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銀行評等準則

主要準則

本準則取代 2020 年 2 月 28 日出版之「*銀行評等準則*」。重要變更皆列於「準則變更」一節。

範圍

本報告詳細說明惠譽國際信用評等公司為銀行 (包括商業銀行和政策性銀行) 和銀行控股公司 (BHC) 及其發行債券評等的方法。本準則適用於全球各地的新評等以及現有評等。在特定情形下，本報告可與其他評等準則一起應用 (請見「*Related Criteria*」(相關準則))。

關鍵評等驅動因素 (KRD)

自身狀況與支援：授予銀行和 BHC 的發行人違約評等 (IDR) 會同時考慮其自身信用體質及潛在支援。銀行的個別實力評等 (VR) 反映了銀行的自身狀況或自身信譽度，而政府支援評等 (GSR) 或股東支援評等 (SSR) 則反映該行在需要時獲得外部支援的可能性。

IDR 取決於「較高者」方法：惠譽認為長期 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 (如其 SSR 或 GSR 所反映的)，再以這兩者之中的較高者授予其長期 IDR。**在「*Assigning IDRs Above VRs*」(授予高於 VR 的 IDR) 一節中將詳細說明本方法的例外情況。**

質化和財務因素：在授予銀行 VR 時，惠譽首先會評估其經營環境，接著進行其他六項關鍵評等驅動因素 (KRD) 的評估：包括兩項質化因素 (業務概況和風險概況)，以及四項財務因素(資產品質、盈餘和獲利能力、資本水準與槓桿，以及資金與流動性)。惠譽會在這些 KRD 評分上套用固定權重，以推導出隱含 VR，並根據分析判斷進行調整，再算出最終 VR。

提供支援的能力和意願：惠譽通常會根據支援來源較為可靠的一方，而授予銀行 GSR 或 SSR。這些評等反映了惠譽認為銀行在需要時獲得重大支援的可能性，通常是來自銀行或其所有人所在司法管轄區的國家主管機關。惠譽會考慮幾項相互影響的 KRD 因素，以評估提供重大支援的能力和意願 (請見「*Government Support Rating*」(政府支援評等) 和「*Shareholder Support Rating*」(股東支援評等)等章節)。

不償付風險和損失嚴重性：銀行的長期債務評等，包括對債務違約 (不償付) 之可能性的評估，以及在違約/不償付情況下回收債權之可能性的觀點。優先順位無擔保債務的評等通常與銀行的長期 IDR 相符，而次級債務和混合債務的評等通常低於銀行的 VR。

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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.

分析方法的建構

來源：惠譽

本準則報告的結構

本報告下一節「*Relevance and Weighting of Key Rating Drivers*」(關鍵評等驅動因素的相關性與權重)將介紹三種主要銀行評等 (VR、GSR 和 SSR) 中每項評等的 KRD，並說明如何加權 KRD 來推導評等。接下來在「*Viability Rating*」(個別實力評等)、「*Government Support Rating*」(政府支援評等)和「*Shareholder Support Rating*」(股東支援評等)這三節中，將更詳細說明惠譽如何評估個別 KRD。這些章節構成本報告以及我們分析的核心，這些章節的內容就足以說明我們如何為大部分受評銀行推導長期 IDR。

接下來在「*Banking Groups*」(銀行集團)和「*Assigning IDRs Above VRs*」(授予高於 VR 的 IDR) 這兩個章節中，會說明銀行集團或銀行資本結構的某些特點如何影響他們的評等。這些章節只和少數受評銀行相關。

在「*Obligation Ratings*」(債務評等)一節中將說明我們如何授予銀行證券 (優先、次級和混合) 和存款評等，以及我們如何授予衍生性工具交易對手評等 (DCR)。「*Country Risks*」(國家/地區風險) 一節將概述不同類別的這種風險如何影響銀行評等。「*Rating Definitions and Scales*」(評等定義及等級)一節詳述每項銀行評等的衡量項目、如何識別銀行違約和倒閉，以及如何根據銀行的長期 IDR 推導短期 IDR。

本報告主要內文的最後章節著重於我們為授予銀行評等時使用的相關準則報告和資訊、銀行評等對某些假設的敏感度，以及若干準則揭露與考量。

附件概述惠譽如何計算銀行的財務指標，並指出銀行 VR 在不同評等級別時的 KRD 一般特徵。

關鍵評等驅動因素的相關性與權重

發行人違約評等

銀行的長期 IDR 可能僅反映其 VR (即 VR 高於 GSR 或 SSR)，或是僅反映其 GSR 或 SSR (即 GSR 或 SSR 高於 VR)，或是等同其 VR 和 GSR/SSR，也就是這三者為相同等級。在特定情況下，銀行的長期 IDR 會根據其 VR 上調 (請見「*Assigning IDRs Above VRs*」(授予高於 VR 的 IDR))。

個別實力評等

根據「aaa」等級授予 VR。有關銀行 VR 的 KRD 以及其權重，如下表所示。權重是以分析判斷為基礎，並且經由歷史統計分析所形成。

如需瞭解VR等級的完整說明，請參閱惠譽的評等定義。

我們根據「aaa」等級為每個 KRD 評分，接著對評分進行加權，以決定隱含 VR (同樣為「aaa」等級)。「*Viability Rating*」(個別實力評等)一節詳細說明我們如何對銀行 VR 的每項 KRD 進行評分。

銀行的經營環境會影響我們對其他 KRD 的評估，因此可影響銀行的 VR。然而，我們不會對經營環境授予獨立權重，以避免重複計算。

以下是我們根據 KRD 分數權重，可能為 VR 授予高於或低於隱含 VR 等級的原因：

- **經營環境/主權評等上的侷限：**如果我們認為隱含 VR 的評等相對高於經營環境分數或主權評等 (請另見「*Country Risks*」(國家/地區風險))，就會為 VR 授予低於隱含 VR 的等級。
- **業務概況及/或風險概況：**銀行的質化 KRD (即業務概況及/或風險概況) 對授予的 VR 所帶來的影響可能高於加權建議的程度。此一情況適用於我們認為任一或兩項 KRD，長期下來對銀行財務指標造成的正面或負面影響，遠超出其目前反映在財務 KRD 評分的程度。
- **最弱項：**當有一項以上的財務 KRD 代表銀行「最弱項」時，尤其是 (但不限定於) 評等較低時，我們可能會為 VR 授予低於隱含 VR 的級別。KRD 的「最弱項」會對銀行信用狀況的整體觀感造成相當大的影響，而將授予之 VR 降到或接近最弱項的 KRD 評分級別。

關鍵評等驅動因素 – 個別實力評等

		權重 (%)
經營環境	業務概況	20
	風險概況	10
	= 質化評估	**30**
	資產品質	20
	盈餘和獲利能力	15
	資本水準與槓桿	25
	資金與流動性	10
	= 財務狀況	**70**

經營環境 KRD 會對其他 KRD 評分有相當大的影響。然而，在我們推導出銀行隱含 VR 時，為了避免重複計算，不會對經營環境授予獨立權重。
來源：惠譽

政府支援評等

下表顯示用於判定銀行 GSR (根據「aaa」等級進行授予) 的 KRD。[1]

如需瞭解 GSR 等級的完整說明，請參閱評等定義。

對於商業銀行，適用於 KRD 的權重主要取決於實體所營運的市場是否具有完善且可信的清算架構，可為優先順位債權人提供內部紓困。若具有類似架構 (如同多數已開發市場的狀況)，清算法規通常為具有高度重要性的 KRD，而且銀行的 GSR 通常是「不支援」(請見下表左方欄位)。

若不存在類似架構 (如同多數新興市場的狀況)，用於決定國內系統重要性銀行 (D-SIB) GSR 的一般權重如下表中間欄位所示，而且 D-SIB 的 GSR 通常接近主權評等。當我們認為通常屬於較低/中等重要性的 KRD 對支援具有特別高的重要性時 (可為正面或負面)，KRD 的權重可能會變更，舉例來說：

- 若銀行體系規模大到難以支援、主權財務靈活性有限而無法支援，或是主管機關支援意願薄弱，這些 KRD 就會具有較高重要性，而且會對 GSR 帶來負面影響；或
- 相反地，若有堅定的支持意願或政府持有特定銀行的所有權，這些 KRD 就會具有較高重要性，而且會對 GSR 帶來正面影響。

政策性銀行的 GSR 所具有的 KRD 一般權重，如下表右方欄位所示。對於政策性銀行，當我們認為一項以上的 KRD 對支援有正面或負面的特別影響時，該 KRD 的權重可能會變更 (如同商業銀行)。

關鍵評等驅動因素 – 政府支援評等

	一般權重		
	商業銀行		政策性銀行
	具有完善清算架構的市場	缺少完善清算架構的市場	
政府支援 D-SIB 的能力			
主權評等	較低	較高	較高
銀行體系規模	較低	中等	不適用
銀行體系結構	較低	中等	不適用
主權財務靈活性 (對於評等級別)	較低	中等	較低
政府支援 D-SIB 的意願			
清算法規	較高	較低	較低
支援意願	較低	中等	較低
政府支援銀行的意願			
系統重要性	較低	較高	較低
負債結構	較低	中等	較低
所有權	較低	中等	較高
政策角色及狀態			
政策角色	不適用	不適用	較高
擔保和法定地位	不適用	不適用	中等

來源：惠譽

[1] 我們將 GSR 和 SSR 統稱為「支援評等」。當我們提到銀行的「支援評等」時，不論授予哪一項 (或採其中較高者，而在極少數情況下，會同時授予兩者)，係指 GSR 或 SSR。

股東支援評等

下表顯示用於判定 SSR (根據「aaa」等級進行授予) 的 KRD。當我們認為通常屬於較低或中等重要性的 KRD 對支援具有正面或負面的特別影響時，一般權重可能會變更。

如需瞭解 SSR 等級的完整說明，請參閱評等定義。

關鍵評等驅動因素 – 股東支援評等

	一般權重
股東提供支援的能力	
股東評等	較高
股東監管	中等
相對規模	中等
國家/地區風險[a]	較高
股東提供支援的意願	
在集團中的角色	較高
信譽風險	中等
整合程度	中等
支援紀錄	中等
子公司績效和前景	中等
法律承諾	較低

[a] 當國家/地區風險將評等限制在顯著低於母公司的評等水準時，這些風險會對 SSR 帶來相當大的影響。相反地，當國家/地區風險不對 SSR 設下限制時，這類風險對評等的重要性可能會降低。
來源：惠譽

個別實力評等 (VR)

概述

惠譽會根據三步驟流程來決定銀行的 VR。首先，我們決定銀行經營環境的 KRD 分數。接下來，則是運用經營環境 KRD 分數作為輸入項，決定其他六項 KRD 分數 (業務概況、風險概況、資產品質、盈餘和獲利能力、資本水準與槓桿，以及資金與流動性)。最後則是根據這六項 KRD 分數決定銀行的 VR。

在每個步驟中，我們首先會得出隱含數值 (作為 KRD 的評分或評等)，接著根據分析判斷並考量不足以反映在隱含評分/評等的因素，藉此思考這些數值是否需要進行調整。這種可能進行調整的做法反映了我們的看法，即過度呆板僵化的架構無法適切反映銀行信用狀況的整體面貌。在發佈的研究中，惠譽將揭露隱含評分/VR，以及這些項目所適用的調整。

決定銀行 VR 的三步驟流程

來源：惠譽

步驟1：決定經營環境的KRD 分數

隱含分數：我們會參照兩因素矩陣，並根據「aaa」等級授予銀行經營環境 KRD 的隱含類別分數 (請見下方「*Operating Environment*」(經營環境) 一節)。矩陣納入兩個具有評估 KRD 最強大解釋能力的核心指標，即人均國內生產總值和使用 Fitch Solutions *營運風險指標*。我們認為這些指標與銀行在特定司法管轄區於可接受風險程度下的業務量生成能力最密切相關。若某司法管轄區未被授予「*營運風險指標*」分數，惠譽會根據所報告的人均國內生產總值，及其對該市場經營事業的風險的看法，判定隱含經營環境評分。

調整和授予分數：在得出隱含的類別分數後，接著要考量是否需要加以調整，以做出最終授予特定等級的評分。在「*Operating Environment*」(*經營環境*)一節列出需要調整隱含經營環境分數的可能原因。在後續章節中會詳細說明在其他 KRD 分數及經營環境分數需要套用調整的方式及時機。

步驟2：決定其他 KRD 分數

隱含分數：授予的經營環境 KRD 分數是矩陣中，用於推導業務概況 KRD 和四項財務狀況 KRD 隱含類別分數的指標的兩項因素之一。這是由於經營環境會同時影響銀行信用狀況的質化面向 (例如營運模式的穩健度) 以及財務指標的可持續性。每個矩陣中的另一個因素就是評估特定 KRD 最密切相關的核心指標 (例如資產品質的減損放款比率)。對於風險概況 KRD，我們不會使用某個矩陣來推導隱含分數，因為評估風險狀況時，沒有密切相關的單一指標。

個別實力評等 KRD

- Operating Environment
- Business Profile
- Risk Profile
- Asset Quality
- Earnings & Profitability
- Capitalisation & Leverage
- Funding & Liquidity

用於推導 VR KRD 隱含分數的指標

KRD	指標 1	指標 2
業務概況	營運環境 KRD 分數	總營業收入 (百萬美元)
風險概況	不適用 [a]	不適用 [a]
資產品質	營運環境 KRD 分數	減損放款/總放款 (%)
盈餘和獲利能力	營運環境 KRD 分數	營業獲利/RWA[b] (%)
資本水準與槓桿	營運環境 KRD 分數	核心資本比率 (%)
資金與流動性	營運環境 KRD 分數	放款/客戶存款比率 (%)

[a] 我們不會為風險狀況 KRD 推導隱含 KRD 評分。
[b] 加權風險性資產。
來源：惠譽

惠譽使用四年平均值 (在資料可取得的情況下) 來判定隱含 KRD 分數，但資本水準與槓桿例則使用最新取得的資料，因為我們認為這更能可靠指出指標的未來水準。由於經營環境對於銀行信用狀況各方面都有相當大的影響，故隱含 KRD 分數無法高於經營環境評分一個以上的評等類別。關於經營環境對銀行評等的影響，請另參閱「*Country Risks*」(國家/地區風險) 一節。

在適用於業務概況和財務狀況 KRD 的矩陣中，隱含 KRD 分數是根據查閱相關經營環境分數及財務指標值而定。舉例來說，根據業務概況矩陣，在「bbb」環境下運營且四年平均營收介於 1 億美元和 10 億美元之間的銀行，其隱含的業務概況 KRD 分數會落在「bb」類別中。

調整和授予分數：若以類別為基準的隱含 KRD 分數 (例如「bbb」類別) 與我們的 KRD 評估相符，我們會使用分析判斷決定在該類別內應授予的評分 (例如「bbb+」、「bbb」或「bbb-」)，並授予特定等級的最終 KRD 分數。相反地，我們可能會調低或調高隱含 KRD 分數，並在隱含類別之外授予特定等級的最終分數。

這可能是因為存在與分析相關的因素，但未反映在用以決定隱含分數的核心指標上，或由於其具有週期性及/或結構性特徵，而惠譽認為這表示過往比率不是可靠的未來預測因素。在調整隱含分數時，最終授予的分數通常會在鄰近類別；舉例來說，如果調整某個「bbb」類別隱含分數，調整後的分數有可能在「bb」或「a」類別。調整兩個等級以上的評等類別 (例如從「bbb」調整為「b」或「aa」) 實屬罕見。

在決定是否套用調整項目時，我們會考量該項目與隱含 KRD 分數的相關性。舉例來說，如果我們評估某銀行非放款曝險的風險為中度 (例如主要是由「bbb」級證券構成)，可能會作為負向調整「aa」隱含資產品質分數的理由。但如果銀行資產品質隱含分數為「b」，同樣的非放款曝險就會帶來正向調整。

