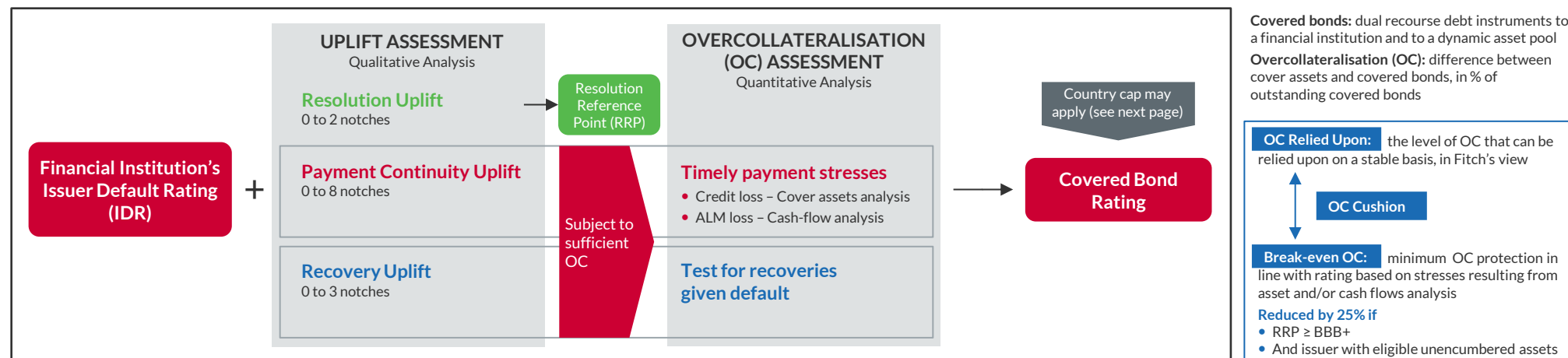


Criteria Essentials – Covered Bond Ratings (1/2)

Scan QR code or visit

<https://www.fitchratings.com/criteria/covered-bonds> to view detailed Covered Bonds Rating Criteria (A) and related criteria: Structured Finance and Covered Bonds Counterparty (B) and Country Risk (C) Rating Criteria reports



Resolution Uplift

Favourable treatment of covered bonds over senior liabilities in resolution if

- Fully collateralised covered bonds exempt from bail-in under bank resolution framework
- Low risk of undercollateralisation if bail-in exemption is restricted to cover pool value; and
- Liquidity facilities from lender of last resort

Yes	Resolution Uplift	Notches
	Resolution debt buffers	2
	Legislative covered bond framework, standard cover assets, and large diverse covered bond market	2
	Senior preferred debt, deposit or Derivative Counterparty Rating uplifted above the IDR	2
	Standard assets, small or concentrated market	1
	Specialised lenders	0
	No debt buffer requirements; no resolution expected	0
	Expected enforcement of recourse against cover pool in a resolution	0
No	No resolution uplift	

Payment Continuity Uplift (PCU)

Reflects degree of protection against the risk of payment interruption when the source of payments shifts from the issuer to the cover pool

Protection for principal payment

Programme type (developed banking markets)	Effective liquidity protection	Max notches of PCU
Pass-through	Maturity date > longest cover pool asset	8
Public sector and mortgage	≥ 12 months	6
Public sector	≥ 6 months	5
Mortgage	≥ 9 months	4
Mortgage	≥ 6 months	3
Maturity mismatch exposure	None	0

- Protection for interest payment**
PCU capped at 3 notches if protection < 3 months of interest payments

Subject to:

- Liquidity held in eligible liquid assets
- Counterparty risk on account bank mitigated in line with counterparty criteria
- Efficient asset segregation

Recovery Uplift

Reflects recovery prospects from cover pool upon covered bond default

Recovery prospects	Notches of uplift
Outstanding (absent material risk to recovery such as FX risk)	2 – if timely payment rating level is investment grade 3 – otherwise
Superior	1 – if timely payment rating level is investment grade 2 – otherwise
Good	1
Average	0

Timely Payment Stresses – Applied at the timely payment rating level if notches of PCU are used

Credit Loss

- Credit risk of cover assets (default probabilities and recovery expectations)
- Derived from asset analysis of the cover pool
- Based on Fitch's static assets default and loss analysis detailed in criteria reports relevant to cover asset types

ALM Loss

- Cost of bridging mismatches (maturity, interest rate, foreign currency (FX)) between cover assets and covered bonds
- Derived from cash-flow model combining
 - Net present value difference of assets and liabilities, under rate and FX stresses
 - Loss from cover asset sales and reinvestment of cash surplus

OC Supporting Timely Payment

Test for Recoveries Given Default

- Programmes fully collateralised by standard assets such as mortgage loans are expected to deliver at least a good level of recovery (≥ half the principal), in line with 1 notch of recovery uplift
- Programmes are expected to experience outstanding recoveries where OC relied upon ≥ the stressed credit loss (or 75% thereof) from the asset analysis in a rating case corresponding to the level of the assigned bond rating

