，但實際上這通常與其更廣泛的財務靈活性密切相關，其財務靈活性確保政府有能力為銀行業提供支援。因此，在惠譽認為政府有高度傾向支持其銀行體系的市場中，主權評等水準與國內系統重要性銀行 (D-SIB) 的 SRF 之間通常存在密切關聯。上表“主權評等和支持評等底線”中列出了這些銀行在每個主權評等的的典型 SRF。

授予支援評等下限的關鍵因素 [a]

	因素	正面（高 SRF）	中立	負面（低 SRF）
主權的支援能力	銀行體系相對於經濟的規模	小	平均	大
	潛在問題的規模	在經濟低迷時期，遭受較大損失的可能性低	在經濟低迷時期，遭受較大損失的可能性中等	在經濟低迷時期，遭受較大損失的可能性高
	銀行體系結構	低集中度，股權主要由強力股東持有	中等集中度，部分股權由強力股東持有	高集中度，有限股權由大股東持有
	銀行體系負債結構	長期/穩定的當地貨幣資金來源	中度資金來源不穩定和/或外幣債務	大量的短期外幣融
	主權財務靈活性（用於評等級別）	優良（例如低負債、大量外匯儲備和/或良好的市場融資獲得性）	平均（例如平均債務和儲備金和/或合理的市場融資獲得性）	薄弱（例如高負債、低外匯儲備和/或不確定的市場融資獲得性）
	主順位債務救助的清算立法	不適用	目前無立法，中期也不可能有	已有立法或在可預見的時間框架內有
主權支持銀行體系的傾向	對銀行業支援記錄	對整個行業強而有力和可預期的支援記錄	有支援大型銀行的歷史或沒有支援記錄（例如近期無銀行經營失敗）	不完整的記錄，可能包括重大違約
	政府的支持聲明	有支持銀行體系的持續強勢聲明	沒有或者沒有概略支持的聲明	有意救助主順位債權人的聲明
主權支持銀行的傾向	系統重要性	極其高的系統重要性和蔓延風險；具主導性的市場地位	對銀行體系和經濟具有重要意義；高度蔓延風險	中等或較低的系統重要性，有限的蔓延風險
	銀行負債結構	政治上可以接受採取主順位債權人紓困的可能性非常有限（如果有的話）	顯著的外幣/批發性資金，在某些情況下，政治上可以接受救助	高額的外幣/批發性資金，在很多情況下，政治上可以接受採取紓困
	持股結構	戰略性政府所有權，或者具有強大政府關係的私人國內所有者	非戰略性政府所有，或與政府關係既不密切也不疏離的國內所有者	外資所有權，或與政府關係不佳的國內所有者
	特定情形下的銀行經營失敗	不適用	經營失敗更有可能歸結於常規經營活動	經營失敗的重大風險可能來自公司治理弱點

[a] 本表確定的因素決定了相對於“*主權評等和支持評等底線*”表中所示範圍的 SRF 水準，可能存在此處未明確提及的其他相關考慮因素
來源：惠譽

III.2. 機構的 支持

惠譽對銀行子公司的評等通常會考慮到，母公司很有可能會提供支援。這反映了營運銀行母公司很少允許子公司違約的事實。惠譽還會考慮銀行母公司與子公司的整合程度，以及所有者為避免子公司違約以保障其業務、財務和信譽的動機。

在確定母公司支援子公司的可能性時，惠譽會考慮母公司提供支援的能力和傾向，以及子公司運用母公司支持的能力，具體參見下文第 III.2.1 節和第 III.2.2 節以及附件 2 中所述。

集團中受益於互助機制的銀行，其 IDR 基於向整個集團授予的單個 VR（見附件 4）

III.2.1 母公司支援子公司的能力以及子公司運用支援的能力

本評估的重要性：銀行若要獲得股東支持，從定義上來說，所有者必須能夠而且願意提供支援，子公司必須能夠利用母公司的支援來避免違約。

母公司 IDRs：惠譽在對母公司支持其子公司的能力進行評估時，通常首先考慮母公司的長期 IDRs。這些評等限制了母公司提供支援的能力，因為惠譽認為，母公司在自身違約時為子公司提供支援的可能性不大。此外，其他因素，例如銀行母公司的 VR、母公司/集團監管和相對規模，也可能會影響母公司提供支援的能力。

銀行母公司的 VR：如果銀行母公司的長期 IDR 受潛在的主權支持推動，惠譽將考慮是否允許這種支持流入子公司，特別是那些在外國司法管轄區營運的子公司。惠譽認為，鑒於子公司違約可能會對集團營運和信譽產生負面影響，銀行母公司之監管機構在很多情況下都有非常強而有力的動機，允許支持流入子公司。

然而，如果惠譽判定支持的流入存在重大的不確定性，則通常會根據母公司支援傾向而可能增加母公司和子公司長期 IDR 之間的評等差距。如果惠譽認為支援流動存在高度的不確定性，則可能使用銀行母公司的 VR 而非長期 IDR 作為基準評等，來評估母公司支持子公司的能力。

在可能的情況下，惠譽可能會諮詢銀行母公司監管機構的代表，以便對是否會提供支援形成觀點。此外，在惠譽看來，決定銀行母公司支持子公司傾向的下列諸多因素（例如戰略重要性、整合、股權結構），也可能會影響銀行母公司監管機構關決定是否允許支援流入子銀行。

若銀行 的長期 IDR 由於次順位債的損失吸收緩衝和/或控股公司債務的大量緩衝而從其VR調高，則其 IDR 通常會作為高度整合國內子公司和高度整合國際子公司之 IDR 的基準評等，適用情況為：惠譽預期該等子公司之母公司會在該等子公司的司法管轄區事先推出次順位債務或股權以符合清算要求（無論是直接或經由中介控股公司）；已有推出類似之大量緩衝；基於認可的清算計畫，將關鍵外國子公司指定為集團內部資源受益人；或即便未事先推出緩衝，母公司和子公司隸屬相同清算群組並具有相同的清算計畫主管機關。否則，子公司 IDR 通常調降低於母公司的 VR，反映當子公司破產時，子公司之主順位債權人能否從母公司次順位債務緩衝受惠的顯著不確定性。

III.2.2 母公司支持子公司的意願

本評估的重要性：即使母公司能夠支援子公司，但實際是否提供支援，取決於所有者的支援傾向。惠譽通常認為母公司（特別是銀行母公司）支持銀行子公司的傾向較高。

在評估支持傾向時，惠譽會分析下列因素（另見下表）。在沒有能力（包括國家風險）限制的情況下，惠譽視作“核心”的子公司，評等通常與母公司等同；被視為“具有戰略重要性”的子公司，評等通常低於母公司一個等級（但在某些情況下低兩個等級）；被視為具有“有限重要性”的子公司，評等通常低於母公司至少兩個等級。如果銀行母公司採納了清算計畫，惠譽會在可能的情況下對此進行審查，以確定母公司是否能在需要時支援子公司。

子公司評等調整

相對於母公司評等的調整[a]	等同	一個等級	兩個或更多等級
母公司支持子公司的能力以及子公司運用支持的能力			
母公司/集團監管	母公司之主管機關和/或監管可能有利於母公司為子公司提供支援。	母公司之主管機關/條例對支持子公司持中立態度。	母公司之主管機關/條例可能會限制支持，或者支持所需的資本/稅務影響可能會非常重大。
相對規模	相對於母公司提供支援的能力而言，任何必需的支援並不重大。	相對於母公司提供支援的能力而言，任何必需的支援都是可控的。	相對於母公司提供支援的能力而言，必需的支援可能相當重大。
國家風險	國家風險不限制子公司使用母公司支援的能力。	國家/地區風險（例如轉移和兌換風險）對子公司使用母公司支援的能力構成適度的限制。	國家/地區風險（例如轉移和兌換風險）對子公司使用母公司支援的能力構成嚴重的限制。
母公司提供支援的傾向			
在集團中的角色	是集團業務的關鍵組成部分，在與母公司相同的司法管轄區內或是向核心市場提供集團的某些核心產品/服務。	與母公司存在強有力的，在被認為具有戰略重要性的司法管轄區或市場提供產品/服務。	與母公司的綜效有限，不在目標管轄區或市場營運。
出售的可能性	很難想像會出售；出售將顯著改變集團的整體佈局。	沒有出售計畫，儘管出售不會從根本上改變集團的整體市場地位；國家風險將在一定程度上引發對母公司向子公司所作長期承諾的質疑。	潛在待售，或可能出售中；對集團市場地位而言，處置沒有重大影響；國家風險引起嚴重懷疑母公司向子公司所作的長期承諾。
子公司違約的影響	違約會給母公司帶來巨大的信譽風險，並會嚴重損害其市場地位。	對母公司造成的信譽風險很高，有可能會對集團其他部門產生重大的負面影響。	信譽風險對母公司而言很可能是可控的。
整合	高度的管理和營運整合度；資本和資金在很大程度上可以流通。	重大的管理獨立性；對資本和資金轉移有某些操作/監管限制。	相當大的管理獨立性；對資本和資金轉移有明顯操作/監管限制。
持股規模	完全所有權或多數股權（超過 75%）。	所有權低於 75%，但少數股東對子公司業務的影響有限。	所有權低於 75%，但少數股東對子公司營運的影響顯著。
支援記錄	支持是毋庸置疑的，反映了資本/資金的高度整合和流通性。	在需要時及時提供了充分的支援，或是之前沒有需要支援的先例；在主權債務違約情況下，國家風險引發了對支持的適度擔憂。	已經提供了支援，但存在些許延遲，或者提供的支援在規模方面，相對於子公司的需求而言較少；在主權債務違約的情況下，國家風險引發了對支援的重大擔憂。
子公司績效和前景	在支援集團目標方面有著長期的成功記錄，而且這種情況很可能會持續下去。	成功營運記錄有限或長期展望適中。	業績記錄表現不佳，或是對企業的長期生存存在疑問
品牌	與母公司共用一個品牌。	結合母公司與其自己的品牌。	子公司擁有獨立於母公司的品牌。
法律承諾	母公司為子公司提供強有力的法律承諾。	母公司做出了沒有約束力的支持子公司的承諾。	母公司尚未做出任何支持子公司的法律承諾。
交叉違約條款	母公司債務的潛在加速償還，為防範子公司違約提供了強有力的動機。	母公司債務的潛在加速，為防範子公司違約提供了適度的動機。	子公司違約不會導致母公司債務加速。

[a] 表示子公司基於支持的長期 IDR 與母公司的長期 IDR（或 VR，如果惠譽認為對母公司的主權支持不會流入子公司）之間的典型差異。如果子公司之 VR 或 SRF 較高，其評等可能高於母公司支持的評等
來源：惠譽

惠譽向在非核心市場經營的外國子公司授予的評等，通常比其母公司低一個等級。這反映了與國內企業相比，海外企業的戰略重要性和整合程度通常稍低，而且海外子公司違約的蔓延風險較不嚴重。這也反映出來自母公司所在地之主管機關向國外而非國內子公司提供支援的壓力相對較低。

同時，若外國子公司長期在被母公司視為核心的市場營運，惠譽經常將此外國子公司的評等與母公司的評等等同。如果外國實體作為母公司的分支機構或掛帳實體進行有效運作，也可以使其評等等同。

IV 金控公司評等

BHC 是持有銀行和非銀行金融機構營運子公司 (OpCo)的控股公司。他們通常須符合審慎監管要求，且所在地與至少其中一間主要 OpCo 之所在地相同。

惠譽評估 BHC 評等的起始點（包含授予 BHC 的 VR（若有授予））為該集團之合併風險狀況的評估。這一般透過分析BHC合併 財務報表和整體集團風險狀況進行，但也可能以「由下至上」的方式判定，亦即評估並加總 BHC 主要銀行子公司和其他實質資產的個別風險狀況。

評估集團合併風險狀況之後，惠譽將考量（向下）調整是否適切反映BHC 特性可能對 BHC 債權人所造成之負面影響。

下表提供針對 BHC 和 OpCo 之間基準評等關係的概要以及可能偏離基準的情形。

基準	偏離基準
根據集團的合併分析，BHC 和主要 OpCo 具有相同 VR 和 IDR	BHC 違約風險較高，評等較低：BHC IDR 和 VR 從主要 OpCo 及/或合併分析顯示的等級調降，以反映來自高度雙重槓桿、較不審慎的流動性管理等結構性特徵所導致的較高違約風險。 OpCo 違約風險較低，評等較高：由於 OpCo的主順位違約風險低於 BHC 的主順位違約風險，OpCo IDR 上調超過 BHC IDR。最有可能的起因為在清算過程中，BHC 在OpCo 的資本重整中扮演要角（例如救助順流債務）。 由下而上的分析：BHC 評等係透過分析 BHC 主要銀行子公司之風險狀況和財務報表以及其他重大資產，再加上調降分析（請參閱上述內容），而進行授予，並非以集團的合併分析為準。

來源: 惠譽

本節其他部分將更詳細說明有關下列事項：i）惠譽評等 BHC 的方法和 ii）惠譽決定是否因具備合適及足夠的債務緩衝以保護營業子公司第三方、非政府之主順位負債，而調升銀行或非銀行金融機構 OpCo IDR的方法。進行 OpCo 調整時，也會將監管機關認可之 BHC 集團清算計畫（若有）納入考量。認可之清算計畫一般會將主要子公司指定為集團內部資源之受益人。

合併分析亦經常（但並非一定）顯示出授予 BHC在其主要據點位置的主要營運子公司的 VR。但這並非絕對；例如，當銀行集團以多元、聯合的架構營運時，或者因清算計畫策略之不同導致相同司法管轄區內各營運公司風險狀況產生歧異。但是，在這類情況下，各營運公司仍可能因集團連結性，或者因其作為銀行集團之一員，而可取得「常態性」支援，使得彼此之間的 VR 依然高度相符（請另參閱 附件 1）。

其他持有銀行的非 BHC 投資或控股公司之評等可能以銀行評等準則（例如收購汽車控股公司 – 請參閱第 66 頁）或非銀行金融機構評等準則作為依據，以較合適者為準。該類公司持有的銀行仍將依據銀行評等準則評估，並將以其自身財務報表作為分析依準，同時亦將集團整體的潛在風險和利益納入考量（如合適）。

BHC 調降或一致

BHC 的 VR（如有授予）和長期 IDR 通常與主要營運子公司（或集團的合併分析顯示的評等水準）一致，或低一個級距。一般而言，這反映了重要子公司和 BHC 破產和違約機率之間的高度密切的關聯性。

在判斷是否要根據集團的合併分析所顯示的 VR或其主要營運子公司之 VR，將 BHC 評等調為與該 VR 一致或調降至低於該 VR 時，惠譽首先會著重於下表所列之因素。其中，集團監理性質、流動性管理，以及 BHC 層級的雙重槓桿程度，將會是進行調整時的關鍵判斷因素。

惠譽採用相對狹隘的雙重槓桿定義，僅考量普通股，且當集團運用中介控股公司時（例如作為清算方案的部分程序），惠譽可能對「核心」雙重槓桿進行徹底審視。然而，BHC 資金來源與使用的錯配即便不影響銀行的普通股雙重槓桿比率，但若涉及因實際或潛在現金流錯配而產生顯著流動性風險等情況，也可能導致 BHC 的 VR 和 IDR 調降。針對子公司配發股利的監管限制為流動性風險其中一種形式，但流動性錯配也可能以其他形式產生。例如，由 BHC 以主順位借款而後所發行的非普通股權益之其他第一類資本（AT1）或特別股，可能造成潛在現金流錯配，並對 BHC 流動性的評估產生負面影響。在這種情形下，惠譽也可能考量雙重槓桿更廣泛的應對方式（若有相關）。

BHC 評等的一致或調整

	支援將 BHC VR 與主要銀行子公司或合併風險評估調為一致的屬性	支援授予BHC VR低於主要銀行子公司或合併風險評估的屬性
監管重點	集團為合併實體	銀行債權人的保護
資本和流動性相互支援性	較少或沒有對於子公司支付股利或對於向 BHC 提供流動性的監管限制	對股利和流動性移轉的監管限制較繁重
司法管轄區	BHC 和主要銀行子公司的司法管轄區一致	BHC 和主要銀行子公司的司法管轄區不一致
雙重槓桿比率	低度或適中，即普通股雙重槓桿比率a（定義為對子公司的股權投資加上 BHC 的無形資產，再除以 BHC 普通股）低於 120%	顯著，即普通股雙重槓桿比率長期高於 120%，除非透過其他方式減輕（例如，子公司流動性支持協議），顯示 BHC 償債成本可能為沉重負擔
BHC流動性管理	審慎，具有緊急備用計畫	較不審慎，具有有限的緊急備用計畫
子公司所有權	BHC 具有主要銀行子公司的完整或多數所有權和控制權	對主要銀行子公司具有少數之所有權和影響力
信用強化	BHC 債務擔保透過主要營運子公司，或在子公司融資協議列入提及 BHC 債務的相互違約條款	無擔保或互相違約條款

a 當控股公司發行主順位債以注資子公司之重大非股權資本時，惠譽也可能考量雙重槓桿比率更廣泛的應對方式（若有相關），例如在分子和分母使用總資本，而非普通股。
來源: 惠譽

在下列情形中，惠譽可能調降 BHC 的 VR 超過一個級距：

- 其他營運子公司構成集團顯著的一部份，且評等較低或風險明顯高於主要子公司（除非已透過合併分析另作說明，而非使用「由下至上」方法）；
- 其他因素致使控股公司和銀行子公司的破產/違約機率形成顯著區別，例如（但不限於）BHC 特有的極高雙重槓桿比率和流動性風險，或因針對營運子公司現金流施加的監管限制，使集團內部明顯缺乏資本或流動性的相互支援性；

此述項目中有超過一項適用時（例如：BHC 迫於當地監管機構要求必須支援重大且疲弱的非銀行子公司而使其自身信用狀況受到負面影響，以及極高的普通股雙重槓桿比率），則 BHC 的評等更有可能遭調降至低於主要營運銀行子公司兩個或兩個以上的級距。

若 OpCo 的長期 IDR 受潛在主權支援，BHC 的 IDR 可能低於 OpCo 的 IDR 數個級距，且惠譽認為，相同的主權支援能否擴及至 BHC，具相當的不確定性。

FitchRatings

Banks
Global

Bank Rating Criteria

Master

Scope

This criteria report specifies Fitch Ratings' methodology for assigning new ratings to and monitoring existing ratings of banks, including commercial and policy banks, and bank holding companies (BHC or HoldCo) globally, and their obligations. In most cases, it does not apply to non-bank financial institutions, the criteria for rating which are outlined *in Non-Bank Financial Institutions Rating Criteria*. The report may sometimes be applied with other criteria (see *Annex 7*).

Key Rating Drivers

Framework Reflects Bank Specifics: The ratings assigned to banks reflect the specific drivers (components) of bank credit. Viability Ratings (VRs) capture a bank's intrinsic creditworthiness, while its Support Rating (SR) and Support Rating Floor (SRF) reflect the likelihood of it receiving external support in case of need. A bank's Issuer Default Ratings (IDRs) and issue ratings are derived from the VR and support ratings.

"Higher Of" Approach for IDRs: Fitch generally adopts a "higher of" approach in assigning banks' Long-Term IDRs. We determine the IDR a bank could attain based solely on its standalone financial strength (as reflected in its VR), or based solely on external support, and then assign the IDR at the higher of these levels. In rare cases, for example where senior creditors are protected by a large junior debt buffer, IDRs may be notched up from VRs. Bank IDRs usually rate to default risk on senior obligations to third-party, non-government creditors.

VRs Based on Five Factors: In assessing a bank's standalone creditworthiness and assigning its VR, Fitch considers five key factors: the operating environment; company profile; management and strategy; risk appetite; and financial profile. Each factor is broken down into several sub-factors. VRs rate to the risk that a bank will fail, i.e. either default or need to receive extraordinary support/impose losses on subordinated obligations to restore its viability.

Institutional and Sovereign Support: A bank's SR reflects Fitch's view about the likelihood that the entity will receive extraordinary support if needed. Support typically comes from either the bank's shareholders (institutional support) or the national authorities of the country where the bank is domiciled (sovereign support, also reflected in the SRF). Fitch considers both the ability and propensity of the potential supporter to provide assistance.

Default Risk, Recovery Prospects: Long-term issue ratings of banks, in common with other corporate finance sectors, reflect Fitch's view of the overall level of credit risk attached to specific financial commitments, usually securities. This view incorporates an assessment of the likelihood of default (or "non-performance" risk) on the specific obligation and a view of potential recoveries for creditors in the event of default/non-performance.

Debt Ratings: Senior unsecured obligations are usually rated in line with a bank's Long-Term IDR if the default risk is aligned with the risk captured by the IDR. However, they could be notched up (for example, where one class of senior debt is offered protection by another) or down (for example if recoveries are likely to be weakened by deep effective subordination). Subordinated and hybrid debt is typically notched off the obligor's VR, with notching dependent on the extent of incremental non-performance risk (relative to the risk of failure) and recovery prospects in the event of default.

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This criteria report replaces the master criteria report entitled "Bank Rating Criteria," dated 12 October 2018.

This criteria report was republished on 24 June 2020 to improve the transparency and alignment of the summary charts on pages 65-69 with the fuller criteria text.

Analysts

Global
Kevin Duignan
+1 212 908 0630
kevin.duignan@fitchratings.com

Alan Adkins
+44 20 3530 1702
alan.adkins@fitchratings.com

EMEA
James Longsdon
+44 20 3530 1076
james.longsdon@fitchratings.com

North America
Christopher Wolfe
+1 212 908 0771
christopher.wolfe@fitchratings.com

Latin America
Alejandro Garcia
+212 908 9137
alejandro.garcia@fitchratings.com

APAC
Jonathan Cornish
+852 2263 9901
jonathan.cornish@fitchratings.com

Report Summary and Structure

I. Ratings Framework

Fitch assigns both issuer and issue ratings to banks and their obligations. The issuer ratings assigned on international rating scales are:

- Long-Term IDRs
- Short-Term IDRs
- VRs
- Support Ratings
- Support Rating Floors
- Derivative Counterparty Ratings

For complete rating definitions, click here. For details on Fitch's bank rating framework, click here

II. Viability Ratings

Fitch reflects the fundamental creditworthiness, or standalone credit profile, of a bank in its VRs. The VR considers five key factors:

- Operating Environment
- Company Profile
- Management and Strategy
- Risk Appetite
- Financial Profile

For details on the VR framework, click here.

III. Support

The most usual sources of support are a bank's shareholders (institutional support) and government authorities (sovereign support). Fitch's view of the likelihood of external support being made available in case of need is reflected in a bank's SR. Where the agency believes the most likely form of support is sovereign support, this is also reflected in the bank's SRF, which indicates the minimum level to which the entity's Long-Term IDR could fall for the level of extraordinary support assumed.

The key sovereign support rating factors are:

- Sovereign's ability to support
- Sovereign's propensity to support banking sector
- Sovereign's propensity to support a specific bank

The key institutional support rating factors are:

- Parent's ability to support
- Parent's propensity to support
- Country risks in subsidiary jurisdiction

For details on the Support Ratings framework, click here.

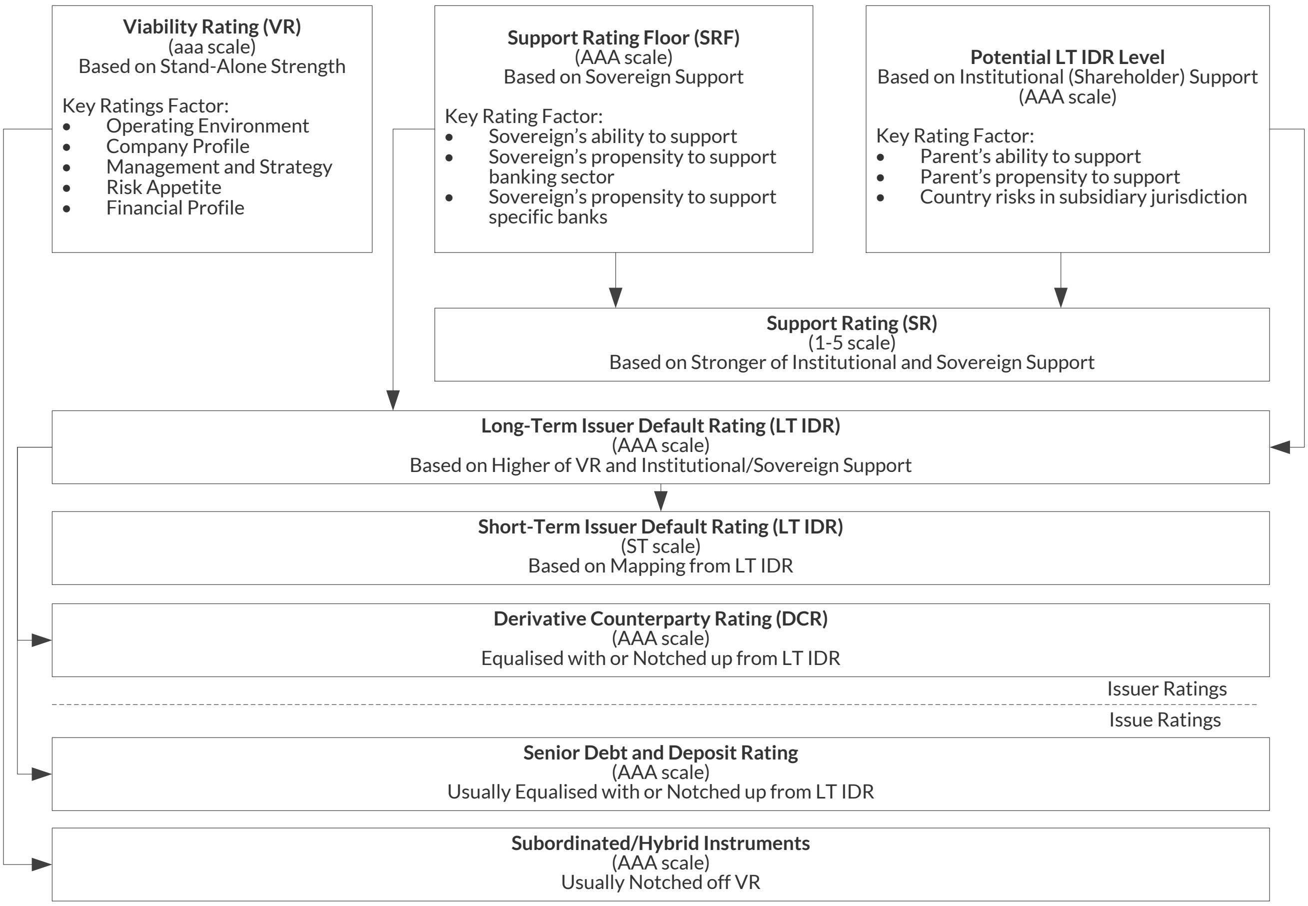
IV. Issue Ratings

Ratings of banks' senior, subordinated/hybrid and other securities issues, and their Deposit Ratings, incorporate an assessment both of the likelihood of default (or "non-performance" risk) on the specific obligation, and (for debt securities assigned long-term ratings) of potential recoveries for creditors in case of default/non-performance. For details, click here.

V. Annexes

For additional information on specific aspects of bank rating criteria, examples of the bank rating framework applied and information on certain rating procedures, click here.

Banks Rating Framework (Simplified)



Source: Fitch Ratings

I. Ratings Framework

The ratings assigned to banks, reflect the specific drivers (components) of bank credit. Fitch assigns separate ratings to capture a bank's intrinsic creditworthiness (the VR), and the likelihood of it receiving external support in case of need (the SR and SRF). IDRs and issue ratings are derived from the VR and Fitch's assessment of support, as also reflected in support ratings.

This section provides an overview of the international and national scale ratings assigned to banks and their issues, indicating: what the different ratings measure, when they are assigned, the scales on which they are assigned; and how (in broad terms) the rating levels are determined. This section first reviews bank issuer ratings on the international scale (sub-sections I.1 to I.6), then issue ratings (I.7) and finally ratings assigned on national scales (I.8).

Sections II, III, IV and V provide more detail on the criteria for assigning VRs, support ratings (SRs and SRFs), ratings to BHCs and operating company subsidiaries (OpCo) and issue ratings, respectively. Readers who do not wish to review in detail Fitch's rating framework should turn to these sections. A simplified version of the framework is presented in diagram *Banks Rating Framework (Simplified)*.

I.1. Long-Term Issuer Default Ratings

What they Measure

IDRs, for banks as for issuers in other sectors, express Fitch's opinion on an entity's relative vulnerability to default on its financial obligations. In accordance with Fitch's rating definitions, the default risk addressed by the IDR is generally that of the financial obligations whose non-payment would "best reflect the uncured failure of that entity". Fitch considers that the obligations of banks whose non-payment would best reflect uncured failure are usually senior obligations to third-party, non-government creditors. Banks' IDRs therefore typically opine on the probability of default, including by way of a distressed debt exchange (DDE), on these obligations.

Distressed-Debt Exchange: When considering whether a debt restructuring or exchange should be classified as a DDE, Fitch expects both of the following to apply: the restructuring imposes a material reduction in terms compared with the original contractual terms; and the restructuring or exchange is conducted to avoid bankruptcy, similar insolvency or intervention (including bank resolution) proceedings or a traditional payment default. If IDR reference obligations are subjected to a DDE, an issuer's IDRs will be downgraded to default level; if the DDE is limited to junior debt, a bank's IDR will not be downgraded to default level, but Fitch would normally expect to lower an issuer's VR to 'f', if not already there.

For further discussion, see *What Bank IDRs Rate to: Definition of Reference Obligations* below.

What Bank IDRs Rate to: Definition of Reference Obligations

A bank's IDRs usually[1] express Fitch's opinion on the risk of default on senior obligations to third-party, non-government creditors as in Fitch's view these are typically the obligations whose non-performance would best reflect the uncured failure of the entity. In accordance with Fitch's rating definitions, and in common with issuers in other sectors, a bank default may take several forms, including non-payment of obligations beyond the available cure period, bail in, a DDE or the issuer entering into bankruptcy proceedings. 'Stays' conducted in the lead up to a bank resolution process will not automatically trigger a default level rating, provided they are reasonably short-lived.

A bank's SR and SRF also rate to the same reference obligations, ie they reflect Fitch's view on whether external support will be sufficient for a bank to avoid default on senior obligations to third-party, non-government creditors. However, the VR rates to the risk of a bank failing, which in Fitch's view could be reflected in non-performance on subordinated, as well as senior liabilities, meaning that the VR references a broader range of obligations (see below, What VRs Rate to: Failures of Banks).

A bank's IDRs do not usually reflect default risk on subordinated or "junior" debt or on obligations to entities under common control and government authorities.

However, if non-performance on any of these obligations is viewed by Fitch as indicative of broader stress that could result in the issuer defaulting on its senior obligations to third-party, private creditors, this may result in the bank's Long-Term IDR being downgraded to a very low level, eg 'CCC' or lower. Furthermore, if a default on subordinated debt triggers bankruptcy procedures, or results in acceleration of senior debt that the bank is unable to redeem, non-performance on subordinated debt may very quickly result in the entity's IDRs being downgraded to default level.

The rationale for Fitch's definition of reference obligations for bank IDRs is as follows:

Senior vs. Subordinated/Junior Obligations

Non-performance, or default, risk on a bank's subordinated/junior obligations is often (although not always) greater than the default risk on its senior liabilities. For example, this could be because the subordinated/junior obligations contractually provide for loss absorption on a "going concern" basis, or because Fitch believes senior liabilities are more likely to benefit from external (usually, government) support if a bank fails.

Therefore, for the sake of clarity and to rate to the majority of a bank's liability structure, a bank's IDRs usually reflect default risk only on senior obligations. Fitch's view on the level of credit risk in subordinated/junior obligations is reflected in the issue ratings on these instruments.

Third-Party vs. Intra-Group Obligations

Banks' IDRs do not usually rate to default risk on funding attracted from entities under common control (eg parent/sister banks or related non-financial corporations) for three main reasons. First, these facilities may not be extended with the same expectations of an unaffiliated creditor, for example the borrower may not always be expected to repay, rather than roll over, the facilities at maturity. Second, Fitch would not usually expect there to be a high level of transparency on whether an entity has "defaulted" on intra-group debt, eg whether a roll-over has been "voluntary" or "forced". Third, Fitch would not usually regard entities under common control as the main users of its ratings, as in most cases they would have privileged, direct access to information on the financial condition of the borrower.

Private vs. Government Creditors

Bank IDRs will not usually rate to default risk on obligations owed to central banks and other national government institutions. This reflects the special relationship between a central bank, as lender of last resort, and commercial banks, and the fact that, where facilities due to central banks are rolled over or restructured, there is likely to be considerable ambiguity regarding

[1] For example, where a bank is liquidated, its IDR will be downgraded to 'D' in accordance with Fitch's Rating Definitions.

whether such a restructuring should be regarded as "voluntary" or "forced". In addition, it will often be difficult to ascertain in a timely fashion whether a bank has performed on debt owed to its central bank.

Nevertheless, if a central bank, bank regulator or other government institution takes steps to place a bank in administration or files for the institution's bankruptcy, Fitch would downgrade the bank's IDRs to default level.

Different Categories of Senior Obligations

In some cases a bank may default on some categories of third-party, private sector senior debt, while continuing to perform on others. For example, a bank may continue to service deposits – either all deposits or just those of retail customers – while defaulting on or restructuring all or some of its wholesale debt.

Where Fitch considers there to be significantly different levels of default risk on different categories of a bank's senior liabilities, the IDRs will rate to the (material) category with highest risk. If a bank defaults on a material category of third-party, private-sector senior debt, but remains current on other categories, its IDRs will be downgraded to 'RD' (Restricted Default).

In many parts of the world, addressing "too big to fail" is an important policy objective. Although final rules are still being implemented, maintaining sufficiently large "loss absorbing capacity" is an integral part of this process. Junior debt securities that qualify (or part qualify or used to qualify) as regulatory capital will qualify as loss absorbing capacity. However, other liabilities that do not qualify as regulatory capital (or rank equally with regulatory capital in insolvency) may also be able to qualify as loss absorbing capacity but may need to be subordinated in some way to certain other operational liabilities. Such 'senior subordinated' or 'senior non-preferred' liabilities will usually[2] constitute reference obligations for the purposes of an issuer's IDR. Default on such liabilities will therefore usually result in an issuer's IDR being downgraded to 'RD' or 'D'.

Long-Term IDRs do not specifically address transfer and convertibility risk for each and every foreign jurisdiction in which a bank operates via a branch, nor do they reflect branch-specific resolution risks. Consequently, Fitch is highly unlikely to treat overseas branch liabilities of a bank as reference obligations to which the IDRs rate, ie default on such liabilities due, for example, to payment restrictions in the host jurisdiction would not typically result in the bank's IDRs being downgraded to 'RD'.

When they Are Assigned

Long-Term IDRs are assigned to virtually all banks with international ratings. The main exceptions are rare cases where an entity issues exclusively short-term debt and may therefore be assigned only a Short-Term IDR.

Where Fitch believes it is useful to separately highlight the level of default risk on foreign-currency and local-currency obligations, it may assign separate Foreign- and Local-Currency Long-Term IDRs to a bank. This may be done, for example, when the agency considers there to be a material difference in default risk on obligations in different currencies (for intrinsic or support reasons, or because of a greater risk of legal restrictions on servicing foreign-currency debt), or when the assignment of a Local-Currency IDR is undertaken as part of the process to derive a bank's National Rating (see also *section I.8*).

On Which Scale

Long-Term IDRs are assigned on the 'AAA' scale (see side margin table *Long-Term IDR Scale*).

[2] For example, a senior host instrument with a going concern, 'high trigger' write-down/conversion feature would be unlikely to be considered a reference rating for a bank's IDR if the write-down/conversion restored viability.