後續章節會列出可能調整每項 KRD 的理由，如果存在調整說明中指出的某些 (但不一定是全部) 特徵，就會進行調整。對於財務狀況 KRD，我們會計算多個補充指標，協助我們決定是否有必要調整隱含 KRD 分數。在決定 KRD 分數時，惠譽通常會將銀行的指標與屬性與其他同業進行比較。*附件 1* 概述我們如何計算核心及補充財務指標。

下表顯示若要被評為「aaa」等級的特定類別，一個 KRD 在廣義上應具備的特徵；*附件 2* 提供每個評等類別層級中個別 KRD 的定制說明。這些說明提供為各銀行判定 KRD 分數的重要指引。

KRD 的一般特徵

評分類別	KRD 的一般特徵
aaa	具有極度強大且穩定的特徵，整體獨立信用狀況符合最高品質，因可預見事件受到不利影響的可能性極低。
aa	具有相當強大且穩定的特徵，整體獨立信用狀況符合極高品質，不會因可預見事件受到顯著影響。
a	具有強大且穩定的特徵，整體獨立信用狀況符合高品質，比起 KRD 分數較高者，更容易受到不利業務或經濟條件的影響。
bbb	具有適切特徵，整體獨立信用狀況符合良好品質，但因不利業務或經濟條件受到損失的可能性較高。
bb	展現適當實力程度的特徵，整體獨立信用狀況符合投機品質，表示隨著時間推移容易因業務或經濟條件的不利變化受到影響。
b	符合具有重大破產風險的特徵，且整體獨立信用狀況為高度投機品質，表示容易受業務和經濟環境惡化的影響。
ccc 或以下	符合實際可能破產的特徵，且整體獨立信用狀況呈現重大信用風險，表示非常容易受業務和經濟環境惡化的影響。

來源：惠譽

步驟3：結合KRD 分數以判斷VR

隱含 VR：我們結合 KRD 分數，並使用「*Relevance and Weighting of Key Rating Drivers*」(關鍵評等驅動因素的相關性與權重)一節中詳細說明的權重來決定銀行的隱含 VR。這種做法是對每項最終 KRD 分數 (「aaa」為 1，「aa+」為 2，以此類推) 授予數值，再將這些數值乘以權重，接著算出加權數值總和。這個做法最終得出某數值，可化為整數再轉為「aaa」等級 (1 代表「aaa」，2 代表「aa+」，以此類推)；若最終數值正好介於兩個評等級別的中間點，我們會無條件捨去小數點，並調高評等 (例如，數值 1.5 將化為整數 1，代表隱含 VR 為「aaa」)。

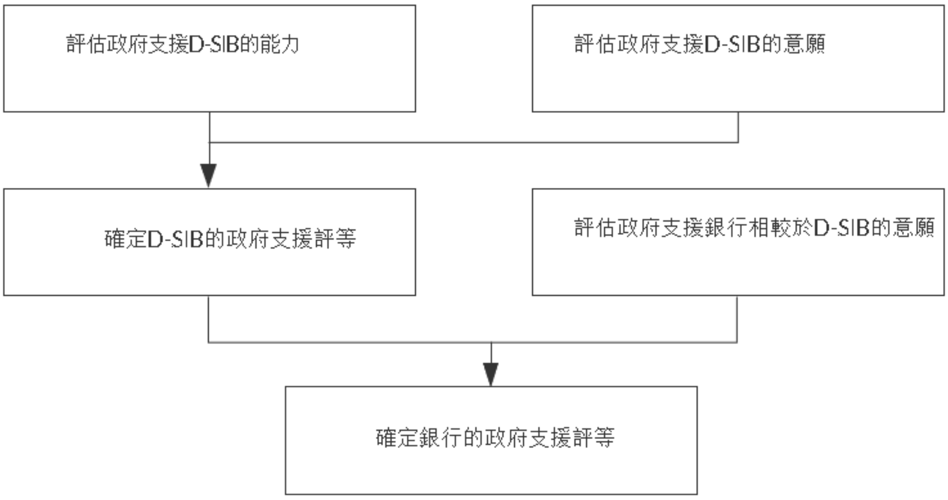
調整並授予 VR：我們可以調整隱含 VR，再依據上述三種理由來授予 VR (請參閱「*Relevance and Weighting of Key Rating Drivers/ Viability Ratings*」(*關鍵評等驅動因素的相關性與權重/ 個別實力評等*))，即經營環境/主權評等的限制；業務概況/風險概況可能為銀行財務指標帶來的長遠影響，已超出目前反映的 KRD 分數；或具有「最弱項」的財務 KRD。

政府支援評等

商業銀行

惠譽會根據兩步驟流程決定商業銀行的 GSR。首先，我們決定某司法管轄區內一般 D-SIB 的 GSR。這項評估也會同時考量主管機關支援 D-SIB 的能力和意願。接下來，則是考量特定銀行之 GSR 是否應該同等於、高於或低於 D-SIB GSR 的級別。這項評估是根據主管機關支援該銀行的意願分析結果。

決定商業銀行的 GSR



來源：惠譽

步驟 1：決定 D-SIB 政府支援評等

在決定 D-SIB GSR 時，出發點是主權的外國貨幣長期 IDR。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之看法，但實際上這通常與其廣泛財務靈活性密切相關，進而代表為銀行業提供支援的能力。因此，如果惠譽認為主管機關提供支援的意願較高，D-SIB GSR 通常會接近主權評等層級，如下表所示。

支援意願高的一般 D-SIB GSR

主權外國貨幣 IDR	一般 D-SIB GSR
AAA、AA+	A+ 至 A-
AA、AA-	A 或 A-
「A」類別	低於主權評等 1 至 2 個級別
「BBB」類別	低於主權評等 0 至 2 個級別
「BB」類別	低於主權評等 0 至 1 個級別
「B」類別及以下	與主權評等相同級別

來源：惠譽

在決定是否依照上表所述範圍授予 D-SIB GSR 時，我們會考量下表前兩個區段的 KRD (「*商業銀行 GSR 的關鍵評等驅動因素*」)，著重於主權支援銀行體系中 D-SIB 的能力和意願。如果 KRD 的評分為正面，有助於授予一般範圍中的高端 (或以上) D-SIB GSR；相反地，如果 KRD 的評分為負面，則將授予該範圍低端 (或以下) 的 GSR。

KRD 的正負分數對 D-SIB GSR 或特定銀行的 GSR 的影響程度，取決於授予該項的權重。上方「*關鍵評等驅動因素的相關性與權重/政府支援評等*」一節說明授予 KRD 的一般權重。若清算法規 KRD 被評為負面及重要性高，通常會導致 D-SIB GSR 被授予「不支援」，因此這項 KRD 可能被視為格外重要。

商業銀行 GSR 的關鍵評等驅動因素

KRD	正面 [a]	負面 [a]
政府支援 D-SIB 的能力 [b]		
銀行體系規模	銀行的放款/國內生產總值比率低，而且在經濟低迷時期，遭受較大損失的可能性低/中等。	銀行的放款/國內生產總值比率高，而且在經濟低迷時期，遭受較大損失的可能性中等/高。
銀行體系結構	D-SIB 在體系資產中佔據適度比例，或主要由大股東持有，因而減少主權的或有負債。	D-SIB 在體系資產中佔據高比例，且大股東持有的所有權有限。
主權財務靈活性 (用於評等級別)	主權負債低和/或良好的市場融資獲得性，大量外匯儲備； 銀行體系主要由長期/穩定的當地貨幣負債提供資金。	主權負債高和/或不確定的市場融資獲得性，低外匯儲備； 銀行體系擁有金額可觀的短期外幣融資。
政府支援 D-SIB 的意願 [b]		
清算法規	不適用	法規規定優先順位債權人在銀行清算時吸收損失，而且主管機關有可靠意願運用這項法規。
支援意願	對 D-SIB 有非常強大和可預測的及時支援記錄； 有支援銀行體系的一致、強大聲明。	不一致的記錄，可能包括重大違約或支援及時性問題； 有意使優先順位債權人幫助銀行進行內部紓困的一致聲明。
政府支援銀行的意願 [c]		
系統重要性	極高的系統重要性和蔓延風險，高於 D-SIB 通常具有的程度；具有主導市場地位的市占率。	中等或較低的系統重要性，低於 D-SIB 通常具有的程度；更加有限的蔓延風險。
負債結構	政治上接受使優先順位債權人進行內部紓困的可能性非常有限(若有)。	高額的外國/批發性資金來源，可能在不威脅金融穩定的狀況下於政治上接受進行內部紓困。
所有權	策略性政府所有權，或者具有強大政府關係的私人國內所有者。	外資所有權，或具有與政府關係不佳的國內所有者。

[a] 在決定如何為每項 KRD 進行評分時，我們會綜合考量哪些描述內容最能反映我們對該銀行特定 KRD 的評估。當不屬於正面或負面評估時，KRD 會被評分為「中立」。
[b] 這些區段中的 KRD 會決定相較於「支援意願高的一般 D-SIB GSR」表格中所述範圍的 D-SIB GSR 級別。
[c] 本區段中的 KRD 會決定銀行相較於 D-SIB GSR 的 GSR 級別。
來源：惠譽

步驟2：決定銀行的政府支援評等

惠譽會考量上述表格之「政府支援銀行的意願」一節中的 KRD，決定是否要授予銀行等同、高於或低於 D-SIB GSR 的 GSR。

如果銀行在國內放款和/或存款市占率高於 10%，惠譽通常會將該銀行視為 D-SIB，並以等同 D-SIB GSR 的方式授予該行 GSR；在這類情況下，系統重要性 KRD 可能至少會評為中立。如果銀行被監管機關指定成為 D-SIB，或是其區域市場地位/優勢地位穩固，或該銀行違約可能為體系內其他業者帶來重大蔓延風險，則可能基於惠譽分析支援之目的而將該行視為 D-SIB。

政策性銀行

基於政策性銀行所扮演的角色、特殊地位和所有權，我們通常會授予該行與其所在司法管轄區之主權評等相同或接近的 GSR 和 IDR。在決定是否要將政策性銀行評等調整為與主權相同評等或調降其評等時，我們通常會著重在下表中的 KRD。

商業銀行的 KRD (所有權不在此限) 通常在決定政策性銀行評等時具有低重要性，或是根本不適用；只有在極少數情況下，才具有中等或高度重要意義。

政策性銀行 GSR 的關鍵評等驅動因素

KRD	調整評等與主權相同 [a]	調整評等低於主權 [a]	未受到政府關係的影響 [a]
所有權	長期和策略性政府所有權； 政府為唯一所有權人。	非策略性政府所有權，不排除處份的可能性； 也可能存在少數股東。	沒有政府所有權或非控制權益。
政策角色	長期且重要的政策角色，使其難以轉移。	較不重要的政策角色，使其更容易被轉移到其他實體；顯著的商業營運。	不具有政策角色或相當有限。
擔保和法定地位	完全擔保該實體，或擔保大部分資金來源或資本支援，或存在提供政府特殊融資管道的協議； 法定地位為債權人提供保障。	受到個別法規之約束，但無法提供債權人重要保障。	無擔保或特別法律地位； 混合擔保或無擔保融資，導致具有選擇性違約的重大風險。

[a] 在決定如何為每項 KRD 進行評分時，我們會綜合考量哪些描述內容最能反映我們對該銀行特定 KRD 的評估。如果所有列出的 KRD 均未受到政府關係的影響，就會根據商業銀行的 KRD 來評估支援。
來源：惠譽

政府支援來源

可作為 GSR 因素的政府支援通常來自該銀行所在司法管轄區的國家級政府，但在極少數情況下，會考慮來自第三方主權因具有利益關係對該銀行提供的支援，或是來自國際公共機構的支援。

通常在每個司法管轄區內只會授予一個 D-SIB GSR。然而，由於某些銀行的支援可能來自國家中央機構，而有些銀行的支援則來自更廣泛的國家組成機構，因此可能會出現一個以上的 D-SIB GSR。

如果信用意見是在單一「B」類別或更低，我們就會以主權信用意見取代主權評等，作為 GSR 評估的輸入項。在極少數情況下，如果惠譽不授予評等或信用意見，則不會授予 GSR 或授予「不支援」；這表示惠譽無法確實評估主權信譽度，或對於主管機關支援銀行的能力和意願有明顯疑慮。

股東支援評等

股東支援評等的關鍵評等驅動因素

KRD	相同等級 [a]	低於一個等級 [a]	低於兩個以上等級 [a]
股東提供支援的能力			
股東監管	母公司監管機構和/或法規可能有利於母公司為子公司提供支援； 集團清算計畫可能促成母公司對子公司的支援，直到母公司出現違約為止。	母公司監管機構/法規對子公司的支援呈現中立態度； 向子公司提供反映在母公司 IDR 上的主權支援，具有中度不確定性。	母公司監管機構/法規可能會對支援設下限制，或支援所需資本/稅務影響可能會非常重大； 向子公司提供反映在母公司 IDR 上的主權支援，具有極高不確定性。
相對規模	相對於母公司提供支援的能力而言，任何必需的支援都是無關緊要的。	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以管理的。	相對於母公司提供支援的能力而言，必需的支援可能相當大。
國家/地區風險 [b]	子公司司法管轄區的國家/地區風險不限制子公司使用母公司支援的能力。	國家/地區風險 (例如匯兌風險) 限制子公司使用母公司支援的能力，且低於母公司一個等級。	國家/地區風險 (例如匯兌風險) 限制子公司使用母公司支援的能力，且低於母公司兩個以上等級。
股東提供支援的意願			
在集團中的角色	子公司是集團業務的關鍵組成部分，在母公司/核心市場提供核心產品/服務； 很難想像子公司業務被出售；出售將顯著改變集團的整體佈局。	與母公司存在強大的綜效，在具有策略重要性的市場提供產品/服務； 沒有出售計畫，儘管處置不會從根本上改變集團的市場地位； 國家/地區風險將在一定程度上引發惠譽質疑母公司向子公司所作的長期承諾。	與母公司的綜效有限，不在目標市場運營； 潛在待售備選，或可能已經出售；對集團市場地位而言，處置沒有重大意義； 國家/地區風險將引發惠譽嚴重懷疑母公司向子公司所作的長期承諾。
信譽風險	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； 子公司擁有與母公司相同的品牌。	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； 結合母公司品牌與其自有品牌。	信譽風險對母公司而言很可能是可控的； 子公司擁有獨立於母公司的品牌。
整合程度	較高水準的管理和運營整合度；資本和資金在很大程度上可以互換； 子公司作為分支機構或記帳實體可有效運作； 完全所有權或多數股權 (超過 75%) 支持母公司和子公司的整合。	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； 所有權低於 75%，但少數股東對母公司和子公司的整合影響有限。	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； 所有權低於 75%，但少數股東讓母公司和子公司的整合明顯受限。
支援紀錄	支持是毋庸置疑的，反映了資本/資金的高度整合和可替代性。	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。	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為適中。
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。	成功運營記錄有限或長期展望適中。	業績紀錄表現不佳，或是對子公司長期生存存在疑問。
法律承諾	母公司為子公司提供強力的法律承諾，或監管規定要求提供支援。潛在的母公司債務提前收回條款，為防範子公司違約提供了強力的激勵。	母公司對於支持子公司做出了沒有約束力的承諾。 潛在的母公司債務提前收回條款，為防範子公司違約提供了適度的激勵。	母公司尚未做出任何支持子公司的法律承諾。 子公司違約不會啟動母公司債務提前收回條款。

[a] 做出的評估通常相對於股東的長期 IDR。然而，若股東 IDR 因合格次級債務的緩衝而高於其 VR 時，子公司的 SSR 可能以母公司 VR 為基礎進行調降 (請見「*Assigning IDRs Above VRs*」(授予高於 VR 的 IDR))。在決定如何為每項 KRD 進行評分時，我們會綜合考量哪些描述內容最能反映我們對該銀行特定 KRD 的評估。
[b] 如需進一步瞭解有關國家上限以及銀行匯兌風險的評估如何讓評等受限的說明，請參閱下方的「*Country Risks*」(國家/地區風險)。
來源：惠譽

