RIDF Section 13. Sensitivity to Assumptions

Sensitivity of the Credit Rating to Assumptions Made by Fitch as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

The major assumptions made by Fitch in determining the announced credit ratings are discussed below, along with examples that illustrate the effect of the violation of those assumptions, where determinable.

Assumption

Fitch assumes that all parties to the rated covered bond programmes will abide by their regulatory obligations, contractual commitments and/or non-contractual public statements.

- *In 2011, Fitch downgraded a UK mortgage covered bond program to AA-from AA+, as cash deposits and swap collateral were held in an account at the issuer which was rated BBB/F2, instead of being transferred to an eligible account bank, defined according to the documentation as an institution rated at least A/Fl. The program was analyzed disregarding the cash held in the account.*

Assumption

Fitch assumes that information provided by issuers/arrangers, auditors, and data/model vendors is accurate and gives a true and fair representation of the subject/data it purports to show, subject to reasonable investigation by Fitch.

- *Problems associated with residential mortgage loans in U.S. RMBS transactions from the 2005-2007 vintages have been widely publicized, and the rating downgrades of these transactions are well known. Among the problems cited for these transactions (particularly in the Alt-A segment), was that there were widespread indications of fraud pertaining to "stated income" loans, whereby a borrower's income as stated on the loan application was grossly inflated.*

Assumption

Fitch assumes that there are stable laws governing the statutory regime and contractual terms of covered bond programs, with timely and complete legal access to the security package in the event of an issuer insolvency.

- *Banco Santander Chile's 'bonos hipotecarios' (mortgage covered bonds; rated by Fitch between June 2013 and January 2021 on the Chilean national rating scale) were not rated above the issuer's senior unsecured rating. Asset segregation, in Fitch's view, was not sufficiently strong as bondholders do not have direct access to asset cash flows upon a failure of an issuer under Chilean 'bonos hipotecarias' legislation.*

Assumption

Fitch assumes that the relevant key operating environments will remain consistent with expectations.

- *Covered bond ratings have been stable through the years except during the global financial crisis and eurozone sovereign debt crisis where sovereign and bank downgrades had multiple notch impacts on covered bonds from Cyprus, Greece, Italy, Ireland and Spain. Downgrades in sovereigns and banks led to around 75% of the covered bond downgrades between 2010 and 2014.*

Assumption

Fitch assumes that, upon the enforcement of recourse to the cover pool, payment on covered bonds will be met if there are satisfactory liquidity protection mechanisms in place to bridge maturity mismatches between assets and liabilities. Furthermore, no other factors such as lack of asset segregation and alternative management, among others, should be detrimental to liquidity.

- *The payment continuity uplift granted in January 2021 to the covered bond programme of Komercni Banka in the Czech Republic is five notches, rather than the standard six for mortgage covered bonds with a 12-month principal maturity extension and three-month protection for interest payment. This is due to the uncertainty of appointing the cover pool administrator without delay in the event of a maturity extension.*

In addition to the Covered Bond assumptions above, please also refer to the Banks FI, Non Banks FI Sensitivity to Assumptions.