How they Are Determined

Fitch generally adopts a “higher of” approach in assigning Long-Term IDRs to banks. Specifically, the agency first determines what level of Long-Term IDR a bank could attain based solely on its standalone financial strength (as reflected in VRs, where assigned); or based solely on support, whether sovereign support from government authorities (as reflected in the SRF) or institutional support, usually from institutional shareholders. Fitch then (almost always) assigns the bank’s Long-Term IDR at the higher of these two levels, absent extraordinary constraints represented by the Country Ceiling (see below).

Fitch uses this “higher of” approach to assign Long-Term IDRs to banks – for two main reasons. First, it helps avoid rating compression. Second, it avoids making rating levels dependent on estimates of the correlation between a bank’s standalone strength and the ability of a sovereign or shareholder to provide support. However, there may be rare cases where a bank’s Long-Term IDR is assigned at a level above (or below) that which the “higher of” approach would suggest, as outlined in the shaded text box below.

In some instances, bank credit profiles deteriorate relatively rapidly, while in other instances they can remain fundamentally weak for relatively extended periods of time (e.g. banks in countries where a sovereign is lowly rated, but relatively stable). Use of ‘+’ or ‘–’ modifiers in the ‘CCC’ range is more likely for the latter than the former.

Long-Term IDR Scale

Category	Brief description
AAA	Highest credit quality
AA	Very high credit quality
A	High credit quality
BBB	Good credit quality
BB	Speculative credit quality
B	Highly speculative credit quality
CCC	Substantial credit risk
CC	Very high levels of credit risk
C	Exceptionally high levels of credit risk
RD	Restricted default
D	Default

The modifiers ‘+’ or ‘–’ may be appended to a rating to denote relative status within categories from ‘AA’ to ‘CCC’
Click here for full descriptions of each rating category
Source: Fitch Ratings

Assigning a Bank's Long-Term IDR Above or Below Its VR

A bank's or BHC's Long-Term IDR may be assigned at a level above that which the "higher of" approach would suggest in the following circumstances:

I. Qualifying Junior Debt[3] Buffer Uplift

A bank4 or BHC's IDR may be above its VR if there is a large buffer of junior debt/equity that we believe could "protect" senior obligations from default even if the bank or BHC failed, for example by way of a DDE or through losses being imposed only on junior debt as part of a regulatory intervention process. Uplift will likely be applied:

i. to BHCs and to banks if Fitch expects QJD buffers will be built that are clearly and sustainably above 10% of group or resolution group RWAs; or

ii. in some circumstances to an OpCo bank or NBFI subsidiary of a BHC where resolution plans envisage the OpCo's senior creditors being protected on failure by sufficient volume of internal or external QJD or equivalent equity. For more detail, see also section IV *Rating Bank Holding Companies*; or

iii. to banks where resolution plans envisage the bank's senior creditors being protected on failure by sufficient volume of QJD and equity.

Fitch will not apply this uplift if we believe that buffers will be insufficient to protect senior obligations, for example due to:

- high levels of lowly reserved problem assets;
- very high leverage or RWAs volatility; or
- the issuer's VR is in line with the sovereign rating and debt buffers are unlikely to prevent a default on senior debt in the event of a sovereign default.

Potential uplift is limited to one notch when VRs are in the 'bb' range or higher, but can be greater when VRs are in the 'b' range or lower.

II. Higher IDR at Very Low Levels

A Long-Term IDR may be assigned at a level above that which the "higher of" approach would suggest when a bank experiences high levels of stress and its ratings migrate to very low levels, with the VR in the 'ccc' category or lower. This is because, in practice, a bank often fails – reflected in non-performance on subordinated obligations, or simply in Fitch's assessment that the bank is non-viable because of a material capital shortfall – before it defaults on senior debt. It is also because as ratings migrate to low levels there is often greater visibility on how a bank will be resolved, and whether this will involve losses for senior creditors. However, uplift, if any, of the Long-Term IDR above the VR in such cases will still be limited, and the Long-Term IDR will usually be no higher than the 'B' category when the VR is in the 'ccc' category or below (and support cannot be relied on). Fitch's opinion of an issuer's credit profile after the bank's failure has been addressed is likely to be the key determinant of the uplift and IDR.

III. IDR Below VR

On rare occasions a bank's Long-Term IDR can also be constrained at a level below that implied by the "higher of" approach. This occurs when the bank's VR is higher than the Country Ceiling of the jurisdiction in which it is domiciled, and the Country Ceiling constrains the bank's Long-Term IDR. A bank's Support Rating (unlike its VR) already captures the constraints (the risk of transfer and convertibility restrictions) reflected in the Country Ceiling, and so would not be assigned at a level implying a higher Long-Term IDR than the Country Ceiling.

[3] Defined as the balance sheet value of liabilities that rank junior to liabilities that are reference ratings for Fitch's Long-Term IDRs, irrespective of regulatory (eg T2 or T1 debt) treatment. QJD includes i) down-streamed senior debt from a parent/BHC that ranks junior to third-party senior obligations and ii) surplus BHC liquid resources that Fitch considers freely available to recapitalise an OpCo eg under the US 'source of strength' principle.

[4] In some jurisdictions, the licensed bank is also referred to as an 'operating bank' or OpCo, and the bank holding company is referred to as a 'HoldCo' or 'BHC'.

[5] Or implied institutional support-driven IDR in cases where, for example, a subsidiary's IDR is driven by its VR and is above the level it would achieve based on support from its parent.

I.2. Short-Term Issuer Default Ratings

What they Measure

As for issuers in other sectors, Short-Term IDRs reflect a bank's vulnerability to default in the short term. For banks and most other issuers, the "short term" typically means up to 13 months.

When they Are Assigned

Short-Term IDRs are assigned to all banks that have Long-Term IDRs, except where an issuer does not have, and is not expected to have, material short-term obligations.

On Which Scale

Short-Term IDRs are assigned on a seven-point scale (see side margin table *Short-Term IDR Scale*).

How they Are Determined

Short-Term IDRs are almost always assigned in accordance with a correspondence table between Long-Term and Short-Term IDRs (see side margin table *Rating Correspondence Table*). When deciding whether to assign the baseline or higher Short-term Rating at cusp points, Fitch then takes into account whether a bank's IDRs are driven by its standalone risk profile or by support, as well as structural considerations:

Standalone Risk Profile: for banks whose ratings are driven by their risk standalone profile, 'Funding & Liquidity' is the VR factor that has a particular focus on a bank's short-term risks. Consequently, Fitch uses the 'Funding & Liquidity' factor score, as the principal determinant of whether the lower or higher Short-Term IDR is assigned at cusp points, by determining the degree to which the factor score matches or exceeds the level in the table below:

Minimum Bank 'Funding & Liquidity' Factor Score to Achieve Higher Short-Term Rating

Short-term rating	Minimum funding, liquidity and coverage score
F1+	aa-
F1	a
F2	bbb+

Source: Fitch Ratings

Structural preference (OpCo or Combined OpCo/HoldCo): in cases when an operating OpCo and its HoldCo are regulated together and liquidity is fungible, Fitch may assign the same short-term rating to both entities, based on Fitch's view of the consolidated Funding and Liquidity profile. However, in cases when an OpCo has first call on the HoldCo's liquidity resources, or when liquidity may not be available to the HoldCo (eg because central bank support is provided to the operating bank), Fitch would typically assign the higher short-term rating to the OpCo and not the HoldCo.

Support-driven ratings: when the long-term rating is support-driven, the higher of the two possible Short-Term IDRs will typically be assigned when the issuer is rated lower than the supporting entity. This is because Fitch generally views propensity to support as more certain in the near term.

When the Long-Term IDR is driven by sovereign support, Fitch would consider the potential for simultaneous deterioration in the liquidity profile of both the sovereign and the bank, including in foreign currency. When Fitch judges 'wrong way' risk to be significant and/or if Fitch has identified other potential impediments to the prompt flow of funds, Fitch would assign the lower Short-Term IDRs to reflect the potential for the sovereign to pay its direct obligations ahead of providing support to the financial sector.

When the Long-Term IDR is driven by institutional support, Fitch typically assigns the higher Short-Term IDR when the mapping table permits this as propensity to support is typically more certain in the near term. An exception to this might be when the subsidiary has "standalone" risk management short-comings, or if Fitch has identified potential impediments

Short-Term IDR Scale

Rating	Brief description
F1	Highest short-term credit quality
F2	Good short-term credit quality
F3	Fair short-term credit quality
B	Speculative short-term credit quality
C	High short-term default risk
RD	Restricted default
D	Default

A '+' modifier may be appended to the 'F1' rating to denote exceptionally strong credit quality
Click here for full descriptions of each rating category
Source: Fitch Ratings

Rating Correspondence Table

Long-term rating	Short-term rating
From AAA to AA-	F1+
A+	F1 or F1+
A	F1 or F1+
A-	F2 or F1
BBB+	F2 or F1
BBB	F3 or F2
BBB-	F3
From BB+ to B-	B
From CCC+ to C	C
RD	RD
D	D

Source: Fitch Ratings

to the prompt flow of funds to the subsidiary from the institutional support provider (for example the nature of the subsidiary's role in the group or regulatory/jurisdictional factors can both create potential impediments to support).

The short-term rating of the supported entity will not be higher than the actual or implied short-term rating of the support rating provider (except in cases when an institutionally supported entity is rated higher due to HoldCo notching or ring-fencing).

FC versus LC Liquidity: As an additional consideration, for some issuers, foreign-currency liquidity and market access may be notably weaker than local-currency liquidity and market access, for example in emerging markets. When foreign-currency liquidity and market access is weak, this may cause Fitch to assign the lower short-term rating option.

Debt buffer uplift and preferred debt/deposit ratings: certain bank ratings (Long-Term IDR, senior preferred debt, deposits, derivative counterparty ratings) can obtain 'uplift' because of the presence of buffers of junior debt. The higher short-term rating may be applied at crossover points where a bank's Funding & Liquidity factor score is at or above the minimum level required in order to achieve the higher short-term rating.

Country Ceiling considerations: when an issuer's Long-Term IDR is constrained by the Country Ceiling (for example in the case of a supported subsidiary), Fitch will typically assign the lower Short-Term IDR, unless transfer and convertibility risk is deemed to be materially lower in the short term relative to the long term.

I.3. Viability Ratings

What they Measure

VRs measure the intrinsic creditworthiness of a bank, and reflect Fitch's opinion on the likelihood that the entity will fail. See *What VRs Rate to: Failures of Banks* below for Fitch's definition of a bank "failure", and when support is deemed to have been "extraordinary" and sufficiently material for Fitch to regard a bank as having failed.

VRs are so named to be consistent with regulatory provisions referencing the "viability" or "non-viability" of banks, but are not explicitly calibrated to any regulatory or legislative definitions of "non-viability" that exist or may be introduced.

In assigning VRs, Fitch distinguishes between "ordinary support", from which a bank benefits in the usual course of business, and "extraordinary support", which is provided to a failed or failing bank to restore its viability. Ordinary support is reflected in a bank's VR, while potential extraordinary support is captured in the SR and/or SRF. Ordinary support includes benefits that accrue to all banks because of their status as banks, including routine access to central bank liquidity in line with others in the market. It also includes the benefits a subsidiary bank often derives from its parent, for example in terms of stability and cost of funding, transfer of management expertise and operational systems, and assistance with business origination.

Just as an entity's VR does not reflect extraordinary support, so it does not capture potential extraordinary constraints. In particular, a VR is not limited by the Country Ceiling of the jurisdiction in which the bank is domiciled, meaning a bank could be in default on foreign currency obligations because of transfer and convertibility restrictions, but not have 'failed' on the VR scale. However, the VR will fully reflect risks arising to the bank from the environment in which it operates.

Where, in Fitch's view, a bank's standalone creditworthiness is materially stronger in local currency than in foreign currency, the VR will be assigned in line with the higher-risk obligations, ie those in foreign currency.

What VRs Rate to: Failures of Banks

VRs reflect Fitch's opinion on the intrinsic creditworthiness of a bank, and the risk that it will fail. Fitch views a bank as having failed when it either:

- has defaulted, i.e. stopped servicing its senior obligations to third-party, non-government creditors (apart from in case of legal restrictions; see below), completed a distressed debt exchange in respect to these obligations, or entered bankruptcy proceedings; or
- requires extraordinary support, or needs to impose losses on subordinated obligations, to restore its viability.

However, Fitch does not view a bank as having failed when:

- it has defaulted as a result of legal restrictions on servicing its obligations, while the bank itself remains solvent and liquid; or
- external support made available, or losses imposed on subordinated obligations, were in the agency's view not necessary to restore the bank's viability.

In practice, there is not always a clear distinction between "extraordinary support", which a bank requires to restore its viability, and "ordinary support", which the institution receives from shareholders or government authorities in the normal course of business. Accordingly, analytical judgment is often required to decide whether a bank has "failed".

With respect to solvency, Fitch will determine whether a bank is viable or not (and therefore whether extraordinary support/losses on subordinated obligations are/were necessary to restore viability) based on whether, in the agency's view, the entity has/had a material capital shortfall. This view may not always coincide with whether the bank has hit any regulatory "point of non-viability" thresholds in the jurisdiction in which it operates.

Specifically, Fitch normally considers the following as amounting to extraordinary support and evidence of a bank failure:

- contribution of capital (or the adoption of other measures to strengthen capitalisation, such as bailing in of junior debt, or asset purchases or enhancement) by either the bank's shareholders or government authorities to address a material capital shortfall, or regulatory forbearance regarding such a shortfall;
- reliance on central bank/government funding, or funding guarantees, of an extraordinary nature provided on terms and conditions made available only to a specific bank(s), where this reliance is likely to remain beyond a temporary period of market disruption;

Conversely, Fitch does not normally regard the following as extraordinary support, and would not usually view such cases as evidence that a bank has failed:

- provision by existing shareholders of new capital primarily with the aim of supporting business growth, rather than addressing a capital shortfall;
- provision of capital that a bank requires as a result of a toughening of regulatory capital rules, or to cover a minor capital shortfall (eg on buffer requirements);
- use of system-wide stabilisation support packages (eg guarantees of new funding facilities, provision of new capital) by fundamentally viable banks in a financial crisis;
- use of secured central bank funding/liquidity facilities, or of unsecured facilities if these were made available to the bank in line with other banks in the market;
- support to a bank's creditors or counterparties that indirectly also benefits the bank.

Fitch will downgrade a bank's VR to 'f' when in the agency's view it has failed, and then upgrade (re-rate) the VR if and when the agency believes that the bank has regained viability as a result of extraordinary support provided and/or losses imposed on creditors. When information confirming a bank's failure becomes available at the same time as the bank's viability is restored through provision of support/imposition of creditor losses, Fitch may downgrade the VR to 'f' and immediately (in the same rating action commentary) upgrade the VR to a level reflecting its profile following support/imposition of losses.

Viability Rating Scale

Category	Brief description
aaa	**Highest fundamental credit quality** 'aaa' ratings denote the best prospects for ongoing viability and lowest expectation of failure risk. They are assigned only to banks with extremely strong and stable fundamental characteristics, so that they are most unlikely to have to rely on extraordinary support to avoid default. This capacity is highly unlikely to be adversely affected by foreseeable events.
aa	**Very high fundamental credit quality** 'aa' ratings denote very strong prospects for ongoing viability. Fundamental characteristics are very strong and stable so that Fitch considers it highly unlikely that the bank would have to rely on extraordinary support to avoid default. This capacity is not significantly vulnerable to foreseeable events.
a	**High fundamental credit quality** 'a' ratings denote strong prospects for ongoing viability. Fundamental characteristics are strong and stable, so that it is unlikely that the bank would have to rely on extraordinary support to avoid default. This capacity may nevertheless be more vulnerable to adverse business or economic conditions than for banks with higher ratings.
bbb	**Good fundamental credit quality** 'bbb' ratings denote good prospects for ongoing viability. The bank's fundamentals are adequate, so that there is a low risk that it would have to rely on extraordinary support to avoid default. However, adverse business or economic conditions are more likely to impair this capacity.
bb	**Speculative fundamental credit quality** 'bb' ratings denote moderate prospects for ongoing viability. A moderate degree of fundamental financial strength exists, which would have to be eroded before the bank would have to rely on extraordinary support to avoid default. However, the bank has higher vulnerability to adverse changes in business or economic conditions over time.
b	**Highly speculative fundamental credit quality** 'b' ratings denote weak prospects for ongoing viability. Material failure risk is present but a limited margin of safety remains. The bank's capacity for continued unsupported operation is vulnerable to deterioration in the business and economic environment.
ccc	**Substantial fundamental credit risk** Failure of the bank is a real possibility. Capacity for continued unsupported operation is highly vulnerable to deterioration in the business and economic environment.
cc	**Very high levels of fundamental credit risk** Failure of the bank appears probable.
c	**Exceptionally high levels of fundamental credit risk** Failure of the bank is imminent or inevitable.
f	**Failure** A bank that, in Fitch's opinion, has failed, ie either: has defaulted on its senior obligations to third-party, non-government creditors; or requires extraordinary support or needs to impose losses on subordinated obligations to restore its viability.

The modifiers '+' or '−' may be appended to a rating to denote relative status within categories from 'aa' to 'ccc'
Source: Fitch Ratings

When they Are Assigned

Fitch assigns VRs to most commercial banks and bank holding companies. However, it does not assign VRs to subsidiary banks that do not have a meaningful standalone franchise that could exist without the ownership of the parent, for example because they exist largely for legislative/technical reasons (eg clients have to be serviced, or products provided, from a particular jurisdiction or legal entity); due to high levels of financial or operational integration or because a business is in run-off. VRs assigned to banks in groups benefiting from mutual support mechanisms are based on the credit profile of the consolidated group (see *Annex 4*). "Common" VRs may also be assigned to large banks in a highly integrated group, where the credit profiles of the individual banks cannot be meaningfully disentangled (see *Section III.2*).

VRs are not usually assigned to development banks or to other FIs whose operations are largely determined by their policy roles (ie have limited commercial operations).

VRs are complementary to SRs, and are often assigned to FIs in tandem with SRs to highlight the two components of bank credit. However, there are cases (for example, policy banks) where Fitch believes it is useful to assign a SR and SRF to highlight the importance of support for the entity's IDRs, but not appropriate to assign a VR because of the high influence of the entity's policy role on its "standalone" profile.

On Which Scale

VRs are assigned on a scale that is virtually identical to the 'AAA' scale, but uses lower case letters, eg 'aaa' instead of 'AAA' (see table *Viability Rating Scale*). There are also no 'D'/'RD' ratings (which on the 'AAA' scale indicate default) on the VR scale; at the bottom end of the VR scale an 'f' rating indicates Fitch's view that a bank has failed.

How they Are Determined

Fitch's criteria for assessing a bank's stand-alone creditworthiness and assigning its VR are outlined in Section II. In determining the VR, Fitch considers five broad factors: the bank's operating environment, company profile, management and strategy, risk appetite and financial profile.

In some instances bank credit profiles deteriorate relatively rapidly, while in other instances they can remain fundamentally weak for relatively extended periods of time (e.g. banks in countries where a sovereign is lowly rated, but relatively stable). Use of + or – modifiers in the 'ccc' range is more likely for the latter than the former.

I.4. Support Ratings

What They Measure

Fitch's Support Ratings reflect the agency's view on the likelihood that a bank will receive extraordinary support, in case of need, to prevent it defaulting on its senior obligations. Extraordinary support typically comes from one of two sources: the rated entity's shareholders (institutional support) or the national authorities of the country where it is domiciled (sovereign support). However, in some circumstances SRs may also reflect potential support from other sources, eg international financial institutions, regional governments or expected acquirers of the rated entity.

In some cases Fitch may judge that the likelihood of a bank receiving external support is materially different regarding its foreign- and local-currency obligations. This may happen, for example, when the sovereign that is the potential support provider itself has Foreign- and Local-Currency IDRs assigned at different levels. In such cases, the bank's SR (and SRF) will be assigned based on the obligations less likely to be supported (usually, those in foreign currency), while the bank's Foreign- and Local-Currency IDRs may be assigned at different levels to reflect the difference in risk.

Support Rating Scale Correspondence Table

IDR/implied IDR based on support (SRF for sovereign support)	Probability of support	Support Rating
A- or above	A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question.	1
BBB range	A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question.	2
BB range	A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so.	3
B+ or B	A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so.	4

Support Rating Scale Correspondence Table (Cont.)

IDR/implied IDR based on support (SRF for sovereign support)	Probability of support	Support Rating
B- or lower	A bank for which there is a possibility of external support, but it cannot be relied on. This may be due to a lack of propensity to provide support or to very weak financial ability to do so.	5

Source: Fitch Ratings

When they Are Assigned

Support Ratings are assigned to all banks, whether commercial or policy institutions, and are usually assigned to bank holding companies.

On Which Scale

Support Ratings are assigned on a five-point scale, with '1' representing an extremely high probability of support, and '5' indicating that support cannot be relied on.

How they Are Determined

Fitch's criteria for assessing the likelihood of external support for a bank are outlined in Section III. Whether considering sovereign or institutional support, Fitch will analyse both the ability and propensity of the supporting entity to provide assistance to the bank concerned and, in the case of institutional support, potential constraints (e.g. due to sovereign risks on a bank being able to use support to avoid default).

The *Support Rating Scale Correspondence Table* (above) is used to link a bank's Support Rating and its institutional support-driven IDR[5] or SRF (see also below). The table can be read left to right or right to left, dependent on whether the support-driven IDR/SRF or SR is determined first.

I.5. Support Rating Floors

What they Measure

SRFs reflect the agency's view about the likelihood that the rated entity will receive extraordinary support, in case of need, specifically from government authorities. This usually means from the national authorities of the country where the bank is domiciled, although in certain cases Fitch may also factor potential support from international government institutions into its assessment (see also *Section III.1 Sovereign Support*). SRFs therefore do not capture the potential for institutional support from the entity's shareholders. SRFs indicate the minimum level to which the entity's Long-Term IDRs could fall if the agency does not change its view on potential sovereign support.

[5] Or implied institutional support-driven IDR in cases where, for example, a subsidiary's IDR is driven by its VR and is above the level it would achieve based on support from its parent.

When they Are Assigned

SRFs are assigned to commercial and policy banks where Fitch believes the most likely source of potential extraordinary support is government authorities, rather than the bank's shareholders. They may also be assigned where institutional (shareholder) support is viewed as more reliable, but the agency believes it would be useful to also indicate the level below which the ratings are unlikely to fall due to government support.

Fitch also assigns SRFs to bank holding companies where their ratings are driven by sovereign support or where Fitch believes assignment of a SRF would increase transparency.

On Which Scale

SRFs are assigned on the 'AAA' rating scale. Where there is no reasonable assumption that sovereign support will be forthcoming, an SRF of 'No Floor' is assigned.

How they Are Determined

Fitch's criteria for assessing the likelihood of sovereign support for a bank and assigning its SRF are outlined in Section III.1. Fitch analyses the ability of the sovereign to provide support, its propensity to support the banking system as a whole, and its propensity to support the specific bank in question.

I.6. Derivative Counterparty Ratings

What they Measure

In some jurisdictions, developments in bank resolution frameworks mean the vulnerability to default on a derivative contract could be lower than the vulnerability to default on other senior liabilities, even equally ranking ones. This could be because derivatives enjoy legal preference over, say, senior debt or because of powers granted to resolution authorities to treat equally ranking liabilities differently.

DCRs are issuer-level ratings and express Fitch's opinion on a bank's, BHC's and/or non-bank subsidiary's relative vulnerability to default, due to an inability to pay, on any derivative contract with third-party, non-government counterparties. Short-term 'stays' on derivatives at the outset of a resolution process would not be considered a default.

The vulnerability to default could vary even within this class of exposure (eg, collateralised derivative exposures or cleared derivatives being less vulnerable to default than uncollateralised). DCRs in effect address the vulnerability to default on the riskiest type of counterparty exposure, which we assume (either jointly or in isolation) will be an uncollateralised derivative exposure.

Unless Fitch explicitly assigns foreign branch-level ratings, DCRs apply both to material domestic derivative liabilities and those originated by foreign branches. However, they do not specifically address transfer and convertibility risk for each and every foreign jurisdiction in which a bank operates via a branch, nor do they reflect branch-specific resolution risks.

When they Are Assigned

Unlike Long-Term IDRs, which are assigned to virtually all banks with international ratings, we only assign DCRs to selected banks, bank holding companies and/or non-bank subsidiaries within a banking group where i) we believe derivative counterparties may be able to avoid default when other senior suffer default (e.g. due to an effective resolution regime and/or clear legal preference for derivative counterparties) and ii) an issuer either acts as notable derivative counterparties nationally or internationally, act as derivative counterparties to Fitch-rated transactions (e.g. structured finance), or where Fitch otherwise understands there to be market interest.

Derivative Counterparty Rating Scale

Category	Brief description
AAA(dcr)	Highest credit quality
AA(dcr)	Very high credit quality
A(dcr)	High credit quality
BBB(dcr)	Good credit quality
BB(dcr)	Speculative credit quality
B(dcr)	Highly speculative credit quality
CCC(dcr)	Substantial credit risk
CC(dcr)	Very high levels of credit risk
C(dcr)	Exceptionally high levels of credit risk
RD(dcr)	Restricted default
D(dcr)	Default

The modifiers '+' or '−' may be appended to a rating to denote relative status within categories from 'AA' to 'CCC'.
Source: Fitch Ratings

On Which Scale

DCRs are assigned on the 'AAA' scale (see side margin table *Derivative Counterparty Rating Scale*), but with a '(dcr)' suffix.

How They Are Determined

DCRs are notched up from an issuer's Long-Term IDR if equally ranking preferred senior liabilities are notched up from an issuer's Long-Term IDR to reflect a lower default risk than the risk captured by the issuer's Long-Term IDR. Otherwise, they are aligned with an issuer's IDR.

Like IDRs, DCRs are subject to Country Ceilings and other sovereign constraints, for example relating to banking sector intervention risk (as outlined in *Annex 2: Rating Banks Above the Sovereign*).

I.7. Issue Ratings

What they Measure

Long-term issue ratings of banks, like those of other corporate finance sectors, reflect Fitch's view of the overall level of credit risk attached to specific financial commitments, usually securities. This view incorporates an assessment of the likelihood of default (or of "non-performance" risk in the case of subordinated/hybrid securities) on the specific obligation and a view of potential recoveries for creditors in case of default/non-performance.

Deposit Ratings: Deposit ratings generally[6] address the vulnerability to default of a bank's riskiest material uninsured depositor class. However, deposit ratings do not specifically address transfer and convertibility risk for each and every foreign jurisdiction in which a bank operates via a branch, nor do they reflect branch-specific resolution risks. Consequently, a bank's IDR is highly unlikely to be downgraded to 'RD' if it defaults on a deposit in a foreign branch, for example, due to the imposition of deposit withdrawal restrictions by any relevant authorities.

Short-term bank issue ratings, like those of other sectors, incorporate only an assessment of the default risk on the instrument. Short-term deposit ratings may be adjusted for loss severity (e.g. notched up to reflect superior recovery expectations).

Non-performance on subordinated/hybrid securities is defined as any of the following:

- the missing (omission or deferral) of a coupon or similar distribution;
- contingent conversion into a more junior instrument to the detriment of the investor (other than at the investor's option);
- the write-down, write-off, conversion or non-payment of principal; or
- a distressed debt exchange.

When they Are Assigned

Issue ratings may be assigned to individual obligations or debt programmes of banks. A rating may also be assigned to a class of obligations, as in the case of deposit ratings.

On Which Scale

Bank issues with an initial maturity of more than 13 months are usually rated on the 'AAA' scale, whereas issues with an initial maturity of less than 13 months are usually assigned ratings on the short-term scale. Whether Fitch rates issues on the short- or long-term scale will also depend on market convention and local regulation.

Where a bank has a Long-Term IDR of 'B+' or below, Fitch also usually assigns a Recovery Rating (RR) to the entity's issues rated on the long-term scale. RRs provide greater transparency on the recoveries component of Fitch's assessment of the credit risk of low-rated issuers' securities.

[6] For US banks, they relate to deposits, including in foreign branches, which are eligible under US depositor preference law. Deposit ratings do not relate to any domestic or foreign branch deposits not eligible under US depositor preference law.

Recovery Rating Scale

Rating	Recovery prospects given default	Typical historical recoveries (%)	Notching of issue Rating[a]
RR1	Outstanding	91-100	+3
RR2	Superior	71-90	+2
RR3	Good	51-70	+1
RR4	Average	31-50	0
RR5	Below average	11-30	-1
RR6	Poor	0-10	-2

Click here for full descriptions of each rating
[a] Relative to level of non-performance risk. As outlined in section of V, it is exceptionally rare for Fitch to notch up long-term senior unsecured debt for recovery reasons
Source: Fitch Ratings

How they Are Determined

For long-term bank issues, Fitch first determines the likelihood of default/non-performance on the obligation, which it measures on the 'AAA' rating scale. Where, as is usual, this level of default/non-performance risk is judged to be in line with, or notched off, the obligor's Long-Term IDR or VR, one of these ratings is denoted as the "anchor rating" for the issue rating.

Having established the level of default/non-performance risk on the issue, Fitch may then adjust this upwards or downwards to arrive at the issue rating if the agency views the instrument as having above- or below-average recovery prospects. Where recovery prospects are viewed as average, the issue rating will be in line with the assessment of default/non-performance risk. The extent of potential upward/downward adjustment of the issue rating based on the instrument's recovery prospects is shown in above table. The table below shows the security ratings for given combinations of an issuer's Long-Term IDR and the RR of the issue. Fitch's approach to assigning issue ratings to different classes of securities issued by banks is outlined in Section V of this report.

Instrument Ratings for Combinations of Issuer IDRs and RRs

	Long-Term IDR							
				Distressed and defaulted issuers				
	B+	B	B-	CCC+	CCC	CCC-	CC	C/RD/D
RR1	BB+	BB	BB-	B+	B	B-	CCC+	CCC
RR2	BB	BB-	B+	B	B-	CCC+	CCC	CCC-
RR3	BB-	B+	B	B-	CCC+	CCC	CCC-	CC
RR4	B+	B	B-	CCC+	CCC	CCC-	CC	C
RR5	B	B-	CCC+	CCC	CCC-	CC	C	C
RR6	B-	CCC+	CCC	CCC-	CC	C	C	C

Source: Fitch Ratings; assumes no incremental non-performance risk in instrument rating relative to the IDR. As outlined in section V, it is exceptionally rare for Fitch to notch up long-term senior unsecured debt for recovery reasons

I.8. National Ratings

What they Measure

National scale ratings are an opinion of creditworthiness relative to the universe of issuers and issues within a single country or monetary union.

When they Are Assigned

National scale ratings are most commonly used in emerging market countries with sub- or low-investment-grade sovereign ratings on the international scale.

On Which Scale

National scale ratings are assigned on the long-term ('AAA') and short-term ('F1') rating scales, but with a country suffix to identify them as national scale ratings. Cross-border issues carry the suffix of the country into which the debt has been issued, rather than the suffix of a bank's domicile. In some monetary union countries, a single country suffix may be applied (e.g. the 'zaf' suffix for South Africa and Namibia National Ratings).

How they Are Determined

National scale ratings are assigned on the basis that the "best credits or issuers" in the country are rated 'AAA' on the national scale. National Ratings are then assessed using the full range of the national scale based on a comparative analysis of issuers rated under the same national scale to establish a relative ranking of credit worthiness.

Fitch uses the Bank Rating Criteria to assign national scale ratings to banks as it describes how Fitch assesses the relevant qualitative and quantitative factors that reflect the risk profile of issuers and their financial obligations. Fitch does not assign national scale VRs, but the rating assignment process uses the same rating framework as for international ratings, i.e. a combination of intrinsic and external support analysis.

Fitch adopts the following steps to assign national scale ratings:

1. Using either international or domestic peers as a starting point a comparative analysis is undertaken using the qualitative and quantitative factors of the *Bank Rating Criteria*. This process facilitates an initial relative positioning and ranking of credit risk both with other peer bank and non-bank issuers within a country and/or internationally.
2. Fitch, where relevant, reviews equivalence tables to ensure relativities between issuers on the international scale and the more granular, country-specific national long-term rating scale are maintained.
3. Where assigned, national short-term ratings are then determined using the same process and principles outlined in section I.2 of this report. National scale short-term issue ratings are aligned with a bank's national short-term issuer rating unless there are exceptional circumstances (e.g., a specific issue is guaranteed by a third party).
4. National scale long-term debt ratings are aligned with or notched from an issuer's national long-term rating using the same framework as outlined in section IV of this report.

Fitch does not publish rating navigators for bank national ratings.

II. Viability Ratings

VRs measure the intrinsic creditworthiness of a bank and reflect Fitch's opinion on the likelihood that the entity will fail. In assigning VRs, Fitch includes "ordinary support", from which a bank benefits in the usual course of business, but excludes "extraordinary support", which is provided to a failed or failing bank to restore its viability (see also *Section I.3*).

VRs are assigned based on the following five key rating factors:

- Operating Environment
- Company Profile
- Management and Strategy
- Risk Appetite
- Financial Profile

Fitch assigns a notch-specific score on the 'aaa' scale to each of these factors and the Financial Profile sub-factors, and a category score to the sub-factors for Company Profile, Management and Strategy and Risk Appetite. All factors are relevant in assigning VRs, but their relative importance varies from bank to bank depending on operating environments and the specifics of individual institutions, and can change over time. Hence, Fitch does not assign fixed weightings to each factor or sub-factor, but assigns the relative importance of each key rating factor in the determination of each VR. The relative importance indicator, as well as a trend/outlook indicator for each key rating factor and each financial profile sub-factor, is published by Fitch in its Rating Navigators.

The first four key rating factors listed above are predominantly qualitative. However, Fitch uses quantitative measures in its assessment of the operating environment and, where available and relevant, in its assessment of the other factors. Such measures include market shares and business footprint (company profile) and limit structures (risk management). These qualitative factors, individually or in combination, provide the context in which quantitative financial metrics are considered. Further detail is provided in the relevant sections that follow.

Fitch's factor and sub-factor assessment framework is based on consideration of 'core' and 'complementary' attributes. Core attributes are present in the analysis of all or most banks, and in most circumstances. Complementary attributes are present in some, but not all, circumstances. All attributes are considered in the application of the criteria, but where an attribute is either not present or immaterial to the credit profile it will make no, or limited, contribution to the analysis. The materiality, and influence, of each attribute in the analysis of each factor and sub-factor varies by bank. A complementary attribute could carry an elevated influence in the VR analysis particularly if the rating factor which the attribute underlies is a key rating driver.

Fitch's assessment of a bank's operating environment often has a significant influence on its assessment of other VR factors. This is because the operating environment can affect, for example, the vulnerability of a bank's asset quality and capital, the sustainability of its earnings and the stability of its funding. The operating environment may also affect assessments of non-financial factors, for example the quality of a bank's franchise (company profile), execution of its strategy (management and strategy) and the risks associated with its underwriting standards (risk appetite). The operating environment will typically act as a constraint (but not a cap) on the VR and other key rating factor scores, other than in cases where Fitch believes a bank is insulated from the environments in which it operates. Banks operating in weaker markets are likely to be assigned factor scores that reflect inherent uncertainty and potential volatility. However, it is possible for a bank to achieve a moderately higher factor score on one or more factors yet still be assigned a VR at a level that is closely aligned with the operating environment score given its higher influence and constraining nature.