我們在授予 SSR 時會考量與母公司 (或在極少數情況下為其他集團實體) 提供支援的能力和意願相關的 KRD。[2]

我們的起始點通常是母公司的長期 IDR，經常與母公司提供支援的能力密切相關。然而，若股東 IDR 因合格次級債務的緩衝而高於其 VR 時，子公司的 SSR 可能以母公司 VR 為基礎進行調降 (請見「*Assigning IDRs Above VRs*」(授予高於 VR 的 IDR))。

我們接著考量是否需要根據上表內的 KRD，以母公司評等為基礎調降 SSR，以及調降的幅度。如果子公司銀行的 VR 或 GSR 較高，可能被授予高於其 SSR 的長期 IDR。[3]

非銀行股東的支援

在評估非銀行母公司和銀行母公司提供支援的可能性時，會考量上述 KRD。受審慎監管的股東 (例如保險公司) 或其銀行子公司支持母公司核心業務者 (例如，汽車貸款業務，或是銀行作為集團財務部門)，可能會比企業母公司更有意願提供支援 (對於企業母公司來說，銀行業子公司更類似於金融投資)。

在評估銀行從次國家級政府獲得的支援時，下列考量因素將適用於上表中所列之某些 KRD：

相對規模：惠譽將在此處考量次國家級政府的整體財務靈活性 (鑒於可能會出現高於或低於建議授予的評等)，其中包括預算規模、可動用流動性，以及在必要時擴大舉債的能力。

在集團中的角色：根據這項因素，惠譽會考量任何次國家級政府和銀行之間存在的特殊關係；舉例來說，若銀行在該區域有重要的政策作用或機構功能，或是成為地方政府的公庫代理銀行。

信譽風險：惠譽將在此處考量該銀行對地區性銀行體系的系統重要性和經濟整體的影響 (例如，衡量該銀行在該地區內的存款和放款市占率)。

[2] 我們不會為 IDR 反映集團 VR 的集團內核心銀行授予 SSR (請見下方的「*銀行集團*」)。
[3]如需瞭解在何種情況下，子公司銀行的 VR 可能高於母公司的評等，請參閱下文的「*銀行集團/授予子公司銀行高於母公司的評等*」說明。

銀行集團

本章節概述惠譽對銀行集團內部銀行和 BHC 授予 VR 和 SSR 的方法。集團內部核心銀行的 VR 是以合併的集團信用狀況為基礎，而其他集團銀行的 VR 是以其獨立信用狀況為基礎。

核心銀行

對銀行集團內部實體進行評分時，惠譽通常會先評估合併集團的信用狀況。在可取得合併集團帳務的情況下，本分析主要是根據這些帳務進行，但也可能以「由下至上」的方式判定，亦即評估並加總集團主要實體的個別風險狀況。分析是採用上方「*個別實力評等*」一節中說明的步驟，我們最後再決定「集團 VR」。[4]

我們會對「核心銀行」授予集團 VR；就我們對這些銀行的定義，我們認為這些核心銀行的破產風險基本上與集團整體的破產風險相同。這通常包括集團內的銀行母公司以及其他國內銀行，這些國內銀行與銀行母公司高度整合，或者出於其他原因，這些銀行的破產風險也與銀行母公司的風險相當。其中亦包括與母公司高度整合且在海外市場營運的銀行。

惠譽不會根據集團內對核心銀行提供的支援來授予 SSR。這是因為這些核心銀行很可能是跟著整個集團一起破產，因此在破產時無法仰賴集團的支援。

集團內的其他銀行

如果惠譽判定銀行的破產風險有別於集團整體的破產風險，就會根據銀行自身財務狀況授予 VR，同時也會將潛在營運益處 (「一般性支援」) 以及廣大集團內的蔓延風險納入考量。針對這類銀行，惠譽通常會根據來自集團內部的潛在支援授予 SSR。

如果銀行是在有別於母公司的市場運營，通常會依照此方式進行分析，亦即這些銀行會受到個別法規之約束、有不同的風險狀況，且與銀行母公司之間的整合呈現更為受限的狀況。對於最大銀行在本地市場受到監管圍欄限制的集團，也可能會按照同樣方式進行分析並授予評等，而非依照整體集團風險狀況為基礎。

銀行控股公司 (BHC)

BHC 是持有一家或多家銀行的控股公司，通常還會有非銀行金融機構。他們通常須符合審慎監管要求，且所在地通常與至少其中一間主要集團銀行之所在地相同。

當惠譽認為 BHC 的破產風險基本上與集團整體的破產風險相同時，會對 BHC 授予與集團相同級別的 VR。如果惠譽認為 BHC 有較高的破產風險，就會根據集團 VR 調降 BHC 的 VR (如果還未對集團 VR 進行評估，就會以主要銀行子公司 VR 為基礎進行調降)。下表概述我們是否要讓 BHC VR 與集團 VR (或主要銀行子公司 VR) 具有相同評等或要加以調整的決定因素。

銀行控股公司獲得相同評等或調整評等

因素	一般權重	支持 BHC VR 與集團 VR (或與主要銀行子公司) 具有相同評等的屬性	支持 BHC VR 評等低於集團 VR (或與主要銀行子公司) 的屬性
雙重槓桿比率	較高	低度或適中，即普通股雙重槓桿比率 (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%[a]。	顯著，即普通股雙重槓桿比率長期高於 120%，顯示 BHC 償債成本以儼然為沉重負擔，除非透過其他方式減輕 (例如，子公司流動性支持協議)。
BHC 流動性管理	較高	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。BHC 資金來源與使用的錯配導致實際或潛在現金流錯配。
資本和流動性相互支援性	中等	較少或沒有對於重要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更繁重。法規優先保障銀行債權人可能會導致 BHC 在集團破產前先破產的風險。
司法管轄區	中等	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。

[4] 若集團為單一法人實體，集團 VR 就會是授予該集團的 VR。集團 VR 並不是不同的分析產品，而是授予個別集團實體評等時的中間分析步驟。

銀行控股公司獲得相同評等或調整評等

因素	一般權重	支持 BHC VR 與集團 VR (或與主要銀行子公司) 具有相同評等的屬性	支持 BHC VR 評等低於集團 VR (或與主要銀行子公司) 的屬性
子公司所有權	較低	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明顯少數之所有權和影響力。
信用強化	較低	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] 當控股公司發行優先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：

- BHC 的 VR 以主要銀行子公司 VR (而非集團 VR) 為基礎調降，且其他構成集團顯著部份的營運子公司或資產，其評等較低或風險明顯較高；或
- 其他因素致使控股公司和銀行子公司的破產機率產生更為顯著的區別，例如 (但不限於) BHC 特有的較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。

在 BHC 的信用風險與其銀行子公司的信用風險之直接聯繫較低的情況下，惠譽不會依據「*銀行評等準則*」授予評等。這通常是私募股權資助者成立的未受監管 BHC 在最終退場前，以發行債務方式為銀行內的投資進行融資或再融資，或從銀行投資抽走股利的情況。這類 BHC 的預期壽命通常不長。他們的違約風險與銀行投資的配發股利和評價有關，且很大程度受到監管單位介入銀行資本等因素之影響，進而導致與其銀行子公司信譽之間的關聯薄弱。

為了反映主權或股東支援較強的一方，通常會為 BHC 授予 GSR 或 SSR。然而，BHC SSR 不會考量源自集團內由下往上的「支援」。

國外分行

由於國外分行和總行隸屬於同一法人實體，因此除非受到國家/地區風險的限制，否則當我們明確對國外分行授予 IDR 和債務評等時，會讓其評等與總行 IDR 和債務評等一致。

由於本國主權設下的匯兌限制很可能適用於這些分行的存款及其他負債，因此這些分行的外幣 IDR 上限很可能為國家上限。不過，當投資人一般在總行所在國家/地區以外且置於國家/地區外的分行資產 (例如，中央金庫的存款) 足以償還債務，或者惠譽認為銀行在匯兌限制下會使用非分行資產來償還債務時，則分行發行的外幣債務評等可能會高於國家上限且與總行發行的債務評等一致。當惠譽認為本國銀行以本國貨幣償債的潛在限制也適用於國外分行時，分行的本國貨幣 IDR 也會納入國家/地區風險因素。

總行的存款評等或 DCR 可能因法律優先權而高於其 IDR，但只有在能明確識別分行司法管轄區內存款戶或衍生性工具交易對手的法律優先權的時候，才適用於國外分行。

評等定義及等級

我們在下表中彙整每項銀行評等的說明：(i) 評等所衡量的項目；(ii) 何時授予評等；(iii) 所使用的評等範疇；以及 (iv) 如何判定評等。在本節後續部分中，我們也會進一步說明違約 (適用於銀行 IDR) 和破產 (適用於 VR) 的定義，並解釋如何判定短期 IDR。最後，我們會概述會為銀行授予低級別評等的面向。

銀行評等概要說明：國際發行人評等

	評等所衡量的項目	何時授予評等	所使用的評等範疇	如何判定評等
長期 IDR	實體對第三方非政府債權人之優先財務義務違約的脆弱性。請見下方「*(IDR: Reference Obligations and Types of Default*」(IDR：基準債務與違約類型))，以進一步瞭解哪些優先順位債務為銀行 IDR 的基準債務，以及我們如何定義違約。	針對幾乎所有具有國際評等的銀行授予此評等。 我們在以下情況同時授予長期外幣 IDR 和本國貨幣 IDR：(i) 外幣和本國貨幣在違約風險上存在或可能存在重大差異；或者當 (ii) 需要有本國貨幣 IDR 才能推導銀行的國內評等。	「AAA」等級 (請見惠譽的評等定義)。	惠譽授予的長期 IDR 等級通常等同銀行 VR、GSR 或 SSR 中的較高者。在某些情況下 (當債務緩衝較大或 VR 級別很低時)，長期 IDR 可能以 VR 為基礎向上調升 (請見「*Assigning IDRs Above VRs*」(授予高於 VR 的 IDR))。長期 IDR 可能也會受限於國家上限而低於 VR 級別。
短期 IDR	實體在短期內對第三方非政府債權人之優先財務義務違約的脆弱性。	針對幾乎所有具有長期 IDR 的銀行授予此評等。	短期評等等級 (請見惠譽的評等定義)。	根據評等對應表，從長期 IDR 推導出短期 IDR (請見下方「*How We Determine Short-Term IDRs*」(如何判定短期 IDR))。
VR	銀行的自身信譽度或是銀行破產的可能性，即 (i) 優先順位債務違約；或 (ii) 需要獲得重大支援，或需使次級債務蒙受損失，以避免此等違約並得以存續 (請見下方「*Viability Ratings: Definition of Failure*」(個別實力評等：破產的定義))。	大多數商業銀行和 BHC 均被授予 VR。惠譽不會授予 VR 給以下對象：(i) 在意義上不具有獨立市場地位之高度整合子公司銀行；以及 (ii) 政策角色決定其大部分營運項目的政策性銀行。	「aaa」等級 (請見惠譽的評等定義)。	根據七項關鍵評等驅動因素來授予 VR (請見「*個別實力評等*」)。
GSR	銀行在破產時，為避免優先順位債務出現違約而獲得政府重大支援的可能性。	在惠譽認為政府支援相較於股東支援更可靠，或認定這兩種支援都不可靠的情況下授予 GSR。[a]	「aaa」等級，「aaa」代表政府支援非常可能避免發行人的優先順位債務出現違約，與「AAA」IDR 一致。若缺少可獲得這類支援的合理假設，則授予「不支援」的 GSR (請見惠譽的評等定義)。	根據與主權提供支援的能力與意願相關的 11 項 KRD 來授予 GSR (請見「*政府支援評等*」)。
SSR	銀行在破產時，為避免優先順位債務出現違約而獲得股東或其他集團實體重大支援的可能性。	在惠譽認為股東支援相較於政府支援更可靠的情況下授予 SSR。[a]	「aaa」等級，「aaa」代表股東支援非常可能避免發行人的優先順位債務出現違約，與「AAA」IDR 一致。若缺少可獲得這類支援的合理假設，則授予「不支援」的 SSR (請見惠譽的評等定義)。	根據與股東提供支援的能力與意願相關的 10 項 KRD 來授予 SSR (請見「*股東支援評等*」)。
DCR	實體對第三方非政府交易對手衍生性工具契約違約的脆弱性。	在符合以下兩種情況時授予 DCR：(i) 衍生性工具債務違約風險可能低於其他優先順位債務 (例如，基於有效的清算方案或法律優先權) 以及 (ii) 發行人為重要的衍生性工具交易對手，或在受惠譽評等的交易中扮演類似角色，或存在市場利益之際。	「AAA」等級，添加後綴「(dcr)」。	如果為了反映 IDR 所代表的較低違約風險而調升相同評等的優先順位債務，就會以長期 IDR 為基礎來調升 DCR。否則，DCR 就會與 IDR 一致 (請見「*Rating Senior Obligations in Jurisdictions with Developed Resolution Regimes*」(為具有完善清算方案之司法管轄區內的優先順位債務進行評等))。

[a] 惠譽通常會授予銀行 GSR 或 SSR 之中的一項。然而，在少數情況下，我們認為有必要同時指出政府與股東支援的可能性，因此我們會同時授予 GSR 和 SSR。在這類情況下，通常授予的長期 IDR 等級通常等同 VR、GSR 或 SSR 中的較高者。根據集團 VR 授予 IDR 的銀行通常不會被授予 SSR (請見「*銀行集團*」)。
來源：惠譽

銀行評等概要說明：債務評等及國內評等

	評等所衡量的項目	何時授予評等	所使用的評等等級	如何判定評等
長期證券評等	證券的整體信用風險等級，其中包括違約/不償付風險級別的評估，以及在違約/不償付情況下回收債權之可能性。	可以針對最初到期日超過 13 個月的個別債務或債務計劃授予此評等。[a]	企業財務義務為「AAA」等級 (請見惠譽的 評等定義)。	(1) 決定最能反映證券不償付風險的基準評等 (長期 IDR 或 VR)；(2) 在我們認為不償付風險明顯低於或高於基準評等反映的風險時，以基準評等為基礎進行調升或調降；(3) 當我們預期在不償付情況下回收債權高於或低於平均水準，根據不償付風險的評估進行調升或調降 (請見「*Obligation Ratings*」(債務評等))。
短期證券評等	只適用於證券違約風險 (不適用於回收債權之可能性)。	可以針對最初到期日低於 13 個月的個別債務或債務計劃授予此評等。[a]	短期評等等級。	與短期 IDR 一致，除非是調升同級長期優先順位債的等級以反映較低的違約脆弱性；在後者的情況中，採用從長期 IDR 對應短期 IDR 的相同方式，從長期債務評等對應短期債務評等 (見下文)。
長期存款評等	銀行風險最高之重大無保險存款戶類別的整體信用風險等級。其中包括違約風險的評估，以及在違約時回收債權之可能性。	位於具有存款戶優先權的司法管轄區及/或惠譽認為存款評等具有市場利益之際。	「AAA」等級。	與長期 IDR 相同等級或更高等級。在存款違約風險明顯低於長期 IDR 所反映的風險時，或是違約後回收債權預期高於平均水準時調升評等。
短期存款評等	銀行風險最高之重大無保險存款戶類別的整體短期信用風險等級。	位於具有存款戶優先權的司法管轄區，及/或惠譽認為存款評等具有市場利益之際。	短期評等等級。	使用評等對應表 (見下方)，以長期存款評等推導評等。
國內評等的發行人評等	實體對第三方非政府債權人優先順位財務義務違約的脆弱性，相對於債權人所處的單一司法管轄區或貨幣同盟內的發行人。	在惠譽認為此評等具有市場利益的新興市場司法管轄區中，或監管規定要求授予此一評等之際。	「AAA」(適用於長期) 以及短期評等等級，但包含國家後綴，以利辨識此評等為國內評等 (請見「*國內評等準則*」)。	**使用該司法管轄區的國內評等對應表 (該表指出適當的國內評等範圍)，並根據發行人長期 IDR 推導長期國內評等。並且會分析與國內同業的相對性，以判定最終的國內評等。使用與國際評等相同的評等對應表 (見下方)，並根據長期國內評等推導短期國內評等。**
國內評等的發行評等	長期證券的整體信用風險等級 (相對於司法管轄區內其他發行證券)。短期證券的違約風險 (相對於司法管轄區內其他發行證券)。	如同上方國內評等的發行人評等所述。	如同上方國內評等的發行人評等所述。	採用依照國際評等進行發行評等的相同做法，以國內發行人評等為基礎，將長期國內評等的發行評等設為相同等級或加以調整。短期國內評等的發行評等通常會與發行人的短期國內評等一致。

[a] 惠譽是否為證券進行長期或短期評等，也取決於市場慣例和當地法規。
來源：惠譽

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Bank Rating Criteria

Master

Scope

This criteria report outlines Fitch Ratings' methodology for rating banks – including commercial and policy banks – and bank holding companies (BHCs), and their obligations. The criteria apply globally to new and existing ratings. The report is sometimes applied with other criteria (see *Related Criteria*).