Criteria Essentials – Covered Bond Ratings (2/2)

Scan QR code or visit

<https://www.fitchratings.com/criteria/covered-bonds> to view detailed Covered Bonds Rating Criteria (A) and related criteria: Structured Finance and Covered Bonds Counterparty (B) and Country Risk (C) Rating Criteria reports



Eligible Liquid Assets for Payment Continuity

- Cash held with credit institution in line with credit risk rating table and appropriate replacement language
- High-quality liquid assets (HQLAs) level 1 and 2A under Basel Liquidity Coverage Ratio
 - If concentrated in government debt, eligible in line with credit risk rating table
 - Otherwise, HQLAs eligible regardless of rating
- Cash held with a eurozone central bank regardless of timely payment rating level
- Cash held with other national central banks supports the same covered bond timely payment rating level as the related sovereign debt
- Qualified investments in counterparty criteria

Credit Risk Rating Table

Covered bond timely payment rating level* category	Min credit rating of eligible liquid assets
AAA	A or F1
AA	A- or F1
A	BBB or F2
BBB	BBB- or F3

* Timely payment rating level = financial institution IDR + resolution uplift + used PCU

Limited Rating Uplift applies when

- Incomplete data but sufficient for broad asset analysis to estimate recovery prospects
- Cover assets in new markets where detailed asset default and loss assumptions cannot be derived
- Cover asset class with volatile past performance or short history
- Issuer track record < 3 years
- Issuer's business model uncertainties questioning its ability to replenish the cover pool

Notches of Uplift

Resolution uplift	0 to 2
Used PCU	0
Recovery uplift	0 to 1

Refinancing Spread Levels (RSLs) to estimate cost of asset sales assumed to bridge cash shortfalls

- Stressed asset price = asset cash-flows discounted at stressed rate increased by RSL to cover sold assets' liquidity risk and a buyers' profit margin
- RSLs determined based on observed spreads; qualitative overlay may apply
- Severe liquidity squeeze (SLS) risk captured for countries rated below 'AA' category
- RSLs ranked in 4 stress groups based on sovereign rating and spread volatility
- 3-point RSL scale for each stress group: mid point RSL by default; moved to low- or high-end based on positive / negative drivers

RSL Principles and Assumptions

Stress group	Sovereign debt IDR category		Sovereign debt (bp)			Residential mortgages (bp)		
			Low-end	Mid-point	High-end	Low-end	Mid-point	High-end
Low	AAA, AA and certain A**	B RSL	0	15	30	60	80	100
		AAA RSL	50	75	100	120	160	200
Medium	A and BBB	B RSL	50	100	150	100	125	150
		SLS	200	250	300	250	300	350
High	BB	B RSL	200	250	300	250	300	350
		SLS	450	500	550	450	500	550
Very high	B	B RSL	-	-	800	-	-	800
		SLS	-	-	800	-	-	800

** Sovereigns at A with exceptionally high bond liquidity or very large covered bond, RMBS markets

- Add-on to sovereign RSL apply for pools consisting of other public sector exposures
- Add-on to residential mortgage RSL apply for pools with commercial real estate exposure

Country Cap for Covered Bonds and Structured Finance Notes

When the relevant sovereign Local Currency IDR is below 'AAA'

Asset Credit Quality Deterioration Risk
Risk of sudden, material deterioration in securitised and cover asset creditworthiness from sovereign-related circumstances

Sovereign IDR-Related Cap

Determined for each country at max up to 6 notches above Sovereign Local Currency IDR

- Quantitatively derived from GDP per capita and BMI's Operational Risk Index

GDP per capita	Max uplift above sovereign LC IDR				
	BMI Operational Risk Index				
	>80	>60	>40	≥20	<20
>45	6	6	5	5	4
≥35	6	5	5	4	3
≥15	5	4	4	3	2
≥6	4	3	3	2	1
<6	3	2	2	1	1

- Qualitative overlays may apply

Transfer and Convertibility (T&C) Risk
Risk of transfer and convertibility restrictions being imposed to a country's domestic private sector; relevant if foreign-currency issuance or if the sovereign is in a currency union

T&C-Related Cap

1
If sovereign IS part of a currency union

Country Ceiling

2
If sovereign is NOT part of a currency union and foreign-currency issuances

Up to 4 notches above Country Ceiling
Depending on T&C mitigation***

Lower of sovereign IDR-related cap and, if any, T&C-related cap

Covered Bonds and SF Country Cap

Conservative Assumptions on Asset Performance: At the sovereign IDR-related country cap level, rating assumptions are those applied at 2 rating categories above the cap level

*** Absent dedicated T&C risk mitigation, Fitch may still grant a one-notch recovery uplift above the Country Ceiling if other appropriate protections are in place.