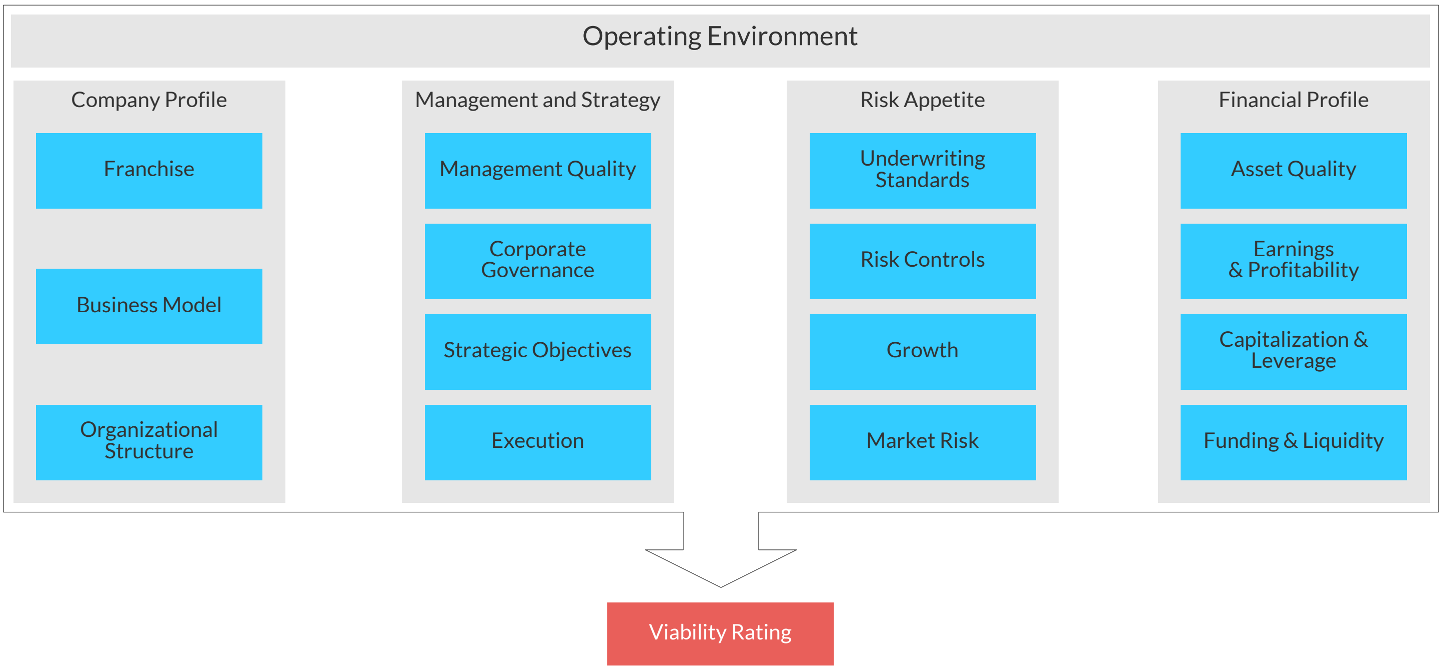
For each rating factor Fitch has provided sub-factor/rating category matrices that provide representative characteristics for that rating category. These characteristics are not necessarily an exhaustive and determinative review of that factor or sub-factor. For example, a bank may meet some of the characteristics associated with more than one category, or some characteristics may not apply at all because of the specifics of the bank's profile. In those instances, Fitch will apply the category that best fits.

II.1 Operating Environment Assessment

Importance of this Assessment

The first step in Fitch's assessment of standalone creditworthiness is a review of the institution's operating environment, which assesses the level of risk of doing banking business in a particular jurisdiction. To a large degree, the operating environment score serves as a constraining factor (but not a formal cap) for the VR and other factor scores, due to its influence on other aspects of an individual bank's risk profile. It is rare for a VR to be assigned significantly above the operating environment assessment, regardless of how well a bank scores on other factors or sub-factors. Exceptions may include banks that operate exceptionally low-risk business models or are exceptionally strong across other rating factors, making them clearly 'atypical' for banks in that operating environment. In such cases, Fitch would need to believe that the bank can successfully mitigate intrinsically those operating environment risks that would otherwise have constrained the rating.

Viability Framework



Source: Fitch Ratings

In jurisdictions with relatively highly scored operating environments, it is common for bank VRs (and other factor scores) to be significantly lower than the operating environment score, reflecting business model, risk appetite or other strategic decisions taken by management together with their effect on financial metrics. In jurisdictions with relatively lower scored operating environments, it is common for the operating environment to act as a rating constraint as Fitch expects the vulnerability or volatility created by the operating environment to act as a limit on a number of aspects of the bank's credit profile.

Fitch's assessment of the operating environment incorporates both sovereign risk and broader country risks related to banking in a particular jurisdiction. However, it does not capture transfer and convertibility risks, which are reflected separately in Fitch's Country Ceilings.

It is quite possible for the operating environment assessment, and therefore the VRs for banks in a jurisdiction, to be significantly lower than the relevant sovereign rating. This may occur, for example, where the economic environment for banks is relatively weak, but the sovereign rating is supported by factors specific to government finances and the sovereign balance sheet.

Implied Operating Environment Score

Fitch assigns a country operating environment score for each market in which it rates banks. Most banks operating primarily within a given country will be assigned the country operating environment score for that market. However, some banks (ie those that operate predominantly in a particular region of a country, or that have material operations outside of their home country) may be assigned operating environment scores different to the country score. Refer to *Adjustments to the Implied Operating Environment Score* (*Regional Focus* and *International Operations*).[7]

As a first step to assigning an operating environment score for a country, Fitch derives an implied score based on two core metrics: GDP per capita and the World Bank's *Ease of Doing Business* ranking.[8] Fitch believes these core metrics have the greatest explanatory power in determining the ability of banks to generate business volumes with acceptable levels of risk,

[7] Where a jurisdiction within a country presents markedly different operating conditions for banks compared to the country as a whole, Fitch may assign a separate operating environment score for that jurisdiction.

[8] Fitch calculates a percentile rank for each country, which is the percentage of all countries (including those with sovereigns not rated by Fitch) with a lower score on the *Ease of Doing Business Index*.

and they therefore are core factors in determining operating environment scores globally. The implied score for a country is derived based on the matrix below:

Implied Operating Environment Score

Ease of doing business (percentile rank) GDP per capita (USD 000)	>85	70-85	55-70	40-55	<40
>45	aa	aa	a	a	bbb
35-45	aa	a	a	bbb	bb
15-35	a	bbb	bbb	bb	b
6-15	bbb	bb	bb	b	b
<6	bb	b	b	b	b

Source: Fitch Ratings

GDP per capita helps to explain the operating environment score because it is usually closely correlated with corporate earnings and household income levels, which in turn help to determine business volumes for banks and the riskiness of operations which they are able to undertake. The *Ease of Doing Business* ranking[9] helps to explain the operating environment score, in particular in lower-income economies, because in Fitch's view it is correlated with the transparency and stability of the corporate sector, and therefore helps to determine the latter's ability to generate business volumes with moderate levels of risks for banks.

Fitch usually uses the latest reported, historical values of these metrics to derive the implied operating environment scores. However, Fitch may instead use a forecast value for GDP/capita for the current year (or a year just ended) where it believes this is reasonably reliable and materially differs from the latest reported historical value. Where Fitch believes future values of either of the two core metrics are likely to differ significantly from their latest values it may also adjust the implied score to arrive at the final score (see *Adjustments to the Implied Operating Environment Score*). Where a jurisdiction has not been assigned an *Ease of Doing Business* ranking, Fitch will determine the implied operating environment score based on reported GDP/capita and its view of the transparency and stability of the corporate sector in that market.

Adjustments to the Implied Operating Environment Score

Fitch adjusts the country implied operating environment score upwards or downward where it believes the risks of doing banking business in a given jurisdiction are significantly higher or lower than those suggested by the implied score.[10] The most common reasons for adjusting the implied score are listed below. In addition, Fitch may adjust the assigned country score to arrive at the score for a specific bank based on the final two adjustments listed below, *Regional Focus* and *International Operations*.

Sovereign Rating[11]: The country operating environment score is usually constrained by the sovereign rating, and hence may be adjusted downwards where the implied score is above the sovereign rating. This is because a sovereign default is usually accompanied by a sharp deterioration in the operating environment, which often includes recession, weaker public and private sector balance sheets, funding market dislocations and macroeconomic volatility (see also *Annex 2*). However, Fitch may assign the operating environment score above the sovereign rating (although not usually by more than one category) where (i) we believe the linkage between the sovereign credit profile and banks' operating conditions is somewhat weaker; or (ii) the sovereign has a very low rating (eg CCC category and below) and there are specific sovereign rating drivers that do not directly affect banks. Where the sovereign is rated

[9] The ranking captures the extent to which the regulatory environment is conducive to the starting and operation of a local firm, based on scores on ten topics: starting a business; dealing with construction permits; getting electricity; registering property; getting credit; protecting minority investors; paying taxes; trading across borders; enforcing contracts and resolving insolvency.
[10] In cases where Fitch views the operating environment as exceptionally strong or weak, these adjustments could result in an operating environment score of 'aaa', or of 'ccc' or below.
[11] Where a sovereign rating has not been assigned, Fitch will consider the sovereign credit opinion (where available) or, more broadly, any marked strengths and weaknesses in the sovereign credit profile.

significantly above the implied operating environment score, this may result in an upward adjustment to the score because a stronger sovereign may indicate a greater probability of financial market and macroeconomic stability.

Size and Structure of Economy: Fitch may adjust upwards the implied operating environment score where the economy is relatively large or diversified, resulting in a lower risk of macroeconomic volatility and offering banks greater opportunity to diversify their risk exposures and revenue sources. Conversely, where the domestic economy is small or highly dependent on a small number of sectors, in particular ones which are inherently cyclical or likely to show volatility in performance, this may result in a downward adjustment to the operating environment score. The score may also be adjusted downwards where the involvement of the state in the economy is particularly high, governance is particularly weak or there are other negative structural factors that, in Fitch's view, are not captured in the *Ease of Doing Business* ranking.

Conversely, the score may be adjusted upwards where an economy benefits from strong governance and transparency to an extent not captured in the *Ease of Doing Business* ranking. The score may also be adjusted where Fitch believes there is a strong likelihood that the *Ease of Doing Business* ranking, or the transparency and governance of the corporate sector more generally, are likely to change significantly in the future.

Economic Performance: Where an economy has a relatively high underlying rate of economic growth, due for example to competitive advantages, convergence with more developed markets or favourable demographics, this may result in an upward adjustment to the operating environment score. This is because economic expansion usually supports banks' asset quality and facilitates revenue growth. Moderate, but consistently positive, economic growth, and low volatility of economic performance would also be positive.

However, Fitch may adjust the operating environment score downwards if we believe that high economic growth is unsustainable, likely to be volatile and may give rise to the risk of a sharp negative correction. We may also adjust the score downwards where an economy has suffered, or is expected to suffer, a period of low or negative economic growth or of heightened volatility in economic performance, in particular where this has resulted, or is expected to result, in a significant deterioration in the creditworthiness of domestic borrowers. Increasing or high unemployment may also result in a negative adjustment.

Reported and Future GDP/Capita: Fitch may adjust the implied operating environment upwards or downwards where the agency believes that future levels of GDP/capita are likely to significantly diverge from the latest reported level (or from our estimate of the level for the current year or the year just ended). Fitch may also adjust the implied score upwards or downwards where the agency believes the reported GDP/capita level significantly under/overstates the potential for an economy to generate moderate-risk business for banks.

For example, Fitch may adjust upwards the implied score where a country benefits from significant remittances from abroad (not captured in GDP) or where there is a large unbanked proportion of the population (dragging down the GDP/capita metric, but not necessarily the quality of the available banking business in a country). Conversely, Fitch may adjust the implied score downwards where GDP is inflated by income accruing to companies not operating primarily in the country concerned and hence not likely to become significant sources of business for banks in that market.

Macroeconomic Stability: Where an economy has exhibited limited volatility in such variables as inflation, interest rates, exchange rates and asset prices, and Fitch expects this to continue in the future, this is likely to be neutral or moderately positive for the operating environment score. However, where such volatility has been, or Fitch believes could be, significant, or where an economy is more susceptible to negative shocks, this could result in a negative adjustment to the implied operating environment score. In its assessment, Fitch will also consider the authorities' use of macro-prudential tools to mitigate financial stability risks, and the implications of using such tools for the operating environment.

Where a significant proportion of transactions in an economy are conducted in foreign currency, or where banks' assets and liabilities are to a significant degree denominated in foreign currencies ("dollarisation"), this may result in a negative adjustment to the operating environment score. A negative adjustment is more likely in cases where Fitch believes significant exchange-rate movements are more likely and where the corporate and/or household sectors have significant currency mismatches (usually short positions in foreign currencies), meaning their ability to service debt would be more likely to be negatively affected in case of a sharp depreciation.

Level and Growth of Credit: Fitch may adjust downwards the operating environment score where the level of credit in an economy is particularly high relative to GDP, or is rising fast. This is because higher borrower leverage may increase the risk of future asset-quality problems and limit the potential for further business growth. In assessing leverage in the corporate sector, Fitch may consider not just bank lending, but also other sources of credit such as non-bank credit, debt issuance and international borrowing. With respect to the household sector, Fitch may consider not just debt levels, but also debt service requirements and debt service capacity, as reflected in household assets and income levels. Where the level of credit in an economy is relatively low, this may result in a moderate upwards adjustment to the implied operating environment score; a low credit/GDP ratio may also significantly offset risks associated with high credit growth.

Financial Market Development: A large, highly developed and concentrated banking sector may result in a positive adjustment to the operating environment score as these market features will usually help banks to grow their franchises, achieve economies of scale and protect margins. The existence of effective institutional frameworks to support the banking system, such as credit bureaus or a depositor protection scheme or deep and liquid domestic capital markets, may be moderately positive for the operating environment assessment, but the monetary authorities acting as a reliable and transparent lender of last resort would typically only be neutral for the assessment. A small, developing or highly fragmented banking sector may be negative for the operating environment score, as may limited central bank liquidity support mechanisms, limited broader institutional frameworks and underdeveloped domestic capital markets.

Regulatory and Legal Framework: A relatively strong regulatory and legal framework, characterised by developed legislation and regulations, an effective banking regulatory body, sound accounting standards, appropriate protection of creditor rights and developed corporate governance standards, may be moderately positive for the operating environment score. Conversely, marked deficiencies in any of these areas, or a high degree of intervention from other parts of government in the regulatory process, could result in a negative adjustment to the score.

Regional Focus: When a bank's operations are concentrated in a particular region or regions of a country, its operating environment score may be adjusted up/down from the country score in cases where the regional economy is notably stronger/weaker than the national average.

International Operations: For a bank which has a significant proportion of its business and risk exposures in markets other than its main country of operations (either through foreign subsidiaries or through transactions booked on its own balance sheet), Fitch will typically derive the operating environment score by calculating a weighted average of the scores (with weightings based on risk/asset exposures) for the countries in which the bank does business. The home market may have a proportionally higher influence in this calculation where Fitch believes the benefits or constraints of this are particularly important (eg strong/weak lender of last resort and regulatory framework, or dependence of funding access on broader developments in the home market).

Operating Environment

aaa	aa	a	bbb	bb	b	ccc and below
Operating environment presents, or is expected to present, exceptionally good opportunities for banks to do consistently profitable business throughout the credit cycle. The economic environment and sovereign credit profile are exceptionally strong, income levels are very high and structural weaknesses are absent.	Operating environment presents, or is expected to present, very good opportunities for banks to do consistently profitable business throughout the credit cycle. The economic environment and sovereign credit profile are very strong, income levels are high and structural weaknesses are very limited.	Operating environment presents, or is expected to present, good opportunities for banks to do consistently profitable business throughout the credit cycle. The economic environment and sovereign credit profile are strong, income levels are quite high and structural weaknesses are limited.	Operating environment presents, or is expected to present, reasonable opportunities for banks to do consistently profitable business throughout the credit cycle. The economic environment and sovereign credit profile are good, income levels are acceptable and any structural weaknesses should be manageable.	Operating environment presents, or is expected to present, moderate opportunities for banks to do consistently profitable business throughout the credit cycle. The economic environment and sovereign credit profile are less robust, income levels are moderate and structural weaknesses are evident.	Operating environment presents, or is expected to present, limited opportunities for banks to do consistently profitable business throughout the credit cycle. The economic environment and sovereign credit profile are weak, income levels are low and structural weaknesses are significant.	Operating environment presents, or is expected to present, very limited opportunities for banks to do consistently profitable business throughout the credit cycle. The economic environment and sovereign credit profile are very weak, income levels are very low and structural weaknesses are prominent.

Source: Fitch Ratings

II.2 – Company Profile Assessment

Fitch's Company Profile Assessment considers the following sub-factors:

- Franchise
- Business Model
- Organisational Structure

Importance of this Assessment

Assessment of a company's **franchise**, **business model** and **organisational structure** help identify the business risks an institution could face together with its ability to safeguard or defend existing businesses and earnings, and gain new business, through an analysis of its longer-term competitive strengths, weaknesses, opportunities, and threats.

The company profile assessment is typically conditioned, and often constrained, by the operating environment assessment, unless Fitch believes the bank's business profile is insulated from the effects of its operating environment(s). Within that operating environment context, the company profile is determined at a level that primarily reflects the strength and quality of its franchise and stability of its business model.

The following tables identify '*core*' versus '*complementary*' attributes together with an indication of how each attribute is typically assessed. The accompanying sub-factor/rating category matrix provides representative characteristics that aid the determination of the overall factor score assigned in each case.

Core Attributes

Franchise	
Market shares	An institution's franchise is embodied in its competitive position within the banking industry. This is typically reflected in market shares in the bank's core banking products, which for most banks are represented by loans and deposits. Franchise value is assessed on the most relevant basis - global, national or regional - taking into account both the size of the market in which a bank operates, and its position within that market. Small relative market shares, particularly in large markets, are not necessarily negative for the assessment and may be offset by sustainable, competitive advantage and stable performance in core product and client segments. Large market shares in a small market are not usually positive for the assessment, but are assessed in the context of the strength or quality of the market itself, and may be constrained by the relevant operating environment assessment.
Competitive position	A bank's competitive position relative to peers' may be evident in relative product leadership and pricing power as well as reflective of any material barriers to entry. Product leadership will often be a function of scale, where traditional banking products are concerned, and may also reflect technology and efficiency advantages, or deficiencies, relative to peers. In the case of niche or investment banking products, leadership may be reflected in relevant 'league tables'.
Business model	
Business mix	An institution's business model encompasses the ways in which it generates revenue and profits. This includes an assessment of an institution's business mix, such as loan and asset composition, and proportion of revenue and earnings generated from core business lines.
Earnings volatility	Business models that are highly reliant on volatile activities such as trading, or where market conditions exert a greater influence on business volumes and revenue generation between reporting periods, will typically result in a lower Business Model score relative to banks with lower observed volatility. Stability in earnings through credit and interest rate cycles will typically contribute to higher scores.

Core Attributes (Cont.)

Organisational structure	
Appropriateness relative to business model	A group's organisational structure is typically commensurate with its business model. The assessment may be negatively affected if Fitch considers the group as overly complex (relative to its operations and footprint), opaque or with material risks arising from intra-group transactions.

Source: Fitch Ratings

Complementary Attributes

Franchise	
Critical mass	Size, taken in isolation, is unlikely to be a driver for the Company Profile assessment, but may affect pricing power and client relationships. Banks which lack critical mass are likely to be assigned lower scores.
Client relationships	Fitch considers the nature of client relationships and the extent to which product range and/or expertise is the key driver of client retention or business volume growth as opposed to price.
Intra-group benefits and risks	An institution's franchise may incorporate benefits it receives from being part of a larger (typically financial) group. This could include client relationships, deposit flows, product offering or technical expertise that the institution would not otherwise have access to as well as potential diversification benefits of non-banking business (eg insurance) of subsidiaries or related companies. Conversely, a bank's franchise may incorporate contagion risks where a weakness in the broader group's credit profile exists.
Business model	
Geographical diversification	A high concentration of a bank's operations in less developed economies is likely to weigh on Fitch's assessment of its business model. Fitch will take a blended or 'weakest link' approach as appropriate. Diversification may be a positive rating attribute, but expansion into business areas that add little or limited overall synergies may be viewed as neutral or negative to the Company Profile assessment.
Product concentration	The perceived risk associated with the particular product(s) and the quality of the product franchise can influence the assessment for a business model with a narrow product focus, (eg a mono-line mortgage lender) versus one that provides a broader array of products.
Organisational structure	
Complexity	Complex structures, including layers of intermediate holding companies whose locations may be mainly tax-driven, or unnecessarily complex structures that appear inconsistent with the size, scale and footprint of the bank/group would typically result in a lower Company Profile score.
Opaqueness	Unexplained cross-ownership agreements or large minority interests, which are not commensurate with the bank's business model, would typically result in a lower Company Profile score.
Intra-group transactions	Intra-group transactions may affect risks associated with the rated entity. This is especially important where cash or capital can get trapped in subsidiaries and therefore is not readily available for distribution to the group as a whole.

Source: Fitch Ratings

Company Profile

	aaa	aa	a	bbb	bb	b	ccc and below
Franchise	Dominant franchise in multiple business segments or geographies. Strong competitive advantages likely to endure. Possesses strong competitive advantages and pricing power in principal operating segments. These strengths maintained throughout economic cycles.	Leading franchise in multiple business segments or geographies. Solid competitive advantages likely to endure into the long term. Demonstrated competitive advantages and pricing power. These strengths maintained over multiple economic cycles.	Strong franchise in key markets or businesses. Has leading franchise in some key operating segments or geographies. Demonstrated competitive advantages and pricing power in key operating segments.	Adequate franchise in markets or businesses. Operating in somewhat less developed banking markets or has limited competitive advantages or pricing power in main operating segments.	Moderate franchise in key business segment or geographies. Operating in somewhat less developed banking markets or has limited competitive advantages and generally a price taker in main operating segment(s).	May have nominal franchise in a key business segment or geographies. Operating in less developed banking markets or has no discernible competitive advantage.	Operating in undeveloped banking markets or has no discernible franchise value or competitive advantage.
Business model	Highly diverse and stable business model across multiple operating segments or geographies. Overall business heavily weighted towards traditional commercial banking. Minimal reliance on volatile businesses.	Very diverse and stable business model across multiple operating segments or geographies. Overall business highly weighted towards traditional commercial banking. Modest reliance on volatile businesses.	Diverse and stable business model. Overall business weighted towards traditional commercial banking. Notable reliance on volatile businesses.	Less stable and or diverse business model, potentially dominated by a key operating segment or geography. Overall business weighted towards traditional commercial banking. Greater reliance on volatile businesses.	Less diverse and stable business model, potentially with more specialisation in a key operating segment or less stable/advanced economies. Overall business possibly weighted towards non-traditional banking activities. Significant reliance on volatile businesses.	Limited business model stability. May be wholly reliant on volatile businesses or economies.	Business model rapidly evolving or operating in unstable economic environment.
Organisational structure	Organisational structure complexity commensurate with aaa/aa business model. Major legal entities exist principally for clear business reasons. High visibility into principal legal entities.		Organisational structure complexity commensurate with a/bbb business model. Potentially increased organisational structure complexity. Good visibility into major legal entities.		Significant organisational structure complexity. Potentially limited visibility into main legal entities.		Highly complex, opaque or materially changing organisational structure.

Source: Fitch Ratings

II.3 – Management and Strategy Assessment

Fitch's assessment of Management and Strategy considers the following sub-factors:

- Management Quality
- Corporate Governance
- Strategic Objectives
- Execution

Importance of this Assessment

Fitch's assessment of a bank's **management quality**, **corporate governance**, **strategic objectives** and **execution** is one of the least tangible aspects of its fundamental analysis but is important in considering how an institution is run, for example through establishing particular business or financial goals, developing a strategy to meet those goals, and its demonstrated ability to meet those business and financial objectives, and so provides insight into motivations and incentives within the institution.

The management and strategy profile assessment is typically conditioned, and often constrained, by the operating environment and company profile assessments, unless Fitch believes the elements assessed are insulated from the effects of the bank's operating environment(s) and chosen business model. In weaker operating environments corporate governance issues tend to be more prevalent, strategic objectives may be more likely to shift over time or be more opportunistic, and execution of strategy is often more challenging. It is possible for a management and strategy score to be higher than the operating environment eg a very good management team operating in a weak environment. In such cases, however, it is likely that the management score would be of lower importance to the rating if the superior management quality is unable to exert meaningful influence on the overall risk profile.

The quality and effectiveness of management is reflected in individuals and the overall management structure, as well as other factors such as corporate governance and strategy. Whilst this is, on the face of it, a subjective assessment, there will typically be some tangible evidence of management's effectiveness through its impact on financial and/or risk metrics.

The following tables identify those management and strategy attributes that Fitch has defined as '*core*' versus '*complementary*' together with an indication of how each attribute is typically assessed. The accompanying sub-factor/rating category matrix provides representative characteristics that aid the determination of the overall factor score assigned in each case.

Core Attributes

Management quality	
Depth and credibility of senior management	A strong management team will demonstrate a high degree of credibility, experience and competence and, commensurate with the size and complexity of the institution, reflect those same qualities in an appropriate depth of experienced, capable management. The impact of any turnover is considered in the context of the qualities brought by incoming personnel in cases where those individuals have a proven track record with similar institutions or businesses elsewhere.
Corporate governance	
Protection of creditor rights	Fitch considers the extent to which a bank's intrinsic governance practices provide reasonable protection of creditors' interests, or whether the latter might suffer at the expense of the interests of other stakeholders, in particular shareholders, management, or due to government influence. Fitch's considers the effectiveness of the supervisory board collectively (whether it comprises sufficient expertise, resources independence and credibility to effectively oversee management).

Core Attributes (Cont.)

Strategic objectives	
Quantitative strategic targets	An institution's strategic objectives are a reflection of its business and financial goals, which may include business targets for market share or financial metrics. Fulfilment of these objectives drives decision-making throughout the organisation, and often motivates management and employees. Fitch will consider how achievable and sustainable objectives are and will assess underlying assumptions for plausibility, consistency, and appropriateness, for example taking account of challenges posed by the bank's operating environment, business model and market position. The Strategic Objectives score is typically influenced by the extent to which financial and business targets are clearly and consistently articulated, and strategic direction appears appropriate to the bank's operating environment, company profile, competitive position and management expertise.
Qualitative strategic framework	The assessment score reflects the extent to which medium/long-term strategy is well-construed, cohesive and robust, communicated effectively to stakeholders and balances risks and rewards. Fitch will consider management's key strategic philosophies, for example, acquisition-led versus organic growth and/or regional/international expansion versus concentration on domestic markets, as this may highlight strengths or weaknesses in the strategic plan. Fitch's assessment may be negatively impacted if a bank's business model changes frequently and significantly over time (whether due to organic development or mergers/acquisitions) or the bank undergoes significant restructuring.
Execution	
Record of meeting stated objectives	Fitch considers the bank's record of execution against its stated goals and objectives over multiple periods. An inability to meet a strategic objective (including a specific target financial metric) in a single reporting period will not necessarily result in a weaker score provided Fitch believes that the strategic objective is achievable over a medium-term horizon.

Source: Fitch Ratings

Complementary Attributes

Management quality	
Corporate culture	A strong and high-integrity culture may help ensure that consistent and long-term business practices are adopted throughout the organisation, and remain in place when there are management transitions, and across business cycles. This can prove beneficial to the Management Quality score and generally instil market confidence.
Key person risk	Smaller, niche institutions may be reliant on a specific individual or a small group of key individuals, often as a result of legacy, eg an institution's founder. Fitch expects an institution's senior management structure to be commensurate with its scale and complexity but will usually view any reliance on key individuals negatively regardless of how well-intentioned.
Corporate governance	
Quality of financial reporting and audit processes.	In cases where there are perceived to be weaknesses in financial reporting (quality, frequency and/or timeliness) compared to international best practice, or where internal or external audit processes appear less robust relative to the operating environment, Fitch may assign a lower corporate governance score.
Related-party transactions	The existence of significant related party transactions (more typically a feature of emerging markets) may be negative for the corporate governance assessment. Their volume, whether they are conducted on market terms and the internal procedures for their review and approval are key elements of this assessment.

Complementary Attributes (Cont.)

Strategic objectives	
Disclosure	Where budgets or forecasts are not available to support management's articulation of strategic direction, Fitch will use judgement in determining the appropriateness and plausibility of the narrative and underlying assumptions.
Execution	
M&A activity	Poor or slow execution of a merger, acquisition or restructuring initiative or where Fitch considers there to be an inconsistent track record of executing on such transactions or initiatives will likely result in a lower Execution score. Effective execution of a business acquisition in line with plan may positively influence the execution score.

Source: Fitch Ratings

Management and Strategy

	aaa	aa	a	bbb	bb	b	ccc and below
Management quality	Management has an unparalleled degree of depth and experience. Management maintains a strong degree of credibility among all major constituencies throughout economic cycles.	Management has a very high degree of depth and experience. Management has maintained a very high degree of credibility among all major constituencies over a lengthy period.	Management has a high degree of depth and experience. Management maintains a high degree of credibility among major constituencies.	Management has a good degree of depth and experience. Management has a good level of credibility among major constituencies.	Management has an acceptable degree of depth and experience, but noticeably less than higher rated entities. Reliance on key individuals may be more prevalent than higher rated entities.	Management may have noticeable weaknesses, including lack of depth or experience.	Management deficiencies may be significant.
Corporate governance	Very strong corporate governance, providing robust protection of creditors' interests. Very effective board oversight, high quality and frequent financial reporting, very limited related-party transactions.		Reasonably sound corporate governance, providing reasonable protection of creditors' interests. Effective board oversight, good quality financial reporting, limited related-party transactions.		Governance is less developed than for higher-rated peers, but without presenting clear, significant risks for creditors.	Governance gives rise to significant risks for creditors eg due to weak board oversight, poor financial reporting or significant related-party transactions.	Governance gives rise to major risks for creditors eg due to very weak board oversight, considerable accounting deficiencies or large related-party transactions.
Strategic objectives	Strategic objectives are clearly articulated and reflect long-term sustainable levels of business and financial performance. Strategic objectives remain highly consistent over a lengthy period.	Strategic objectives are clearly articulated and reflect a long-term sustainable level of business and financial performance. Strategic objectives are very consistent over time.	Strategic objectives are well articulated and reflect a medium-term level of business and financial performance. Strategic objectives may shift modestly over time.	Strategic objectives are documented and reflect a medium-term level of business and financial performance. Strategic objectives may shift over time and may be more opportunistic.	Strategic objectives may not be clearly articulated and/or reflect a short-term level of business and financial performance. Strategic objectives may shift based on market opportunities or less stable economic environment.	Strategic objectives are not articulated and reflect a short-term level of business and financial performance. Strategic objectives frequently shift, including due to economic environment volatility.	Strategic objectives are lacking or likely to be highly variable due to an unstable economic or operating environment.

Management and Strategy (Cont.)

	aaa	aa	a	bbb	bb	b	ccc and below
Execution	Institution consistently meets target business and financial objectives throughout economic and/or market cycles.	Institution routinely meets target business and financial objectives with very limited variability over economic and market cycles.	Institution generally meets target business and financial objectives, albeit with modest variability over economic and/or market cycles.	Institution generally meets target business and financial objectives. Execution could be more variable with changes in economic and/or market cycles.	Institution often fails to meet target business and financial objectives, or has a limited execution track record. Execution could be variable based on changes in economic or market cycles.	Institution typically fails to meet target business and financial objectives, or has an extremely limited execution track record. Execution could be highly variable based on general economic conditions.	Institution does not meet business or financial objectives, or does not have an execution track record.

Source: Fitch Ratings

II.4 – Risk Appetite Assessment

Fitch's assessment of Risk Appetite includes the following sub-factors:

- Underwriting Standards
- Risk Controls
- Growth
- Market Risk

Importance of this Assessment

Assessment of a company's **underwriting standards, risk controls, growth and market risk** are important considerations in assigning the VR, as they will ultimately lead to changes in a bank's key financial metrics. Fitch will apply its own judgment as to the degree of risk inherent in a particular business line, product or strategy. Fitch's analysis of risk appetite is focussed on those risks that have a material influence on the overall credit profile. The risk appetite assessment is typically conditioned, and often constrained, by the operating environment and company profile assessments unless Fitch believes the underlying risks can be isolated from the effects of the bank's operating environment(s) and its chosen business model/strategy. It is possible for a risk appetite score to be higher than the operating environment or company profile e.g. an 'atypical' very low risk appetite relative to the environment or the operating model. A very low risk appetite would, however, be expected to be reflected in consistently better asset quality and less earnings volatility.

Stability of results through the cycle is a useful indicator of risk appetite. A high risk appetite may be somewhat mitigated through the employment of strong risk controls, collateral management, and risk-based pricing although the natural VR range for banks with an inherently higher risk appetite will generally be lower than for those banks whose risk appetite Fitch considers modest or better managed. In addition, risks can be considered high at banks with low stated risk appetites, if controls are viewed as weak or have been ineffective. The risk controls assessment includes operational (including cyber) and reputational (including litigation) risks where these are material for the institution or an integral part of the business model or operating jurisdiction(s).

Fitch will analyse those aspects of market risk that are considered material to the overall assessment of risk appetite. The most typical form of market risk is interest-rate risk, given a bank's core maturity transformation function, but the assessment will include other elements such as derivatives and foreign exchange risks where these are material. Market risks will be higher for institutions with material trading operations or where cross-border activity or balance sheet structure gives rise to foreign-exchange risks, so this factor may take on greater relative importance in those instances.

The following tables identify those risk appetite profile attributes that Fitch has defined as '*core*' versus '*complementary*' together with an indication of how each attribute is typically assessed. The accompanying sub-factor/rating category matrix provides representative characteristics that aid the determination of the overall factor score assigned in each case.

Core Attributes

Underwriting standards	
Lending and credit standards	Fitch will consider a bank's credit standards (eg lending criteria and principles, valuation, collateral and impairment or provisioning policies). Standards that reduce borrower, sector and geographic concentrations, combined with robust valuations, low loan-to-value ratios (for secured lending products) and conservative reserving policies maintained through credit cycles, will positively influence the assessment.
Investment guidelines	Fitch considers the risk appetite that resides in a bank's non-lending activities (including interbank and investment securities portfolios). Where non-loan assets are considered significant, this assessment will assume increased importance. A material proportion of illiquid, complex or unquoted securities is likely to negatively influence the assessment.
Risk controls	
Control framework	Fitch considers a bank's risk control framework in the context of its implied or stated risk appetite and underwriting standards and the complexity of its business model. Where Fitch believes that risks are not, or have not been, sufficiently managed or mitigated this will have a negative influence on the assessment. Fitch considers the bank's internal management reporting framework to assess the extent to which the control framework permeates the organisation and the processes by which breaches are identified and dealt with.
Operational risk	Fitch considers how a bank manages its operational, reputational, litigation and cyber risks. For many banks, operational risk is neutral to the overall risk control assessment, but in cases where the scale, complexity or vulnerability is material (or where material deficiencies are observed) this will tend to have a higher influence on the assessment.
Growth	
Credit and balance-sheet expansion	Fitch considers portfolio and balance-sheet expansion against relevant economic benchmarks, or peer, sector and industry trends, to identify any outliers and assess the motivation behind a build-up of potential risks. Above average growth may be less negative for the assessment when it is countercyclical, for example in the case of a bank with a strong balance sheet, proven solid underwriting standards and a track record of superior asset quality over a cycle, that moderately expands its balance sheet at a time when others are forced to contract. Business or balance-sheet growth, in line with long-term sustainable growth or reflecting a sustainable increase in franchise, may positively influence the assessment.
Market risk	
Interest rate risk	Interest rate risk is the most common market risk incurred by banks due to the transformational nature of banking. Fitch considers the exposure to shifts in interest rates that arise from both structural (ie in the banking book) and trading activities. Exposure to interest rate risk is viewed alongside mitigants employed to neutralise/hedge and manage the risks eg through the use of derivatives.
Trading assets and liabilities	Fitch considers the proportion of assets invested in, or profits derived from, trading assets together with the nature and volatility of those exposures. This may be a negative consideration where the underlying risks are sufficiently large or are insufficiently managed or mitigated.
Market risk management	Fitch considers the appropriateness and sophistication of the framework employed by a bank to measure and control market risk relative to the complexity, potential volatility and scale of the risks taken by the bank. Effective management of market risk may help reduce the negative impact of high market risk on a bank's risk appetite assessment.