Key Rating Drivers

Standalone Profile and Support: Issuer Default Ratings (IDRs) assigned to banks and BHCs take into account both their standalone profiles and potential support. A bank's Viability Rating (VR) captures its standalone profile, or intrinsic creditworthiness, while its Government Support Rating (GSR) or Shareholder Support Rating (SSR) reflect the likelihood of receiving external support in case of need.

'Higher Of' Approach for IDRs: We determine the Long-Term IDR a bank could attain based solely on its standalone financial strength (as reflected in its VR) or based solely on external support (as reflected in the SSR or GSR), and assign the IDR at the higher of these two levels. Exceptions to this approach are outlined in the section *Assigning IDRs Above VRs*.

Qualitative and Financial Factors: To assign a bank's VR, we first assess its operating environment, which then informs our assessments of six other key rating drivers (KRDs): two of which are qualitative (Business Profile and Risk Profile) and four of which are financial (Asset Quality; Earnings & Profitability; Capitalisation & Leverage; and Funding & Liquidity). We apply fixed weightings to our scores for these KRDs to derive an implied VR, which can then be adjusted to arrive at the final VR, based on analytical judgement.

Ability and Propensity to Support: Fitch usually assigns a bank either a GSR or an SSR, depending on what we view as the more reliable source of support. These ratings reflect our view of the likelihood that a bank will receive extraordinary support if needed, usually either from the national authorities of the jurisdiction where the bank is domiciled or from its owners. Fitch assesses both the ability and propensity to provide extraordinary support, considering several KRDs relating to each (see *Government Support Rating* and *Shareholder Support Rating*).

Non-Performance Risk and Loss Severity: Ratings of banks' long-term debt issues incorporate an assessment of the likelihood of default (non-performance) on the obligation and a view of potential recoveries for creditors in the event of default/non-performance. Senior unsecured obligations are usually rated in line with a bank's Long-Term IDR, while subordinated and hybrid debt is typically notched down from a bank's VR.

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This criteria report replaces the *Bank Rating Criteria* report dated 28 February 2020. Key changes are listed in the 'Changes to Criteria' section.

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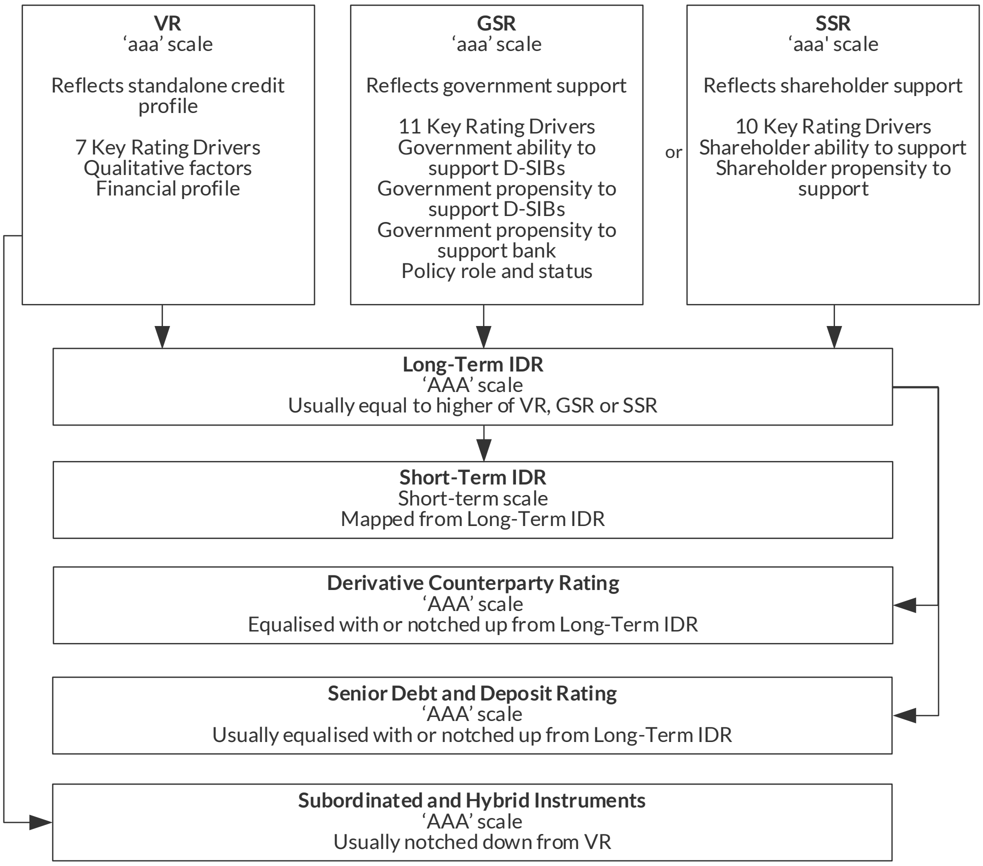
How Our Analysis Is Organised



Source: Fitch Ratings

How This Criteria Report Is Structured

The next section of this report, *Relevance and Weighting of Key Rating Drivers*, introduces the KRDs for each of our three main bank ratings (the VR, GSR and SSR) and explains how the KRDs are weighted to derive the ratings. The next three sections – *Viability Rating*, *Government Support Rating* and *Shareholder Support Rating* – then explain in more detail how we assess individual KRDs. These sections together form the core of this report and our analysis, and by themselves are sufficient to explain how we derive Long-Term IDRs for most banks we rate.

The next two sections, on *Banking Groups* and *Assigning IDRs Above VRs*, explain how certain features of banking groups, or of banks' capital structures, can affect their ratings. These sections are only relevant for a minority of the banks we rate.

The section on *Obligation Ratings* explains how we rate banks' securities (senior, subordinated and hybrid) and deposits, and how we assign Derivative Counterparty Ratings (DCRs). The section on *Country Risks* outlines how different types of these risks can influence bank ratings. The section on *Rating Definitions and Scales* specifies what each of our bank ratings measures, how we identify bank defaults and failures and how we derive banks' Short-Term IDRs from Long-Term IDRs.

The final sections of the main body of the report highlight related criteria reports and information we use to rate banks, the sensitivity of bank ratings to certain assumptions, and certain criteria disclosures and considerations.

Annexes outline how we calculate banks' financial metrics and indicate typical characteristics of the KRDs for banks' VRs at different rating levels.

Relevance and Weighting of Key Rating Drivers

Issuer Default Ratings

A bank's Long-Term IDR can be driven solely by its VR (where this is higher than its GSR or SSR), solely by its GSR or SSR (where this is higher than the VR) or equally by the VR and the GSR/SSR where these are at the same level. In certain circumstances, a bank's Long-Term IDR can be notched up from its VR (see *Assigning IDRs Above VRs*).

Viability Ratings

VRs are assigned on the 'aaa' scale. The KRDs for banks' VRs, together with their weightings, are shown in the table below. The weightings are based on analytical judgement and have been informed by historical statistical analysis.

For a full description of the VR scale, see Fitch's Rating Definitions.

We score each of the KRDs on the 'aaa' scale and then weight these scores to determine an implied VR, also on the 'aaa' scale. In the *Viability Rating* section, we outline how we score each of the KRDs for a bank's VR.

A bank's operating environment influences a bank's VR through its impact on our assessments of the other KRDs. However, we do not assign the operating environment an independent weighting to avoid double counting.

The following are reasons why we may assign a VR higher or lower than the VR implied by the weighting of the KRD scores:

- **Operating Environment/Sovereign Rating Constraint:** We may assign the VR at a level lower than the implied VR where we think the implied VR is too high relative to the operating environment score or the sovereign rating (see also *Country Risks*).
- **Business Profile and/or Risk Profile:** A bank's qualitative KRDs, i.e. its Business Profile and/or Risk Profile, may have a stronger impact on the assigned VR than the weighting would suggest. This is appropriate in cases where we think that one or both of these KRDs over the long term will have a positive or negative impact on a bank's financial metrics beyond that currently captured in the financial KRD scores.
- **Weakest Link:** We may assign the VR at a level lower than the implied VR when one or more financial KRDs represent a bank's 'weakest link', in particular, but not exclusively, at low rating levels. The 'weakest link' KRD(s) has or have a strong impact on our overall view of the bank's credit profile and drags down the assigned VR to, or close to, the level of the weakest link KRD score(s).

Key Rating Drivers – Viability Rating

		Weighting (%)
Operating Environment	Business Profile	20
	Risk Profile	10
	= Qualitative Assessment	**30**
	Asset Quality	20
	Earnings & Profitability	15
	Capitalisation & Leverage	25
	Funding & Liquidity	10
	= Financial Profile	**70**

The Operating Environment KRD can have a strong influence on other KRD scores. However, to avoid double counting, it is not given an independent weighting when we derive a bank's implied VR.
Source: Fitch Ratings

Government Support Rating

The KRDs for banks' GSRs, which we assign on the 'aaa' scale, are shown in the table below.[1]

For a full description of the GSR scale, see Rating Definitions.

For commercial banks, the weightings applied to the KRDs depend strongly on whether the entity operates in a market with a developed and credible resolution framework which provides for bail-in of senior creditors. Where such a framework exists (as in most developed markets), resolution legislation is typically a high importance KRD and the bank's GSR is usually 'no support' (see the left-hand column of the table below).

Where such a framework does not exist (as in most emerging markets), the typical weightings for determining the GSR of a domestic systemically important bank (D-SIB) are as indicated in the middle column of the table below, and the GSR for a D-SIB is usually close to the sovereign rating. The weighting of the KRDs may change where we assess one of the KRDs that is usually of lower/moderate importance as being particular important (either positively or negatively) for support, for example:

- Where a banking system's large size makes it difficult to support, the sovereign has limited financial flexibility to support or the authorities have a weak support stance, these KRDs may become high importance and have a negative impact on the GSR; or
- Conversely, where there is a strong support stance or government ownership of a specific bank, these KRDs may be of high importance and have a positive impact on the GSR.

The typical weighting of KRDs for policy banks' GSRs is shown in the right-hand column of the table below. For policy banks, as for commercial banks, the weighting of the KRDs may differ when we view one or more of these as being particularly positive or negative for support.

Key Rating Drivers – Government Support Rating

	Typical weighting		
	Commercial banks		Policy banks
	Markets with developed resolution frameworks	Markets without developed resolution frameworks	
Government ability to support D-SIBs			
Sovereign rating	Lower	Higher	Higher
Size of banking system	Lower	Moderate	n.a.
Structure of banking system	Lower	Moderate	n.a.
Sovereign financial flexibility (for rating level)	Lower	Moderate	Lower
Government propensity to support D-SIBs			
Resolution legislation	Higher	Lower	Lower
Support stance	Lower	Moderate	Lower
Government propensity to support bank			
Systemic importance	Lower	Higher	Lower
Liability structure	Lower	Moderate	Lower
Ownership	Lower	Moderate	Higher
Policy role and status			
Policy role	n.a.	n.a.	Higher
Guarantees and legal status	n.a.	n.a.	Moderate

Source: Fitch Ratings

[1] We collectively refer to GSRs and SSRs as 'Support Ratings'. When we refer to a bank's 'Support Rating' we mean either its GSR or SSR, whichever has been assigned (or the higher of the two in the rare cases where both have been assigned).

Shareholder Support Rating

The KRDs for determining SSRs, which are assigned on the 'aaa' scale, are shown in the table below. The typical weighting may change when we assess one of the KRDs which usually has lower or moderate importance as being particular positive or negative for support.

For a full description of the SSR scale, see Rating Definitions.

Key Rating Drivers – Shareholder Support Rating

	Typical weighting
Shareholder ability to support	
Shareholder rating	Higher
Shareholder regulation	Moderate
Relative size	Moderate
Country risks [a]	Higher
Shareholder propensity to support	
Role in group	Higher
Reputational risk	Moderate
Integration	Moderate
Support record	Moderate
Subsidiary performance and prospects	Moderate
Legal commitments	Lower

[a] Country risks can exert a high influence on the SSR when these risks cap the rating at a level significantly below the parent rating. Alternatively, when country risks do not exert a cap on the SSR, they may be of low importance for the rating.
Source: Fitch Ratings

Viability Rating

Overview

We determine banks' VRs as the result of a three-step process. Firstly, we determine the score for the bank's operating environment KRD. Secondly, we determine the scores for the other six KRDs (Business Profile; Risk Profile; Asset Quality; Earnings & Profitability; Capitalisation & Leverage; and Funding & Liquidity), using the operating environment KRD score as an input. Thirdly, we determine the bank's VR based on the six KRD scores.

In each of these steps we first derive implied values (for the KRD scores or rating), and then consider whether to adjust these based on analytical judgement and consideration of factors that were not sufficiently captured in the implied scores/rating. This possible use of adjustments reflects our view that an overly mechanical or rigid framework would not properly capture a holistic view of a bank's credit profile. We will disclose implied scores/VRs, and adjustments applied to them, in our published research.

Three-Step Process for Determining Viability Rating

Step 1: Determine Operating Environment KRD Score

Derive implied KRD score by using two-factor matrix

Consider adjusting implied KRD score to arrive at assigned score

→

Step 2: Determine other KRD Scores

Derive implied KRD scores by using two-factor matrices

Consider adjusting implied KRD scores to arrive at assigned scores

→

Step 3: Determine VR

Derive implied VR by weighting KRD scores

Consider adjusting implied VR to arrive at assigned VR

Source: Fitch Ratings

Step 1: Determine the Operating Environment KRD Score

Implied Score: We derive an implied category score on the 'aaa' scale for a bank's Operating Environment KRD by referring to a two-factor matrix (see *Operating Environment* section below). The matrix incorporates two core metrics which have the greatest explanatory power for our assessment of the KRD, namely GDP per capita and a ranking using Fitch Solutions' *Operational Risk Index*. In our view, these metrics are most closely correlated with the ability of banks to generate business volumes with acceptable levels of risk in a given jurisdiction. Where a jurisdiction has not been assigned an *Operational Risk Index* score, Fitch will determine the implied Operating Environment score based on reported GDP per capita and its view of the risks of operating a business in that market.

Adjustments and Assigned Score: Having derived the implied category score, we then consider whether to adjust this in arriving at the final, notch-specific, assigned score. Possible reasons to adjust the implied Operating Environment score are listed in the *Operating Environment* section. The considerations outlined in the next section on how and when to apply adjustments to the other KRD scores also apply to adjustments to the Operating Environment score.

Step 2: Determine Other KRD Scores

Implied Scores: The assigned Operating Environment KRD score is one of the two factors in the matrices used to derive the implied category scores for the Business Profile KRD and the four financial profile KRDs. This is because the operating environment influences both qualitative aspects of a bank's credit profile (e.g. the robustness of its business model) and the sustainability of its financial metrics. The other factor in each matrix is a core metric most closely related to our assessment of the given KRD (for example, the impaired loans ratio for Asset Quality). For the Risk Profile KRD, we do not use a matrix to derive an implied score, as there is no single metric which is closely correlated with our assessment of Risk Profile.

