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 the continued normal operation of relevant financial and/or funding markets, which may include a moderate amount of short-term disruption or volatility.

- *During 2012 and 2013, some Spanish regions found it difficult to access the capital markets to roll over maturing obligations, resulting in a number of downgrades. However the central government introduced a number of liquidity and funding mechanisms in March 2013 for the regions and this, together with other supporting elements, resulted in the introduction of a ratings floor of 'BBB-' for all Spanish regions.*

Assumption

Fitch assumes that the issuer maintains financial, operational and risk management policies (e.g. leverage, asset/liability mix, dividend, credit, liquidity, market risk, governance) broadly consistent with those currently disclosed to Fitch and/or the marketplace.

- *An Italian region was downgraded to 'BBB+' from 'A-' in 2012 following a missed payment on a swap transaction. The region's decision to renege on financial commitments reflected a weaker debt service culture than had been incorporated into its rating.*

Assumption

Fitch assumes that there will be no material change in expectations for the likelihood of extraordinary external support from upper tier(s) of supporting government as applicable.

- *Fitch's ratings of Government Related Entities (GREs) assume an element of on-going support (financial or otherwise) from its public sector owner and, an element of "extraordinary support" in case of need. The greater the propensity that this extra-ordinary support would be forthcoming, and timely, the closer the rating of the GRE would be to that of its public sector owner.*

  On the expectation of lower likelihood of extraordinary support, in 2021, Fitch downgraded the Long-Term IDR of a Chinese financial GRE (Huarong) from 'A' to 'BBB'; on expectations of higher likelihood of extraordinary support the IDR of an Italian Entity (AMCO) was equalized to the Sovereign's IDR in 2020 from a previously one-notch rating differential.

Assumption

Fitch assumes that information provided by issuers and their agents, including legal opinions, and operating and financial information provided by third parties is valid, accurate and meets widely accepted levels of professional standards, subject to reasonable investigation by Fitch.

- *Fitch downgraded the rating of a General Hospital in the Netherlands, Bernhoven B.V., in December 2021 to BBB+ from A- and placed it on Rating Watch Negative amid overstated operating performance, which prompted a recovery plan to remove inflated revenues and renegotiate contracts with insurer providers. The Rating watch was removed subsequent to restatement of reliability of the financial plan.*

Assumption

Fitch assumes that the institutional framework (IF) which includes an analysis of the responsibilities, funding, and prudential regulations will not be modified to the detriment of the issuer.

- *The influence of the IF on an LRG's risk profile is captured through the assessment of the 6 key risk factor components. Fitch assumes that any changes to the IF would not be to the detriment of the subnational. Fitch's forward assessments do not factor in any major detrimental changes to the status quo. If greater responsibilities are handed down to the subnational, Fitch would expect the central government to also allocate sufficient additional resources to undertake these.*

  Fitch downgraded the ratings of some Polish municipalities in 2022 as their budgets were squeezed by cuts in the share of PIT revenue only partly replaced by national transfers.