Source: Fitch Ratings

Complementary Attributes

Risk controls	
Risk management tools	In certain product or portfolio segments (eg consumer lending), banks typically develop or invest in tools such as custom scorecards, or use third-party data sources such as national credit bureaus. Fitch considers the use of appropriate risk management tools and, where appropriate, the implications of the absence of relevant tools and information sources that could help mitigate vulnerability to specific risks.
Technology and operating platforms	Where appropriate, and possible, Fitch considers the technology a bank uses to manage and control its key risks and operations. In cases where Fitch believes that the technological platforms or processes are either below industry standard (eg by comparison with peers) or potentially expose the bank to heightened risk (including banking businesses that are particularly vulnerable to cyberattack, such as those linked to major payments or clearing systems) this may result in a lower Risk Control assessment. Operational strains such as platforms that may not be capable of handling increased business volumes may be negative for the assessment.
Growth	
Asset composition changes	Where certain asset or credit portfolios expand at higher rates than the overall balance sheet this may be viewed negatively if growth portfolios are viewed as higher risk. Conversely more rapid growth accompanied by a shift to lower risk assets may be viewed positively.
Asset reduction and deleveraging	Reduction of high risk assets, exiting geographies or exposures identified as high risk is favourable to the growth assessment in contrast to banks that are slow to identify the need for exiting high risk exposures. In addition, asset reduction to address capital needs in the short term (deleveraging) may have medium-term business and earnings repercussions, especially if costs remain unchanged. Credit shrinkage or asset reduction may also signal a weakening of franchise or indicate a lack of business model sustainability and may be viewed negatively, particularly if the broader market displays a contrary trend.
Market risk	
Other (non-interest rate) market risks	Fitch will consider non-interest rate market risks (eg FX, equity prices) where these materially impact the overall market risk assessment. Factors considered will include the motivation or reason for incurring the risks, the controls in place to neutralise or manage the risks, and the scale of the risks relative to the bank's ability to absorb the effects of a sudden and substantial currency or price movement. Where a currency peg exists Fitch will assess the bank's reliance on the stability of the peg.

Source: Fitch Ratings

Risk Appetite

	aaa	aa	a	bbb	bb	b	ccc and below
Underwriting standards	Underwriting standards are clearly risk-averse and far more conservative than evident elsewhere in the global industry. Credit standards are consistent with minimal changes throughout economic cycles. Long-run performance expectations are incorporated.	Underwriting standards are very low risk and more conservative than evident elsewhere in the global industry. Credit standards are consistent with nominal changes over economic cycles. Long-run performance expectations are incorporated.	Underwriting standards are low risk and generally more stringent than global industry practice. Credit standards are largely consistent, but may vary modestly over economic cycles. Standards reflect medium-term performance expectations.	Underwriting standards generally in line with global industry practice. Credit standards are variable over economic cycles. Standards reflect medium-term performance expectations.	Underwriting standards reflect generally above-average risk appetite. Credit standards may be more aggressive than global industry averages. Standards are likely to change noticeably over economic cycles.	Underwriting standards exhibit heightened risk appetite. Credit standards are typically more aggressive than global industry averages and likely to change considerably over economic cycles.	Underwriting standards lead to high risk exposure and are likely to reflect stress within the entity or banking system. Credit standards do not have any discernible track record. Standards may fluctuate frequently.
Risk controls	Risk and reporting tools are extremely robust. Risk limits are highly conservative and overwhelmingly adhered to. Risk limits are routinely monitored with minimal changes over lengthy periods. Risk controls permeate the organisation. Exposure to operational risks is very low.	Risk and reporting tools are very robust. Risk limits are very conservative. Risk limits are routinely monitored with nominal changes over lengthy periods. Risk controls permeate the organisation. Exposure to operational risks is low.	Risk and reporting tools are robust. Risk limits are conservative. Risk limits are monitored, but may change based on business conditions. Risk controls are centralised. Exposure to operational risks is modest.	Risk and reporting tools are good. Risk limits are sound and monitored, although they may fluctuate based on opportunities. Risk controls are less pervasive throughout the organisation. Exposure to operational risks is moderate.	Risk and reporting tools are acceptable, but may lack depth or sophistication. Risk limits are monitored less frequently than higher rated institutions. Risk limits may change based on business opportunities. Exposure to operational risks is heightened.	Risk and reporting tools may be deficient. Risk limits are crude and may not be monitored frequently. Breaches of limits may not trigger heightened management attention. Exposure to operational risks is high.	There are significant risk control deficiencies.
Growth	Balance-sheet growth or business growth unlikely to pressurise solvency or outpace long-term sustainable growth of main business segments. Control environment is systematically adapted to meet higher business volumes.	Balance-sheet growth or business growth seldom pressurises solvency or outpaces long-term sustainable growth of main business segments. Control environment is systematically adapted to meet higher business volumes.	Balance-sheet growth or business growth may at times pressurise solvency and exceed long-term sustainable growth of main business segments. Control environment is usually suitably adapted to meet higher business volumes. Asset reduction achieved as planned.	Balance-sheet growth or business growth more often pressurises solvency and exceeds long-term sustainable growth of main business segments. Control environment may lag behind higher business volumes. Alternatively, a targeted asset reduction may be behind schedule.	Balance-sheet or business growth often pressurises solvency and exceeds long-term sustainable growth of main business segments. Control environment development likely to lag behind higher business volumes. Alternatively, fails to achieve targeted asset reduction.	Balance-sheet growth usually pressurises solvency and long-term sustainable growth of business segments. Control environment routinely lags behind higher business volumes Or unable to sell or otherwise reduce assets to stabilize balance sheet.	Growth may be well in excess of sustainable levels. Or unable to sell assets to achieve necessary balance sheet contraction.

Risk Appetite (Cont.)

	aaa	aa	a	bbb	bb	b	ccc and below
Market risk	Exposure to market risks is very low. Structural interest rate and foreign exchange risks are very low relative to peers. Trading volume is very low relative to peers.	Exposure to market risks is low. Structural interest rate and foreign exchange risks are low relative to peers and appropriately mitigated through hedging. Trading volume is low relative to peers.	Exposure to market risks is modest. Structural interest rate and foreign exchange risks are modest, and appropriately mitigated through hedging. Trading volumes may be material, but have sound controls.	Exposure to market risks is average. Appropriate hedging techniques are likely to be employed. Trading volumes may be material. Controls may be satisfactory, but somewhat below industry best practice.	Exposure to market risks is heightened. Market risks may encompass structural interest rate and foreign exchange risks. Basic hedging techniques may be employed or effectiveness somewhat compromised.	Exposure to market risks is high or highly variable. Risks may not be effectively hedged.	There may be significant market risks, related to interest rates or foreign exchange.

Source: Fitch Ratings

II.5 – Financial Profile Assessment

Fitch considers the following factors:

- Asset Quality
- Earnings and Profitability
- Capitalisation and Leverage
- Funding and Liquidity

Importance of this Assessment

A bank's financial profile, which can often be measured by analysing key financial metrics and trends in and stability of those metrics, is relevant because it provides a strong indication of how the bank is performing across key dimensions of creditworthiness. In many respects, financial measures are the outcome of the bank's operating environment, company profile, management and strategy, and risk appetite.

Fitch's starting point in analysing a bank's financial profile is typically audited financial statements and published regulatory reporting, but it also uses unaudited interim financial statements. Fitch derives its own metrics from these to achieve better comparability across jurisdictions. For all banks globally, Fitch uses a core metric and complementary metrics for each financial profile factor. Core metrics have the greatest relative explanatory power in determining factor scores for banks globally. These are:

Asset Quality: Impaired loans/gross loans (%)

Earnings & Profitability: Operating profit/risk-weighted assets (%)

Capitalisation & Leverage: Regulatory CET1 Ratio (%)[12]

Funding & Liquidity: Loans/customer deposits (%)

Definitions of core and complementary metrics are given in Annex 3.

Where relevant and appropriate, core and complementary metrics are supplemented by additional metrics that may be of particular analytical significance to specific jurisdictions, institutions, business models or business lines. For example, restructured loans or foreclosed assets may be added to impaired loans in our asset-quality assessment, where these are material. As well as financial statements and regulatory reporting, additional metrics draw on information presented in management reporting, analyst presentations and information provided to Fitch on a confidential basis.

[12] As reported (i.e. not a 'fully loaded' ratio that anticipates future requirements). If CET1 is unavailable, FCC/FCC-adjusted RWAs (%) is used.

Quantitative Ranges

Fitch has established indicative quantitative ranges for its core financial metrics that are derived by combining a bank's operating environment with the financial metric value. Fitch expects the operating environment to account for a significant proportion of actual metric differences across countries and regions because of differences in the financial risk profiles that arise from the environments in which the entities operate (see *Section II.1, Operating Environment Assessment*).

Figures in each of the sections below set out the indicative quantitative ranges for the four core financial profile metrics. The implied factor score is determined by reading across from the relevant operating environment to the financial metric value. For example, as indicated in "Implied Asset-Quality Factor Score", a bank operating in a 'bbb' environment with a four-year average impaired loans/gross loans ratio of 8% would have an implied asset-quality factor score in the 'bb' category. Fitch uses a four-year average (where data is available) to determine the implied factor score for all metrics, other than for capitalisation & leverage, which uses the latest available data point, as Fitch views this as a more reliable indicator of the level of the metric in the future. Due to the strong influence of the operating environment on all aspects of the financial profile it is unusual for factor scores to be assigned more than one category above the operating environment, hence the implied scoring matrices have blank values at those positions in the tables.

Financial Profile

	aaa	aa	a	bbb	bb	b	ccc and below
Asset quality	Has an unparalleled degree of stability as reflected in very low levels of impaired assets and/or minimal losses throughout economic and/or interest rate cycles. Asset-quality measures are consistently better than comparable institutions. Concentration risks are very low or effectively mitigated.	Has a very high degree of stability in asset quality, as reflected in low levels of impaired assets and/or low losses over multiple economic and/or interest rate cycles. Asset-quality measures are better than comparable institutions. Concentration risks are low or effectively mitigated.	Has a high degree of stability as may be reflected in modest levels of impaired assets and/or losses. Asset quality is moderately variable over economic or interest rate cycles. Asset quality measures are likely to be modestly better than at peer institutions or less vulnerable to economic and/or interest rate cycles. Concentration risks may be modestly better than peers.	Has a degree of stability, as may be reflected in average levels of impaired assets and/or losses. Asset-quality measures are likely to fluctuate over economic and/or interest rate cycles. Asset-quality and/or concentration risk measures are generally in line with broad industry averages.	Has above average levels of impaired assets and losses. Asset-quality measures are likely to be more volatile in the face of changes in economic and/or interest rate cycles and generally worse or more vulnerable than global industry averages. Concentration risks may be above global averages.	Has significantly above average levels of impaired assets and losses. Asset-quality measures are likely to be very volatile based on changes in economic and/or interest rate cycles and generally significantly worse or more vulnerable than global industry averages. Concentration risks may be very high.	Has or is likely to have asset-quality measures that are considerably weaker than global benchmarks.
Earnings and profitability	Earnings and profitability are highly predictable throughout economic and/or interest rate cycles. Profitability measures are consistently commensurate with risk-averse nature.	Earnings and profitability are very predictable over multiple economic and interest rate cycles. Profitability measures are commensurate with very low risk, but may vary modestly, although they remain generally superior to comparable institutions.	Earnings and profitability are moderately variable over economic and/or interest rate cycles. Profitability measures are generally commensurate with low risk, but subject to variability. Profitability is generally better than industry averages.	Earnings and profitability may be variable over economic and/or interest rate cycles. Profitability measures reflect inherent risk or a highly competitive environment and can be subject to increased variability. Profitability is average relative to global industry averages.	Earnings and profitability may be highly variable over economic and/or interest rate cycles. Profitability measures may not fully compensate inherent risk and are subject to variability. Profitability is below average relative to industry averages in comparable markets.	Earnings and profitability are volatile and highly correlated with economic and/or interest rate cycles. Profitability measures may not fully compensate inherent risk and are subject to variability. Profitability is well below average relative to global industry averages.	May be structurally unprofitable on either a reported or operating basis. Return to break-even or sustainable profitability is highly uncertain.

Financial Profile (Cont.)

	aaa	aa	a	bbb	bb	b	ccc and below
Capitalisation and leverage	Capitalisation is extremely strong and commensurate with risk. Capitalisation and leverage are maintained with very significant buffers over regulatory minimums as well as peer institutions. Capital targets incorporate ability to withstand severe shocks. Access to capital is exceptionally strong.	Capitalisation is strong and commensurate with risk. Capitalisation and leverage are maintained with comfortable buffers over regulatory minimums as well as peer institutions. Capital targets incorporate ability to withstand significant shocks. Access to capital is very good.	Capitalisation levels broadly commensurate with risk. Capitalisation and leverage are maintained with solid buffers over regulatory minimums and generally above peer institutions. Capital levels may be relatively more volatile, but likely only modestly affected by severe shocks. Access to capital is generally good.	Capital levels may not be fully commensurate with risk. Capitalisation and leverage are maintained with satisfactory buffers over regulatory minimums and generally in line with peer institutions. Capital levels may be more vulnerable to severe shocks. Access to capital may be less certain.	Capital levels are not fully commensurate with risk. Capitalisation and leverage are maintained with moderate buffers over regulatory minimums and may be below peer averages, or are somewhat vulnerable due to significant country risks. Capital is highly vulnerable to severe shocks, but can withstand moderate shocks. Access to capital may vary.	Capital levels are not commensurate with risk. Capitalisation is low and buffers over minimum requirements are small, or capital is vulnerable due to high country risks. Capital levels may be well below peer institutions and highly vulnerable to even moderate shocks. Access to capital is highly uncertain.	Capitalisation and leverage have clear deficiencies that either have or may require capital injections.
Funding and liquidity	Funding and liquidity are exceptionally stable. Bank is predominantly core deposit funded with minimal reliance on wholesale funding. Funding is not confidence sensitive. Institution occupies a critical role in major payment and settlement systems. Extremely robust contingency funding plans are in place.	Funding and liquidity are very stable. Bank is predominantly core deposit funded with minimal reliance on short-term funding. Wholesale funding is predominantly long term with established investor appetite. Funding is relatively less confidence sensitive. Institution is likely to play an important role in major payment systems. Very robust contingency funding plans are in place.	Funding and liquidity are stable. Bank is likely to have solid core deposit profile without material concentration risk. Wholesale funding is predominantly long term. Funding may be modestly confidence sensitive. Robust contingency funding plans are in place.	Funding and liquidity are generally stable, although there may be moderate funding concentrations or reliance on less stable wholesale funding sources. Funding is confidence sensitive and liquidity may become more expensive or less stable during periods of stress. Reasonable contingency funding plans are in place.	Funding and liquidity are generally stable, although there may be material funding concentrations or meaningful reliance on less-stable wholesale sources of funding. Access to funding may be uncertain during periods of market stress and contingency plans may not be sufficient.	Funding and liquidity are less stable and may be prone to sudden changes in creditor sentiment. Access to funding during periods of market stress is very uncertain. Contingent funding plans may not be well developed or may be reliant on central bank for liquidity.	Funding and liquidity are unstable absent any formal extraordinary support mechanisms.

Source: Fitch Ratings

It is not reasonable or plausible to assume that a single metric will explain a factor score in its entirety; hence the implied factor score is the starting point in the determination of the actual score. To take the example above, consideration of other aspects of a bank's asset quality profile, such as the rate of growth, collateral and reserves and loan write-offs, may result in the implied factor score being adjusted before arriving at the final factor score. Some of these other aspects of a bank's financial profile are captured in complementary and additional metrics, but Fitch combines quantitative analysis with qualitative judgement to determine the assigned factor scores, which are expressed by a three-notch range.

The most common analytical reasons for adjusting the implied factor scores are outlined in the sections below. Adjustments may negatively or positively influence the final factor score. In general terms, the adjustments tend to fall into two broad categories: (1) Fitch adjusts for specific risk elements or business profile features that may not be adequately captured in the core financial ratios; and (2) Fitch adjusts for cyclical and/or structural elements that, in Fitch's opinion, mean that historical ratios may not be reliable predictors of the future.

Asset Quality

Fitch's analysis of asset quality focuses primarily on the loan book, because lending is the predominant source of asset quality risk. The agency also analyses other on- and off-balance-sheet exposures to the extent these are relevant for an assessment of a bank's asset quality. The core metric, impaired loans/gross loans, has the greatest explanatory power for the asset-quality factor score because it is the simplest expression of the extent of problem exposures in what is usually a bank's main asset class.

Implied Asset-Quality Factor Score (%)

Implied factor score	aa	a	bbb	bb	b & below
Operating environment	Impaired loans/gross loans				
aa	≤1	≤3	≤6	≤14	>14
a	≤0.25	≤2	≤5	≤12	>12
bbb		≤0.5	≤4	≤10	>10
bb			≤0.75	≤5	>5
b & below				≤1	>1

Source: Fitch Ratings

Key Asset-Quality Ratios

Core metric:
Impaired loans/gross loans (%)
Complementary metrics:
Growth of gross loans (%)
Loan loss allowances/impaired loans (%)
Loan impairment charges/average gross loans (%)

Source: Fitch Ratings

Adjustments to Implied Asset-Quality Factor Score

The most common adjustments to a bank's implied asset-quality score, as derived by the matrix in "Implied Asset-Quality Factor Score", are as follows:

Growth: High loan growth relative to peers or the domestic economy(ies), as captured by the complementary metric growth of gross loans, may lead to a significant increase in impaired loans as the portfolio seasons. In addition, high growth rates may reduce the impaired loans/gross loans ratio due to the lag effect on the numerator, while deleveraging may inflate it. Significantly lower growth than peers could be viewed as conservative and positive for the assigned factor score.

Collateral and Reserves: Strong loan loss allowance (sometimes referred to as loan loss 'reserves') coverage of impaired loans relative to peers, as reflected in the complementary metric loan loss allowances/impaired loans, or a high proportion of secured/conservatively collateralised/insured lending may reduce the risks from the bank's impaired exposures. Conversely, a focus on unsecured lending or weak reserve coverage would likely have the opposite effect. Deficiencies in the legislative framework that could impact a bank's ability to liquidate collateral, or enforce its rights as a creditor generally, may result in a downward adjustment to the implied score.

Loan Write-Offs: Where a bank writes off a high proportion of loans soon after they become impaired, or conversely retains legacy problem loans on its balance sheet for an extended period of time after they become delinquent, the impaired loans/gross loans ratio may not fully capture the bank's underlying asset-quality performance. Fitch therefore also considers the loan impairment generated in recent periods, as reflected in the complementary ratio loan impairment charges/average gross loans.

Loan Classification Policies: If Fitch believes a bank has a relatively large proportion of high-risk loans which are not captured by the impaired loans definition, e.g. because they have been restructured or are classified in the watch category, then this may weigh on Fitch's assessment of asset quality. Conservative loan classification relative to peers, may be moderately positive for Fitch's assessment.

Concentrations: The existence of high concentration exposures in respect to single borrowers/counterparties, sectors or asset classes may increase vulnerability to cyclical asset performance fluctuations. Conversely, good portfolio diversification may be a moderately positive factor in assessing asset quality.

Non-loan Exposures: Fitch may adjust down the asset-quality score where it believes there are material risks of losses arising from non-loan assets, such as interbank exposures, securities, derivative fair values or foreclosed assets, or from off-balance-sheet exposures, such as guarantees and commitments. Conversely, where a relatively high proportion of a bank's risk exposures are outside of the loan book and these are low risk (e.g. highly rated interbank placements or securities, or off-balance-sheet trade finance exposures), this may result in a positive adjustment to the implied asset-quality score.

Risk Appetite and Business Model: Fitch may adjust the asset-quality score downwards where it views the bank as having a relatively high risk appetite, or a business model or asset class specialisation, which in the agency's view may be more likely to result in asset-quality deterioration or volatility. In such cases, Fitch may take the view that recently reported asset-quality metrics are more vulnerable to deterioration as loan and other exposures season. Conversely, a low risk appetite or lower-risk business model may result in a moderate positive adjustment to the asset-quality score.

Historical and Future Metrics: Fitch may view historical asset-quality metrics as not being reliably indicative of future metrics, for example due to changes in a bank's strategy or operations; because mergers, acquisitions or disposals may have a material impact on group risk exposures; because Fitch's economic expectations materially deviate from past conditions; or because recent asset-quality metrics correspond to a particularly favourable or unfavourable part of the credit cycle.

Earnings and Profitability

The core metric, operating profit/risk-weighted assets, has the greatest explanatory power for the earnings and profitability factor score because it captures the bank's ability to generate recurring profits relative to the risks it assumes. The complementary metrics net interest income/average earning assets, non-interest expense/gross revenues and loans and securities impairment charges/pre-impairment operating profit provide important information about the drivers of the core metric.

Key Profitability Ratios

Core metric:
Operating profit/risk-weighted assets (%)
Complementary metrics:
Net interest income/average earning assets (%)
Non-interest expense/gross revenues (%)
Loans and securities impairment charges/pre-impairment operating profit (%)
Operating profit/average total assets (%)
Net income/average equity (%)

Source: Fitch Ratings

Implied Earnings & Profitability Factor Score (%)

Implied factor score	aa	a	bbb	bb	b & below
Operating environment	Operating profit/risk weighted assets				
aa	≥3.75	≥1.5	≥0.5	≥-0.25	<-0.25
a	≥4	≥2	≥0.75	≥0	<0
bbb		≥4.25	≥1.5	≥0.25	<0.25
bb			≥4.75	≥1.25	<1.25
b & below				≥5	<5

Source: Fitch Ratings

Adjustments to Implied Earnings & Profitability Score

The most common adjustments to a bank's implied earnings & profitability score, as derived by the matrix in "Implied Earnings & Profitability Factor Score", are as follows:

Risk-Weight Calculation: Fitch may view the RWAs number as either overstating or understating a bank's risks, for example because of aggressive or conservative modelling. In such cases, Fitch will also use the complementary ratio *operating profit/average total assets* in assessing a bank's profitability.

Return on Equity: Where a bank regularly generates significant non-operating revenues/losses, or where leverage is higher/lower than at peers, the complementary ratio *net income/average equity* may provide significant additional information on the bank's performance. A relatively high return on equity indicates stronger earnings and a reasonable return for shareholders, promoting continuity of the bank's business profile. Conversely, a low return on equity would indicate weak shareholder returns and, potentially, an unsustainable business model. Where a bank reports material positive or negative other comprehensive income, Fitch may add this to net income to assess performance.

Revenue Diversification: Fitch may assess more favourably a bank's performance where operating revenues are more diversified than at peers. Reliance on a single business line or revenue stream could negatively affect Fitch's assessment.

Earnings Stability: A positive adjustment could be made to a bank's earnings and profitability score where earnings have proved to be stable through a cycle, or where recent performance suggests a sustainable improvement compared to the bank's four-year average. Conversely, high earnings volatility or a recent structural weakening of performance could lead to a negative adjustment. Certain business models or asset class specialisations may also be more vulnerable to cyclical performance swings, even if these have not been observed; in such cases, recently reported data may not be sustainable or representative of expected performance through a cycle and Fitch may adjust downwards the earnings and performance score.

Historical and Future Metrics: Fitch may view historical performance metrics as not being reliably indicative of future metrics, for example due to changes in a bank's strategy or operations; because mergers, acquisitions or disposals may have a material impact on group profitability; because Fitch's economic expectations materially deviate from past conditions; or because recent performance metrics correspond to a particularly favourable or unfavourable part of the credit cycle.

Capitalisation and Leverage

Weak capital adequacy may override other VR factors and exert considerable pressure on the VR. Common equity capital provides a cushion to absorb unreserved, unexpected losses and enable a bank to continue as a going concern and avoid failure. Fitch uses a core capital ratio as the core metric for Capitalisation and Leverage. Where available, Fitch will use the regulatory CET1 ratio in force at the latest reported statement date.[13] This ratio is reported in many markets and has gained widespread market understanding and use. In some markets and circumstances, for example where a Basel-based CET1 ratio is not yet reported, Fitch will continue to use FCC/FCC-adjusted RWAs as defined in *Annex 3* of this criteria report.

In the remainder of this section, the ratio used (CET1 where available and based on FCC otherwise) is referred to as the 'Core Capital Ratio'.

Key Capitalisation and Leverage Ratios

Core metric:
CET1 regulatory capital ratio (%)
Complementary metrics:
Basel leverage ratio (%)
Tangible common equity/tangible assets (%)
Impaired loans less loan loss allowances/ Core Capital (%)

Source: Fitch Ratings

Implied Capitalisation & Leverage Factor Score (%)

Implied factor score	aa	a	bbb	bb	b & below
Operating environment	Core capital ratio				
aa	≥16	≥10	≥8	≥6	<6
a	≥18	≥14	≥9	≥7	<7
bbb		≥19	≥13	≥8	<8
bb			≥20	≥12	<12
b & below				≥22	<22

Source: Fitch Ratings

Adjustments to Implied Capitalisation & Leverage Factor Score

The most common adjustments to a bank's implied capitalisation & leverage score, as derived by the matrix in "Implied Capitalisation & Leverage Factor Score" are as follows:

Reserve Coverage and Asset Valuation: An adjustment to capital may be required to reflect any material under- or over-provisioning of impaired loans, as captured in the complementary metric impaired loans less loan loss allowances/core capital. Aggressive or conservative valuations or regulatory treatment of performing loans, investments or other assets or high volumes of higher-risk assets (e.g. foreclosed assets) could also affect Fitch's assessment of capitalisation.

[13] Where Fitch bases its analysis on accounts (usually IFRS) which are different to those used by the regulator (e.g. local GAAP), we will use a CET1 ratio derived from the former as the core ratio and may additionally consider a local GAAP-based figure when determining headroom above regulatory requirements.

Leverage and Risk-Weight Calculation: Fitch may view the RWAs number as either overstating or understating a bank's risks, for example because of aggressive or conservative modelling or, potentially, due to the presence of risk-weight floors. Modelling is based on historical performance, which is not always a good indicator of the future. Fitch therefore also considers a bank's leverage, as reflected in the complementary metrics Basel leverage ratio, where available, and tangible common equity/tangible assets. Where leverage is high or low relative to peers to an extent beyond that suggested by relative risk-based core capital ratios, Fitch may adjust a bank's capitalisation and leverage score downwards or upwards.

Profitability, Pay-outs and Growth: Fitch may adjust downwards the capitalisation and leverage score where a bank's earnings retention is weak (e.g., due to weak profitability and/or high pay-out ratios or buy-back rates), or the bank's expected rate of growth is high, to reflect the likely negative affect this will have on capital metrics. Conversely, strong earnings retention or low growth may result in a positive adjustment to the capitalisation and leverage score.

Regulatory Capitalisation: Where a bank's regulatory capital ratio(s) are close to minimum levels, this may significantly reduce its financial flexibility, impair market confidence in the bank and increase the risk of some form of regulatory intervention. In cases where regulatory capitalisation is tighter, or more comfortable, than the core capital ratio suggests (eg where Fitch has used the FCC ratio as its core capital ratio), Fitch may adjust a bank's capitalisation and leverage score accordingly.

Non-Core Loss-Absorbing Capital and Items: A negative adjustment may be made for non-loss absorbing items included within the numerator of the core capital ratio or a positive adjustment may be made for items that have been excluded from the core capital ratio numerator but which, in Fitch's view, provide loss absorbency. For example, FCC includes non-controlling interests that Fitch considers to be loss-absorbing, whereas regulatory CET1 may not. Additionally, a negative adjustment could be applied to reflect material waivers that benefit core capital ratios, for example with respect to the implementation of IFRS9 or if capital is trapped in regulated subsidiaries.

Fitch also considers the extent to which non-core capital can absorb losses prior to a bank becoming non-viable.[14] A large buffer of state-owned preference shares or other high-quality, high-trigger hybrid capital may lead the agency to adjust upwards a bank's capitalisation and leverage score.

Concentrations: The existence of high concentration exposures in respect to single borrowers/counterparties, sectors or asset classes may increase the vulnerability of capital to asset performance fluctuations. Conversely, good portfolio diversification may be a moderately positive factor in assessing capitalisation and leverage.

[14] Non-core capital, which absorbs losses prior to a bank becoming non-viable (often called 'going concern' capital instruments), may be factored into Fitch's assessment of the capitalization & leverage score, and hence into our assessment of the bank's VR. In cases where non-core capital results in a bank's VR being higher than would otherwise have been the case, it will not then be 'double counted' in considering possible uplift of the bank's Long-Term IDR above its VR due to QJD buffers. Capital that absorbs losses only at the point of non-viability (often called 'gone concern' capital instruments) will not directly benefit a bank's VR, but may contribute to possible uplift of the bank's Long-Term IDR above its VR (see Section I.1).

Size: A small (in absolute terms) capital base can leave an institution more vulnerable to unforeseen events, especially where there are risk concentrations, even if capital ratios are relatively strong. This may result in a downward adjustment of a bank's capitalisation & leverage score. A large (in absolute terms) capital base could be moderately positive for the assessment.

Fungibility: Fitch may adjust downwards a parent bank's capitalisation and leverage score where it has material subsidiaries, in particular foreign ones, and there are significant restrictions on transfers of capital within the group. Weaker standalone bank capital ratios, than for the group on a consolidated basis, would increase the likelihood of such an adjustment.

Ordinary Support: The capitalisation and leverage score may be adjusted upwards where Fitch believes the bank's owner(s) would provide "ordinary" capital support, e.g. to support growth, as required. For example, a parent bank or sovereign owner may maintain quite tight capital ratios at a subsidiary/state-owned bank, but be committed to injecting capital when required.

Capital Flexibility: Where a bank has a strong/weak ability, relative to peers, to access capital markets in case of need, this could result in an upward/downward adjustment of the capitalisation and leverage score.

Capital Raising (or Distribution): Fitch may adjust the capitalisation and leverage score to reflect capital raising or distribution (or expectations of these) that have occurred subsequent to the last financial reporting date.

Risk Appetite and Business Model: Certain business models or asset class specialisations may be more vulnerable to cyclical performance swings, such that a larger capital buffer is required to achieve a given capitalisation and leverage score. Conversely, a positive adjustment could be made where performance has proved to be stable through a cycle.

Historical and Future Metrics: Fitch may view the most recent reported capitalisation metrics as not being reliably indicative of future metrics, for example due to changes in a bank's strategy or operations; because mergers, acquisitions or disposals may have a material impact on the group profile; or because of anticipated changes in the bank's asset-quality performance or profitability.

Funding and Liquidity

Fitch's analysis emphasises a bank's ability to sustain its liquidity position and the stability of its funding. The core metric, loans/customer deposits, has the greatest explanatory power for the funding & liquidity factor score because it is the single best indicator of the matching of a bank's assets and funding, and hence of the potential vulnerability of its liquidity.

Implied Funding & Liquidity Factor Score (%)

Implied factor score	aa	a	bbb	bb	b & below
Operating environment	Loans/customer deposits				
aa	≤75	≤125	≤190	≤250	>250
a	≤60	≤90	≤150	≤200	>200
bbb		≤55	≤125	≤170	>170
bb			≤50	≤140	>140
b & below				≤45	>45

Source: Fitch Ratings

Key Funding and Liquidity Ratios

Core metric:
Loans/customer deposits (%)
Complementary metrics:
Liquidity coverage ratio (%)
Customer deposits/total funding (including preference shares & hybrids; %)

Source: Fitch Ratings

Adjustments to Implied Funding & Liquidity Factor Score

The most common adjustments to a bank's implied funding & liquidity score, as derived by the matrix in "Implied Funding & Liquidity Factor Score" are as follows:

Liquidity Coverage: Strong or weak coverage of a bank's short-term liabilities by liquid assets, as partly reflected in the complementary metric liquidity coverage ratio, could result in upward or downward adjustment of the funding & liquidity score. Fitch will consider the volume, quality and encumbrance of a bank's liquid assets, and its liquidity position beyond the 30 calendar days covered by the liquidity coverage ratio, in making this assessment.

A high regulatory Liquidity Coverage Ratio (LCR) is not necessarily indicative of a strong liquidity position. Conversely, a relatively low LCR is not necessarily indicative of a weak liquidity position provided a bank is able to meet regulatory requirements reliably. Sharp drops in LCR position can indicate funding and liquidity stress, although they can also reflect changes in liquidity management strategy and/or regulation.

Non-Deposit Funding: A relatively high reliance on non-deposit funding, as captured by the complementary ratio customer deposits/total funding (excluding derivatives) could lead to a negative adjustment to the funding & liquidity score where Fitch considers non-deposit funding to represent a point of vulnerability (for example, short-term borrowings that are not financing appropriately short-term, liquid assets). In assessing risks associated with a bank's wholesale funding, Fitch will consider its term structure, diversification by source and reliability of market access. Stable long-term funding, e.g. due to well-established market access or a predominance of intra-group facilities, could result in an upward adjustment to the funding and liquidity score. Conversely, where a bank has a relatively low loans/deposits ratio in part because it cannot access non-deposit funding, its implied funding and liquidity score may be adjusted downwards.

Deposit Structure: The funding and liquidity score may be adjusted based on a qualitative assessment of the deposit base and its expected stability. For example, a highly concentrated deposit base, or reliance on non-core deposits, or on price-driven deposit growth, could result in a negative adjustment. Conversely, a granular, stable deposit base would be positive, in particular if a bank would be likely, in Fitch's view, to benefit from a flight to quality in a systemic crisis.

Foreign-Currency Liquidity: A bank's funding & liquidity score may be adjusted downwards where coverage of foreign-currency liabilities by foreign-currency liquidity is weak, in particular where it could be difficult for a bank to convert local currency into foreign currency, in case of need.

Fungibility: Fitch may lower a bank's funding & liquidity score where it has material subsidiaries, in particular foreign ones, and there are significant restrictions on transfers of liquidity within the group. Weaker standalone bank liquidity and funding ratios, than for the group on a consolidated basis, would increase the likelihood of such an adjustment.

Ordinary Support: The funding and liquidity score may be adjusted upwards where Fitch believes the bank's owner or other group entities would provide "ordinary" funding and liquidity support, as required. For example, a parent bank may maintain quite tight liquidity ratios at a subsidiary, but be committed to providing funding support when required.

Contingent Access: A relatively strong (or weak) ability to access contingent liquidity, for example as a result of deep and liquid repo markets (including from official sources) could result in a positive adjustment to the funding and liquidity score. Undue reliance on central bank funding, ie a bank's inability to raise funding on its own, could result in a negative adjustment.

Historical and Future Metrics: Fitch may view historical funding and liquidity metrics as not being reliable indicative of future metrics, for example due to changes in a bank's strategy or operations, or because mergers, acquisitions or disposals may have a material impact on balance-sheet structure.

III. Support

When banks fail or are failing, they often do not default, but instead receive extraordinary support that allows them to continue performing on their obligations. Extraordinary support is most often only provided at the point of failure or just before. On other occasions, extraordinary support may be provided pre-emptively to prevent an eventual default, for example, when a bank's solvency is weakening and capital ratios are in regulatory 'buffer' zones.

As indicated in Section I of this report, the most usual sources of support are a bank's shareholders (institutional support) and government authorities (sovereign support). Fitch's view of the likelihood of external support being made available in case of need is reflected in an entity's SR. Where the agency believes the most likely form of support is sovereign support, this is also reflected in the bank's SRF. Section III.1 below focuses on sovereign support, and section III.2 on institutional support.

III.1. Sovereign Support

In assessing the likelihood of government support for a bank, Fitch's primary focus is usually on potential assistance from the national authorities of the country where the bank is domiciled. This is because it is the bank's national authorities that are most likely to have both an incentive to prevent the entity from defaulting and the regulatory and legal powers to intervene. However, in rare cases Fitch may also assess the possibility of support being made available to a failing bank from a combination of national sovereign authorities and international public institutions.

When assessing sovereign support, Fitch considers relevant legislation and regulation and speaks, where possible, with government representatives to ask about their approach to providing support to the banking sector.