Viability Rating KRDs

Operating Environment
Business Profile
Risk Profile
Asset Quality
Earnings & Profitability
Capitalisation & Leverage
Funding & Liquidity

Metrics Used to Derive VR KRD Implied Scores

KRD	Metric No 1	Metric No 2
Business Profile	Operating Environment KRD score	Total operating income (USDm)
Risk Profile	n.a.[a]	n.a.[a]
Asset Quality	Operating Environment KRD score	Impaired loans/gross loans (%)
Earnings & Profitability	Operating Environment KRD score	Operating profit/RWAs[b] (%)
Capitalisation & Leverage	Operating Environment KRD score	Core capital ratio (%)
Funding & Liquidity	Operating Environment KRD score	Loans/customer deposits (%)

[a] We do not derive an implied KRD score for the Risk Profile KRD.
[b] Risk-weighted assets.
Source: Fitch Ratings

Fitch uses four-year averages (where data are available) to determine implied KRD scores, except for Capitalisation & Leverage, which uses the latest available data point, as we view this as a more reliable indicator of the metric's future level. Due to the strong influence of the operating environment on all aspects of a bank's credit profile, implied KRD scores cannot be more than one rating category above the Operating Environment score. Refer also to the *Country Risks* section on the impact of the operating environment on bank ratings.

In the matrices for Business Profile and the financial profile KRDs, the implied KRD score is determined by reading across from the relevant operating environment score to the financial metric value. For example, on the Business Profile matrix, a bank operating in a 'bbb' environment with a four-year average operating income of between USD100 million and USD1 billion would have an implied Business Profile KRD score in the 'bb' category.

Adjustments and Assigned Scores: Where the category-based implied KRD score (e.g. 'bbb' category) is in line with our assessment of the KRD, we assign the final notch-specific KRD score within that rating category, using analytical judgement to determine where in the category to assign the score (e.g. 'bbb+', 'bbb' or 'bbb-'). Alternatively, we may adjust the implied KRD score up or down and assign the final notch-specific score outside of the implied category.

This may be either because there are factors which are relevant to our analysis but not captured in the core metrics which determine the implied scores; or there are cyclical and/or structural features that, in Fitch's opinion, mean that historical ratios may not be reliable predictors of the future. When we adjust the implied score, the final assigned score is usually in an adjacent category, e.g. if we adjust a 'bbb' category implied score, the adjusted score will probably be in the 'bb' or 'a' categories. Adjustments by two rating categories (e.g. from 'bbb' to 'b' or 'aa') or more are rare.

In deciding whether to apply an adjustment, we consider it *relative to the implied KRD score*. For example, if we assess a bank's non-loan exposures as being of moderate risk (for example because they comprise primarily 'bbb' rated securities), this may serve as a reason to negatively adjust an 'aa' implied Asset Quality score. However, for a bank with an implied score of 'b' for Asset Quality, the same non-loan exposures could result in a positive adjustment.

The possible adjustment reasons are listed in the sections below for each KRD; an adjustment may be used where some, but not necessarily all, of the features identified in the adjustment text are present. For the financial profile KRDs, we calculate several complementary metrics which can assist us in determining whether adjustments to the implied KRD score are warranted. In determining KRD scores, Fitch will typically compare a bank's metrics and attributes to those of its peers. *Annex 1* outlines how we calculate core and complementary financial metrics.

The table below indicates in broad terms the characteristics a KRD should have for it to be scored in a certain category on the 'aaa' scale, and *Annex 2* provides bespoke descriptions for each individual KRD at each rating category level. These provide important guidance in determining KRD scores for individual banks.

Typical KRD Characteristics

Score category	Typical KRD characteristics
aaa	Extremely strong and stable characteristics, consistent with an overall standalone credit profile of the highest quality, highly unlikely to be adversely affected by foreseeable events.
aa	Very strong and stable characteristics, consistent with an overall standalone credit profile of very high quality, not significantly vulnerable to foreseeable events.
a	Strong and stable characteristics, consistent with an overall standalone credit profile of high quality, but more vulnerable to adverse business or economic conditions than is the case for more highly scored KRDs.
bbb	Adequate characteristics, consistent with an overall standalone credit profile of good quality, but more likely to be impaired by adverse business or economic conditions.
bb	Characteristics display moderate degree of strength, consistent with an overall standalone credit profile of speculative quality, and suggesting vulnerability to adverse changes over time in business or economic conditions.
b	Characteristics consistent with material failure risk and an overall standalone credit profile of highly speculative quality, suggesting vulnerability to deterioration in the business and economic environment.
ccc or below	Characteristics consistent with failure being a real possibility and an overall stand-alone credit profile displaying substantial credit risk, suggesting high vulnerability to deterioration in the business and economic environment.

Source: Fitch Ratings

Step 3: Combine KRD Scores to Determine VR

Implied VR: We combine the KRD scores to determine a bank's implied VR by using the weightings outlined in the *Relevance and Weighting of Key Rating Drivers* section. This is done by assigning a numerical value to each final KRD score (1 for 'aaa', 2 for 'aa+' and so on), multiplying these values by the weightings and then summing the weighted numerical values. This gives a final numerical value which is rounded and translated back on to the 'aaa' scale (1 indicating 'aaa', 2 'aa+' and so on); where the final numerical value is exactly at the mid-point between two rating levels, we will round the value down and the rating up (e.g. a value of 1.5 would be rounded to 1, resulting in an implied VR of 'aaa').

Adjustments and Assigned VR: We may adjust the implied VR to arrive at the assigned VR for the three reasons identified above (see *Relevance and Weighting of Key Rating Drivers/Viability Ratings*), namely an operating environment/sovereign rating constraint; a business profile/risk profile that may have a long-term impact on a bank's financial metrics beyond that captured in current KRD scores; or a 'weakest link' financial KRD.

Operating Environment

The Operating Environment score captures Fitch's assessment of the ability of banks in a particular jurisdiction to generate business volumes while taking on acceptable levels of risk. *GDP per capita* helps to explain the score because it is usually closely correlated with corporate earnings and household income levels in a country.

A jurisdiction's ranking on Fitch Solutions' *Operational Risk Index* has explanatory power because it captures the challenges of operating a business in a given jurisdiction, with a focus on four main risk areas: labour market, trade & investment, logistics, and crime & security. In the benchmarking matrix we use the jurisdiction's percentile rank among the jurisdictions that we track for the purpose of assigning bank ratings.

See *Country Risks* for more information on the links between sovereign ratings, Operating Environment scores and bank ratings.

Implied Operating Environment Score

Operational risk index (% rank) GDP per capita (USD 000)	>80	60-80	40-60	20-40	<20
>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

Possible Adjustments to Implied Operating Environment Score

Adjustment	Positive	Negative
Sovereign rating	Sovereign rating is significantly above implied score, sovereign supports market/macro stability.	Sovereign rating is below implied score (rating usually constrains Operating Environment score).
Size and structure of economy	Large, diversified economy; Strong governance in corporate sector.	Small, undiversified economy, dependence on cyclical sectors; Weak governance or high state influence on economy.
Economic performance	Sustainably high and consistently positive economic growth.	Unsustainable or volatile growth, recent or potential low or negative growth, increasing or high unemployment.
Macroeconomic stability	Limited recent and expected volatility in inflation, interest rates, exchange rates and asset prices.	Heightened recent or potential volatility in macro variables; High dollarisation, if combined with high risk of foreign-exchange movements.
Level and growth of credit	Low level of credit (including both bank lending and other forms) relative to GDP.	High level of credit/GDP or rapid credit growth, especially where debt service is high and debt service capacity of borrowers is weak.
Financial market development	Highly developed and concentrated banking sector; Effective institutional framework (credit bureaus, depositor protection, deep capital markets).	Developing or highly fragmented banking sector; Limited central bank liquidity support mechanisms and weaker institutional framework.
Regulatory and legal framework	Relatively strong legislation and regulation, bank regulatory authority, protection of creditor rights and accounting standards.	Weaknesses in regulatory and legal framework; undeveloped or weak corporate governance standards.
Reported and future metrics	Future GDP per capita or ORI score likely to improve notably; Reported GDP per capita understates potential for economy to generate moderate-risk business for banks.	Future GDP per capita or ORI score likely to weaken notably; Reported GDP per capita overstates potential for economy to generate moderate-risk business for banks.
The implied Operating Environment score and the above potential adjustments determine the final Operating Environment score for a jurisdiction. The adjustments below may be used to derive an Operating Environment score for a bank which is different to the jurisdiction score in its home market.		
Regional focus	Bank's operations concentrated in region(s) with economy notably stronger than national average.	Bank's operations concentrated in region(s) with economy notably weaker than national average.
International operations	For banks with significant portion of risk/asset exposures in foreign markets, the Operating Environment score is based on a weighted average of jurisdiction scores. Higher weighting may be given to home market due to the importance of regulatory, institutional and funding characteristics.	

Source: Fitch Ratings

Business Profile

Implied Business Profile Score

Implied KRD score	aa	a	bbb	bb	b
Operating environment	**Total operating income (USDm, 4-year average)**				
aa	≥50,000	≥2,500	≥100	≥10	<10
a	≥80,000	≥5,000	≥200	≥25	<25
bbb		≥20,000	≥1,000	≥100	<100
bb			≥3,000	≥300	<300
b & below				≥1,500	<1,500

Source: Fitch Ratings

Possible Adjustments to Implied Business Profile Score

Adjustment	Positive	Negative
Business model	Diversified, consistent business model, primarily in lower-risk markets/segments, generating stable earnings over time.	Concentrated or changing business model, focus on higher-risk markets/segments, volatile earnings; Structural problems related to core profitability or burden of impaired assets.
Market position	High market shares in key product markets, significant pricing power, limited competitive pressure, strong and enduring customer relationships.	Small market shares, limited pricing power, significant competitive pressure from larger players, dependence on transactional business rather than longstanding customer relationships.
Management and governance	Deep, experienced and credible senior management team.	Weak senior management team, or over-dependence on key individual(s); Weak governance represents threat to creditor interests; High volumes of related-party transactions, especially if on non-market terms and not reviewed robustly; Low-quality or delayed/infrequent financial reporting or audit.
Strategy and execution	Clear, consistent and achievable strategic objectives and targets; Strong record of execution against stated goals over multiple periods.	Frequently changing or unrealistic strategic objectives and targets; Record of weak strategy execution.
Group benefits and risks	Improved access to customers and products due to being part of a larger group.	Significant contagion risks from weaker parts of the broader group.
Organisational structure	n.a.	Overly complex and opaque structure of legal entities of the group of which the bank is part.
Accounting policies	Accounting policies significantly reduce operating income.	Accounting policies or non-recurring revenues significantly inflate operating income.
Historical and future developments	Franchise, business model and/or market positions are improving, or have improved, e.g. due to positive changes in strategy or business focus or M&A activity.	Franchise, business model and/or market positions are weakening, or have weakened, e.g. due to negative changes in strategy or business focus, or M&A activity.

Source: Fitch Ratings

The Business Profile score captures the extent to which a bank's franchise and business model allow it to generate and defend business volumes and earnings while controlling levels of risk. The Operating Environment score typically conditions and constrains the Business Profile score to a significant degree because of the impact of jurisdictional factors on the robustness of a bank's franchise and business model. *Total operating income* is the core metric for the implied Business Profile score because it provides a high-level indication of the extent to which a bank's franchise enables it to generate revenues.

The implied score can be adjusted significantly, based on the factors listed opposite. A notably strong or weak company profile that, over the long term, we think will have a positive or negative impact on a bank's financial metrics beyond that currently captured in the financial KRD scores, is one of the reasons a bank's VR may be assigned at a level above or below its implied VR (see *Relevance and Weighting of Key Rating Drivers/Viability Ratings*).

Where ESG (environment, social and governance) factors have a significant influence on a bank's VR, this is likely to be via the Business Profile or Risk Profile KRDs.

Risk Profile

The Risk Profile assessment is typically conditioned, and often constrained, by the Operating Environment and Business Profile assessments, unless Fitch thinks the risks a bank is exposed to are materially different from those indicated by its operating environment(s) and business model/strategy. A bank's Risk Profile score is often closely aligned with its Business Profile score, as the latter captures the extent to which a bank's franchise and business model allow it to generate and defend business volumes and earnings while controlling levels of risk. However, even for banks with similar franchises and business models, their risk appetite (for example within an asset class) and the quality of their control frameworks over credit, market and operational risks may vary, resulting in divergent Risk Profile and Business Profile scores.

For banks whose risk profiles are dominated by credit risks, there is also usually a close link between the Risk Profile score and the Asset Quality score. Where Fitch thinks that a bank's current asset quality metrics broadly reflect the risk in its most recent and expected future credit underwriting, then the Risk Profile and Asset Quality scores are likely to be closely aligned (typically the same, or within one notch of each other). However, where we think that current underwriting is much stronger than asset quality metrics might suggest (e.g. because the latter are impacted by legacy problems originated during a period of weaker underwriting), then the Risk Profile score is more likely to be above the Asset Quality score.

Conversely, where current underwriting is weaker than asset quality metrics suggest (e.g. due to favourable economic conditions which may not be sustained), then the Risk Profile score is likely to be below the Asset Quality score. Below are some of the key attributes we consider in assessing a bank's risk profile.

Important Attributes in Determining Risk Profile Score

Attribute	Positive	Negative
Underwriting standards	Consistent focus on lower-risk borrowers and segments; High portfolio diversification by borrower, sector and geography; Highly collateralised or secured lending with robust valuations.	Significant lending to higher-risk borrowers and segments, or to related parties; High portfolio concentrations; High unsecured lending or aggressive collateral valuations.
Investment guidelines and counterparty exposures	Sizeable exposures to lower-risk securities and counterparties.	Significant exposure to higher-risk counterparties and securities, in particular if illiquid or unquoted.
Risk controls	Systems, models, reporting and decision-making allow bank to effectively mitigate, manage risks	Risk infrastructure does not allow bank to effectively mitigate and manage risk exposures.
Market risk	Moderate and well-managed exposures to market risks, including interest rate (structural or through trading activities), foreign-exchange and other market risks.	High exposures to market risks, which are weakly mitigated or managed; High proportion of assets or profits related to trading activities.
Credit growth	Low to moderate growth which can be effectively managed by the bank in terms of impact on asset quality and capitalisation.	High real credit growth (i.e. adjusted for inflation and exchange rate changes), in particular where this is not mitigated by growth being e.g. (i) from a low base; (ii) in line with the market in a jurisdiction/sector with low credit penetration; or (iii) counter-cyclical at a time when other banks are forced to contract.
Non-financial risks	n.a.	Heightened non-financial risks, such as operational, reputational, litigation, regulatory and cyber; Material deficiencies in the management of such risks.

Source: Fitch Ratings

We assess Risk Profile as the risks that a bank is exposed to and how it manages these can ultimately lead to changes in its financial metrics. Risk exposures may be mitigated through the employment of strong risk controls, collateral management, and risk-based pricing, but the KRD score for a bank with inherently higher risk exposures will generally be lower than for a bank whose exposures we consider less risky.

A notably strong or weak risk profile that, over the long term, we think will have a positive or negative impact on a bank's financial metrics beyond that currently captured in the financial KRD scores is one of the reasons a bank's VR may be assigned at a level above or below its implied VR (see *Relevance and Weighting of Key Rating Drivers/Viability Ratings*).

Where ESG factors have a significant influence on a bank's VR, this is likely to be via the Business Profile or Risk Profile KRDs.

Asset Quality

Implied Asset-Quality Score

Implied KRD score	aa	a	bbb	bb	b & below
Operating Environment	Impaired loans/gross loans (%, 4-year average)				
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

Possible Adjustments to Implied Asset-Quality Score

Adjustment	Positive	Negative
Collateral and reserves	Strong coverage of impaired loans by loss allowances/reserves; High proportion of well collateralised or insured lending.	Weak reserve coverage; Focus on unsecured lending; Weak legislative framework for collateral liquidation or enforcement of creditor rights.
Impaired loan formation	Low impaired loan generation, stock of impaired loans largely reflects legacy exposures.	High impaired loan generation, stock of impaired loans reduced by material write-offs or disposals.
Loan classification policies	Conservative classification of only moderate risk loans in the impaired category.	Large proportion of high-risk loans not classified as impaired, e.g. restructured or watch category exposures.
Concentrations	Good diversification of credit exposures by individual borrowers, economic sectors or geographies.	High concentrations by individual borrowers or economic sectors.
Non-loan exposures	High proportion of non-loan assets on the balance sheet that are lower risk than loan book.	Significant exposure to non-loan assets or off-balance-sheet exposures that are of higher risk than the loan book.
Underwriting standards and growth	Lower-risk credit underwriting, than is reflected in current financial metrics; Deleveraging has resulted in a material contraction in gross loans, inflating the impaired loans ratio.	Higher-risk credit underwriting than is reflected in current financial metrics; High loan growth has resulted in a lower impaired loans ratio, and a fairly unseasoned loan book.
Historical and future metrics	Impaired loans ratio likely to improve, e.g. due to positive changes in strategy or business focus, M&A activity or more favourable part of economic or credit cycle.	Impaired loans ratio likely to weaken, e.g. due to negative changes in strategy or business focus, M&A activity or more unfavourable part of economic or credit cycle.

Source: Fitch Ratings

A bank's asset quality is a KRD for its VR because of the direct impact of this on solvency. Fitch's analysis of asset quality focuses primarily on the loan book, because lending is usually a bank's 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. The complementary metrics listed below provide important additional information about the degree of risk in the bank's lending activities.

Historically, the most common adjustments used in respect to the implied Asset Quality score have been *Historical and Future Metrics* (more often used to adjust positively), *Concentrations* (almost always used negatively) and *Underwriting Standards and Growth* (more often used negatively).

Complementary Asset-Quality Metrics

Growth of gross loans (%)
Loan loss allowances/impaired loans (%)
Loan impairment charges/average gross loans (%)

Source: Fitch Ratings

Earnings & Profitability

Implied Earnings & Profitability Score

Implied KRD score	aa	a	bbb	bb	b & below
Operating Environment	**Operating profit/risk-weighted assets (%, 4-year average)**				
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

Possible Adjustments to Implied Earnings & Profitability Score

Adjustment	Positive	Negative
Earnings stability	Earnings have shown limited volatility through cycles; Business model/asset class specialisation supports consistent performance.	Earnings have shown high volatility through cycles; Business model/asset class specialisation more vulnerable to cyclical performance swings.
Revenue diversification	Generation of revenues from multiple business lines with limited correlation of performance	High reliance on single business line or revenue stream.
Risk-weight calculation	Fitch views the reported risk-weighted asset (RWA) number as overstating a bank's risks	Fitch views the reported RWA number as understating a bank's risks.
Non-operating revenue/losses	Significant, consistently generated non-operating earnings, including those reported in other comprehensive income.	Significant, consistently generated non-operating losses, including those reported in other comprehensive income.
Historical and future metrics	Core earnings metric likely to improve, e.g. due to positive changes in strategy or business focus, M&A activity or more favourable part of economic or credit cycle.	Core earnings metric likely to weaken, e.g. due to negative changes in strategy or business focus, M&A activity or more unfavourable part of economic or credit cycle.

Source: Fitch Ratings

Earnings & Profitability is a KRD for a bank's VR because a bank's earnings represent a first buffer to absorb potential losses, and to a degree indicate the robustness of a bank's business model. The core metric, *operating profit/risk-weighted assets*, has the greatest explanatory power for the earnings & profitability KRD score because it captures the bank's ability to generate recurring profits relative to the risks it assumes. The complementary metrics listed below provide important information about the drivers of the core metric.

Historically, the most common adjustments used in respect to the implied Earnings & Profitability score have been *Revenue Diversification* (almost always used to adjust negatively), *Earnings Stability* (usually used negatively) and *Historical and Future Metrics* (used roughly equally to adjust positively and negatively).

Complementary Earnings & Profitability Metrics

Net interest income/average earning assets (%)
Non-interest expense/gross revenue (%)
Loans and securities impairment charges/pre-impairment operating profit (%)
Operating profit/average total assets (%)
Net income/average equity (%)

Source: Fitch Ratings

Capitalisation & Leverage

Implied Capitalisation & Leverage Score

Implied KRD score	aa	a	bbb	bb	b & below
Operating Environment		core capital ratio (%, latest)			
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

Possible Adjustments to Implied Capitalisation & Leverage Score

Adjustment	Positive	Negative
Reserve coverage and asset valuation	Material over-provisioning of impaired loans; Conservative valuations of performing loans, investments or other assets.	Material under-provisioning of impaired loans; Aggressive valuations of performing loans, investments or other assets; High volumes of high-risk assets.
Leverage and risk-weight calculation	RWAs overstate risks e.g. due to conservative modelling or risk-weight floors; High leverage ratios.	RWAs understate risks e.g. due to aggressive modelling or regulatory forbearance; Low leverage ratios.
Core capital calculation	Items are excluded from core capital that Fitch views as loss absorbing; Non-core capital can absorb losses prior to non-viability (e.g. state-owned preference shares or other high-trigger hybrids).	Core capital includes items Fitch views as non-loss absorbing, including as a result of regulatory forbearance.
Internal capital generation and growth	Strong earnings retention; Low expected growth.	Weak earnings retention, due to weak profits or high dividends; High expected growth.
Size of capital base	Large (in absolute terms) capital base.	Small (in absolute terms) capital base.
Capital flexibility and ordinary support	Strong ability to access capital from market in case of need; Owners would provide capital to support growth if required.	Weak ability to access capital from market in case of need; Onerous restrictions on upstreaming of capital from subsidiaries (capital fungibility).
Regulatory capitalisation	Large buffers that are expected to be sustained over robust regulatory capital requirements.	Limited buffers over regulatory capital requirements.
Risk profile and business model	Bank's business model or asset class specialisations less prone to cyclical performance swings; Good risk diversification.	Business model/asset class prone to performance swings; High concentrations on single borrowers, counterparties, sectors or asset classes.
Historical and future metrics	Capital raised (or expected to be) after last reporting date; Core capital metric likely to improve, e.g. due to positive changes in strategy or business focus, M&A activity or more favourable part of economic or credit cycle.	Capital distributed (or expected to be) after last reporting date; Core capital metric likely to weaken, e.g. due to negative changes in strategy or business focus, M&A activity or more unfavourable part of economic or credit cycle.

Source: Fitch Ratings

A bank's capitalisation and leverage can have the most direct impact on its viability, and hence this is the highest-weighted KRD in determining a bank's implied VR. In its assessment of capitalisation and leverage, Fitch focuses on common equity capital as this provides a cushion to absorb unreserved, unexpected losses and enable a bank to continue as a going concern and avoid failure.

Where available, Fitch will use the regulatory common equity Tier 1 (*CET1) capital ratio* as its core Capitalisation & Leverage metric. 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. Where a CET1 ratio is not available, Fitch will use a ratio of Fitch Core Capital (FCC)/FCC-adjusted RWAs, as defined in *Annex 1*.

In this section, the ratio used (CET1 where available, otherwise based on FCC) is referred to as the 'Core Capital Ratio'. The complementary metrics listed below can provide important additional information on a bank's leverage and the quality of its capital base.

Historically, the most common adjustments used in respect to the implied Capitalisation & Leverage score have been *Risk Profile and Business Model* and *Internal Capital Generation and Growth* (each almost always used to adjust negatively).

Complementary Capitalisation & Leverage Metrics

Basel leverage ratio (%)
Tangible common equity/tangible assets (%)
Impaired loans less loan loss allowances/core capital (%)

Source: Fitch Ratings

Funding and Liquidity

Implied Funding & Liquidity Score

Implied KRD score	aa	a	bbb	bb	b & below
Operating environment	Loans/customer deposits (%, 4-year average)				
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

Possible Adjustments to Implied Funding & Liquidity Score

Adjustment	Positive	Negative
Liquidity coverage	Strong coverage of short-term liabilities by good quality, unencumbered liquid assets.	Weak coverage of short-term liabilities by good quality, unencumbered liquid assets.
Non-deposit funding	Stable long-term funding, e.g. due to well-established market access or predominance of intra-group facilities.	High reliance on non-deposit funding, especially if this is short-term and concentrated or if market access is unreliable.
Deposit structure	Granular, stable deposit base, in particular if bank could benefit from 'flight to quality' in case of systemic stress; Relatively cheap cost of deposits confers competitive advantage.	Concentrated deposit base, dependent on non-core deposits or reliant on price-driven deposit growth; and Relatively expensive deposit funding is competitive disadvantage.
Foreign-currency liquidity	n.a.	Weak coverage of foreign-currency liabilities by foreign-currency liquid assets, in particular in markets where currency conversion may be difficult.
Liquidity access and ordinary support	Strong access to liquidity, e.g. on deep and liquid repo markets (including from official sources); Bank's owner or other group entities would likely provide 'ordinary' liquidity/funding support, if needed.	Weak access to liquidity due to shallow markets or regulatory policies; High reliance on central bank funding, reflecting inability to source own financing; Significant restrictions on access to liquidity in subsidiaries.
Historical and future metrics	Funding and liquidity metrics likely to improve, e.g. due to positive changes in strategy or business focus, or M&A activity.	Funding and liquidity metrics likely to weaken, e.g. due to negative changes in strategy or business focus, or M&A activity.

Source: Fitch Ratings

Funding & Liquidity is a KRD for the VR because this determines a bank's ability to meet its short-term obligations and more broadly its ability to finance and maintain its operations. Fitch's analysis emphasises a bank's ability to sustain its liquidity position and the stability of its funding. Funding and liquidity is normally of lower importance for a bank's VR than other aspects of its financial profile, but can become of higher importance when a bank encounters significant liquidity stress or other pressures on its funding profile. In such cases, the Funding & Liquidity KRD may be deemed a 'weakest link' for the bank's VR, and exert greater influence on the rating (see *Relevance and Weighting of Key Rating Drivers: Viability Rating*).

The core metric, *gross loans/customer deposits*, has the greatest explanatory power for the funding & liquidity KRD 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. The complementary metrics listed below can provide important additional information on a bank's liquidity position and its dependence on non-deposit funding.

Historically, the most common adjustments used in respect to the implied Funding & Liquidity score have been *Deposit Structure* (used roughly equally to adjust positively and negatively), *Liquidity Coverage* (usually used positively) and *Non-Deposit Funding* (used roughly equally to adjust positively and negatively).

Complementary Funding & Liquidity Metrics

Liquidity coverage ratio (%)
Customer deposits/total non-equity funding (%)

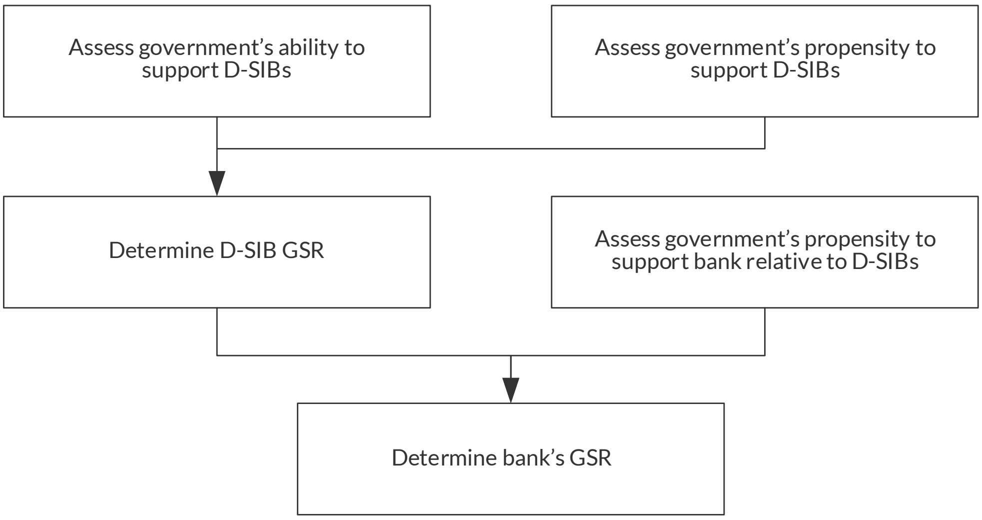
Source: Fitch Ratings

Government Support Rating

Commercial Banks

We determine commercial banks' GSRs as the result of a two-step process. Firstly, we determine the GSR for a typical D-SIB in a jurisdiction. This assessment considers both the ability and the propensity of the authorities to support D-SIBs. Secondly, we consider whether the GSR of a specific bank should be at, above or below the level of the D-SIB GSR. This assessment is based on an analysis of the propensity of the authorities to support the bank in question.

Determining a Commercial Bank's GSR



Source: Fitch Ratings

Step 1: Determine D-SIB Government Support Rating

Our starting point in determining the D-SIB GSR is the sovereign's Long-Term Foreign-Currency IDR. Although the sovereign rating reflects 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, where we view the authorities' propensity to support as high, the D-SIB GSR is typically close to the level of the sovereign rating, as shown in the table below).

Typical D-SIB GSR Where Support Propensity Is High

Sovereign Foreign-Currency IDR	Typical D-SIB GSR
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

Source: Fitch Ratings

To determine where to assign the D-SIB GSR within, or outside, the ranges indicated in the table above we consider the KRDs in the first two sections of the table below (*Key Rating Drivers for Commercial Banks' GSRs*), which focus on the sovereign's ability and propensity to support the D-SIBs in the banking system. Where we score a KRD as positive, this supports the D-SIB GSR being assigned at the top end of (or above) the typical range; conversely, where a KRD is scored as negative, this supports the GSR being assigned at the bottom of (or below) the range.

The extent to which a positively or negatively scored KRD influences the D-SIB GSR or the GSR of a specific bank depends on the weighting assigned to it. The typical weighting assigned to the KRDs is shown in the section above *Relevance and Weighting of Key Rating Drivers/Government Support Rating*. The Resolution Legislation KRD can be particularly important; where this is scored as negative and high importance it usually results in the D-SIB GSR being assigned at 'no support'.

Key Rating Drivers for Commercial Banks' GSRs

KRD	Positive[a]	Negative[a]
Government ability to support D-SIBs[b]		
Size of banking system	Low loans/GDP ratio and low/moderate vulnerability of banks to large losses in downturn.	High loans/GDP ratio and moderate/high vulnerability of banks to large losses in downturn.
Structure of banking system	D-SIBs account for moderate proportion of system assets, or are owned mainly by strong shareholders, reducing contingent liability for sovereign.	D-SIBs account for high proportion of system assets, and have limited ownership by strong shareholders.
Sovereign financial flexibility (for rating level)	Low sovereign debt and/or good market access, large foreign-currency reserves; Banking system predominantly funded by long-term/stable local-currency liabilities.	High sovereign debt and/or uncertain market access, low foreign-currency reserves; Banking system has considerable short-term foreign-currency funding.
Government propensity to support D-SIBs[b]		
Resolution legislation	n.a.	Legislation provides for losses being imposed on senior creditors in bank resolutions, and authorities have credible intention to use it.
Support stance	Very strong and predictable record of timely support for D-SIBs; Consistently strong statements on support for banking system.	Inconsistent record, possibly including significant defaults or concerns over support timeliness; Consistent statements on intention to bail in senior creditors.
Government propensity to support bank[c]		
Systemic importance	Exceptionally high systemic importance and contagion risk, above that normally associated with D-SIB; dominant market shares.	Moderate or low systemic significance, below that normally associated with a D-SIB; more limited contagion risk.
Liability structure	Very limited, if any, politically acceptable possibilities to bail in senior creditors.	High foreign/wholesale funding, which could be politically acceptable to bail-in without threatening financial stability.
Ownership	Strategic government ownership or private domestic owners with strong government relations.	Foreign ownership or domestic owners with poor government relations.