In assessing the likelihood of sovereign support, Fitch's analysis focuses on both the ability and the propensity of the sovereign to provide support. Propensity is considered in respect both of the overall support stance towards the banking sector as a whole, and the willingness to provide assistance to a specific rated bank. Fitch also considers separately the impact of a bank's policy role and government ties on support propensity.

III.1.1 Ability of Sovereign to Provide Support

Importance of this Assessment: For a bank to receive government support, the sovereign must, by definition, be both able and willing to provide it. Where the ability of the sovereign to provide support is more constrained, support will usually be less likely, resulting in lower SRs and SRFs.

Sovereign Ratings and Support Rating Floors

Sovereign rating	Typical SRFs for D-SIBs[a] in case of high support propensity
AAA, AA+	A+ to A-
AA, AA-	A or A-
A category	1-2 notches below sovereign Rating
BBB category	0-2 notches below sovereign Rating
BB category	0-1 notch below sovereign Rating
B category and below	Equalised with sovereign Rating

[a] Domestic systemically important banks
Source: Fitch Ratings

In assessing a government's ability to provide support to the banking sector, Fitch's starting point is the sovereign's own ratings (or potentially a Fitch Credit Opinion if the opinion is in the single 'B' category or lower). The sovereign rating is almost always the sovereign of domicile, but could sometimes be a third-party sovereign with an interest in supporting the bank or bank holding company. In rare cases where Fitch does not assign a credit rating or credit opinion, Fitch will either not assign a sovereign support-driven SR/SRF (no assessment undertaken) or assign them at '5'/'No floor' (e.g., unable reliably to assess sovereign creditworthiness or clear sovereign ability/propensity support concerns).

Although the sovereign's ratings reflect Fitch's view only on the likelihood of the government servicing its own debt, in practice this is usually closely correlated with its broader financial flexibility, and therefore ability to provide support to the banking sector. Accordingly, in markets where Fitch views the government's propensity to support its banking system as high there is usually a close correlation between the sovereign rating level and the SRFs of domestic systemically important banks (D-SIBs). Typical SRFs for such banks at each sovereign rating level are outlined in the table below, entitled "Sovereign Ratings and Support Rating Floors".

Key Factors in Assigning Support Rating Floors[a]

	Factor	Positive (higher SRF)	Neutral	Negative (lower SRF)
Sovereign ability to support	Size of banking system relative to economy	Small	Average	Large
	Size of potential problem	Low vulnerability to large losses in downturn	Moderate vulnerability to large losses in downturn	High vulnerability to large losses in downturn
	Structure of banking system	Low concentration, ownership mainly by strong shareholders	Moderate concentration, some ownership by strong shareholders	High concentration, limited ownership by strong shareholders
	Liability structure of banking system	Predominantly long-term/stable local-currency funding	Moderate funding instability and/or foreign-currency liabilities	Considerable short-term foreign-currency funding
	Sovereign financial flexibility (for rating level)	Superior (eg low debt, large foreign-currency reserves and/or good market access)	Average (eg average debt and reserves and/or reasonable market access)	Weak (eg high debt, low foreign-currency reserves and/or uncertain market access)
Sovereign propensity to support system	Resolution legislation with senior debt bail-in	n.a.	No legislation in place nor likely in medium term	Legislation in place or expected in foreseeable timeframe
	Track record of banking sector support	Very strong and predictable record of support for whole sector	History of supporting larger banks or no track record (ie absence of recent bank failures)	Patchy record, possibly including significant defaults
	Government statements of support	Consistently strong statements on support for system	No, or broadly favourable, statements on support	Consistent statements on intention to bail in senior creditors
Sovereign propensity to support bank	Systemic importance	Exceptionally high systemic importance and contagion risk; dominant market shares	Strong significance to banking system and economy; high contagion risk	Moderate or low systemic significance, more limited contagion risk
	Liability structure of bank	Very limited, if any, politically acceptable possibilities to bail in senior creditors	Significant foreign/wholesale funds, which could be politically acceptable to bail-in in some circumstances	High foreign/wholesale funding, which could be politically acceptable to bail-in in many scenarios
	Ownership	Strategic government ownership or private domestic owners with strong government relations	Non-strategic government ownership or domestic owners with neither close nor difficult government relations	Foreign ownership or domestic owners with poor government relations
	Specifics of bank failure	n.a.	More likely to fail as a result of usual operating activities	Significant risk that failure could result from corporate governance weaknesses

[a] The factors identified in this table determine the levels of SRFs relative to the ranges indicated in the table "Sovereign Ratings and Support Rating Floors". For each factor, other relevant considerations may exist that are not explicitly referenced here
Source: Fitch Ratings

It is typically expected that only one D-SIB SRF be assigned in each country, although it is possible to have more than one D-SIB SRF where support may come from central authorities or from individual sovereign states, and support ability may differ between them.

Fitch's guidelines for identifying a bank as a D-SIB are outlined in Section III.1.3 Propensity to Provide Support to Specific Banks.

The rest of this section on sovereign ability to support and the next section on the authorities' propensity to provide support outline factors which determine where Fitch will assign D-SIB SRFs within the ranges indicated in "Sovereign Ratings and Support Rating Floors", and which may also cause Fitch to assign D-SIB SRFs outside of these ranges. In some cases Fitch may assess that the importance of one factor clearly outweighs others, resulting in SRFs being assigned at significantly lower levels than those envisaged in the "Sovereign Ratings and Support Rating Floors" table. Examples are where a credible resolution regime has been established, a sovereign's record clearly suggests a low propensity to provide support, or the sovereign's ability to provide support is severely constrained by the size of the banking system.

In assessing a government's ability to provide support, Fitch looks beyond the sovereign ratings. Although the latter are generally closely correlated with the authorities' ability to support, they may not always provide a good proxy because of the factors listed below.

Size of the Banking System: Where a banking system is very large (or small), the authorities may be less (or more) able to provide sufficient support in case of need than the sovereign rating might suggest. In assessing the size of the banking system, Fitch will typically consider bank loans/GDP, or some broader measure of banks' risk exposures/GDP (where the agency believes banks could incur significant losses outside their loan books). However, considerations relating to the size of the potential problem in the banking sector, and the structure of the system (see below), can considerably offset sector size in assessing the ability of the sovereign to provide support.

In assessing sovereign ability to support a country's banks, Fitch may also consider, where relevant, support which may be required by other financial institutions in the country, such as securities companies, insurance companies or money market funds, or by strategically important/government-owned financial or non-financial corporates. The agency may assess whether the potential need to provide support for these non-bank entities could negatively affect the sovereign's ability to support its banks.

Size of the Potential Problem: Although the size of a banking system is an important factor in assessing the scale of potential government support that may be needed in a crisis, there is no linear relationship between system size and potential support requirements. One reason for this is that loans/GDP ratios are themselves quite closely correlated with the level of economic development in a country, and more developed markets tend to have less volatility in economic, and therefore banking sector, performance, implying more moderate support requirements in a downturn. This means that SRFs can remain quite high relative to sovereign ratings in markets where Fitch expects quite stable economic/banking sector performance over time, even where banking systems are quite large relative to GDP.

However, where a banking system has grown rapidly and Fitch believes it has built up a large volume of high-risk exposures that could result in large losses in a downturn, SRFs may be lowered to reflect the fact that the scale of problems could exceed the ability of the sovereign to provide support. In such a scenario, it is possible that Fitch may downgrade the VRs and SRFs of banks simultaneously, reflecting increasing weaknesses in standalone profiles and greater uncertainty about the sovereign's ability to provide support on the scale required.

Structure of the Banking System: The ability of a government to support D-SIBs will also depend on the structure of the banking system. Where the D-SIBs comprise substantially all of the system, it will be more onerous, other things being equal, for the sovereign to support them, potentially putting downward pressure on SRFs. Conversely, in a fragmented banking system, where smaller banks account for a significant proportion of sector assets, bailing out the few D-SIBs may be somewhat less burdensome, supporting SRFs at higher levels.

The ownership structure of the banking system and the availability of institutional support to some banks in the sector are also important. For example, where most of the system is owned by highly rated foreign banks, it is likely to be easier for the authorities, if required, to provide support to those institutions that are domestically owned and will look first to the sovereign for support, potentially supporting those entities' SRFs at higher levels. (At the same time, a mostly foreign-owned and strong banking system may be less exposed to contagion risk in case of an individual domestic bank default, potentially weakening the sovereign's propensity to support – see *III.1.3. Propensity to Provide Support to Specific Banks*).

Liability Structure of the Banking System: The currency and maturity profiles of banks' funding may also affect a sovereign's ability to provide sufficient support. Where a banking system is heavily funded by short-term external debt, for example, provision of support may be more onerous because it could involve foreign-currency cash outflows, potentially depleting the sovereign's foreign-currency reserves.

Conversely, where funding is primarily domestic, more stable and denominated in local currency, provision of support would not affect the country's external finances and may not even involve short-term cash expenditure in local currency if the government can support banks through such measures as injections of government debt, issuance of funding guarantees and provision of forms of credit enhancement for banks' assets.

Sovereign's Financial Flexibility: The specific drivers of the sovereign credit profile (at a given rating level) may also affect Fitch's assessment of the state's ability to provide support to the banking system. For example, where the sovereign's own debt is already quite high (but its rating is supported by strengths in other areas, such as the level of economic development and other structural features), it may be more difficult for it to incur the additional debt necessary to support the banking system than its rating level would suggest. If, by taking the costs of bank support on to its own balance sheet, the sovereign risks a loss of market confidence in its own credit profile, or could face its credit rating falling below a desired level (eg investment grade), its ability to provide support to the banking sector may also be significantly constrained. Low sovereign FX reserves in a country where banks have large foreign-currency obligations could also reduce the ability to support the banking sector.

Conversely, a government with low debt (but whose overall credit profile and rating suffer due to structural weaknesses) may be somewhat better able to support its banks than the rating level may suggest. In addition, a sovereign with very good debt market access, for example because its currency is a reserve currency, may have greater financial flexibility and therefore be relatively more able to support its banks in case of need.

III.1.2 Propensity to Provide Support to Banking Sector

Importance of this Assessment: Even where a sovereign is able to support its banking sector, whether it does or not will depend on the authorities' propensity to support. Although banking crises can sometimes force governments' hands, making it difficult not to provide support, in practice there is usually a political decision to be made on whether a system or a particular institution will receive assistance. Generally, such decisions are taken at a national level. The following factors are important in Fitch's assessment of a government's propensity to support its banks.

Bank Resolution Legislation: The adoption of legislation that provides for bank resolution tools that could impose losses on senior creditors, rather than taxpayer bail-outs, is an important signal of the determination of the authorities not to provide sovereign support for banks. In countries that have adopted such legislation, and where the authorities have expressed a clear intention to use it, Fitch will usually take the view that support for banks, even if still possible, can no longer be relied upon.

However, Fitch will not always remove sovereign support from bank ratings altogether in jurisdictions that have adopted resolution legislation providing for senior creditor losses while still affording resolution authorities the possibility to support banks without imposing losses on senior creditors. There may also still be significant practical problems that make it difficult to implement creditor bail-ins, most obviously related to contagion risks which can arise for other banks in the same market in case of default at one bank.

Conversely, where there is a strong political determination (or simply a pressing need) to bail in creditors, the absence of resolution legislation can often be rectified quite quickly through the adoption of new emergency laws (or simply circumvented altogether by creative structuring of the resolution process).

Record of Support: Bank creditors are relatively more likely to suffer losses in jurisdictions where they have been bailed in in the past, particularly where this has been implemented relatively successfully, without significant dislocations for the banking system as a whole. Accordingly, in such countries Fitch is more likely to assign lower SRFs than would be suggested by the mapping in the "Sovereign Ratings and Support Rating Floors" table. At the same time, Fitch acknowledges that no two bank failures/crises are the same, and will consider carefully whether the factors that led to a creditor bail-in previously are also likely to be relevant in case of repeated stress.

Conversely, where government authorities have historically been very consistent in their support for the banking system, and no clear change in support stance is yet evident, Fitch is likely to continue to assess the propensity to support as high.

Government Statements: Strong and clear government statements on the intention to bail in creditors of failed banks will also be factored into Fitch's assessment of a sovereign's propensity to support banks. Conversely, similarly strong statements in favour of continued bank support, for example, in certain emerging markets, may help maintain SRFs at higher levels.

The weight the agency attaches to such statements will depend, among other things, on the consistency of message across different policymakers and over time, and also the potential for the government to change in the near to medium term, possibly reducing the relevance of current political statements. In any case, Fitch's SRFs reflect only the agency's view on support, and will not be derived directly from government statements, whether made publicly or directly to Fitch.

III.1.3 Propensity to Provide Support to Specific Banks

Importance of this Assessment: Even when a sovereign is able to provide support and, in Fitch's view, has a strong overall propensity to do so, the decision to assist a particular bank is likely also to reflect the specific profile and circumstances of the institution concerned. Fitch focuses in particular on the areas outlined below in assessing the propensity to support commercial banks. Section *III.1.4 Policy Banks* below outlines Fitch's approach to assessing support for policy banks.

Systemic Importance: Where there is both ability and propensity to support a banking sector, the most important factor in determining the SRF of a specific bank relative to others in the system is often its systemic importance. The more important a bank is in the broader sector, the more likely it usually is to be supported, resulting in a higher SRF being assigned. For the purposes of assigning its SRFs, and determining whether a bank should be treated as a D-SIB, Fitch considers the following:

- **Market shares:** If the bank's national market shares in loans and/or deposits are above 10%, Fitch usually regards it as a D-SIB, unless the structure of the sector and other factors mean that even with these significant market shares the institution's systemic importance is somewhat limited.
- **Interconnectedness:** Fitch considers the interconnectedness of banks in the sector, for example the extent to which losses that other banks may suffer in case of a default of the rated bank could result in a general loss of confidence in the sector. Where a system is widely perceived to be weak, and default of one bank could trigger a collapse of creditor/depositor confidence in other institutions, a government's propensity to support may be somewhat higher; conversely, where a banking system is widely perceived to be stable, the authorities can more easily impose losses on creditors at a single institution without the heightened risk of a negative impact on the rest of the system.
- **Regional or niche franchise:** Where relevant, Fitch also considers whether a bank has a particularly strong franchise in a region of the country or in an important product area. This may make support more likely, notwithstanding its limited national market shares in loans and deposits.
- **Regulatory definitions**: National authorities or legislation sometimes establish criteria for defining a bank as systemically important, whether for the purpose of defining eligibility for support, or determining which banks should comply with stricter regulatory requirements. Fitch may also consider these in determining its view of the likelihood of support for a specific institution, particularly in the former situation.

Ownership: Government ownership of a commercial bank, particularly in emerging markets, may result in Fitch increasing its assessment of the likelihood of support, causing a higher SRF to be assigned. This is because of the often strategic nature of the investments in such banks and potentially high reputational risks both for the government (and its funding market access) and specific politicians in case of a default. However, in most developed markets government ownership of commercial banks is not a long-term strategic goal, and is often the result of earlier bank rescues. Although authorities will usually have some propensity to support a bank's rehabilitation and recoup monies invested, in such cases Fitch may still conclude that government ownership is not a high importance factor in determining the SRF.

Where a bank is foreign owned, it may be less likely to benefit from domestic government support, in case of need, as the local sovereign may expect the bank's parent group to provide support rather than spend taxpayers' money on a bail-out. In Fitch's view, a subsidiary that is managed and funds itself relatively independently from its parent is more likely to benefit from local sovereign support, whereas an entity that is highly integrated into its parent group and has accessed funding with the help of parent guarantees or other commitments is usually less likely to be supported by the domestic sovereign.

Where ownership of a bank is concentrated in the hands of one or a few individuals or families, as is often the case in emerging markets, government support may depend to a significant degree on personal relationships between government officials and shareholders. Where these relations are very close – for example, because the bank's shareholders are themselves members of the ruling elite or have business ties with them – Fitch may factor somewhat more support into a bank's ratings. In contrast, where there are clear indications that these relations are strained, resulting in somewhat greater uncertainty regarding the provision of support, the SRF may be assigned at a lower level than would be warranted based solely on the bank's systemic importance. However, any impact of government/shareholder relations on the SRF will be limited by the potentially changing nature of those relations and the fact that support for a bank's creditors can be provided with or without a bail-out for the bank's shareholders.

The potential impact of government ownership on support for policy banks is assessed in section *III.1.4 Policy Banks* below.

Liability Structure: A bank's funding structure may also affect a government's decision on how to resolve it. For example, where a bank's funding consists primarily of domestic deposits, in particular where most of these are insured and will need to be reimbursed anyway from a deposit insurance fund, there may be few creditors that the government can legally bail in (or that it would be politically acceptable to bail in), and this may tilt the cost/benefit analysis towards supporting the bank rather than writing down the remaining creditors. The same outcome could also occur if a bank has a material amount of government-guaranteed debt that might be accelerated in the event of a default on other liabilities. Conversely, where a bank is heavily funded from wholesale markets, particularly through foreign borrowings, it is likely to be politically more acceptable to impose losses on creditors.

Specifics of a Bank's Failure: Where a bank has failed because of severe corporate governance or risk management weaknesses, and/or where the hole in a bank's balance sheet is particularly large, making it less likely that the bank can be returned easily to viability/normal operations and retain the systemic importance it had before failure, a government may be somewhat less likely to provide support. This is because the provision of support may be somewhat less acceptable politically and the cost may be higher.

Conversely, assistance may be more likely to be made available where a bank has been comparatively well managed, but has failed for largely exogenous reasons relating to the broader operating environment in the market(s) where the bank operates, or has potentially only moderate solvency problems, but a pressing immediate need for liquidity support.

It is usually difficult ex ante to determine what the failure of a particular bank may look like, but Fitch may assign somewhat lower SRFs for banks that it believes have significant governance weaknesses or whose solvency could be highly vulnerable in a negative scenario.

Where a bank has failed for a second time and requires support not too long after having been bailed out for a first time, it may have a fundamentally unviable business, which would result in a lower likelihood of support second time round. At the same time, there are several banks or financial institutions, particularly in the EU, that are being subjected to "orderly" wind down. Such banks may have legal mechanisms that provide effective support for senior creditors or have liability structures, ownership features or even contagion considerations of the type discussed above that might positively influence Fitch's view of support propensity.

III.1.4 Policy Banks

Importance of this Assessment: A bank's policy role, status, and any forms of enhancement offered to the bank's creditors can have a significant impact on the propensity of the authorities to provide support. Consequently, policy banks are often rated at the same level as, or close to, their sovereigns. Due to the impact of their policy roles on their operations, they are also unlikely to be assigned VRs, as it does not usually make sense to assess their credit profiles on a standalone basis. In assessing the propensity to support a policy bank, Fitch focuses primarily on the factors listed below, rather than on those listed in section III.1.3 above. These factors are not equally weighted and one factor can outweigh the others in arriving at an assessment.

Policy Role: Fitch's assessment of the government's propensity to support is usually very high where a bank has a clearly defined policy role or agency function. This can increase the government's interest in the bank continuing to operate (so that the policy support is maintained). It may also increase the association between the bank and the authorities, and therefore increase the reputational risk for the government if financial assistance is not provided when needed.

Fitch usually views the propensity to support banks with policy roles as highest when the policy role is broad, viewed by the government as important, and likely to be long-lasting, and when it would be difficult to reallocate the role to another entity, or to transfer the institution out of government ownership. Conversely, an institution with a narrow, less important policy role that could quite easily be performed by another entity may benefit less from potential support in Fitch's assessment.

Key Factors in Policy Banks' Support Rating Floors

Most probable Rating approach	Equalisation with sovereign	Notched down from sovereign	No impact from government ties[a]
Policy role	Important and long-lasting policy role, which would be difficult to transfer.	Less significant policy role, which could be more easily transferred to other entity; significant commercial operations.	No or very limited policy role.
Funding guarantees and legal status	Full guarantee of entity or guarantees on most funding/legal status provides protection for creditors.	Subject of separate legislation, but without offering significant protection for creditors.	No guarantees or special legal status.
Government ownership	Government ownership is long-term and strategic; government is usually sole owner.	Non-strategic government ownership; disposal cannot be ruled out; minority shareholders may also exist.	No government ownership, or non-controlling stake.

[a] Where this is no impact from government ties, the propensity to support an entity would be assessed in accordance with factors outlined in section III.1.3 above
Source: Fitch Ratings

Funding Guarantees and Legal Status: Where an entity's obligations are in their entirety unconditionally and irrevocably guaranteed by a government, it will usually be rated at the same level as the government's own debt. In addition, where a sovereign regularly offers funding guarantees to a bank because of its policy role (rather than to support a commercial institution that has lost market access, for example), Fitch is likely to view this as evidence of the government's overall support stance for the entity (including, potentially, regarding its unguaranteed debt), making equalisation of the IDRs of the bank with those of the sovereign more likely.

Certain aspects of an institution's legal status may also result in Fitch viewing government support as more likely. For example, legislation may oblige a government to provide support to the bank in certain forms and in certain circumstances, or it may entrench the bank's government ownership and policy role.

Ownership: Government ownership of FIs with policy roles tends to be strategic and long-term, and the largely non-commercial nature of their operations means privatisation is usually unlikely. However, where ownership is less strategic and disposal possible, or where there is also significant minority ownership, an entity's rating is less likely to be equalised with the sovereign.

III.2. Institutional Support

Fitch's ratings of subsidiary banks usually factor in a high probability of support from parent institutions. This reflects the fact that performing parent banks have very rarely allowed bank subsidiaries to default. It also considers the level of integration between parent banks and subsidiaries, and owners' business, financial and reputational incentives to avoid subsidiary defaults.

In determining potential support for subsidiary banks from parent institutions, Fitch considers the parent's ability and propensity to provide support and a subsidiary's ability to make use of parental support, as outlined in sections III.2.1 and III.2.2 below and in *Annex 2*.

IDRs of banks in groups benefiting from mutual support mechanisms are based on a single VR assigned to the whole group (see *Annex 4*).

III.2.1 Parent's Ability to Support Subsidiary and Subsidiary's Ability to Use Support

Importance of this Assessment: For a bank to receive shareholder support, the owner must, by definition, be both able and willing to provide it and a subsidiary must be able to make use of parental support top avoid default.

Parent IDRs: Fitch's assessment of the parent's ability to support its subsidiary typically starts by considering the parent's Long-Term IDRs. These ratings cap the ability of the parent to provide support, as Fitch would not expect support for a subsidiary to be forthcoming when the parent is itself in default. In addition, other factors – namely the parent bank's VR, parent/group regulation and relative size – may also affect the ability of the parent to provide support.

Parent Bank VR: In cases where the parent bank's Long-Term IDR is driven by potential sovereign support, Fitch will consider whether this support would be allowed to flow through to subsidiaries, in particular, those operating in foreign jurisdictions. In Fitch's view, parent bank regulators will in many cases have quite strong incentives to allow support to flow through to subsidiaries, given the potential negative impact of a subsidiary default on the group's operations and reputation.

However, in cases where Fitch judges there to be significant uncertainty about support flowing through, it may increase the notching between parent and subsidiary Long-Term IDRs relative to that which would usually be applied given the propensity of the parent to support. Where the agency considers there to be high uncertainty about support flowing through, it may use the parent bank's VR, rather than its Long-Term IDR, as its anchor rating in assessing the parent's ability to support its subsidiary.

Where possible, Fitch may consult with representatives of the parent bank's regulatory authorities to form a view on whether support would flow through. In addition, many of the factors listed below as determining a parent bank's propensity to support a subsidiary (e.g. strategic importance, integration, ownership) will, in Fitch's view, also be likely to influence a parent bank regulator's decision on whether to let support flow through.

Where the Long-Term IDR of a bank is notched up from its VR – because of a large buffer of junior debt and/or holding company debt – its IDR will usually serve as the anchor rating for the IDRs of highly integrated domestic subsidiaries and highly integrated international subsidiaries located in jurisdictions where Fitch expects the parent to pre-place junior debt or equity to meet resolution requirements (either directly or into an intermediate HoldCo); where similarly material buffers have voluntarily been pre-placed; on the basis of accepted resolution plans that identify key foreign subsidiaries to be beneficiaries of intra-group resources; or where buffers have not been pre-placed but the parent and subsidiary are part of the same resolution group and have the same resolution authority. Otherwise, subsidiary IDRs will usually be notched off the parent's VR, reflecting significant uncertainty as to whether subsidiary senior creditors would benefit from the parent's junior debt buffer in case of the latter's failure.

Parent/Group Regulation: Aside from the issue of 'sovereign support flow through', significant regulatory restrictions at the parent level may more generally reduce the fungibility of capital and liquidity within a group, particularly in cross-jurisdictional situations, reducing the ability of the parent to provide support to a subsidiary. For example, the parent bank's regulator may impose limits on the parent's permitted total exposure to its subsidiary, or may apply high risk-weightings or capital deductions to the exposures. In such cases, it may be difficult for a parent to support its subsidiary while remaining in compliance with home country regulation, and this may negatively influence Fitch's assessment of the parent's ability to support. The parent bank may also need to consider potential adverse tax consequences arising from support of a subsidiary, and political considerations may also constrain management's ability to support a foreign subsidiary.

Conversely, regulatory requirements to support subsidiary banks can positively influence the levels of IDRs assigned to a subsidiary, resulting in them being closely aligned to those of the parent even where propensity to support might have been low. Formal or informal agreements between parent and subsidiary bank regulators, including agreed resolution plans that envisage a subsidiary being within a parent bank's resolution group, could make it more likely that support would be forthcoming. Relatively strong support requirements exist, for example, in the US, meaning that the IDRs of US parent banks and domestic subsidiaries are typically equalised, regardless of strategic importance. In France, the designation of an "actionnaire de reference" (reference shareholder) does not create a legal obligation for the shareholder to support the bank, and so Fitch does not automatically equalise the Long-Term IDR of bank and shareholder.

Relative Size: In cases where subsidiaries form a relatively large part of the consolidated group, the parent may find it more difficult to provide sufficient and timely extraordinary support, even in cases where its own (standalone) balance sheet remains relatively unimpaired. This risk will be greater where Fitch believes that different subsidiaries' need for support is likely to be quite highly correlated, for example because they operate in a single region. Where subsidiaries are large relative to the consolidated group, Fitch may therefore increase the notching between parent and subsidiary Long-Term IDRs (where the latter are driven by parental support).

At the same time, Fitch notes that its analysis of parent banks is typically based on consolidated accounts (precisely because the agency usually regards the probability of subsidiaries being supported as high), and so parent ratings will already take account of the credit profiles of subsidiaries, and the potential need to support them. Where Fitch believes support of subsidiaries is more uncertain (for example, because of their large relative size), the agency may also analyse the parent's unconsolidated accounts in assigning the parent's IDRs.

Common Ratings: In some cases, where a subsidiary is very large (for example, accounting for more than 25% of group assets), it will often not be possible for the parent bank to support the subsidiary because its balance sheet is simply not big enough. Furthermore, such very large subsidiaries tend to be highly integrated with their parent banks in terms of management, balance sheet fungibility and systems, meaning subsidiary and parent bank credit profiles are likely to be highly correlated. In such cases, the subsidiary's SR would be '5', unless sovereign support results in a higher SR. Fitch will not base the subsidiary's IDR on support from the parent bank, but will instead assign "common" VRs, and hence IDRs, to parent bank and subsidiary, reflecting the fact that their credit profiles cannot be meaningfully disentangled.

Both the size and integration criteria must be met for common VRs to be assigned. If a subsidiary is highly integrated, but relatively small and does not make a significant contribution to the group's overall credit profile, then its VR, if assigned, will be based on its own stand-alone profile. Common VRs, and hence IDRs, may also be applied to sister banks or banks in the same group, for example under a holding company structure, when their operations are highly integrated or complementary to the functioning of the group, or where regulation effectively makes banks within a group liable for each other's losses.

Country Risks: Fitch also considers whether country risks in the jurisdiction of the subsidiary may limit its ability to use parent support to service its obligations. Where country risks are high, subsidiary ratings may be capped at levels significantly below those which would be possible based on the parent's ability and propensity to provide support. The domestic Country Ceiling, which captures transfer and convertibility risk, will almost always cap the subsidiary's Long-Term Foreign-Currency IDR, and broader country risks will usually prevent the subsidiary's Long-Term Foreign- *and* Local-Currency IDRs being more than three notches above the sovereign. For more details, see *Annex 2: Rating Financial Institutions Above the Sovereign*.

III.2.2 Parent's Propensity to Support Subsidiary

Importance of this Assessment: Even where a parent is able to support a subsidiary bank, whether it does or not will depend on the owner's propensity to support. Fitch usually views the propensity of parent institutions, in particular parent banks, to support bank subsidiaries as high.

In assessing support propensity, Fitch analyses the factors listed below (see also below table). In the absence of ability (including country risk) constraints, a subsidiary which Fitch views as 'core' will usually have ratings equalised with the parent; a subsidiary viewed as 'strategically important' will usually have ratings one notch (but in some cases, two notches) lower than the parent; and a subsidiary viewed as being of 'limited importance' will usually be rated at least two notches below the parent. Where a parent bank has adopted a resolution plan, Fitch may review this, where possible, for indications as to whether it would be likely to support the subsidiary in case of need.

Role in Group: A subsidiary's role in the broader group is often a key factor in determining the parent's propensity to provide support. Where the subsidiary represents a key and integral part of the group's business, providing some of the group's core products/services to customers in core markets, the propensity to support will usually be higher than when the subsidiary has limited synergies with the parent and is not operating in a target market. In some cases, Fitch's view of the strategic importance of the market where a subsidiary operates will take into account the role of a group of subsidiaries. An example may be a small foreign bank subsidiary which is of limited importance by itself, but is one of several subsidiaries operating in a strategically important region for the parent.

Notching of Subsidiaries

Notching relative to parent rating[a]	Equalised	One notch	Two or more notches
Parent's ability to support and subsidiary's ability to use support			
Parent/group regulation	Parent regulator and/or regulation would be likely to favour support of subsidiary by parent entity.	Parent regulator/regulation is neutral for subsidiary support.	Parent regulator/regulation may restrict support, or capital/tax implications of support may be very onerous.
Relative size	Any required support would be immaterial relative to ability of parent to provide it.	Any required support would likely be manageable relative to ability of parent to provide it.	Required support could be considerable relative to ability of parent to provide it.
Country risks	Country risks do not constrain subsidiary's ability to use parent support.	Country risks (e.g. transfer & convertibility risks) represent moderate constraint on subsidiary's ability to use parent support.	Country risks (e.g. transfer & convertibility risks) represent significant constraint on subsidiary's ability to use parent support.
Parent propensity to support			
Role in group	Key and integral part of the group's business, provides some of group's core products/services in same jurisdiction as parent or to core market(s).	Strong synergies with parent, providing products/services in jurisdictions or markets identified as strategically important.	Limited synergies with parent, not operating in target jurisdictions or markets.
Potential for disposal	Sale is very hard to conceive; disposal would noticeably alter overall shape of group.	No plans to sell, although disposal would not fundamentally alter overall group franchise; country risks raise moderate doubts over long-term commitment to the subsidiary.	Potential candidate for sale, or might already be up for sale; disposal would not be material for group franchise; country risks raise more material doubts over long-term commitment to the subsidiary.
Implication of subsidiary default	Default would constitute huge reputational risk to parent and very materially damage its franchise.	High reputational risk for parent, with potential for significant negative impact on other parts of group.	Reputational risk would probably be containable for parent.
Integration	High level of management and operational integration; capital and funding largely fungible.	Significant management independence; some operational/regulatory restrictions on transfers of capital and funding.	Considerable management independence; significant operational/regulatory restrictions on transfers of capital and funding.
Size of ownership stake	Full ownership or large majority stake (more than 75%).	Ownership of less than 75%, but limited influence of minority shareholder(s) on subsidiary operations.	Ownership of less than 75%, and significant influence of minority shareholder(s) on subsidiary operations.
Support track record	Support is unquestioned, reflecting high level of integration and fungibility of capital/funding.	Timely and sufficient provision of support, when the need has arisen, or no prior cases of support being needed; country risks raise moderate concerns over support in a sovereign default scenario.	Support has been provided with some delays or has only been moderate in volume relative to subsidiary needs; country risks raise more material concerns over support in a sovereign default scenario.
Subsidiary performance and prospects	Long and successful track record in supporting group objectives, which is likely to continue.	Limited track record of successful operations or moderate long-term prospects.	Weak performance track record or question marks over long-term viability of business.
Branding	Shares same brand as parent.	Combines parent and own branding.	Subsidiary branded independently from parent.
Legal commitments	Parent has made strong legal commitment to support subsidiary or there is a regulatory requirement to support.	Parent has made non-binding commitment to support subsidiary.	Parent has not made any legal commitment to support subsidiary.
Cross-default clauses	Potential acceleration of parent debt provides strong incentive to prevent subsidiary default.	Potential acceleration of parent debt provides moderate incentive to prevent subsidiary default.	Subsidiary default would not trigger acceleration of parent debt.

[a] Indicates typical differential between support-driven Long-Term IDR of subsidiary and Long-Term IDR of parent (or VR, if Fitch believes sovereign support for parent would not flow through to subsidiary). Subsidiary could be rated higher than the level implied by parental support if it has a higher VR or SRF
Source: Fitch Ratings

Fitch will typically rate foreign subsidiaries operating in non-core markets at least one notch below their parents. This reflects the usually somewhat lower strategic importance and integration of foreign entities, and moderately less severe contagion risk from a foreign subsidiary default, compared to that of a domestic entity. It also reflects the probably somewhat lower likelihood of pressure from the parent bank's regulator to provide support to a foreign, as opposed to a domestic, subsidiary.

At the same time, Fitch will often equalise the ratings of a foreign subsidiary with its parent institution where the subsidiary operates in a market long regarded as core by the parent. Equalisation is also possible in cases where the foreign entity effectively operates as a branch or booking entity of the parent.

Potential for Disposal: Where the potential for disposal is very low, for example because the sale of the subsidiary would significantly alter the overall shape of the group and deprive it of a key part of its business, subsidiary ratings are more likely to be equalized with those of the parent. Where the subsidiary could be more easily separated from the group, and in particular where the entity is already up for sale or being prepared for sale, Fitch usually views the support propensity as being less strong.

As well as constraining a subsidiary's ability to use parent support to service its obligations (see *Country Risks* under III.2.1), country risks can also affect the long-term financial prospects of an overseas subsidiary and thus weaken a parent's commitment to maintaining a presence in a country. This means subsidiary ratings are usually capped no more than two notches (three notches where we view commitment as being very robust in a high sovereign stress scenario) above a sovereign IDR even if a country ceiling is higher.

Implication of Subsidiary Default: The parent institution's decision on whether to support a subsidiary will in many cases consider the near-term costs and benefits of providing (or not providing) support. Where default would constitute a huge reputational risk to the parent and could undermine its franchise or even viability, the propensity to support will often be higher than when reputational risk is limited and the direct impact on the parent will be containable.

Integration: A high level of management, operational and balance-sheet integration between parent and subsidiary would usually be viewed by Fitch as underlining the parent's strategic commitment to the subsidiary, and making a default of the subsidiary potentially more onerous and costly for the parent. These factors would typically result in a higher propensity to support, in the agency's view, and therefore lower notching or equalisation of ratings between parent and subsidiary Long-Term IDRs. In particular, if the parent provides a high proportion of the subsidiary's non-equity funding, this could raise considerably the cost for the parent of the subsidiary's default and potential bankruptcy, and increase the incentive to provide support.

Where the degree of integration between parent and subsidiary is very high, such that the latter operates similarly to a branch, or is effectively a booking entity, Fitch may equalise the Long-Term IDRs of parent and subsidiary, or assign these within one notch of each other, even where the subsidiary is of limited strategic importance. Such highly integrated subsidiaries would normally not be assigned VRs.