[a] In deciding how to score each KRD, we consider which description, in aggregate, most closely reflects our assessment of the given KRD for the bank in question. Where neither the positive or negative assessments apply, the KRD will be scored as 'neutral'.
[b] The KRDs in these sections determine the level of the D-SIB GSR relative to the ranges indicated in the table 'Typical D-SIB GSR Where Support Propensity is High'.
[c] The KRDs in this section determine the level of the bank's GSR relative to the D-SIB GSR.
Source: Fitch Ratings

Step 2: Determine a Bank's Government Support Rating

Fitch determines whether to assign a bank a GSR in line with, above or below the D-SIB GSR by considering the KRDs in the 'Government Propensity to Support Bank' section of the table above.

Fitch usually treats a bank as a D-SIB, and assigns it a GSR in line with the D-SIB GSR, where it has national market shares in loans and/or deposits above 10%; in such cases, the systemic importance KRD will likely be scored as at least neutral. Where a bank has been designated by its regulator as a D-SIB or has a strong regional/niche franchise, or where its default could result in significant contagion risks for the rest of the system, this is also likely to result in it being treated as a D-SIB for the purpose of Fitch's support analysis.

Policy Banks

Due to their roles, special status and ownership, we usually assign policy banks GSRs and IDRs in line with, or close to, the rating of the sovereign in the jurisdiction where they are domiciled. In deciding whether to equalise a policy bank's rating with the sovereign, or notch it down, we usually focus on the KRDs in the table below.

The KRDs for commercial banks (with the exception of ownership) will usually be of low importance in determining a policy bank's ratings or not applicable at all, and only in rare cases will assume moderate or high significance.

Key Rating Drivers for Policy Banks' GSRs

KRD	Equalisation with sovereign[a]	Notched down from sovereign[a]	No impact from government ties[a]
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.
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.
Guarantees and legal status	Full guarantee of entity or guarantees on most funding or of capital support, or arrangements are in place to provide special access to government financing; Legal status provides protection for creditors.	Subject of separate legislation, but without offering significant protection for creditors.	No guarantees or special legal status; Mix of guaranteed and non-guaranteed funding creates material risk of selective default.

[a] In deciding how to score each KRD, we consider which description, in aggregate, most closely reflects our assessment of the given KRD for the bank in question. Where this is no impact from government ties across all the KRDs listed, support would be assessed in accordance with the KRDs for commercial banks.
Source: Fitch Ratings

Source of Government Support

The government support factored into the GSR usually comes from the national authorities of the jurisdiction where the bank is domiciled, but in rare cases may consider support from a third-party sovereign with an interest in supporting the bank, or from international public institutions.

Typically, only one D-SIB GSR is assigned in each jurisdiction. However, it is possible to have more than one D-SIB GSR where support for some banks may come from the central authorities of the country, and for some banks may come from the authorities of a constituent part of the broader state.

We may use a credit opinion, rather than a rating, of the sovereign as an input into the GSR assessment, if the opinion is in the single 'B' category or lower. In rare cases where Fitch does not assign a rating or credit opinion, Fitch will either not assign a GSR or assign at 'no support', indicating either an inability to reliably assess sovereign creditworthiness or clear concerns about the authorities' ability or propensity to support banks.

Shareholder Support Rating

Key Rating Drivers for Shareholder Support Rating

KRD	Equalised[a]	One notch lower[a]	Two or more notches lower[a]
Shareholder ability to support			
Shareholder regulation	Parent regulator and/or regulation would be likely to favour support of subsidiary by parent entity; Group resolution plan makes support for subsidiary likely until parent defaults.	Parent regulator/regulation is neutral for subsidiary support; Moderate uncertainty that any sovereign support reflected in parent IDR will be available to subsidiary.	Parent regulator/regulation may restrict support, or capital/tax implications of support may be very onerous; Significant uncertainty that any sovereign support reflected in parent IDR will be available to subsidiary.
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[b]	Country risks in subsidiary jurisdiction do not constrain subsidiary's ability to use parent support.	Country risks (e.g. transfer and convertibility risks) constrain the ability to use parent support at a level one notch below the parent's rating.	Country risks (e.g. transfer and convertibility risks) constrain the ability to use parent support at a level two or more notches below the parent's rating.
Shareholder propensity to support			
Role in group	Subsidiary is key and integral part of the group's business, providing core products/services in parent/core market(s); Sale is very hard to conceive, and would noticeably alter overall shape of group.	Strong synergies with parent, providing products/services in strategically important markets; No plans to sell, although disposal would not fundamentally alter group franchise; Country risks raise moderate doubts on long-term commitment to subsidiary.	Limited synergies with parent, not operating in target markets; Potential candidate for sale, or might already be up for sale; disposal would not be material for group franchise; Country risks raise material doubts on long-term commitment to subsidiary.
Reputational risk	Default would constitute huge reputational risk to parent and materially damage its franchise; Subsidiary has same brand as parent.	High reputational risk for parent, with potential for significant negative impact on other parts of group; Combines parent and own branding.	Reputational risk would probably be containable for parent; Subsidiary branded independently from parent.
Integration	High level of management and operational integration; capital and funding largely fungible; Subsidiary effectively operates as branch or booking entity; Full ownership or large majority stake (more than 75%) supports integration.	Significant management independence; some operational/regulatory restrictions on transfers of capital and funding; Ownership of less than 75%, but minority shareholder(s) have limited impact on parent-subsidiary integration.	Considerable management independence; significant operational/regulatory restrictions on transfers of capital and funding; Ownership of less than 75%, and minority shareholder(s) significantly constrain parent-subsidiary integration.
Support record	Support has been 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.	Support has been provided with some delays or has only been moderate in volume relative to subsidiary needs.
Subsidiary performance and prospects	Long and successful record in supporting group objectives, which is likely to continue.	Limited record of successful operations or moderate long-term prospects.	Weak performance record or question marks over long-term viability of the subsidiary.
Legal commitments	Parent has made strong legal commitment to support subsidiary or there is a regulatory requirement to support. Potential acceleration of parent debt provides strong incentive to prevent subsidiary default.	Parent has made non-binding commitment to support subsidiary. Potential acceleration of parent debt provides moderate incentive to prevent subsidiary default.	Parent has not made any legal commitment to support subsidiary. Subsidiary default would not trigger acceleration of parent debt.

[a] Assessment is usually relative to Long-Term IDR of the shareholder. However, when the shareholder's IDR is above its VR due to a buffer of qualifying junior debt, the subsidiary's SSR may be notched off the parent VR (see *Assigning IDRs Above VRs*). In deciding how to score each KRD, we consider which description, in aggregate, most closely reflects our assessment of the given KRD for the bank in question.
[b] See below, *Country Risks* for more information on how Country Ceilings and our assessment of transfer and convertibility risks for banks can constrain ratings.
Source: Fitch Ratings

We assign SSRs by considering KRDs related both to the ability and propensity of the parent institution (or in rare cases – other group entities) to provide support.[2]

Our starting point is typically the parent's Long-Term IDR, which is usually closely linked to its ability to provide support. However, when the shareholder's IDR is above its VR due to a buffer of qualifying junior debt, the subsidiary's SSR may be notched off the parent VR (see *Assigning IDRs Above VRs*).

We then consider whether, and to what extent, to notch down the SSR from the parent rating based on the KRDs in the table above. A subsidiary bank may be assigned a Long-Term IDR above its SSR where it has a higher VR or GSR.[3]

Support from Non-Bank Shareholders

The above KRDs will be considered to assess the likelihood of support from non-bank parents, as well as bank parents. Shareholders that are prudentially regulated (e.g. insurance companies) or whose bank subsidiaires 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 than corporate parents whose banking subsidiaries are more akin to financial investments.

In assessing support for a bank from a sub-national government, the following considerations will apply in respect to some of the KRDs listed in the table above:

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.

Reputational Risk: 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).

[2] SSRs are not assigned to core banks within a group whose IDRs are driven by group VRs (see below, *Banking Groups*).
[3] See below, *Banking Groups/Rating Subsidiary Banks Above Parents* on when a subsidiary bank's VR may be above its parent's ratings.

Banking Groups

This section outlines Fitch's approach to assigning VRs and SSRs to banks and BHCs within banking groups. The VRs of core banks within a group are based on the consolidated group credit profile, while VRs of other group banks are based on their standalone credit profiles.

Core Banks

When rating entities within banking groups, Fitch usually first assesses the consolidated group credit profile. This analysis is based primarily on consolidated group accounts, where these are available, but may also be carried out using a 'bottom-up' approach, assessing and then aggregating the individual risk profiles of the group's main entities. The analysis is done by following the steps outlined in the *Viability Rating* section above, and results in us determining a 'group VR'.[4]

The group VR is assigned to 'core banks', which we define as those banks which in our view have substantially the same failure risk as the group as a whole. This usually includes the group's parent bank and other domestic banks which are highly integrated with the parent bank or whose failure risk is highly aligned with the parent bank for other reasons. It can also include highly integrated banks operating outside of the domestic market.

Fitch will not assign SSRs based on support from within the group to core banks. This is because if these banks fail they will very likely do so together with the group as a whole, and so will be unable to rely on group support upon failure.

Other Group Banks

Banks whose risk of failure Fitch views as being distinct from that of the group as a whole are assigned VRs based on their own financial profiles and accounts, while also taking into account potential operational benefits ('ordinary support') and contagion risks from the broader group. Such banks are usually assigned SSRs based on potential support from within the group.

Banks operating in a different market to the parent are usually analysed in this way where they are subject to separate regulation, have distinct risk profiles and display more limited integration with the parent bank. In groups where the largest banks in the home market are subject to regulatory ring-fencing, they are also likely to be analysed and rated in this way, rather than on the basis of the overall group risk profile.

Rating Subsidiary Banks Above Parents

A subsidiary bank is not usually assigned a VR above its parent bank's Long-Term IDR because of often high dependence of the subsidiary on 'ordinary support' from the parent, and significant contagion risk for the subsidiary in case of a parent failure or default. However, where integration and contagion risk are limited, the subsidiary may be rated above the parent, albeit usually by a maximum of three notches. Fitch views the following factors as positive in limiting contagion risk, and therefore enabling uplift of the subsidiary VR above 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;
- 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

[4] The group VR is the VR that would be assigned to the group if it was a single legal entity. The group VR is not a distinct analytical product, but rather an intermediate analytical step in assigning ratings to individual group entities.

by statements by the parent's management that it does not intend to do this in the future, or by the subsidiary's contractual restrictions on such transfers of capital and liquidity; and

- 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.

Bank Holding Companies

BHCs are holding companies that own a bank or banks, often together with non-bank financial institutions. They are usually subject to prudential requirements and typically have the same domicile as at least one of the main group banks.

BHCs are assigned VRs at the same level as the group VR where Fitch views the BHC's failure risk as substantially the same as that of the group as a whole. Where we think the BHC has a higher failure risk, we notch the BHC VR down from the group VR (or, if no group VR is assessed – from the VR of the main bank subsidiary). The table below outlines the factors which determine whether we equalise or notch the BHC's VR from the group VR (or main bank subsidiary VR).

Equalisation or Notching of Bank Holding Companies

Factor	Typical weighting	Attributes which support equalising BHC VR with group VR (or with VR of main bank subsidiary)	Attributes which support VR BHC being lower than group VR (or VR of main bank subsidiary)
Double leverage	Higher	Low or moderate, i.e. common equity double leverage (defined as equity investments in subsidiaries plus BHC intangibles, divided by BHC common equity) of below 120%[a].	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.
BHC liquidity management	Higher	Prudent, with contingency plans in place.	Less prudent, with limited contingency plans in place. Mismatches in sources and use of BHC funds result in actual or potential cash flow mismatches.
Capital and liquidity fungibility	Moderate	Little or no regulatory restrictions on material subsidiaries paying dividends or upstreaming liquidity to BHC.	More onerous regulatory restrictions on dividends and liquidity transfers. Regulatory focus on protection of bank creditors could give rise to risk of BHC failure prior to group failure.
Jurisdiction	Moderate	BHC and main bank subsidiary incorporated in same jurisdiction.	BHC and main bank subsidiary incorporated in different jurisdictions.
Subsidiary ownership	Lower	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	Lower	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:

- the BHC's VR is notched off the main bank subsidiary (rather than a group VR) and other operating subsidiaries or assets that form a significant part of the group are rated lower or are of notably higher risk; or
- other factors exist which result in a more significant difference between the failure 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(ies).

In cases where the credit risk of the BHC is less directly linked with that of the underlying bank, Fitch does not assign ratings under the *Bank Rating Criteria*. This is the case for unregulated BHCs typically set up by a private equity sponsor to issue debt to finance or refinance an investment in a bank or to extract a dividend from a bank investment ahead of an ultimate exit. The lifespan of these types of BHCs are typically expected to be time-limited. Their default risk is linked to dividend flows from, and the valuation of, the bank investment, which can be heavily influenced by factors such as supervisory intervention over the bank's capitalisation, and result in a weak correlation with the creditworthiness of the underlying bank.

BHCs are usually assigned either a GSR or an SSR, reflecting the stronger of sovereign or shareholder support. However, a BHC SSR does not take into account 'support' upstreamed from the group.

Banking Groups Backed by Mutual Support Mechanisms

A group VR and group IDRs are assigned to banking groups backed by mutual support mechanisms, where Fitch judges such mechanisms as being sufficiently cohesive to substantially equalise the default risk of group entities. The group VR and group IDR reflect our assessment of the likelihood of failure and default, respectively, of the group as a whole. Entities within such groups which are covered by the mutual support mechanism can be assigned IDRs in line with the group IDRs.

Fitch's assessment of the cohesiveness of such banking groups and the decision whether to assign a group VR typically considers the following factors:

- the effectiveness and enforceability of the support mechanism, including written documentation, the history of support within the group, and the existence and principles of liquidity or solidarity funds;
- the existence of annual published accounts for the group, preferably audited by an external firm;
- the group's common strategy, common brand, common risk framework, centralised risk controls, and the degree of centralisation of liquidity and funding; and
- the regulatory treatment of the group.

If group IDRs are assigned, then the member banks included in the mutual support mechanism (primarily the local/regional banks) can be assigned Long- and Short-Term IDRs in line with the group IDRs. Member banks are not, though, normally assigned VRs.

Ratings are also typically assigned to central institutions; if these are full members of the mutual support mechanism, then their IDRs will also be aligned with the group IDRs. GSRs or SSRs may be assigned to central institutions if any outside support provided to the banking group would likely be channelled through the central institution. Fitch usually does not assign VRs to banking groups' central institutions, but may do so if a central institution has a distinct commercial banking business in its own right.

Foreign Branches

When we explicitly assign IDRs and debt ratings to foreign branches, we align them with the head office IDRs and debt ratings, because they are part of the same legal entity, unless there are country risk constraints.

The Foreign-Currency IDRs of branches are likely to be capped at the Country Ceiling as any transfer and convertibility restrictions imposed by the domestic sovereign are likely to apply to deposits and other liabilities booked 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 thinks that the bank would use non-branch assets to service debt in case of transfer and convertibility restrictions. A branch's Local-Currency IDRs also factors in country risks where Fitch thinks that any potential restrictions on local banks servicing local-currency obligations could also be applied to branches.

Where the head office has a deposit rating or DCR above its IDR as a result of legal preference, this will only apply in foreign branches if legal preference of depositors or derivative counterparties in the branch jurisdiction can be identified clearly.

Assigning IDRs Above VRs

A bank or BHC's Long-Term IDR is usually assigned at the higher of its VR, GSR or SSR. However, the Long-Term IDR may be assigned at a level above that which this approach would suggest in the following circumstances:

I. Qualifying Junior Debt Buffer

The VR of a bank or BHC reflects the risk of it failing and therefore (absent support) needing to default (impose losses) on junior and/or senior creditors to restore its viability. The Long-Term IDR of a bank or BHC reflects the risk of default on senior obligations only.[5]

The Long-Term IDR of a bank or BHC may therefore be above its VR if there is a large buffer of qualifying junior debt (QJD) that we think could protect senior obligations from default if the entity failed. QJD is defined as the balance sheet value of liabilities that rank junior to senior liabilities, irrespective of regulatory (e.g. Tier 2 or Tier 1 capital) treatment.[6]

Protection for senior creditors could be achieved for example by a distressed debt exchange (DDE) on junior debt or through losses being imposed only on junior liabilities as part of a regulatory intervention process. Potential uplift for the Long-Term IDR is limited to one notch when VRs are in the 'bb' category or higher, but can be greater when VRs are in the 'b' category or lower.