Ownership: Fitch does not usually distinguish between full and large majority (over 75%) ownership in assessing a parent's propensity to support a subsidiary. However, if a minority owner has a relatively large (over 25%) stake, this could moderately reduce the perceived moral obligation of the parent to unilaterally support the subsidiary, and might complicate and delay decisions on the provision of joint support. Fitch will therefore be less likely to equalise ratings where a large minority shareholder exists. Furthermore, the agency may notch twice or more, rather than once, where the stakes of majority and minority shareholders are close to parity, or where some element of competition or confrontation exists between the shareholders.

Support Record: A strong record of provision of timely extraordinary support to a subsidiary (or to other subsidiaries within the group) under a broad range of stress scenarios can positively influence Fitch's assessment of a parent institution's propensity to provide support, and thus limit the notching of a subsidiary's Long-Term IDR relative to that of its parent. In addition, Fitch views positively a high level of 'ordinary' support, whereby a parent operates a subsidiary with comfortable liquidity and, in particular, capital buffers, rather than simply meeting minimum regulatory requirements.

In the event of a default by its home sovereign, the stand-alone profile of a subsidiary will probably have suffered significant impairment. Potential uplift of a subsidiary's rating above the sovereign rating of its domicile will, therefore, usually be limited because of some uncertainty that the owner's commitment to providing continued support will remain in place in a sovereign default scenario. Uplift will be usually be limited to two notches above a sovereign IDR (three notches where we view support as being very robust in a high sovereign stress scenario) even if a country ceiling is higher.

Subsidiary Performance and Prospects: A strongly performing subsidiary with generally good prospects will usually, in Fitch's view, be somewhat more likely to be supported by its parent than a subsidiary with a track record of moderate or weak performance. At the same time, the agency also takes into account that a subsidiary in need of extraordinary support has by definition suffered a sharp deterioration in its performance, which weakens the relevance of any historically strong profitability in assessing future prospects.

Branding: Where a subsidiary shares branding with its parent institution, this may signal an increased commitment to, or greater integration with, the subsidiary on the part of the parent. Common branding may also increase reputational risk for the parent in case of a subsidiary default, potentially also increasing the propensity to support.

Legal Commitments: An unconditional and irrevocable guarantee, which contains specific third-party beneficiary language, and permits subsidiary creditors to press claims against the guarantor in the event of default by the subsidiary, would serve as a floor for the IDR of the subsidiary and/or its guaranteed debt.

A formal support agreement entered into by the parent entity, for example to maintain capital and liquidity requirements of a bank subsidiary above a defined threshold, will be regarded as moderately positive for subsidiary ratings. However, although certain support agreements are legally binding while in force, they are usually revocable, and can also be withdrawn if the subsidiary is divested, meaning they will typically provide very limited uplift, if any, for a subsidiary's ratings. In rare cases, a subsidiary may be incorporated with unlimited liability, creating a clear legal obligation for the parent institution to provide support. In such cases, Fitch would be likely to equalise the Long-Term IDRs of subsidiary and parent, unless there are constraints arising from country risks.

A strong "Patronatserklaerung", or declaration of backing, by a German parent for its subsidiary, although not a legal obligation, would be taken into consideration by Fitch as strong evidence of the parent's propensity to support. A profit and loss sharing agreement between a German parent and subsidiary would usually result in the subsidiary's Long-Term IDR being equalised with that of the parent.

Non-binding commitments from parent banks to support subsidiaries, such as public management comfort letters (for example, in bond prospectuses), strategic statements (for example, in annual reports) or letters lodged with subsidiary regulators, can be positive for our assessment of support by defining management's intent and potentially providing a stronger moral obligation on the part of the parent to provide support to the subsidiary. However, as such non-binding commitments are not enforceable they can have limited direct bearing on rating decisions in and of themselves.

Cross-Default Clauses: Cross-default clauses in parent bank funding agreements may specify that a subsidiary default will constitute an event of default on the parent obligation, thereby granting acceleration rights to parent creditors. While this creates no obligation for the parent to support the subsidiary, it may create a significant incentive to do so, raising the propensity to provide support. The strength of this incentive will depend, among other things, on the volume of obligations potentially subject to acceleration, whether the terms of the acceleration would be attractive to creditors and hence be taken up (for example, whether the redemption price would be above or below the current market price), and whether creditors may waive their acceleration rights, perhaps for a fee.

Level of Parent IDRs: Where the parent institution's Long-Term IDR is at a low, speculative-grade level (typically in the 'B' range or below), Fitch is more likely to equalise parent and subsidiary Long-Term IDRs. This reflects the fact at the lower end of the rating scale the difference in default risk between successive rating notches becomes greater, and so it may be appropriate to assign a parent and subsidiary with relatively little risk differential the same levels of Long-Term IDRs.

Ratings of Foreign Branches: When we explicitly assign IDRs and debt ratings to foreign branches, we align them with the head office IDRs and debt ratings, unless there are country risk constraints, because they are part of the same legal entity. Although such jurisdictions as the US and the EU have powers to resolve branch assets and liabilities separately, Fitch would normally expect that there would be a coordinated resolution of the entire legal entity led by the home country authorities.

The Foreign-Currency IDRs of branches are likely to be capped at the Country Ceiling as any transfer and convertibility restrictions imposed by the sovereign are likely to apply to deposits and other liabilities kept in branches. However, foreign-currency debt issued by the branch may be rated higher than the Country Ceiling, and in line with debt issued by head office, where investors are typically outside the country and branch assets placed outside the country (for example, deposits at central treasury) are sufficient to repay the debt, or where Fitch believes that the bank would use non-branch assets to service debt in case of transfer and convertibility restrictions. A branch's Local-Currency IDRs may also factor in country risks where Fitch believes that any potential restrictions on local banks servicing local-currency obligations could also be applied to branches.

Where statutory preference in the jurisdiction of the head office results in a deposit rating or DCR above the IDR, this may not apply to depositors or derivative counterparties in foreign branches (and thus to respective branch DCRs and deposit ratings) if legal preference cannot be identified clearly. Where Fitch does not assign ratings to a foreign branch, country risks (notably transfer and convertibility risk, but also banking sector intervention risk in general) represent a limitation to using head office ratings as a proxy for branch default risk.

Support from Sister Entities: Fitch may factor support from sister entities, as well as parent institutions, into bank ratings, where it believes this potential support to be strong. However, in assessing this potential support, Fitch will consider in particular (i) whether the sister company's propensity to support could be materially weaker because it does not hold a stake, and therefore would not suffer any direct balance-sheet impairment as a result of the rated entity's bankruptcy; and (ii) whether the regulator of the sister institution may seek to restrict support in order to safeguard the solvency of the former.

Non-Bank Parents: The propensity and ability of corporate and insurance parents to support bank subsidiaries is assessed using similar principles as for parent banks. The relative size of the parent and subsidiary, the parent's creditworthiness and financial flexibility and the importance of the subsidiary to the core business of the parent will be relevant considerations. In general, Fitch believes parents that are prudentially regulated (e.g. insurance companies) or whose bank subsidiaries support the parent's core business (e.g. captive car lenders, or banks acting as group treasuries) are likely to have a higher propensity to support bank subsidiaries than corporate parents whose banking subsidiaries are more akin to investments driven by diversification goals.

Sub-National Governments: Sometimes Fitch views potential support from a federal state or other subnational (regional, municipal or local) authorities as sufficiently strong to drive a bank's IDRs. Fitch usually treats this as a form of institutional support, and therefore typically does not assign SRFs based on support from a subnational. However, in exceptional cases, for example when the subnational itself benefits from a robust and tested framework of integration and support at the national level, Fitch may also assign a SRF based on subnational support.

In Fitch's view it is very unlikely that a subnational would seek to provide support to the regional banking system in its entirety, and so the agency's assessment of support will focus on the subnational's ability and propensity to support a specific institution. In assessing a subnational's ability to support, the following additional considerations will apply in respect to some of the factors listed in "Notching of Subsidiaries".

Relative Size: Fitch will consider here the overall financial flexibility of the sub-national government (to the extent that this may be somewhat greater or lower than suggested by its ratings), including the size of its budget, available liquidity and ability to raise additional debt, if required.

Role in Group: Under this factor, Fitch will consider the existence of any special relationship between the subnational and the bank, for example, if the bank has an important policy role or agency function in the region, or is a banker for the regional government.

Implication of Subsidiary Default: Fitch will consider here the systemic importance of the bank to the regional banking system and economy as a whole (as measured, for example, by its shares in deposits and loans in the region).

If a bank has a significant presence outside its home region, it is more likely that Fitch will regard the sovereign as the most probable source of potential external support. Ratings-based on subnational support are more likely where a bank has a strong presence in its home region, but limited operations in the rest of the country and internationally.

Changes in Support Propensity and Sale of Subsidiary

Based on changes in circumstances, Fitch may change its view on a parent's propensity to support a given subsidiary. In some cases, for example if Fitch were to perceive a sharp change in a subsidiary's role in the group, the potential change in a subsidiary's support rating and IDRs could be significant (e.g. by multiple notches).

Gradual Trend: If Fitch believes that a parent's propensity to support a given subsidiary is gradually changing, whether because of changes in strategic importance or due to other factors listed above, Fitch may change the Outlook on the subsidiary's Long-Term IDR (assuming it is support-driven), and the revised Outlook could be different to that on the parent's Long-Term IDR. For example, if a parent has a Stable Outlook, but Fitch believes a core bank subsidiary is becoming less important to the group, Fitch could change the Outlook on the subsidiary to Negative to indicate the potential change in rating associated with its lessening strategic importance. Conversely, a gradual increase in a subsidiary's strategic importance could result in its Long-Term IDR having a Positive Outlook while the Outlook on the parent's Long-Term IDR is Stable.

Sale Risk: Fitch does not explicitly capture sale risk in its ratings, prior to a formal announcement that a subsidiary is to be sold or is up for sale. However, in the agency's view, there is usually a close correlation between a subsidiary's strategic importance and the likelihood of it being sold (see *Notching of Subsidiaries* on page 57). Sale risk should therefore usually be low in cases where a subsidiary's Long-Term IDR is equalised with, or within one notch of, that of its parent.

Sale Announced, Buyer not Identified: If a parent announces that a subsidiary is up for sale without a buyer yet being identified or that management is exploring strategic alternatives with respect to the entity, or if a regulator requires that a parent divest a subsidiary, then Fitch will reassess the parent's propensity to provide support to the entity concerned. If the agency believes the strategic importance of the subsidiary has reduced, such that the parent will have a lower propensity to provide support prior to the sale, or in case a sale does not go through, the Long-Term IDR of the subsidiary may be downgraded. If Fitch believes there is a significant probability a sale will take place, the ratings of the subsidiary are also likely to be placed on Watch.

In taking rating actions following a sale announcement, Fitch will also consider whether a relatively narrow group of highly rated potential acquirers has already been identified, or whether a regulator has indicated that it will approve a sale only to a highly rated entity. In such cases, the risk of the subsidiary's Long-Term IDR being downgraded may be limited, and the ratings may therefore be maintained at their former levels even when Fitch believes the subsidiary has become less strategically important for its current parent.

Conversely, if Fitch believes that a subsidiary will most likely be sold to an entity with a much lower rating than the current parent, then the subsidiary's Long-Term IDR may be downgraded immediately following the announcement concerning the potential sale. This may be the case, for example, when a highly rated parent bank is exiting an emerging market and Fitch believes that local, lower-rated entities are more likely acquirers than other highly rated foreign banks.

Sale Announced, Buyer Identified: If a parent announces that it has reached an agreement to sell a subsidiary to a specific buyer, and in Fitch's view the probability of support from the new buyer differs from that of the current owner (with the potential to affect the subsidiary's Long-Term IDR), then Fitch will place the subsidiary's Long-Term IDR on Watch. The rating Watch may be Positive, Negative or even Evolving, depending on the potential impact of support from the new owner on the rating.

If the Long-Term IDR is likely to be downgraded following the sale, and if Fitch believes the current owner would have a materially lower propensity to support the subsidiary should the sale not go through for any reason – ie in all likely scenarios the ratings will be downgraded – then it may downgrade the IDR immediately following the announcement. If Fitch believes that the sale could also result in material changes in the subsidiary's stand-alone profile, eg because of the loss of "ordinary support" or because of changes in strategy, then its VR may also be placed on Watch.

Upon completion of the sale, or earlier if appropriate, Fitch will resolve the Watch on the IDR based on its assessment of the probability of support from the new owner. If the subsidiary's VR has also been placed on Watch, this may be resolved immediately following the sale, or the VR may be reviewed at a later date, when the impact of the ownership change on the entity's standalone profile becomes clearer.

IV Rating Bank Holding Companies

BHCs are holding companies that own banks and non-bank financial institution operating subsidiaries (OpCo). They are usually subject to prudential requirements and have the same domicile as at least one of their principal OpCo(s).

The starting point for Fitch's assessment of a BHC's ratings, including deriving the VR assigned to a BHC (if one is assigned) is an assessment of the group's consolidated risk profile. This is usually undertaken through analysis of the consolidated BHC financial statements and overall group risk profile, but may also be determined through a 'bottom up' approach, assessing and then aggregating the individual risk profiles of the BHC's main banking subsidiary(ies) and other material assets.

Following an assessment of the group's consolidated risk profile, consideration is given to whether (downwards) notching is appropriate to reflect BHC features that could negatively impact the BHC creditors.

A high level summary of the baseline rating relationship between BHCs and OpCos and when we might deviate from the baseline is in the table below.

BHC/OpCo Rating Relationship Summary

Baseline	Deviation from baseline
BHC and main OpCo(s) have same VR and IDR, based on consolidated analysis of group	BHC higher default risk, lower rating: BHC IDR and VR notched down from main OpCo(s) and/or level implied by consolidated analysis to reflect higher default risk arising from structural features eg high double leverage, less prudent liquidity management. OpCo lower default risk, higher rating: OpCo IDR notched up above BHC IDR because OpCo senior default risk is lower than BHC senior default risk. This is most likely to arise because the BHC has a role in re-capitalising OpCo in resolution (eg through bail-in of down-streamed debt). Bottom-up analysis: BHC ratings are assigned by analysing the financial statements and risk profile of a BHC's main banking subsidiary(ies) and other material assets plus notching down analysis (see above), rather than by consolidated analysis of the group.

Source: Fitch Ratings

The rest of this section then outlines in more detail i) Fitch's approach to rating BHCs and ii) Fitch's approach to determining whether or not to notch up the IDR of bank or non-bank financial institution OpCos due to the presence of suitable and sufficient debt buffers that are available to protect operating subsidiary third-party, non-government senior liabilities. OpCo notching will also take into account, where available, BHC group resolution plans, which have been accepted by regulators. Accepted resolution plans will often identify key subsidiaries to be beneficiaries of intra-group resources.

Consolidated analysis will also often, but not always, translate into the VR that is assigned to the BHC's main operating subsidiary(ies) in its primary, home location. But this will not always be the case, for example where a banking group operates under a diverse, federated structure or where resolution strategies differentiate operating companies' risk profiles even within the same, home jurisdiction. In such cases, though, operating companies' VRs may still be quite closely aligned because of group linkages or the 'ordinary' support available to them as part of the wider banking group (see also *Annex 1*).

Other investment or holding companies that are not BHCs but own banks may be rated under the *Bank Rating Criteria* (eg Acquisition Vehicle Holding Company – see page 66) or under the *Non-Bank Financial Institutions Rating Criteria* if more appropriate. Banks owned by such companies will still be rated under the *Bank Rating Criteria*, with analysis based on their own financial statements, but also considering potential risks and benefits of the wider group, where appropriate.

Notching Down or Equalising BHCs

A BHC's VR (where assigned) and Long-Term IDR is usually equalised with those of its main operating subsidiary (or the rating level implied by consolidated analysis of the group) or is rated one notch lower. This reflects the typically very close correlation between failure and default probabilities at material subsidiaries and the BHC.

In determining whether to equalise or notch down a BHC's ratings with/from the VR implied by consolidated analysis of the group or the VR of its main operating subsidiary(ies), Fitch will initially focus on the factors listed in the below table. In particular, the nature of group regulation, liquidity management and the extent of double leverage at the BHC level will be key factors in determining any notching.

Fitch employs a relatively narrow definition of double leverage based on common equity and may look through to 'core' double leverage where a group uses an intermediate holding company(ies) e.g. as part of a resolution process. However, mismatches in the sources and use of BHC funds that have no effect on a bank's common equity double leverage, could also result in a BHC's VR and IDR being notched down if, for example, they present a notable liquidity risk due to actual or potential cash flow mismatches. Regulatory restrictions on dividend flows from a subsidiary represent one form of liquidity risk, but liquidity mismatches could arise in other ways too. For example, BHC borrowing on a senior basis that is down-streamed as additional Tier 1 (AT1) or preferred stock would create potential cash flow mismatches and negatively influence our assessment of BHC liquidity. In such cases, Fitch may, where relevant, also consider broader measures of double leverage.

Equalisation or Notching of BHCs

	Attributes which support equalising BHC VR with those of main bank subsidiary or consolidated risk assessment	Attributes which support assigning VR BHC lower than main bank subsidiary or consolidated risk assessment
Regulatory focus	Group as consolidated entity.	Protection of bank creditors.
Capital and liquidity fungibility	Little or no regulatory restrictions on subsidiary paying dividends or upstreaming liquidity to BHC.	More onerous regulatory restrictions on dividends and liquidity transfers.
Jurisdiction	BHC and main bank subsidiary incorporated in same jurisdiction.	BHC and main bank subsidiary incorporated in different jurisdictions.
Double leverage	Low or moderate, i.e. common equity double leverage[a] (defined as equity investments in subsidiaries plus BHC intangibles, divided by BHC common equity) of below 120%.	Significant, i.e. common equity double leverage of above 120% for a sustained period, unless mitigated by some other means (e.g. subsidiary liquidity support agreement), indicative of potentially burdensome level of BHC debt service costs.
BHC liquidity management	Prudent, with contingency plans in place.	Less prudent, with limited contingency plans in place.
Subsidiary ownership	Full, or large majority, ownership and control of main bank subsidiary by BHC.	Significant minority ownership of, and influence over, main bank subsidiary.
Credit enhancement	Guarantee of BHC debt by main operating subsidiary, or cross default clauses, referencing BHC debt, in subsidiary funding agreements.	No guarantees or cross default clauses.

[a] When a holding company issues senior debt to finance material non-equity capital injections into the subsidiary, Fitch may, where relevant, also consider a broader measure of double leverage, e.g. one which uses total capital, instead of common equity, in numerator and denominator
Source: Fitch Ratings

Fitch may notch down a BHC's VR by more than one notch where:

- other operating subsidiaries form a significant part of the group and are rated lower or are of notably higher risk than the main subsidiary (unless already addressed through a consolidated analysis as opposed to a 'bottom up' approach);
- other factors exist which result in a significant difference between the failure/default probabilities of holding company and bank subsidiary, for example (but not restricted to) very high double leverage and very high liquidity risk specific to the BHC, or notable lack of capital or liquidity fungibility within the group because of regulatory restrictions placed on cash flows from the operating subsidiary;

Where more than one of these factors applies (eg BHC's credit profile is negatively affected by material and weaker non-bank subsidiaries, which it is obliged by local regulation to support and very high common equity double leverage), the BHC is more likely to be rated two or more notches below the main operating bank subsidiary.

A BHC's IDR may be lower than an OpCo's IDR, potentially by multiple notches where the OpCos's Long-Term IDR is driven by potential sovereign support, and in Fitch's view there is significant uncertainty as to whether the same sovereign support would be extended to the BHC.

Notching Up OpCo IDR

Additionally, Fitch will apply a one-notch[15] uplift above a BHC's Long-Term IDR to the Long-Term IDRs of bank and NBFI OpCos under the following circumstances:

- Domestic OpCo: OpCo LT IDR would otherwise be equalised with BHC LT IDR on a VR basis or due to extraordinary support *and* BHC has a clearly defined and credible role in protecting OpCo external senior creditors in resolution after the group/BHC has failed and the BHC's senior creditors are exposed to loss (e.g., by way of down-streamed junior debt); or
- Foreign OpCo: OpCo LT IDR would otherwise be equalised with BHC LT IDR on a VR basis or due to extraordinary support *and* Fitch expects the BHC to be required by resolution authorities to pre-place junior debt or equity in the overseas OpCo or in the jurisdiction of the overseas OpCo to meet resolution requirements. Uplift may also be applied where similarly material buffers have voluntarily been pre-placed; on the basis of accepted resolution plans that identify key foreign subsidiaries to be beneficiaries of intra-group resources; or where buffers have not been pre-placed but the parent and subsidiary are part of the same resolution group and have the same resolution authority.

IDR uplift will be subject to country ceiling/sovereign constraints (see *Annex 2*) and Fitch will not assign uplift if we have material concerns that OpCo external senior creditors will not be protected, for example if there are high levels of weakly reserved problem assets relative to anticipated protection levels; very high leverage or RWA volatility.

Subsidiaries of OpCos: Where the Long-Term IDR of an OpCo has been notched up, its IDR will usually serve as the anchor rating for the IDRs of highly integrated domestic subsidiaries; and highly integrated international subsidiaries located in jurisdictions where we expect buffers of junior debt/equity to be pre-positioned to meet resolution requirements; where similarly material buffers have voluntarily been pre-placed; on the basis of accepted resolution plans that identify key foreign subsidiaries to be beneficiaries of intra-group resources; or where buffers have not been pre-placed but the parent and subsidiary are part of the same resolution group and have the same resolution authority.

Otherwise, the IDRs of OpCo subsidiaries will usually be notched off the OpCo's VR (or BHC's VR if the OpCo does not have a VR), reflecting significant uncertainty as to whether subsidiary senior creditors would benefit from the parent's junior debt buffer in case of the latter's failure.

Acquisition Vehicle Holding Company

In some instances, Fitch assigns ratings to debt issued by a holding company set up/used to acquire a bank. The acquisition vehicle typically ultimately owns the bank and its debt is typically secured on the assets of the finance holding company (in essence its investments in subsidiaries and ultimately the bank itself).

In this case, Fitch's analysis would likely incorporate elements of Fitch's rating approach for investment companies under the *Non-Bank Financial Institutions Rating Criteria*, notably when assessing the issuer's capitalization and leverage as well as its funding, liquidity and coverage profile. As part of this assessment, Fitch analyses relevant regulatory and legislative aspects, the operating entity's ability to upstream dividends to the issuing entity in comparison to the debt quantum and interest expenses of the issuing entity. Fitch would also take other potential income streams of the issuing entity into consideration, including, where relevant, interest income on intercompany loans and cash flows from other group entities.

[15] Two notches possible if BHC ratings are themselves notched down; more notches possible in the 'B' range or lower, in which case Fitch's opinion of an OpCo's credit profile after it has been recapitalised is likely to be the key determinant of the uplift and OpCo IDR.

V: Issue Ratings

V.1 High Level Principles

Long-Term Obligation Ratings

The ratings assigned by Fitch to long-term bank obligations (debt and deposits) incorporate an assessment both of the likelihood of default/non-performance and of potential recoveries for creditors in case of default/non-performance.

Fitch's assessment of default and recovery is influenced by what is the most appropriate anchor rating to consider, the legal entity structure, the composition of the capital structure, specific obligation characteristics and the regulatory framework.

Anchor Rating

Long-term senior unsecured debt and deposit ratings are anchored to a bank's Long-term IDR as Fitch typically views non-performance on these obligations as being symptomatic of the default of the bank. Because IDRs reflect Fitch's expectations of extraordinary support, long-term debt and deposit ratings also reflect expectations of extraordinary support, where relevant.

Ratings assigned to subordinated debt and more junior obligations are more often anchored to a bank's Viability Rating (VR). This reflects Fitch's view that extraordinary support, which is absent from the VR, is less likely to extend to non-senior obligations. However, where Fitch believes institutional or sovereign extraordinary support is likely to be extended further down the capital structure, a bank's Long-term IDR[16] is used as the anchor rating for those obligations.

Notching

Long-term senior unsecured debt is often rated at the same level as a bank's Long-term IDR. This reflects Fitch's view that the default risk of senior debt is equivalent to the default risk related to the IDR and that senior obligations are viewed as having average recovery prospects. Senior obligations may also be notched from the IDR. Generally this rating outcome would be reflective of Fitch's analysis indicating one of the following being present:

- meaningfully higher/lower vulnerability to default of preferred senior obligations relative to the IDR anchor; or
- a heightened likelihood of below average recoveries (one notch down) or poor recoveries (two notches down; applies when IDRs are in the B range or lower); or
- a heightened likelihood of above average or better recoveries (notched up).

Subordinated and hybrid debt obligations are typically notched down from their anchor to reflect:

- a heightened likelihood of below average recoveries (one notch down) or poor recoveries (two notches down) arising from their subordinated status; and
- where relevant, incremental non-performance risk relative to the anchor, typically in respect of coupon omission or deferral risk.

Where Fitch believes there is a strong likelihood that a bank would bail-in/convert to equity junior debt already placed with shareholders, other related parties or government entities before imposing losses on third-party subordinated or hybrid securities, it may notch up from the VR in determining the anchor/level of non-performance risk on these securities.

[16] Anchor is LT IDR if Fitch judges that support is as likely for junior debt as it is for senior debt and one notch below IDR if support is judged to be moderately lower for subordinated or hybrid debt relative to senior debt. Where probability of support is assessed as even lower, wider notching will apply from the IDR to determine the anchor.[17] Some banks may be subject to multiple requirements (e.g. TLAC and MREL for EU global systemically important banks). In such instances, Fitch will consider the requirement that is most likely to capture the point up to which resolution authorities are likely to impose losses. This is likely to be full resolution buffer requirements, rather than a subordinated sub-set of it.

In cases where a bank has not been assigned a VR, a parent's VR or IDR may be the most appropriate anchor rating for junior debt (e.g. in the case of securities issued by an operating subsidiary) or Fitch will undertake more bespoke analysis of the non-performance and loss severity risks to reflect the specifics of the situation (e.g. in the case of a non-operating, wind-down bank) and communicate its approach in its public commentary.

V.2 Typical Rating Structures

In jurisdictions without sophisticated bank resolution, bank senior unsecured debt will be aligned with an issuer's IDR unless conditions are met to notch up or down at low rating levels (see section V.3 below).

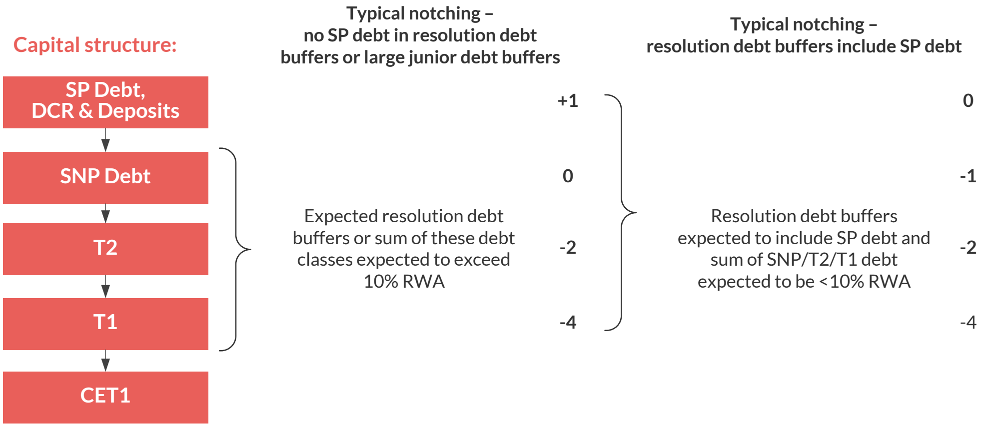
Senior unsecured debt issued by BHCs in jurisdictions without sophisticated bank resolution may be notched down if recoveries are likely to be below average (eg BHC senior and group junior debt buffers <10% RWA; debt down-streamed in junior manner; high concentration risks). But, even in these cases, it will not be notched down if T2 debt is only notched down once, partial support in default is likely to reduce losses, or a BHC's IDR is itself notched down.

Notching of senior unsecured debt and deposits is far more likely to occur in jurisdictions with sophisticated bank resolution regimes. The following examples outline typical notching outcomes in four scenarios in jurisdictions with sophisticated bank resolution regimes and where resolution authorities are setting resolution buffer requirements[17] to help facilitate the orderly resolution of failed banks. When considering whether to notch, Fitch will follow principles outlined in the examples below in jurisdictions where there is a different ranking of senior liabilities.

Full details of our approach for notching subordinated and hybrid securities are outlined in section V.4:

Example 1: Bank-only structure (no BHC); no depositor preference

Bank-Only Structure: No Depositor Preference



Source: Fitch Ratings

Under this capital structure, a bank has both senior non-preferred (SNP) debt and preferred senior obligations eg senior preferred (SP) debt, deposits and derivative counterparties. Where i) resolution buffer requirements determined by resolution authorities are expected to be met with SNP and more junior debt/equity; or ii) where SNP and more junior debt buffers are expected to be built that sustainably exceed 10% of RWA, SNP debt will typically be aligned with an issuer's IDR and SP debt and deposits will be typically notched up once. Otherwise, SNP debt will typically be notched down once from an issuer's IDR and SP debt equalised.

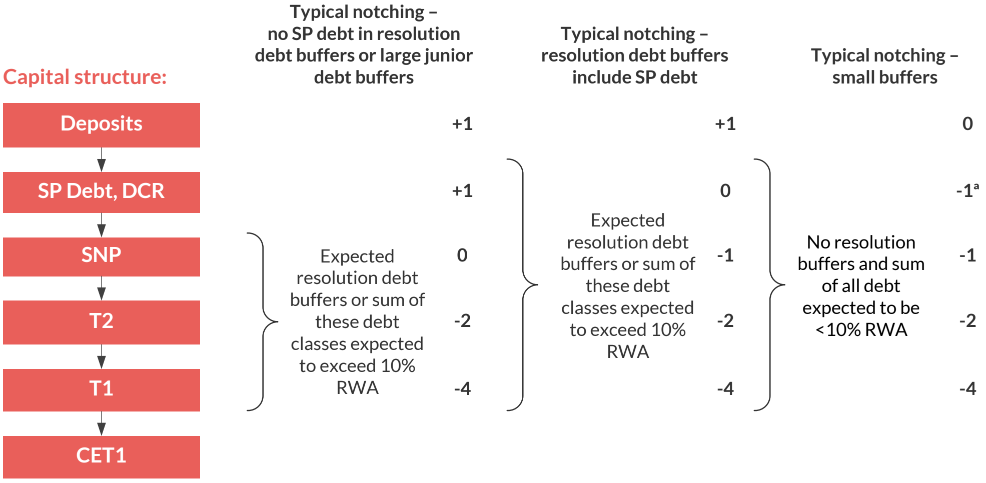
[17] Some banks may be subject to multiple requirements (e.g. TLAC and MREL for EU global systemically important banks). In such instances, Fitch will consider the requirement that is most likely to capture the point up to which resolution authorities are likely to impose losses. This is likely to be full resolution buffer requirements, rather than a subordinated sub-set of it.

Exceptions/Additional Considerations:

- If T2 debt is only notched down once, senior debt will not be notched down;
- Some SNP debt must have been issued for uplift to be applied to preferred senior liabilities;
- Fitch will not assign uplift if we have material concerns that senior preferred creditors will not be protected, for example if there are high levels of weakly reserved problem assets relative to anticipated protection levels or very high leverage or RWA volatility;
- When considering the 10% uplift condition, Fitch will use RWA (or an estimate thereof) that best reflect the resolution approach of the issuer (eg, deconsolidating subsidiaries that are in different resolution groups). Where the resolution approach and/or RWA disclosures are unclear, Fitch may use a consolidated RWA figure. Fitch will not adjust RWA downwards for potential sales or other management actions;
- Fitch will place more weight on public funding plans in notching decisions.
- For senior debt or deposits of banks with institutional support-driven IDRs, uplift will not be applied if it means a subsidiary's debt class would be rated above the equivalent debt class of a resolution entity source of support;
- For foreign subsidiaries that source resolution buffers internally (ie from an ultimate parent), uplift will only be applied i) if junior debt/equity buffers are expected to be channelled into the subsidiary or jurisdiction of the subsidiary; or ii) if accepted resolution plans identify key foreign subsidiaries to be beneficiaries of intra-group resources; or iii) if parent and subsidiary have the same resolution authority;
- Senior preferred debt of banks whose IDRs are driven by sovereign support is eligible for uplift, but will not be rated above the supporting sovereign's IDR unless Fitch is confident that the authorities would not withdraw support prior to the sovereign itself defaulting, the buffers would remain in place when the bank defaults and the buffers would be sufficient to recapitalise the bank given the potential balance sheet impairment in a default sovereign default scenario;
- If a bank's IDR is above its VR due to QJD buffers (see section I.1), SNP debt will be aligned with the IDR and SP will be eligible for uplift if SNP debt is expected to sustainably exceed 10% RWA. Otherwise it will also be equalised with the issuer's IDR;
- If resolution plans are incomplete, notching decisions will be based on assumptions based on considerations such as the philosophy of resolution authorities, a bank's broader balance sheet management philosophy and peer behaviour. Should those assumptions change, ratings will also change.
- Country risks can prevent uplift (see *Annex 2*);
- Additional considerations at low rating levels are covered in section V.3.

Example 2: Bank only structure (no BHC); depositor preference

Bank-Only Structure with Depositor Preference



[a] Except for DCR, which is aligned with IDR
Source: Fitch Ratings

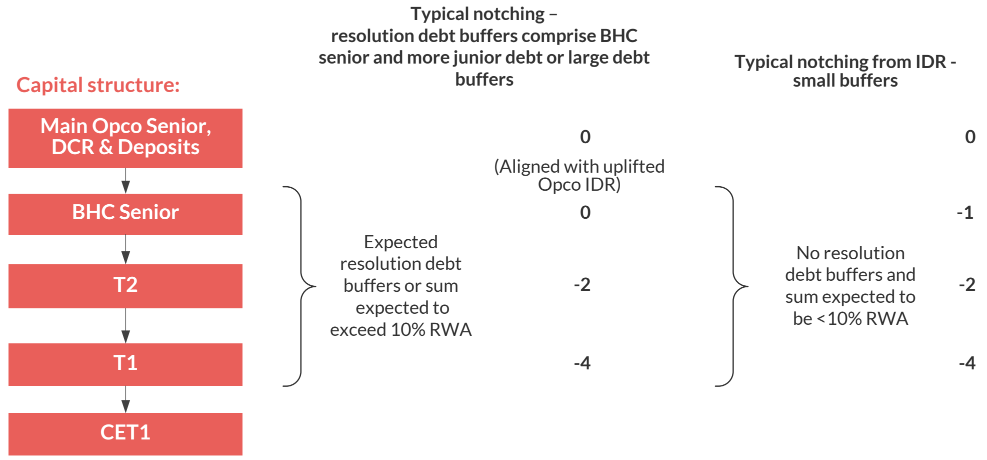
Relative to example 1, under this capital structure deposits are further preferred to all senior debt. The same principles apply as with example 1. Uplift will typically be applied to senior obligations where i) resolution buffers requirements determined by resolution authorities are expected to be met with more junior debt/equity; or ii) more junior debt buffers are expected to be built that sustainably exceed 10% of RWA. However, senior debt ratings may be notched down where recoveries are likely to be below average, for example where resolution buffers are expected to include more senior debt or where there are no resolution buffers and senior plus junior debt buffers are clearly <10% RWA

Exceptions/Additional Considerations:

Please refer to example 1 with the exception that SNP issuance is not required for deposits to be eligible for uplift.

Example 3: BHC/OpCo structure; no depositor preference

BHC/OpCo Structure – No Depositor Preference



Source: Fitch Ratings

Under this capital structure, where the default risk of a banking group's main OpCo is reduced by the presence of a BHC, the main OpCo's IDR will be one notch above that of the BHC (see section IV for more details), meaning the main OpCo's senior debt will be rated above the senior debt of the BHC. In situations where a BHC is not expected to help protect a main OpCo's senior creditors in resolution, BHC senior unsecured debt may be notched down if Fitch believes recoveries are likely to be below average (e.g. BHC senior and group junior debt buffers <10% RWA; debt down-streamed in junior manner; high concentration risks).

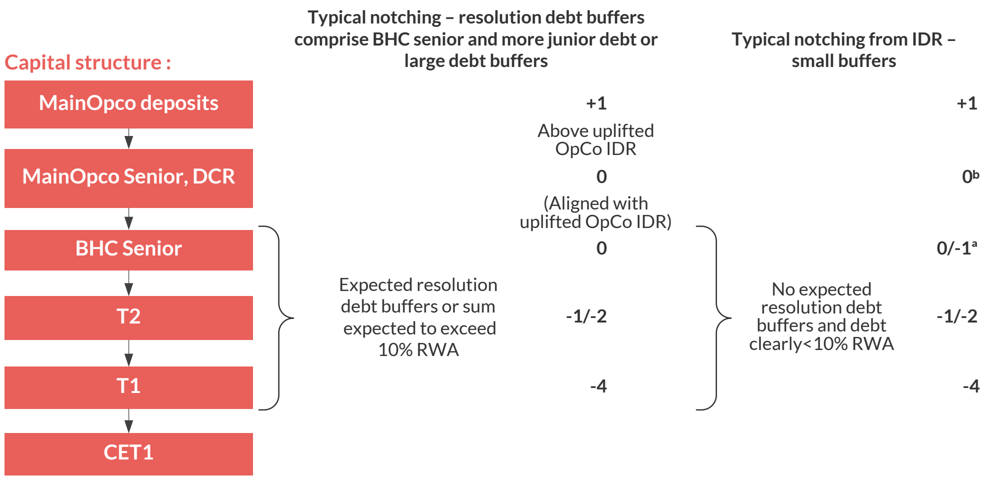
Exceptions/additional considerations:

- If T2 debt is only notched down once, senior debt will not be notched down;
- If BHC IDR is notched down, BHC senior debt will be aligned in order to prevent double-counting;
- If partial support in default is expected to reduce losses, BHC senior debt will not be notched down;
- BHC senior debt may not be notched down if it owns highly diversified and reasonably material subsidiaries;
- Country risks can prevent uplift (see *Annex 2*).
- Additional considerations at low rating levels are covered in section IV.3

Example 4: US-style BHC/OpCo structure; depositor preference

Under this example and relative to example 3, OpCo deposits are preferred to OpCo senior debt and are notched up if there is a clear record of above average recoveries in default.

US-Style BHC/OpCo Structure – with Depositor Preference



[a] 0 notches if T2 notched -1; -1 notch if T2 notched -2
[b] -1 possible for debt if sum of BHC and OpCo debt buffers clearly <10% RWA and T2 notched -2
Source: Fitch Ratings

Exceptions/Additional Considerations:

Please refer to example 3. In addition, OpCo senior debt will only be notched down to reflect below average recoveries if BHC senior debt is also notched down and BHC plus OpCo debt buffers are clearly <10% RWA.

V.3 Additional Considerations at Low Rating Levels

Greater notching up: notching uplift may exceed one notch when an issuer's IDR is in the B range or lower to reflect the difference in vulnerability to default of preferred senior obligations over non-preferred senior obligations. Fitch's opinion of an issuer's credit profile after the bank's failure has been addressed is likely to be the key determinant of the degree of uplift over an issuer's IDR.

Capital structure not followed: notching up may also occur in the 'B' range or lower due to the unequal treatment of:

- foreign law vs. local law bondholders;
- international creditors vs domestic creditors; or
- depositors vs. bondholders in a scenario where material restrictions are imposed on deposit withdrawals, but not on servicing debt.

Strong Recovery Prospects: In general, Fitch will not usually rate "non-preferred" senior unsecured liabilities higher than the bank's Long-Term IDR because of high uncertainty in assessing recovery prospects, for example due to lack of visibility over balance sheet structure and/or size of hole at point of default or concerns over legal frameworks (e.g., in some emerging markets).

However, when an entity is close to default and there is greater visibility on recovery prospects for senior unsecured creditors Fitch may notch up any senior unsecured debt/deposit ratings by 1-3 notches, to reflect recovery expectations outlined in section I.7.

Recovery Analysis: When Fitch views recovery risks as being particularly high for senior unsecured creditors, Fitch undertakes a recovery analysis on a bank's balance sheet. Fitch undertakes recovery analysis when the following conditions hold:

1. Senior unsecured creditors are effectively subordinated to a large majority of the bank's liabilities. This may happen due to a combination of:

    - depositor preference, whether this is written into bankruptcy or resolution legislation, or in Fitch's view is likely to operate or arise in practice in a given jurisdiction. This includes situations where a jurisdiction does not have full depositor preference, but a large majority of the bank's depositors are effectively preferred to senior debt, for example because retail and SME deposits are preferred;
    - secured funding, resulting in encumbrance of assets;
    - government funding, if other senior claims are legally subordinated to this, or in Fitch's view government creditors are unlikely in practice to share in losses in a default scenario;
    - related-party funding, if Fitch believes affiliated creditors will in practice gain preferential access to a bank's assets prior to or upon failure.

2. The bank is likely to be liquidated upon default, or in Fitch's view the recoveries received by senior creditors in a default scenario (including DDE) are likely to be close to those which would be received in a liquidation scenario. In Fitch's view, the following characteristics of a bank will usually make it less likely to be liquidated following default:

    - ***Systemic Importance:*** The preservation of a large, systemically important bank will often be prioritised by regulatory authorities, or such a bank may be a more likely acquisition target. They are also more likely to have formulated recovery plans that envisage some form of (less value destructive) debt restructuring as a way of avoiding resolution or liquidation.
    - ***Government Ownership:*** A government-owned bank may enjoy greater regulatory forbearance and protection from creditors following default, making it less likely to be liquidated.
    - ***Foreign Ownership:*** Where a bank's rating is constrained by the Country Ceiling, its default is more likely to result from regulatory intervention rather than balance-sheet impairment, making liquidation less likely. This would most typically be the case for a bank with a highly committed, strong foreign shareholder.
    - ***Prevalence of Liquidity Risks:*** Where Fitch views a bank's liquidity risks as being far more a threat to its credit profile than solvency risks, it is less likely that the bank will have suffered balance-sheet impairment upon default and so more likely that it will survive as a going concern.

3. The bank's Long-Term IDR is in the 'B' category or below, and so it is more likely to preserve its current balance sheet structure at the point of failure.

Where these three conditions all hold, Fitch conducts a break-up analysis of the bank's balance sheet in order to assess the extent of potential notching relative to an issuer's IDR. Fitch may also conduct such an analysis where one of the conditions does not hold, but the agency believes that recoveries for senior unsecured creditors may be highly vulnerable in a default scenario. This comprises three steps:

- a write-down of the bank's assets at least sufficient to eliminate its equity to simulate the solvency problems which have caused the bank's default (write-downs in excess of the bank's equity may be employed where Fitch views the bank's asset quality as being particularly vulnerable in a negative scenario);
- application of haircuts to the bank's or BHC's assets;
- allocation of the cash generated by asset sales to the bank's creditors, based on the expected actual priority of claims.

Such an analysis requires a large number of important assumptions concerning the structure of a bank's assets and liabilities upon default, the extent of asset impairment prior to default, the sale prices of different assets in a liquidation process and the extent to which the legal priority of creditor claims will be respected in practice. Accordingly, the agency will not simply map across the expected recoveries in such a break-up analysis to an assigned Recovery Rating and Long-Term issue rating (based on "Recovery Rating Scale" in Section I.7). Rather, the agency will also consider how sensitive expected recoveries are to small changes in assumptions, and will only notch down a bank's senior debt rating from its Long-Term IDR where its analysis predicts below-average recoveries under a range of reasonable assumptions.

V.4 Subordinated and hybrid debt notching

As stated previously, subordinated and hybrid debt are notched down from their anchor to reflect below average or poor recovery expectations and, where relevant, incremental non-performance risk expectations relative to the anchor. The tables below summarise and explain Fitch's base case and alternative case notching approach.

T1 and T2 Debt Rating Approach Summary

Base case notching	Alternative notching
T2 debt (no coupon deferral): 2 notches below IDR or VR anchor for loss severity; no notches for non-performance See also summary table below	**Recoveries unlikely to be poor:** then one notch below anchor to reflect subordination, but also loss severity mitigation e.g. due to: • Fitch expects a bank to build and maintain thick T2 and T1 debt buffers (>10% RWA); • if, in Fitch's judgement that main risks are to timely payment rather than recoveries (e.g. in some cases of transfer and convertibility risk); • partial support in default likely to mitigates losses; • early regulatory intervention is likely to reduce losses by intervening while there is still value in the estate for the lower parts of the capital structure; • authorities' approach to resolution/restructuring or historical experience mitigates losses for T2 and, in Fitch's view, establish a precedent that is likely to be repeated. **Incremental non-performance risk:** Notch down if: • risk of regulator-enforced losses is meaningfully greater than assessment of failure risk captured by Fitch's VR. Likely to be rare; • bond has a contingent conversion/write-down trigger that creates moderate (1 additional notch) or high (2 additional notches) incremental non-performance risk relative to the anchor.
T1 debt: 4 notches below VR anchor (2 notches for loss-severity, 2 notches for non-performance risk) See also summary table below	**Higher rating possible if:** • There is non-performance risk mitigation due to institutional support. In which case notch only for loss severity off IDR-based anchor but cap at equivalent rating of instrument issued by source of support; • There is non-performance risk mitigation due to sovereign support. In which case notch for loss severity off IDR-based anchor (see footnote 16) but cap at 'BBB' if SRF is in the 'AA' category and at 'BB+' if SRF is in the 'A' or 'BBB' category; • There is rating compression in 'BB'/'bb' range and below (see table below); • There are very high constraints to non-performance, especially if tested (some 'legacy' T1 instruments; rare) **Lower rating possible if** higher non-performance risk, eg due to: • a profits test; • thin capital buffers (eg <100bp) over coupon omission points; • low distributable reserves, if relevant
Deferrable T2 debt: 3 notches below VR anchor See also summary table below	**Higher rating possible if:** • There is non-performance risk mitigation due to institutional support (notch off IDR-based anchor but cap at equivalent rating of instrument issued by source of support); • There is non-performance risk mitigation due to sovereign support. In which case notch for loss severity off IDR-based anchor but cap at 'BBB' if SRF is in the 'AA' category and at 'BB+' if SRF is in the 'A' or 'BBB' category; • There is rating compression in 'BB'/'bb' range and below (see table below); **Lower rating possible if** above average non-performance risk, eg due to: • a profits test; • thin capital buffers (eg <100bp) over coupon omission points; • low distributable reserves, if relevant

Source: Fitch Ratings

Guidelines for Notching of Subordinated and Hybrid Instruments from VR Anchor Rating

		BBB-/bbb- or above			BB/bb category	B/b category and below[a]
Core features driving the rating	**Example instrument**	**For loss severity[b]**	**For non-performance risk[c]**	**Total**	**Total**	**Total**
Subordination; no coupon flexibility; may have non-viability loss absorption (contractual or statutory).	Tier 2; Basel III Tier 2	−1/−2[d]	0[d]/−1	-1 to -3 (base case -2)	-1 to -3 (base case -2)	-1 to -3 (base case -2)
Subordination; no coupon flexibility; write-off or conversion trigger	T2 contingent capital	1/-2[d]	0 to -2	-1 to -4	At least -2	At least -2
Subordination; easily activated trigger (e.g., profits test)	Certain legacy T2	−1/−2[d]	At least -3	At least -4	bb+ & bb: at least -4 bb-: at least -3	At least -3
Subordination; cumulative coupon deferral; often constrained	Deferrable T2 (e.g., Upper T2)	−1/−2[d]	-1 d or -2	-2 to -4	At least -2	At least -2
Deep subordination; non-cumulative coupon deferral, often constrained	Certain legacy T1	-2	-1 or -2	-3 to -4	At least -3	At least -3
Deep subordination; easily activated trigger (e.g. profits test)	Certain legacy T1	-2	At least -3	At least -5	bb+ & bb: at least -4 bb-: at least -3	At least -3
Deep subordination; fully discretionary coupon omission	Basel III Tier 1	-2	At least -2 (At least -3 where coupon buffers thin)	At least -4 (At least -5 where coupon buffers thin)	At least -4 except at BB-/bb- when at least -3	At least -3

[a] Where the VR is in the ccc category or below, the amount of notching may be capped by the difference between the VR and the lowest possible issue Rating (C)
[b] Relative to average recoveries
[c] Relative to VR
[d] Base case
Source: Fitch Ratings

V.5 Very High Non-Performance Risk and Non-Performing Hybrid Obligations

Heightened non-performance risk: When non-performance risk is very high, ratings will give increasing weight to the likely rating level should it become non-performing.

When Issues Become Non-Performing: Once an issue becomes non-performing in any way, the ratings take into consideration the form and expected duration of loss absorption. The table in section I.7 outlines Fitch's approach to assigning ratings to defaulted instruments.

For hybrids (which can be non-performing when an issuer's IDR is not RD), rating factors considered include the level of a bank's VR and the type of loss absorption being suffered (eg, cumulative coupon deferral against coupon omission and any mitigating factors, temporary or permanent write-down, etc). Non-performing instruments are assigned ratings in accordance with the below table entitled 'Ratings of Non-Performing Hybrid Obligations'.

Ratings of Non-Performing Hybrid Obligations

Obligation rating	Non-performing obligation
CCC	Loss absorption has been triggered, but the rated obligation is expected to return to performing status with only very low economic losses being sustained that are consistent with RR1 Recovery Ratings.
CCC-	Loss absorption has been triggered, but the rated obligation is expected to return to performing status with only moderate economic losses being sustained that are consistent with RR2 Recovery Ratings.
CC	Loss absorption has been triggered, and the rated obligation is only expected to return to performing status with high economic losses being sustained that are consistent with RR3 Recovery Ratings.
C	Loss absorption has been triggered, and the rated obligation is only expected to return to performing status with severe economic losses being sustained that are consistent with RR4-RR6 Recovery Ratings.

Source: Fitch Ratings

V.6 Guaranteed and Secured Debt

Guaranteed debt: Fitch usually rates fully guaranteed debt (or debt Fitch deems to be exposed to an equivalent degree of credit risk as guaranteed debt) in line with the higher of the senior unsecured debt of the guarantor or of the issuer. Equalisation of the guaranteed debt rating with the senior unsecured rating of the guarantor will depend on the guarantee being ranked equally with the guarantor's senior unsecured debt, and Fitch being comfortable with the jurisdiction of the guarantee, its enforceability, its timeliness and/or expectations that the guarantor will honour the guarantee. A bank's debt benefitting from a guarantee that ranks equally with the guarantor's subordinated obligations is usually rated in line with the subordinated debt of the guarantor.

Guarantee timeliness concerns: Where Fitch has concerns about the timeliness of a guarantee, Fitch may instead notch up the bond's rating to reflect superior recovery expectations under the guarantee from a higher rated guarantor, following with the principles outlined in the Recovery Rating Scale table in section 1.7 (i.e. a maximum of +3 notches). Ratings will be capped at the level of the guarantor's Long-term IDR.

Secured or Collateralised Debt: Bank issues with more complex forms of structural enhancement, e.g. securitisations and covered bonds, are not rated under Fitch's *Bank Rating Criteria*, and instead, will be evaluated by Fitch's Structured Finance and Covered Bonds group or Fund and Asset Manager group, based on separate criteria, or otherwise, not be rated by Fitch.

Other long-term senior secured debt may be rated under these criteria and will receive a one notch uplift above the bank's Long-term IDR[18] if:

i) the bondholder has recourse both to the collateral and to the issuer;

ii) collateral cannot be substituted beyond established parameters and Fitch will be in a position to monitor it; and

iii) collateral clearly indicates above-average recovery prospects.

Otherwise, Fitch will rate the senior secured bond in line with the issuer's Long-term IDR. Where a debt obligation is both guaranteed and secured, the rating will primarily reflect the guarantee unless all three conditions for uplift for secured or collateralised debt are met

V.7 Short-Term Obligation Ratings

Short-term debt ratings of banks reflect only vulnerability to default. Short-term debt ratings are aligned with an issuer's ST IDR unless the equivalent long-term senior debt has been notched up to reflect lower vulnerability to default. In such cases, ST debt ratings are determined from the equivalent LT debt rating using the Rating Correspondence Table on page 12. At crossover points, Fitch adopts the approach outlined under *Short-Term Issuer Default Ratings* to determine whether to assign the higher or lower option.

Short term deposit ratings can be notched up to factor in superior recovery prospects. Where an issuer's long-term deposit ratings have been notched up to reflect superior recovery prospects (e.g. the US) or lower vulnerability to default, equivalent ST deposit ratings are determined from the equivalent LT deposit rating using the Rating Correspondence Table on page 12. At crossover points, Fitch adopts the approach outlined under *Short-Term Issuer Default Ratings* to determine whether to assign the higher or lower option.

V.8 Market-Linked Notes

Some banks issue or guarantee securities that return amounts referenced to a market risk essentially independent of the issuer's/guarantor's own creditworthiness (sometimes referred to as market-linked notes, or MLNs). In some cases, only the coupon stream references the market risk (referred to as principal-protected notes), and in others, both the coupon stream and principal repayment are driven by the reference market risk (referred to as non-principal-protected notes). MLNs may reference a very broad array of risks, most commonly related to

[18] More than one notch possible if IDRs are in the B range or lower and recovery expectations are consistent with RR2 (2 notches) or RR1 (3 notches)

equities, currencies, and commodities, and are often structured in response to reverse inquiries.

MLN ratings are aligned with the ratings of a given issuer or guarantor's traditional debt instruments of an equivalent seniority (senior debt, preferred senior debt, etc.). Ratings are assigned by Fitch only when the principal is protected and solely address the credit risk of the issuer or guarantor. Coupon risk unrelated to the issuer or guarantor's credit risk is thus excluded from MLN ratings. Dual-currency notes may be rated provided they can or will be settled in an equivalent amount of a second currency.

Fitch does not rate notes whose risk of principal return is unrelated to the issuer's credit risk. Consequently, for the avoidance of doubt, Fitch will not rate credit-linked notes, which reference the credit risk of a third party or basket of third parties, under this criteria report. These notes may be rated by Fitch's Structured Finance Group.

V.9 Substitution and Variation Clauses

Periodically, debt securities include clauses that permit the contractual terms of the securities to be varied or the securities themselves to be substituted with new securities. Such clauses may be at an issuer's discretion, subject to approval by a trustee, etc.

Fitch assesses whether such clauses should affect a bond's rating on a case-by-case basis. Where both the probability of variation or substitution is considered high and there is a high degree of clarity over the form of the substitution/variation securities, Fitch will rate to the terms of the likely substitution or variation securities.

Annex 1: Viability Ratings of Subsidiary Banks

VRs of subsidiary banks, where assigned, may benefit, or suffer, as a result of parental ownership, depending on the strength of the shareholder and the degree of parent/subsidiary integration.

Positive for Subsidiary VR: Ordinary Support

A subsidiary bank usually benefits from some forms of 'ordinary support' from its parent, for example in terms of stability and cost of funding, transfer of management expertise and operational systems, and assistance with business origination, and these benefits are reflected in the subsidiary's VR.

Negative for Subsidiary VR: Contagion Risk

Subsidiary VRs are not usually higher then parent Long-Term IDRs. The main reason for this is simply that banks rarely acquire other lenders with stronger credit profiles than their own, or are able to develop subsidiaries to the extent that the latter would become superior credits. In addition, subsidiaries' often material dependence on 'ordinary support' from their parents, and often significant exposure to contagion risk in case of a sharp deterioration in the parent's credit profile, militate against assigning a subsidiary VR above the parent's Long-Term IDR.

Rating Subsidiaries Above Parents

In rare cases, however, a subsidiary bank's VR, and hence Long-Term IDR, can be higher than its parent's Long-Term IDR. The extent to which a subsidiary VR can exceed its parent's Long-Term IDR depends on Fitch's view of the independence of the subsidiary's credit profile from that of its parent, i.e. the extent to which the subsidiary is judged to be exposed to contagion risk from the parent in case of a marked deterioration of the latter's credit profile. Because of contagion risk, the potential uplift of the subsidiary's VR from the parent's Long-Term IDR is usually limited to a maximum of three notches, although in exceptional circumstances the differential could be greater. Fitch views the following factors as positive in limiting contagion risk, and therefore enabling uplift of the subsidiary VR relative to the parent's Long-Term IDR:

- limited direct exposure of the subsidiary to its parent (or to the parent's home market in case the market is suffering systemic stress);
- relatively independent franchise, management and operational infrastructure of the subsidiary;
- limited reliance of the subsidiary on non-equity funding from the parent, limited dependence of the subsidiary's access to third-party funding and liquidity on the health of the parent, and limited acceleration of subsidiary funding in case of parent default;
- a strong local regulator capable of identifying and, where necessary, restricting transfers of capital and liquidity from the subsidiary to the parent;
- restrictions on transfers of capital and liquidity from subsidiary to parent, with creditor enforceability, contained in subsidiary funding agreements;
- no evidence to date of the parent withdrawing liquidity or capital from the subsidiary to a degree which would significantly impair the subsidiary's credit profile, possibly augmented by statements by the parent's management that it does not intend to do this in the future;
- potentially high sale value of the subsidiary, making its disposal a potential source of recapitalisation of the parent, and serving as a disincentive to impair its profile.

A bank subsidiary's VR is usually less constrained by its parent's VR than by the parent's Long-Term IDR. This is because the failure of the parent would usually represent a somewhat milder source of contagion risk for the subsidiary than the parent's default. However, where Fitch believes that a parent failure would significantly impact the credit profile of the subsidiary (e.g. because of resulting restricted funding access for the subsidiary, or because capital/liquidity may be upstreamed from the subsidiary prior to the parent failure), this may negative affect the subsidiary VR.

Annex 2: Rating Banks Above the Sovereign

Bank Capacity and Sovereign Restrictions

Fitch will rate a bank above the sovereign – i.e. assign an Local Currency Long-Term IDR to the bank above the sovereign LC LT IDR, or a FC LT IDR to the bank above the sovereign FC LT IDR – when both of two conditions hold. First, Fitch must believe that a bank would probably retain the capacity to service its obligations in the relevant currency following a sovereign default in that currency. This capacity may be retained either because the bank receives external support or because the bank's intrinsic strength, as reflected in its VR, is sufficient to enable it to continue servicing its obligations after a sovereign default.

Second, the agency must believe that the sovereign, following its own default in a currency, would probably not impose restrictions on the bank's ability to service its obligations in that currency. Restrictions may be applied to FC or LC obligations. Fitch usually regards the former as somewhat more likely than the latter, which tends to result in banks' LC ratings being less constrained, relative to the sovereign, than FC ratings. However, in some countries where governments have been more interventionist, both FC and LC ratings of banks may be capped at the level of the sovereign.

Historically, Fitch's criteria on rating banks above the sovereign have been more applicable in emerging markets, where sovereign ratings have often been very low and the credit profiles of some banks have been superior to those of the sovereign, due either to foreign ownership or very strong (in the context of the local market) standalone profiles. However, in recent years, the question of when to rate banks above the sovereign has become more relevant in some higher-income economies as well.

Commercial Versus Specialist Banks: the rest of Annex 2 addresses rating commercial banks above a sovereign. It is very unusual for a commercial bank to be rated more than two notches above a sovereign. However, exceptionally strong specialist banks (e.g. central securities depositories or leasing companies with banking licences) with very limited direct exposure to their domestic sovereign and economic environment and funding profiles that are likely to remain very resilient in a sovereign stress scenario could achieve a rating more than two notches above the sovereign, subject to the Country Ceiling of its sovereign of domicile.

Commercial Banks' Capacity to Service Debt

Correlation Between Sovereign and Commercial Bank Credit Profiles: A bank's financial condition will normally deteriorate significantly as a sovereign crisis intensifies, weakening its capacity to service its obligations. This is because banks typically have high exposure to the financial health of the government, the wider domestic economy and local financial markets. Because of the strong links between sovereign and bank credit profiles, a marked deterioration in the sovereign profile and a downgrade of its ratings is likely to be accompanied by downgrades of bank ratings. Some of the main reasons for the high correlation between sovereign and bank standalone profiles are as follows:

- A sovereign default will often be associated with recession, economic dislocations and a deterioration in household and corporate balance sheets, weakening the quality of banks' exposures to the domestic private sector.
- Banks, will often also have significant direct exposures to the sovereign in the form of holdings of government securities and loans and guarantees provided to the sovereign or other public-sector entities.
- Banks' funding and liquidity profiles may deteriorate significantly as sovereign stress causes closure of wholesale funding markets or deposit runs. The central bank may also lose the capacity to act as a lender of last resort, and there may no longer be a market available to refinance government debt or other previously "liquid" securities.
- Sovereign defaults may also be associated with currency devaluation, high and volatile interest rates and high inflation, which can result in high balance-sheet volatility for banks and expose them to increased market risks.

- As sovereign stress increases, national authorities may impose additional regulations on the banking sector, or seek to use the banking system as a source of support for the sovereign and/or the broader economy.

Nevertheless, history has shown that in some sovereign default scenarios banks do manage to avoid default. To retain the capacity to service its debt in such a scenario, a bank must either have access to external (usually shareholder) support or have a very strong (in the domestic context) standalone credit profile. In practice, the former cases tend to be more common than the latter, and Fitch therefore rates considerably more banks above the sovereign based on support, rather than standalone strength.

External Support: To rate a bank above the sovereign based on shareholder support, Fitch must believe that the owner's commitment to its subsidiary is sufficiently strong that it is likely to remain in place even after the sovereign has defaulted and the standalone profile of the subsidiary has probably suffered significant impairment.

Fitch will often expect a parent bank to continue supporting its subsidiary after a sovereign default even where there appears to be little immediate direct benefit from doing so. This reflects the potentially high reputational costs for the parent bank of a subsidiary default, in particular if the group has other foreign subsidiaries, and the fact that losses for the parent bank in case of the bankruptcy of the subsidiary may be greater than the cost of the support required, especially where non-equity funding has also been provided. In some cases the host country regulator may also appeal to the regulator of the parent bank to seek to influence the parent's decision to support its subsidiary.

Taking these factors into account, Fitch will in many cases rate a bank subsidiary above the sovereign based on potential support from a relatively strong foreign owner. However, potential uplift will usually be limited because of some uncertainty that the owner's commitment to providing continued support will remain in place in a sovereign default scenario. Uplift will be usually be limited to two notches, but could go up to three notches where we view parent support as being very robust even in case of high sovereign/macroeconomic stress. This may be, for example, because the parent is a very committed regional player or because the subsidiary is relatively small on the domestic market, and so unlikely to be a primary target of government intervention.

Intrinsic Strength: For Fitch to rate a bank above the sovereign on a standalone basis, it will need to demonstrate a very strong (in the context of the domestic market) credit profile. The strength of the bank's funding franchise will be particularly important. A bank that is predominantly deposit-funded, and whose deposit base has proved to be relatively stable, or even benefitted from a flight to quality, during previous market stresses, will usually be more likely to remain liquid in case of a sovereign default. This would give the bank with more flexibility to carry impaired assets and avoid realisation of losses on these, thereby potentially supporting its capital position. However, Fitch would normally also expect a bank rated above the sovereign to have a strong capital base, prudent reserve coverage, sound credit underwriting and solid pre-impairment profitability, which would reduce the negative impact on the bank's capital position of a sovereign default.

High geographical diversification, reflected in a relatively high proportion of assets, liabilities and revenue generated in foreign markets, may also help offset the negative impact of a sovereign crisis on a domestic bank, increasing the potential for it to be rated above the sovereign. However, these benefits may be limited in cases where foreign assets and liabilities are held primarily on subsidiary balance sheets, rather than at the parent level, as subsidiary regulators may resist upstreaming capital and liquidity to the parent.

Conversely, banks with very high direct exposure to the sovereign may find it harder to remain solvent and liquid in case of a sovereign default because of marked-to-market losses on government securities and the disappearance of liquid markets where they can sell or refinance government debt. Banks with such high exposures will therefore, other things being equal, be less likely to be rated above the sovereign. However, a bank with a strong funding franchise and a stable deposit base may still be able to withstand such difficulties as it would not need to raise additional liquidity, could avoid realising losses on asset sales and, in common with other banks in the system, may benefit from regulatory forbearance in terms of loss recognition.

Other features which will make it less likely for a bank to be rated above the sovereign include:

- *High foreign-currency exposures:* Loans denominated in foreign currency may suffer considerable impairment in case of a sovereign default given the potential for devaluation of the local currency. Significant external borrowing could also result in heightened refinancing and liquidity risks.
- *State ownership:* State-owned banks may be more likely to be used as a source of support for the sovereign and/or the broader economy in a stress scenario, potentially impairing their standalone profiles.
- *Very strong sovereign balance sheet:* If the sovereign's own financial position is a relative rating strength, eg government debt is low and reserves are high, then it is less likely that a bank, with intrinsically high leverage, would be rated above the sovereign.

Fitch rarely rates commercial banks more than one notch above the sovereign based on stand-alone strength because of the usually high correlation between sovereign and bank credit profiles. However, exceptionally strong commercial banks, or banks with very limited exposure to the country or sovereign where they are domiciled, can sometimes achieve a rating more than one notch above the sovereign.

Sovereign Restrictions on Debt Service: Even where a commercial bank retains the capacity to service its obligations, it may be prevented from doing so by restrictions imposed by the sovereign. Restrictions may be placed on the servicing just of foreign-currency obligations, or on local-currency obligations as well. Typically, Fitch regards the risk of local-currency restrictions as somewhat lower than that of foreign-currency restrictions, potentially allowing for greater uplift of banks' local-currency ratings.

Foreign-Currency Restrictions – Transfer and Convertibility Risk: Fitch's Country Ceilings capture transfer and convertibility (T&C) risk, i.e. the risk of exchange controls being imposed that would prevent or materially impede the domestic private sector's ability to convert LC into FC and transfer the proceeds to non-resident creditors. Country Ceilings typically constrain the FC IDRs of all entities domiciled in the relevant jurisdiction. Although very strong non-financial corporates may sometimes achieve ratings above the Country Ceiling, it is exceptionally rare for banks to do so (see below, *Rating Banks Above the Country Ceiling*). Where Fitch believes that the risk of T&C restrictions for banks are greater than for non-bank issuers, it may cap bank Foreign-Currency IDRs at a level below that of the Country Ceiling.

T&C risks are strongly correlated with sovereign risk, and so Country Ceilings are generally notched up from the sovereign's Long-Term Foreign-Currency IDR. The maximum uplift of the Country Ceiling over the sovereign Long-Term Foreign-Currency IDR is three notches, unless the Ceiling is assigned on the basis of currency unions or supranational monetary arrangements. (For more details, see the *Country Ceilings* criteria report referenced in *Annex 7*). Where the Country Ceiling is assigned at the same level as the sovereign rating, it will not (typically) be possible for banks, or other domestic issuers, to achieve foreign-currency ratings above the sovereign.

Local-Currency Restrictions – Deposit Freezes and Other Intervention: During a sovereign crisis the authorities may increase regulation of the banking sector. Measures may be introduced with several aims, including support of the banking system itself, support of the wider economy, stabilisation of broader financial markets and macroeconomic indicators, and reduction of popular discontent and/or panic.

In some cases these measures will include restrictions such as deposit freezes or prolonged bank closures that prevent banks servicing their local-currency, as well as foreign-currency, obligations. Other types of intervention, eg directed lending, interest rate controls, forced currency conversion and forced nationalisation, may not directly prevent a bank from servicing its debt, but may seriously undermine its ability to do so. In light of these risks, Fitch usually limits the uplift of commercial bank local-currency ratings over sovereign local-currency ratings to two notches, although uplift of three notches is possible where we view parent support as being very robust even in case of high sovereign/macroeconomic stress.

In determining the degree of potential uplift for banks' Local-Currency IDRs above the sovereign, Fitch will consider rule of law and governance in the country, and the authorities' record of imposing deposit freezes or otherwise interfering in the operations of the banking system. In practice, Fitch usually assumes significant correlation between the risk of foreign- and local-currency restrictions being imposed in a particular country, and therefore will rarely assign a Long-Term Local-Currency IDR to a bank more than one notch above the bank's Long-Term Foreign-Currency IDR.

Whereas in some cases Fitch assigns Country Ceilings at the level of the sovereign Long-Term Foreign-Currency IDR, preventing uplift of bank Foreign-Currency IDRs above those of the sovereign, it is comparatively rare for Fitch to constrain banks' local-currency ratings at the level of the sovereign. This is because a sovereign will normally have some incentives to maintain a functioning banking and payments system even during a sovereign crisis, making the risk of local-currency restrictions materially lower than the risk of a sovereign default.

If Fitch does not assign a sovereign rating, Fitch may use a Fitch Credit Opinion or other assessment of sovereign creditworthiness to determine the extent to which country risks may constrain a bank's IDRs.

Factors Determining Potential Uplift of Commercial Bank Ratings Above the Sovereign

	Maximum uplift from sovereign[a]	Key factors in determining uplift
FI's capacity to service obligations		
Standalone strength	Usually no more than one notch; more than one notch for exceptionally strong banks or banks with very limited exposure to country/sovereign of domicile.	Overall credit profile, in particular funding franchise.
Shareholder support	Usually no more than two notches, three notches where we view support as very robust in a stress scenario.	Shareholder ability and propensity to support.
Risk of sovereign intervention		
In foreign currency	Zero-three notches, as defined by country ceiling, but for banks rating uplift usually limited to two notches.	Rule of law and governance; institutional constraints; integration into global economy.
In local currency	Zero-three notches, but at least one notch possible in most cases.	Rule of law and governance; history of intervention in banking system.

[a] Does not apply to exceptional circumstances (see section below) where maximum notching can be higher or lower
Source: Fitch Ratings

Inter-Relation of Bank Capacity and Sovereign Restrictions: In practice, it may not be possible to fully disentangle risks relating to the deterioration of a bank's debt-servicing capacity and risks relating to sovereign intervention. For example, if the authorities impose very burdensome regulatory measures, these can impair the standalone profile of banks, or even undermine the willingness of some bank owners to continue to provide support.

Conversely, if a banking system remains relatively stable during a sovereign crisis and does not suffer deposit runs or other funding outflows, this may reduce the need for the sovereign to impose restrictions. In such a scenario, the sovereign can focus its efforts on managing problems at individual banks that may have failed, rather than intervening in the system as a whole.

Rating Banks Above the Sovereign in the Eurozone

Country Ceilings for eurozone sovereigns are mostly assigned at the 'AAA' level as T&C risk within the eurozone is typically low. However, banks' standalone profiles, as in other markets, would be likely to deteriorate severely if there were a sovereign default in a eurozone country. Support from foreign bank parents could also become less reliable in such a scenario, as this could be accompanied by defaults by domestic banks, sharply weaker prospects for banking business in the country and potential weaknesses in the parent banks themselves. For these reasons, the potential uplift of bank ratings above those of sovereigns in the eurozone, as elsewhere, will usually be limited to one or two notches.

Exceptional Circumstances

Rating Banks and Debt/Deposits Above the Country Ceiling: It is very unusual for banks to have large foreign earnings or assets that could be used to service foreign debt, or for them to be able to transfer these earnings/assets to foreign creditors without being in breach of transfer restrictions imposed by domestic regulators. Nevertheless, in certain exceptional circumstances, for example, where foreign assets and earnings are substantial and domestic liabilities are limited, Fitch may assign FC IDRs and/or debt ratings to banks above the Country Ceiling.

Even if a bank's FC IDR is constrained by a country ceiling, senior preferred debt and/or deposit ratings may be rated above a country ceiling when restrictions/controls appear imminent or are in place but Fitch believes ultimate recoveries are likely to be above average or better.

Guarantees: If a bank benefits from a blanket guarantee from a foreign parent (or other entity), its IDRs will normally be equalised with the IDRs of the guarantor,[19] even if the guarantor's FC LT IDR is higher than the Country Ceiling in the market where the subsidiary bank is domiciled. This reflects the fact that the guarantor would be obliged, in case of non-performance by the FI, to honour the guarantee directly, regardless of T&C or other restrictions imposed by the sovereign in the bank's jurisdiction. However, the risk of extreme circumstances (see below) arising in the bank's market, and the jurisdiction and exact provisions of the guarantee may limit the rating uplift from the guarantee for the bank subsidiary's ratings.

Low Rating Levels: As sovereign stress increases and sovereigns move towards default, it may become clearer whether certain banks will be able to remain current on their debt, ie whether they will retain their debt-servicing capacity and whether the authorities will introduce restrictions on debt service. As it becomes possible to take a view on this with more certainty, Fitch may widen or narrow the uplift of bank ratings relative to the sovereign.

No Intervention; Potentially Wider Notching: If, as a sovereign moves to default, it makes clear its intention not to impose T&C restrictions or to intervene specifically in the banking sector, and certain banks retain relatively stable standalone profiles or continue to receive parent support, the notching of the banks above the sovereign may increase. As a sovereign moves towards default, it may also in rare circumstances continue to selectively support certain systemically important and/or state-owned banks, prioritising this support above the servicing of its own debt. Therefore, at very low rating levels, it is possible that banks may be rated above the sovereign based on this selective support from the authorities.

Intervention or Extreme Situations; Potentially No Notching: If a sovereign imposes T&C or other restrictions as it moves towards default, or expresses its intention to do so, Fitch will probably cease to rate any banks above the sovereign.

In addition, in extreme situations – such as war, civil conflict, the imposition of economic sanctions that could prevent the flow of foreign exchange into a country, or total failure of a local interbank market or payment system due to internal economic or political chaos – Fitch will usually not rate FIs above the sovereign, irrespective of the current debt-service capacity of the entities concerned. This reflects the high level of uncertainty present in such cases, and the risk that banks will no longer be able to continue servicing their obligations.

[19] The IDRs of the subsidiary could be higher than those of the parent guarantor if the bank's stand-alone strength or other factors warrant this.

Annex 3: Definitions of Financial Metrics

Core and complementary metrics used in Fitch's bank rating analysis are based on data published in issuers' financial statements or regulatory reporting. The capital and liquidity metrics include certain regulatory ratios disclosed by the banks. All other core and complementary ratios are calculated by Fitch from numerators and denominators extracted from financial or regulatory statements directly or from calculations based on data extracted from financial statements.

Asset Quality

Asset quality core and complementary metrics are based on loan quality only. Lending is the primary business line for the banking industry, and credit quality in the loan book remains the predominant source of risk. Loans in the core and complementary metrics are gross of loan loss reserves (also called provisions or impairment) unless stated otherwise and exclude lending or other exposure to banks.

Core Metric: Impaired Loans/Gross Loans (%)

The definition of "impaired loans" used in the numerator varies by jurisdiction and by bank. Impaired loans are also known as non-performing loans (NPLs), bad, troubled, doubtful or problem loans. Analysts select the definition that is the most common reference point in the jurisdiction but classifications are more conservative in some countries than in others, and there is also inevitably some degree of bank discretion in identifying these. Typically, impaired loans comprise loans 90 days past due plus those not yet 90 days past due but identified as having incurred some degree of impairment so that the bank has started to doubt that it will receive full repayment. Impaired loans may exclude certain loans that are 90 days past due for banks reporting under IFRS if there is sufficient collateral to ensure that full repayment of loan and interest will be received. Where disclosed, impaired loans will be loans classified as being at 'stage 3' under IFRS 9.

Where material and analysts consider them important to the assessment of asset quality, analysts may calculate additional asset-quality metrics to capture foreclosed assets, restructured or forborne loans (e.g. US GAAP accruing troubled debt restructurings or forborne loans not classified as impaired) or other assets. This may then result in adjustments to the asset-quality score implied by Fitch's core asset-quality metric, for example through the 'Loan Classification Policies' adjustment factor (see *Asset Quality* sub-section under *II.5 Financial Profile Assessment*). Loans that are overdue by 90 days but excluded from the impaired loans ratio are also often added into the ratio in additional metrics. The denominator is loans gross of loan loss reserves, excluding loans to banks and repos.

Complementary Metric: Growth of Gross Loans (%)

Increase in total customer loans (retail, corporate and institutional, excluding bank loans and repos) at the end of the accounting period less total customer loans at the beginning of the accounting period as a percentage of customer loans at the beginning of the accounting period.

Complementary Metric: Loan Loss Allowances/Impaired Loans (%)

Loan loss allowances constitute net accumulated impairment charges (also called reserves or provisions) held against loans remaining on the balance sheet (so excluding those written off). These are shown as a percentage of impaired loans. The ratio includes all loan loss allowances, not only those relating specifically to the loans classified as impaired. The inclusion of general or collective loan loss allowances (or allowances held against stage 1 and stage 2 loans under IFRS 9) means that the ratio can be over 100%, and, where jurisdictions allow conservative provisioning, sometimes substantially in excess of 100%.

This ratio is also known as the coverage ratio, but "coverage ratio" may also be used to include collateral in the numerator or total gross loans rather than impaired loans only in the denominator.

Complementary Metric: Loan Impairment Charges/Average Gross Loans (%)

This ratio is sometimes called the cost of risk. The numerator is the charge to the income statement for loan impairment (also called loan-loss allowances or provisions). Where the bank reports average loans gross of loan-loss reserves, this is taken as the denominator.

Otherwise, the denominator is a numerical average of gross loans (excluding bank loans and repos) calculated for a minimum of two data points, the number for the end of the reporting period and the one for the end of the previous reporting period. Where relevant and disclosed, the numerical average also takes into account interim data during the reporting period.

Earnings and Profitability

Most of Fitch's core and complementary metrics for earnings and profitability use averages as the denominators. This is to portray the basis on which the earnings have been achieved. Where averages are disclosed by the banks, Fitch uses these are they are based on more data points than can be taken from published statements and therefore represent a more accurate basis. Where averages are not published for the specific denominator, Fitch calculates a numerical average for a minimum of two data points, the number for the end of the reporting period and the one for the end of the previous reporting period. Where relevant and disclosure allows, the numerical average also takes into account interim data during the reporting period.

Core Metric: Operating Profit/Risk-Weighted Assets (%)

The numerator is pre-tax profit less items Fitch considers to be non-operating. Non-operating items always include the change of accounting fair value of a bank's own debt and goodwill impairment. Profit/loss of an associated company reported at-equity is also usually excluded from operating profit, unless Fitch considers this to be an integral and consistent part of the business. Other items considered by Fitch's analysts to be non-recurring, specific one-off revenue sources or charges are also excluded, which often differ from the bank's own interpretation.

The denominator is reported RWAs, including any regulatory floor/cap. It is a period-end number rather than an average.

Complementary Metric: Net Interest Income/Average Earning Assets (%)

This ratio is often called the net interest margin. The numerator is total interest revenue plus dividends received less total interest expense. The denominator is an average and is equal to total assets less cash, foreclosed assets, fixed assets, intangibles, tax assets, prepayments made and other non-earning assets. The numerator does not include interest or coupon paid on preference shares or hybrid capital reported in equity, but where material Fitch often deducts this as an interest expense in additional metrics.

Complementary Metric: Non-Interest Expense/Gross Revenues (%)

This metric is often called the cost/income ratio. The numerator is staff costs plus other administrative expenses, excluding any expenses that Fitch considers to be non-operating. The denominator comprises net interest income (as in the metric above) plus all other operating revenue (for example, fees and commissions, net trading profit). Profit/loss of an associated company reported at-equity is not included in the denominator or in numerator even if Fitch considers this to be part of operating profit, because the profit or loss is reported as a net number of the company's revenue and expenses.

Complementary Metric: Loans & Securities Impairment Charges/Pre-Impairment Operating Profit (%)

This metric measures how much of a bank's earnings are consumed by impairment charges. The numerator is total impairment charges from loans and securities. The denominator is operating profit (as in the core metric above) less the numerator.

Complementary Metric: Operating Profit/Average Total Assets (%)

This metric is similar to the core earnings and profitability metric, but in a cruder form. The numerator is the same. The denominator is average total assets. No adjustment is made to reflect how risky the deployment of capital and funding has been.

Complementary Metric: Net Income/Average Total Equity (%)

This metric is usually called return on equity. It is similar to the ratio shareholders commonly employ to measure their return on investment, but Fitch includes minority (or non-controlling) interests in both the numerator and denominator to reflect its view that investment by both the minority interests in subsidiaries and the parent's shareholders are available as buffers for investment by creditors. Otherwise net income and equity are as reported in financial statements without adjustment. The denominator is an average.

Capital and Leverage

Core Metric: CET1 Regulatory Capital Ratio (%)

This regulatory ratio is reported by the bank. The numerator is CET1 capital and the denominator is RWAs.[20]

Alternative Core Metric: Fitch Core Capital/FCC-Adjusted Risk-Weighted Assets

The numerator, FCC, is defined in the side-bar table. The denominator uses the RWAs as disclosed in published reporting on regulatory capital ratios. Where equity interests in insurance companies or securitisations are deducted from FCC, the equivalent RWAs are deducted from the denominator to the extent disclosure allows. Where the equivalent insurance or securitisation assets are not disclosed, Fitch may instead deduct an estimate of these. No other adjustments are made to derive the core metric, but further adjustments may be made to RWAs to derive additional metrics.

RWAs are defined at jurisdictional level and are not fully comparable across countries. Their basis can also vary among banks within a jurisdiction, as some use internal ratings-based assumptions on risk-weightings, while others use standardised risk-weightings. RWAs include risk-weighted equivalents not only of balance-sheet assets, but also of off-balance sheet credit risk, market risk and operational risk.

Comparing regulatory CET1 with FCC, regulatory capital deducts minority equity interests in financial institutions, whereas FCC only deducts these if Fitch regards them as non-loss-absorbing. On the other hand, mortgage servicing rights (a specific intangible asset reported primarily by US banks) is deducted from FCC but not necessarily from regulatory capital.

Complementary Metric: Basel Leverage Ratio

This regulatory ratio is the one reported by the bank. If both Basel and local equivalent ratios are reported, the Basel one is used. In most cases, however, this ratio will be the local regulatory interpretation of the Basel guidelines. The numerator comprises CET1 plus AT1 capital. Various adjustments are made to derive the Basel leverage ratio's denominator, which are designed to make the ratio more comparable across accounting regimes. For example, clear definitions are given for how netting should be applied to derivatives and repos. The denominator also includes certain off-balance-sheet items. Fitch views the Basel leverage ratio as the most encompassing and comparable measure of leverage, but it is not available for all banks.

Complementary Metric: Tangible Common Equity/Tangible Assets (%)

This is a cruder measure of leverage than the regulatory ratio and is most relevant in regimes where the Basel leverage ratio is not available. It will be very similar to the Basel leverage ratio for institutions with simple banking models, without many derivatives or off-balance-sheet operations. The starting point for the numerator is common equity (including minority interests) and the starting point for the denominator is assets as reported in the financial statements. The following three items are deducted from both: goodwill, other intangibles and certain deferred tax assets. Mortgage servicing rights are not deducted and no adjustment is made for different accounting treatment of netting Only deferred tax assets relating to accounting losses are deducted, while deferred tax assets that relate to timing differences on accounting expenses (not yet permitted as a tax expense) are not deducted.

Fitch Core Capital

(+) Reported equity
(-) Hybrid capital reported as equity
(+) Non-controlling interests (also known as "minority interests") if reported outside published equity
(-) Non-controlling interests not regarded by Fitch as loss-absorbing
(-) Deferred tax assets relating to losses carried forward that rely on future profitability to be realised
(-) Goodwill and other intangibles
(+/-) Fair-value adjustments relating to own credit risk on debt issued
(-) Equity interests in affiliated insurance businesses
(-) First-loss tranche retained in off-balance-sheet exposures
(+) Fund for general banking risks if not already included and readily convertible into equity

Source: Fitch Ratings

[20] Where Fitch bases its analysis on accounts (usually IFRS) which are different to those used by the regulator (eg local GAAP), we will use a CET1 ratio derived from the former, where available.

Complementary Metric: Impaired Loans Less Loan Loss Allowances/Core Capital (%)

This ratio shows the vulnerability of capital to impaired loans that are not covered by loan loss allowances. The numerator is the denominator less the numerator from the asset quality complementary metric "Loan loss allowances /impaired loans". Fitch may also consider the impact on this ratio of adding 'foreclosed assets' to the numerator where material. Core Capital is calculated to be consistent with the core metric used (CET1 or FCC).

Funding and Liquidity

Core Metric: Loans/Customer Deposits (%)

The numerator and denominator exclude loans and deposits with other banks and repos, but all other loans and deposits are included. In the numerator, loans are gross of loan loss reserves.

Complementary Metric: Liquidity Coverage Ratio

This regulatory ratio is the one reported by the bank. The numerator is highly liquid assets as defined by the regulator and the denominator is estimated outflows in a 30-calendar-day period on the basis of assumptions in a stressed situation provided by and agreed with the regulator.

Complementary Metric: Customer Deposits/Total Funding Including Preference Shares & Hybrids (%)

The numerator is the same as the denominator in the core metric for funding and liquidity. The denominator is all funding. It includes customer funding, interbank funding, repos and other short-term and money market funding, all debt funding, including vanilla subordinated debt and hybrid securities. Trading liabilities ("short" trades) are included in the denominator but derivatives are excluded. The denominator does not include equity or non-funding liabilities, such as pension reserves, tax liabilities and insurance liabilities.

Annex 4: Banking Structures Backed by Mutual Support Mechanisms

This annex details the methodology used by Fitch to analyse the credit quality of banks backed by mutual support mechanisms (in this annex, referred to as “banking groups”). Fitch’s ratings are assigned to legal entities. Banking groups are not legal entities, but rather a collection of regional cooperative and/or savings banks working together and benefiting from a mutual support mechanism.

Fitch’s opinion on how well a support mechanism will function is based on the record of group support, the behaviour history of the support mechanism and the strength of any agreement. Where appropriate and to assist in forming its opinion, the agency may request that the banking group in question provide a legal opinion, from an external law firm, regarding the enforceability and strength of the support mechanism in operation.

Key Rating Drivers

Risk-Sharing Concept Key: The concept of risk-sharing through mutual support systems, or cooperation, is a basic principle underlying all cooperative and other mutual support banking groups. Most mutual support banking groups rated by Fitch are located in Europe.

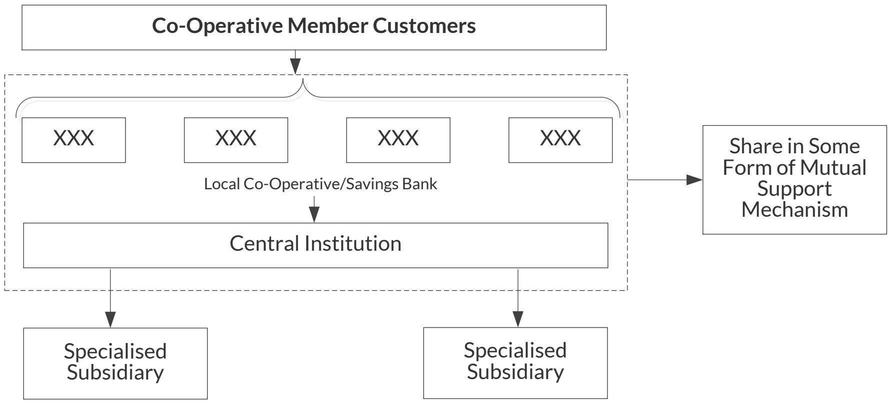
Cooperation Principles: The principles of cooperation running through the banking group and a review of the historical record, and expected performance, of how mutual support has worked or is expected to work determine whether a mutual support banking group rating is appropriate. The frameworks of cooperation vary considerably across banking groups and jurisdictions. Fitch considers some to be very strong, supported by statutory agreements that strive to ensure that all entities forming part of the group pull together to preserve the reputation, liquidity and solvency of all group members. If Fitch does not consider mutual support mechanisms strong enough to assign banking group ratings, it will assess individual banks’ creditworthiness separately in accordance with the general sections of this report.

Stronger Members Support Weaker: In practice, this means that stronger group members will provide support to weaker, or failing, members and mechanisms to ensure the fungibility of liquidity and equity reserves form part of the banking groups’ statutory and/or functional framework. In these cases, the banking group will most likely act as if it were a consolidated group and regulators are likely to view such groups on a consolidated basis.

Structure of a Typical Banking Group

Mutual banking groups are not legal entities. They are generally institutional networks of cooperative or savings banks comprising legally autonomous banks joined together by a statutory framework of cooperation with a common strategic focus and brand names; specific functions are most often provided by central institutions and/or specialised service providers. The diagram in below diagram provides a simplified outline of a “typical” banking group. However, the structure of banking groups varies considerably from country to country and from group to group. Fitch includes a detailed description of the group structure and the support mechanisms in place in published research on individual rated banking groups.

Diagram of a "Typical"Banking Group



Source: Fitch Ratings

In the diagram, the local banks are owned by cooperative member customers. The central institutions of banking groups are legal entities (often referred to as "central bodies") and are generally owned by the local banks but are sometimes quoted, with partial public ownership. They tend to have responsibility for determining group strategy, defining and monitoring group risk management policies, employing central, senior management, centralising and disseminating liquidity within the group, and issuing debt on behalf of the group.

In some banking groups, the administrative and financing functions are split between two entities, and the administrative functions may be carried out by an association rather than a company. The specialised subsidiaries (see diagram) vary considerably from group to group. They may provide services to the group (IT services, consulting), be specialised financial institutions (securities firms, retail mortgage specialists, asset managers leasing companies or covered bond issuers) or foreign subsidiaries, for example.

The scope of mutual support mechanisms in the various banking groups vary considerably; not all subsidiaries of central institutions or other banking group members share in the support mechanisms. Details regarding ratings assigned to subsidiaries or other entities excluded from the cross-support mechanism are outlined below in the section *Ratings Assigned to Subsidiaries or Other Entities Excluded From the Cross-Support Mechanisms; Debt Obligations Excluded From the Cross-Support Mechanisms*.

Banking Groups – Understanding the Mutual Support Schemes

Fitch reviews the mechanics of the cross-support schemes in operation. Discussions with management focus on a detailed analysis of the underlying rationale for the cross-support schemes, how they are expected to work and how they have worked in practice over time. For example, do the support mechanisms aim to protect the reputation, liquidity and solvency of all group members through mutual cooperation? Are the schemes a means of ensuring the viability of what would otherwise be a collection of very small regional banks? Do the support schemes aim to boost nationwide franchise? Is the overriding objective to achieve synergistic cost savings through the shared use of certain centralised services? What efforts are being made to improve the cooperation frameworks within the groups?

To the extent relevant, Fitch's analysis focuses on the following two areas.

Review of How Cross-Support Schemes Have Historically Operated

Fitch reviews the record of effectiveness of cross-support schemes as an important indicator of potential prospective effectiveness.

The rescue takeover of a troubled institution by another, stronger group member is usually the preferred route in banking groups for dealing with failing group members. Fitch reviews the speed and efficiency of identifying a failing members and taking it over and the financial flexibility of group members to do so. Internal controls within the banking group, most often exercised by a central institution, generally mean that efficient takeovers prevent the need to use back-up tools such as support mechanism funds.

Fitch will typically review case histories of support within the banking groups and determine whether support mechanisms were triggered swiftly, with members of the banking group pooling their resources in a timely manner, whether creditors lost money and whether the process was concluded with minimal disruption to the banking group. The agency also assesses reputation loss, if any, as a result of the deployment of support schemes. For example, Fitch may analyse deposit flows, interruptions to access to interbank or capital markets or negative press comment at the time internal support was organised.

Assessment of Structure of Cross-Support Schemes

Fitch would typically expect to review written documentation that explains the mechanics of cross-support schemes and discuss it with management. If Fitch considers that it would be able to form a stronger opinion about the enforceability of the cross-support mechanism, the agency may ask the banking group (most likely through the central institution) to provide a written legal opinion, from an external law firm, on these schemes.

Where it considers it relevant, Fitch would expect the legal opinion provided to cover the enforceability of the cross-support mechanism (including the extent to which it enables liquid funds to be available across the banking group), the potential for receipt of timely support and creditor subordination in the event that support mechanisms were triggered, among other things.

Considerations for Assigning Ratings to Banking Groups Backed by Mutual Support Mechanisms

Fitch decides whether it is appropriate to assign "group" ratings (see below). Where Fitch is unable to assign a group rating, it may be appropriate to assign a more limited credit opinion, indicating a minimum "floor" below which the IDR of any banking group member is not expected to fall. The limitations of a credit opinion floor are described more fully in *Credit Opinion "Floors"* below. Where material weaknesses in the mutual support systems are apparent, or where Fitch may not be convinced of the effectiveness of the support mechanisms, for example because they may not have been tested over time, banking groups will not be rated in accordance with the criteria laid out in this Annex.

"Group" Ratings

To be assigned a "group" rating banking groups have to meet certain benchmarks to demonstrate strong support mechanisms. In general, a banking group would have to meet all of the key benchmarks in order for a group rating to be assigned. However, in very rare instances, a group rating may be assigned when a group meets only some of the key benchmarks but also has a strong record demonstrating that operational support within the group is available whenever needed. Fitch would have to consider this record sufficient to demonstrate that the capacity and willingness exists within the group to mitigate the specific benchmarks that are not being met by the group's framework.

The key benchmarks assessed to determine whether a group rating is appropriate are the following:

- The existence of a mutual support mechanism, providing for support of any member banks that may run into financial difficulties. The mechanism should be backed by liquid funds, either in the form of direct contributions from member banks or from a centrally run fund set up specifically for this purpose. As it is essential that any necessary allocation of support be timely, there should be a clearly defined central management authority and a steady flow of information within the system to ensure that this authority is aware of potential problems at an early stage and is able to take mitigating action.

- The existence of at least annual published, consolidated financial accounts, preferably audited by an external firm.
- A common strategy, brand and joint marketing activities.
- A risk-management system that targets some degree of cohesion within the banking group. In some cases, there will be uniform, homogenous criteria for assessing and engaging in various risks, and effective mechanisms – practical, statutory and/or contractual – to control members' risk-management activities. This risk management system requires regular reporting to a controlling authority, which must have at its disposal effective practical, statutory and/or contractual measures that enable it to apply sanctions to member banks that breach risk management policies.
- The regulatory treatment of such groups. Does the regulator view and regulate the banking group in question as a single "risk unit" in the same way as a normal consolidated entity?

"Liquidity" and "Solidarity" Funds

Cross-support mechanisms usually include "liquidity" or "solidarity" funds. Member banks' contributions are generally determined by their central institutions or statutes. The funds are available to deal with any liquidity or solvency problems surfacing only within a banking group's member banks.

Available amounts held in these funds vary from group to group and, although they are insufficient in themselves to provide support to an entire banking group undergoing severe liquidity or solvency problems, Fitch takes account of them when examining total group liquidity.

Assigning Ratings if the Banking Group Qualifies for "Group" Ratings: Once the above analysis determines that a "group" rating can be assigned, Fitch follows its broad bank rating criteria outlined in this report to determine those ratings. A full set of ratings will usually be assigned to the banking group: Long-Term and Short-Term IDRs, a VR, an SR and an SRF. The Long-Term and Short-Term IDRs assigned to these banking groups automatically apply to all entities sharing in the cross-support mechanism. This is because Fitch has concluded that any bank sharing in the mechanism can, in case of need, rely on timely support from within the banking group. Also, in the rare circumstance that an individual member has stronger creditworthiness than the group as a whole, its commitment to the other members serves as an equaliser in the form of a contingent liability.

Ratings Assigned to the Central Institution: Ratings are typically assigned to the central institutions. If, as is usually the case, these are full members of the banking group, the banking group IDRs apply and are assigned accordingly. If any outside support provided to the banking group is likely to be channelled through the central institution, an SR and an SRF may be assigned to the central institution, which will be the same as those assigned to the banking group.

Generally, Fitch does not assign VRs to banking groups' central institutions. However, if the central institution has a distinct commercial banking business in its own right, a VR may be, but does not have to be, assigned. Where Fitch does assign a VR to the central institution, the VR may or may not be the same as that assigned to the banking group, depending on the institution's relative size within the group, its risk and financial profile, and the degree to which it acts independently of the banking group.

Long- and Short-Term IDRs Are Assigned to Individual, Primary, Local Banks: Issuance and interaction with the capital markets in a banking group are generally undertaken by the central institutions of these groups. Therefore, individual analysis of the local, primary banks included in a banking group is rarely required. The Long- and Short-Term IDRs (the same as those assigned to the banking group) apply to all members of the banking group, including to each local, primary bank irrespective of their size or importance within the group. These may be assigned to all banks within a group or to individual banks depending on issuer and/or investor demand.

VRs are not typically assigned to specific local banks because their IDRs are based on the homogenous group identity. Individual banks that are part of a banking group are often dependent on the group to undertake certain functions, such as treasury management or credit assessment, product development and back-office functions. This may be because of their small size, limited sophistication or because of group policies, as determined by the central institution.

Support Ratings are also not typically assigned to the local, primary banks within a banking group. The use of these ratings is superseded by the analysis of banking group's support mechanism, overlaid with a Support Rating and SRF for the group as a whole.

Ratings Assigned to Subsidiaries or Other Entities Excluded from the Cross-Support Mechanisms; Debt Obligations Excluded from the Cross-Support Mechanisms: Fitch's approach to the analysis of any subsidiary or other entity within a banking group that is excluded from the cross-support mechanism differs from that applied to those entities that are part of the mechanism. The agency will normally assign a full set of ratings to the entity in question, but these will not necessarily be the same as those assigned to the group. If Fitch considers that a subsidiary or other group entity lacks any meaningful independence, it may not assign a VR. The assessment and ratings assigned are in line with broader criteria for assigning ratings to bank subsidiaries.

In some banking groups, cross-support mechanisms apply specifically to certain obligations and exclude others. In other cases certain obligations may be specifically excluded. Also, the performance of some debt obligations, for example subordinated and hybrid capital instruments, may depend on capital or profit levels at a specific entity (usually the issuing entity) within the group. Therefore, when assigning ratings to issuance or other obligations of members of the group, Fitch examines which obligations fall within or outside the scope of the cross-support mechanisms in determining the appropriate ratings.

Credit Opinion "Floors"

For banking groups that comply with some but not all of the criteria outlined under "Group" Ratings above, Fitch may assign credit opinion "floors" rather than banking "group" ratings. These floors are expressed in the form of a credit opinion and indicated by a '*' suffix. They set a minimum Long-Term and/or Short-Term IDR level for members of the banking group, but higher ratings may be assigned to specific member banks that have a sounder risk profile. The potential for ratings above the credit opinion floor becomes more limited as mutual support mechanisms become stronger.

Assigning Ratings to Banking Groups with Loose Cooperation Schemes

If Fitch is not satisfied that a banking group can be viewed as a consolidated entity, it will not assign banking group ratings. This is most likely to be because the mutual support cooperation scheme is loose or because examples of how group support has worked in the past are insufficient to convince Fitch that the scheme will work effectively in practice.

Annex 5: Information Used to Issue and Maintain Ratings; Limitations; Variations; Sensitivities

Key Principles

Analysts must base their research and rating analysis on a thorough analysis of all relevant information known and believed by them to be relevant to the analysis is and the rating decision.

This information includes publicly available information, information provided directly by or during their interaction with the issuer and information provided by third parties and relevant information gathered by Fitch analysts during their interaction with other issuers.

All rating committees are required to verify that data were sufficient and robust relative to the rating decision. Where there is insufficient information to assign or maintain a rating, no rating shall be assigned or maintained.

Information Used to Issue and Maintain Ratings

The core information relied on in the rating process is publicly available information such as annual and interim financial statements (typically at least three years of audited accounts), transaction documents for public issues, public statements, presentations and other ad hoc disclosure made by issuer management, public regulatory filings and official industry commentary. This public information represents the minimum requirements for investors to form an investment decision and is based on the level and type of information typically presented by a publicly listed company.

Public disclosure is often supplemented by additional information provided directly by issuer management. Such additional information may take the form of more frequent or confidential updates of information typically disclosed publicly and/or specific non-public information considered analytically important. Meetings may be held with members of issuer management to discuss the information provided and to understand any assumptions used in the preparation of the information. Non-financial information used in the rating process would typically include a description of the institution's core products, client base, geographical markets, risk management framework, group structure, ownership and strategy.

Fitch works with the most recent information available. Public disclosure will generally be predictable in its timing; periodic updates of other information will typically be timed to coincide with a scheduled review, or ad hoc, in response to changing conditions. This supplemental information can provide periodic insights, but its provision is subject to the discretion of the rated entity. Historical time series information provides important insight but the most recent information typically has a greater weighting in the prospective rating opinion.

Fitch undertakes a reasonable verification of the factual information relied on in accordance with the relevant rating methodology and criteria as far as is possible from information from independent sources, to the extent such sources are available.

Surveillance

Analysts perform surveillance of information received and/or requested. Where a factor or trend could have an impact on the rating Fitch will determine the appropriate course of action, which may be one of the following:

- The bank is taken to rating committee.
- The bank is issued with a request for additional specific information (Fitch may also consider it appropriate to place it on Rating Watch at this point).
- Fitch may also conclude that no action is necessary.

There is no difference between new rating analysis and surveillance analysis.

Criteria Data Sources

The key rating assumptions for the criteria are informed by discussions with external parties, such as issuers, institutional owners, supervisors and governments, and Fitch's analysis of financial and non-financial information, such as issuer financial statements and annual reports, bond documentation and financial market, industry, academic and economic data, research and history.

Variations from Criteria

Fitch's criteria are designed to be used in conjunction with experienced analytical judgment exercised through a committee process. The combination of transparent criteria, analytical judgment applied on a transaction-by-transaction or issuer-by-issuer basis, and full disclosure via rating commentary strengthens Fitch's rating process while assisting market participants in understanding the analysis behind our ratings.

A rating committee may adjust the application of these criteria to reflect the risks of a specific transaction or entity. Such adjustments are called variations. All variations will be disclosed in the respective rating action commentaries, including their impact on the rating where appropriate.

A variation can be approved by a ratings committee where the risk, feature, or other factor relevant to the assignment of a rating and the methodology applied to it are both included within the scope of the criteria, but where the analysis described in the criteria requires modification to address factors specific to the particular transaction or entity.

Limitations of Bank Rating Criteria

This master criteria report identifies factors that are considered by Fitch in assigning ratings to a particular entity or obligation within the scope of the master criteria. Not all factors in these criteria may apply to each individual rating or rating action. Each specific rating action commentary will discuss those factors most relevant to the individual rating action.

Ratings, including Rating Watches and Outlooks, assigned by Fitch are subject to the limitations specified in Fitch's Rating Definitions, available at www.fitchratings.com. Other limitations, where relevant, are included in the most appropriate sections of the criteria or below:

IDRs, VRs, SRs, SRFs and DCRs do not specifically address transfer and convertibility risk for each and every foreign jurisdiction in which a bank operates via a branch, nor do they reflect branch-specific resolution risks. Where Fitch does not assign ratings to a foreign branch, country risks (notably transfer and convertibility risk, but also banking sector intervention risk in general) represent a limitation to using head office ratings as a proxy for branch default risk.

Deposit ratings do not specifically address transfer and convertibility risk for each and every foreign jurisdiction in which a bank operates via a branch, nor do they reflect branch-specific resolution risks.

Rating Assumption Sensitivity

Fitch's opinions are forward-looking and include Fitch's views of future performance. Bank and BHC ratings are subject to positive or negative adjustment based on actual or projected financial and operational performance. The list below includes a non-exhaustive list of the primary assumption sensitivities, or shifts in key rating drivers for specific credits, that can influence the ratings.

Operating Environment Risk: Deterioration in an issuer's operating environment due to weakening of general economic environment, sovereign risks, financial market health, changes in regulatory/legislative requirements or conditions and systemic governance in the countries where the issuer is operating as well as possible imposition of foreign-exchange controls.

Business Risk: Developments in an issuer's ability to withstand competitive pressures as shown in its position/franchise in key markets, its business model/diversification, its level of pricing power and its operating efficiency.

Financial Risk: Changes in an issuer's financial profile due to the impact of operational developments, changes in accounting standards/policies, the issuer's financial policy or risk appetite or the availability of funding in case of market disruption.

Event Risk: An unforeseen event which, until it is explicit and defined, is excluded from existing ratings. Event risks can be externally triggered – such as a change in law, a natural disaster, a political shock, an ownership change – or internally triggered, such as a change in policy on capitalisation, a major acquisition, fraud or a management or strategic restructuring. As most banks tend to be funded shorter than they are lent, they can be vulnerable to extreme liquidity stress. While funding and liquidity is a core part of our rating analysis, idiosyncratic events can cause a rapid, potentially materially detrimental, deterioration in liquidity.

Support Change Risk: A change in extraordinary support likely to be available to an issuer, for example due to a change in ownership or developments in bank resolution frameworks.

Instrument-specific Risks: In the case of issue-level ratings, these may be sensitive to changes in a company's issuer-level ratings, performance risk relative to the risk captured in issuer-level ratings (e.g. for hybrids) and changes in default risk or recovery prospects for the instrument, for example as a function of its seniority, volume/expected volume of *pari passu* liabilities or the volume/expected volume and relative ranking of other liability layers.

Event risk and changes in support can often have more material implications for bank ratings than other risks outlined above.

Annex 6: Use of Stress Testing and Other Tools in the Rating Process

Key Principles

Where relevant, analysts will complement their analysis of the relevant information with an assessment of the potential impact of a range of reasonable/plausible stress scenarios or simulations.

Assumptions

Assumptions used in stress or scenario analyses will vary but will typically incorporate macro-economic variables, loss rates and changes in risk parameters (such as probability of default and loss given default), and impact will typically be framed in the context of impact on earnings and/or capital. The variable(s) selected will be driven by the nature and/or severity of the stress envisaged or being tested, and will be established at bank-specific, sector, country and/or region level.

Tools Used in the Rating Process

Where relevant, Fitch will use a range of standardised tools to simulate the effect of asset quality, capital and liquidity stresses. Stress testing may be carried out on an issuer-specific or sector basis and may be supplemented by bespoke simulations in cases where standardised approaches may not be appropriate.

To the extent that regulators in various jurisdictions may conduct stress tests or asset quality reviews across a country or sector, Fitch may use its own similar tools to understand better regulator stress tests and their sensitivities, recognising the varying degrees of disclosure regarding factors such as baseline data and stress variables.

Inputs and Outputs

Stress and scenario testing may require standard issuer inputs of a non-public nature and Fitch will request those that are considered necessary. If such inputs are not provided Fitch may use conservative estimates based on analytical judgement together with its broader industry and sector knowledge. Alternatively, Fitch may be provided with an issuer's own scenario analyses. In such cases Fitch will discuss these with issuer management to understand the underlying assumptions used in the analysis and, if appropriate, make further analytical adjustments to management's underlying assumptions.

Outputs may, at Fitch's discretion, be disclosed in full or part where such disclosure adds value to the analysis and/or research. The presence of non-public data, however, typically results in disclosure being in aggregate or summarised form. Fitch will use peer comparison, where relevant, to evaluate relative resilience to specific stresses or scenarios.

Annex 7: Applicable Criteria

This criteria report has been published together with the following companion criteria report:

In some situations, issuers may be rated under both the Bank Rating Criteria and the Non-Bank Financial Institutions Rating Criteria, as disclosed in relevant rating action commentaries.

The following cross-sector criteria reports will be applied to the ratings of banks and other financial institutions, where appropriate.

Non-Bank Financial Institutions Rating Criteria	February 2020
Country Ceilings Criteria	July 2019
National Scale Ratings Criteria	July 2018
Sukuk Rating Criteria	July 2019
Third-Party Partial Credit Guarantees Rating Criteria	June 2019