Uplift will likely be applied where:

- Fitch expects a bank or a BHC to build a QJD buffer that is clearly and sustainably above 10% of group or resolution group RWAs; or
- a banking group's resolution plan envisages a bank's third-party senior creditors being protected on failure by a sufficient volume of (internal and external) QJD and equity.

However, Fitch will not apply this uplift if we think 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.

Uplift Within a Banking Group

Uplift for the IDR of a bank based (fully or partly) on internal QJD from a BHC is more common for banks domiciled in the same market as the BHC. Uplift can also apply to non-bank financial institution (NBFI) and holding company subsidiaries we expect to survive a BHC default. Where uplift has been given to the group's main domestic bank, it will likely also be applied to other core domestic banks.

Subject to Country Ceiling/sovereign risk constraints,[7] the SSR of a foreign subsidiary can be rated in line with the 'uplifted' parent Long-term IDR (i.e. the subsidiary's Long-term IDR can benefit from the same uplift) where both of the following conditions apply:

- The foreign subsidiary's Long-Term IDR would otherwise have been equalised with the parent domestic bank either on a VR basis or due to expectations of extraordinary support from the domestic parent to the foreign subsidiary.
- Fitch expects the subsidiary to benefit from the buffer for one of the following reasons:
    - Fitch expects the BHC to be required by resolution authorities to pre-place junior debt or equity in the foreign subsidiary (or in the foreign subsidiary's jurisdiction)

[5] See *Rating Definitions and Scales* for more information on what VRs, IDRs and other bank ratings rate to.
[6] QJD includes i) downstreamed 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 a bank, e.g. under the US 'source of strength' principle.
[7] See *Country Risks* for details on how Country Ceilings and sovereign risks can constrain bank ratings.

to meet resolution requirements, or approved resolution plans identify the subsidiary as a beneficiary of intra-group resources;

- similarly material buffers have already been voluntarily pre-placed; or
- the parent and subsidiary are part of the same resolution group and have the same resolution authority.

If these conditions do not apply, then the Long-term IDR of the foreign subsidiary will usually be notched off the parent bank's VR (or the BHC's VR if the parent bank does not have a VR).

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 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 – or potential selective support for one or more classes of senior obligations – is likely to be the key determinant of the uplift and IDR.

Obligation Ratings

This section outlines Fitch's approach to rating securities issued by banks and BHCs, as well as assigning deposit ratings and DCRs.[8]

Our baseline approach to rating the most common types of long-term securities issued by banks and BHCs is as follows:

- Senior unsecured: equalised with Long-Term IDR;
- Subordinated (Tier 2) with no coupon flexibility: two notches below VR;
- Subordinated (Tier 2) with coupon deferral feature: three notches below VR; and
- Hybrid (additional Tier 1): four notches below VR.

The table below presents in brief the rationale for these baseline ratings. The rest of this section explains the baseline ratings in more detail, and outlines the main reasons why we may diverge from these.

Baseline Approach to Rating Bank/BHC Long-Term Securities

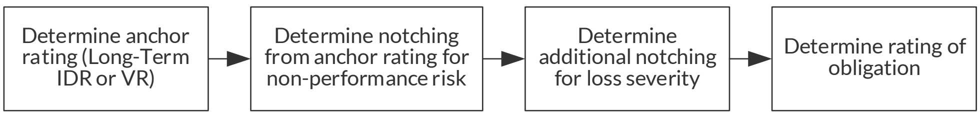
		Baseline notching from anchor rating:			Baseline notching rationale	
Securities	**Baseline anchor rating**	**Non-performance**	**Loss severity**	**Total**	**Non-performance**	**Loss severity**
Senior unsecured	Long-Term IDR	0	0	**0**	Default on senior obligations equates to default of bank/BHC.	Expected average recoveries upon default.
Subordinated (no coupon flexibility)	VR	0	-2	**-2**	No/limited non-performance risk before bank/BHC reaches point of non-viability.	Expected poor recoveries upon non-performance.
Subordinated (coupon deferral)	VR	-1	-2	**-3**	Moderate non-performance risk before bank/BHC reaches point of non-viability.	Expected poor recoveries upon non-performance.
Hybrid (Tier 1)	VR	-2	-2	**-4**	Significant non-performance risk before bank/BHC reaches point of non-viability.	Expected poor recoveries upon non-performance.

Source: Fitch Ratings

Non-Performance Risk and Loss Severity

The ratings assigned by Fitch to long-term bank/BHC obligations (securities and deposits) incorporate an assessment both of the likelihood of default/non-performance and of potential loss severity (i.e. recoveries) for creditors in case of default/non-performance. Short-term obligation ratings reflect only default/non-performance risk.

Rating Bank and BHC Long-Term Obligations



Source: Fitch Ratings

[8] Deposit ratings measure the overall level of credit risk on the bank's riskiest material uninsured depositor class, incorporating an assessment of both default probability and potential recoveries. DCRs are issuer ratings and measure a bank's vulnerability to default on derivative contracts to third-party, non-government counterparties (see *Rating Definitions and Scales*).

Non-Performance Risk: Anchor Rating

In assessing non-performance risk, Fitch first determines the anchor rating which most closely reflects this risk. For senior obligations the anchor rating is the Long-Term IDR. For junior obligations (subordinated and hybrid securities) the anchor rating is usually the VR, but can also be the Long-Term IDR (see *Subordinated and Hybrid Obligation Ratings*).

Non-Performance Risk: Notching

Fitch notches its assessment of non-performance risk down or up from the anchor rating when it thinks that this risk is materially lower or higher than that captured in the anchor rating. For example, default risk on preferred senior debt may be lower than the risk reflected in the Long-Term IDR, and non-performance risk on a hybrid security may be higher than that captured by the VR.

Loss Severity: Notching

Fitch notches up or down from its assessment of non-performance risk to arrive at the final instrument rating when it thinks that loss severity in case of non-performance is likely to be below or above average. Where loss severity is expected to be above average (i.e. recoveries below average or poor), the instrument rating is notched down from the assessment of non-performance risk by one or two notches. The instrument rating can be notched up from the assessment of non-performance risk, potentially by up to three notches, where loss severity is expected to be below average (i.e. above-average recoveries).

Where a bank has a Long-Term IDR of 'B+' or below, Fitch usually assigns a Recovery Rating (RR) to the entity's securities 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.

For a full description of the RR scale, and how an issuer Long-Term IDR and issue RR combine to derive the issue long-term rating, refer to Fitch's Rating Definitions.

Recovery Rating Scale

Rating	Recovery prospects given default	Typical historical recoveries (%)	Notching of obligation 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

[a] Relative to level of non-performance risk. It is exceptionally rare for Fitch to notch up long-term senior unsecured debt for recovery reasons.
Source: Fitch Ratings

Senior Unsecured Debt and Deposit Ratings

Fitch's baseline approach is to rate senior obligations (senior unsecured debt and deposits) of banks and BHCs in line with the respective entity's Long-Term IDR. This reflects the fact that default on senior obligations equates to the default of the bank/BHC (as captured by the issuer's IDR) and usually average expected recoveries upon default (see the table on previous page).

However, we may depart from this baseline approach in jurisdictions with developed resolution regimes, or when rating obligations of entities rated in the 'B' category or below. Each of these cases can give rise to situations where the default risk of certain senior obligations is not aligned with the default risk of the issuer, or where expected recoveries on certain senior obligations are above or below average.

In addition, senior debt of BHCs in jurisdictions without developed resolution regimes will be rated in line with the principles outlined below for BHCs in markets with developed resolution regimes.

Rating Senior Obligations in Jurisdictions with Developed Resolution Regimes

Notching of senior unsecured debt and deposits is far more likely to occur in jurisdictions with developed bank resolution regimes.[9] Below we outline typical notching outcomes in such jurisdictions (firstly for bank-only structures, then for structures with both a BHC and an operating bank). Fitch will follow the principles outlined in these examples when considering whether to notch in jurisdictions with different rankings of senior liabilities.

Bank-Only Structures: In these cases, we assume a bank has issued a class of senior debt whose role is to absorb losses before other senior liabilities when a bank fails. While naming conventions will differ around the world, we refer to such a debt class as senior non-preferred (SNP) below, whereas senior debt that is intended to be protected by SNP and more junior debt is referred to as senior preferred (SP) debt.

SNP debt will typically be aligned with an issuer's Long-Term IDR, and SP debt and the DCR will typically be notched up once, where i) resolution buffer requirements determined by resolution authorities are expected to be met with SNP and more junior debt/equity; or ii) SNP and more junior debt buffers are expected to be built that sustainably exceed 10% of RWAs (cases 1 and 3 in the table below). Otherwise (cases 2 and 4), SNP debt will typically be notched down once from the Long-Term IDR and SP debt equalised with it. However, in jurisdictions with depositor preference, SP debt will typically also be notched down where a bank does not have resolution debt buffers and the sum of all debt is expected to be small (case 5).

Typical Ratings of Senior Obligations in Markets with Developed Resolution Regimes: Bank-Only Structure (no BHC)

	No depositor preference (1,2)		Depositor preference (3,4,5)		
	(1)	(2)	(3)	(4)	(5)
	No SP debt[a] in resolution buffer or large SNP+junior debt buffer[a,c]	**SP debt in resolution buffer and small SNP+junior debt buffer[a,c]**	**No SP debt in resolution buffer or large SNP+junior debt buffer[a,c]**	**SP debt in resolution buffer or large total debt buffer[b,c]**	**No resolution buffer and small total debt amount[b,c]**
Notching Relative to Long-Term IDR[d] +1	Deposits SP debt DCR		Deposits DCR SP debt	Deposits	
0	SNP debt	Deposits SP debt DCR	SNP debt	SP debt DCR	Deposits DCR
-1		SNP debt		SNP debt	SP debt SNP debt

[a] SNP+junior debt buffer = SNP debt + Tier 2 + Tier 1 (excluding common equity).
[b] Total debt buffer = SP debt + SNP debt + Tier 2 + Tier 1 (excluding common equity).
[c] Large = expected to sustainably exceed 10% of RWAs; small = not expected to sustainably exceed 10% of RWAs.
[d] Long-Term IDR may be notched up from VR where qualifying junior debt buffer sustainably exceeds 10% of RWAs (see *Assigning IDRs Above VRs*).
Source: Fitch Ratings

The following exceptions and additional considerations apply when assigning ratings in the situations outlined in the table above.

- If Tier 2 debt of the issuer is only notched down once, senior debt will not be notched down;

[9] We define a developed bank resolution regime as a credible framework for the bail-in of creditors to restore the viability of a failed bank or BHC, involving resolution buffer requirements set by the authorities. Some banks may be subject to multiple requirements (e.g. total loss-absorbing capacity (TLAC) and minimum required eligible liabilities (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 subset of it.

- Some SNP debt must have been issued for uplift to be applied to preferred senior liabilities (with the exception of deposits in jurisdictions with depositor preference);
- 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 RWAs (or an estimate thereof) that best reflect the resolution approach of the issuer (e.g. 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 publicly-announced funding plans in notching decisions;
- For banks with shareholder support-driven IDRs, ratings can be above the equivalent debt class of a resolution entity shareholder provided they are expected to be protected by the shareholder's debt in a resolution scenario;
- For foreign subsidiaries that source resolution buffers internally (i.e. 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 sovereign default scenario;
- If a bank's Long-term IDR is above its VR due to QJD buffers (see *Assigning IDRs Above VRs*), SNP debt will be aligned with the IDR and SP will be eligible for uplift if SNP debt is expected to sustainably exceed 10% of RWAs. Otherwise it will also be equalised with the issuer's IDR;
- If resolution plans are incomplete, notching decisions will be based on assumptions drawing on such considerations 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 *Country Risks*);
- Additional considerations at low rating levels are covered below (see *Rating Senior Obligations at Low Rating Levels*).

Bank/BHC Structures: In such structures, the operating bank's Long-term IDR (and hence also its senior debt) will be notched up from its VR when BHC senior debt and/or group junior debt reduce bank-level default risk (cases 1 and 3 in the table below; see also *Assigning IDRs Above VRs*). In these cases, BHC senior debt will typically be rated in line with the BHC's IDR, and hence one notch below bank senior debt. However, when BHC senior debt and group junior debt do not materially reduce operating bank default risk (cases 2 and 4), the bank's IDR and senior debt are likely to be assigned in line with its VR, and BHC senior debt will typically be notched down from its IDR.

Typical Ratings of Senior Obligations in Markets with Developed Resolution Regimes: Bank/BHC Structure

Notching Relative to Bank VR		No depositor preference (1,2)		Depositor preference (3,4)	
		(1)	(2)	(3)	(4)
		Resolution buffer includes BHC senior debt or there is large BHC senior+ group junior debt buffer[a,b]	**No resolution buffer requirement and moderate BHC senior + group junior debt buffer[a,b]**	**Resolution buffer includes BHC senior debt or there is large BHC senior+ group junior debt buffer[a,b]**	**No resolution buffer requirement and moderate BHC senior + group junior debt buffer[a,b]**
	+2			Bank deposits	
	+1	Bank Long-Term IDR Bank senior Bank DCR Bank deposits		Bank LT IDR Bank senior Bank DCR	Bank deposits
	0	BHC Long-Term IDR BHC senior	Bank Long-Term IDR Bank senior Bank DCR Bank deposits BHC Long-Term IDR	BHC Long-Term IDR BHC senior	Bank Long-Term IDR Bank senior[c] Bank DCR BHC Long-Term IDR
	-1		BHC senior[d]		BHC senior[d]

[a] BHC senior+group junior debt buffer = BHC debt + group Tier 2 + group Tier 1 (excluding common equity).
[b] Large = expected to exceed 10% of RWAs; moderate = not expected to exceed 10% of RWAs.
[c] Bank senior debt can be -1 if sum of BHC+bank debt buffers is clearly less than 10% of RWAs and T2 debt is -2
[d] BHC senior debt is 0 if T2 debt is -1.
Source: Fitch Ratings

The following exceptions and additional considerations apply when assigning ratings in the situations outlined in the table above.

- If Tier 2 debt is only notched down once, senior debt will not be notched down;
- If the BHC Long-Term IDR is notched down from the group VR, then BHC senior debt will be aligned with the BHC Long-Term IDR, and not notched down further, 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 *Country Risks*); and
- Additional considerations at low rating levels are covered below (see *Rating Senior Obligations at Low Rating Levels*).

Rating Senior Obligations at Low Rating Levels

When an issuer is rated in the 'B' category or below, we may notch senior obligations up or down from the Long-Term IDR due to greater visibility on the possibility of a selective default on certain types of senior liabilities, or potential recoveries in case of default.

Notching Up Due to Lower Default Risk: Preferred senior obligations may be notched up because we view their default risk as lower than for non-preferred senior obligations (whose default risk drives the Long-Term IDR). Similarly, we may notch up senior obligations which are not preferred but which we think are less likely to default than other equally-ranking senior liabilities which may be subject to a selective default, for example:

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

In such cases, Fitch's opinion of an issuer's credit profile after its failure has been addressed is likely to be the key determinant of the degree of uplift over the IDR.[10]

Notching Up Due to Strong Recovery Prospects: 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 degree of insolvency at point of default or concerns over legal frameworks (e.g. in some emerging markets). However, when an entity is close to default (or already in default) and there is greater visibility on recovery prospects for creditors Fitch may notch up senior unsecured debt/deposit ratings by one to three notches, to reflect recovery expectations (see *Recovery Rating Scale*, above).

Notching Down Due to Weak Recovery Prospects: Fitch undertakes a recovery analysis on the balance sheet of a bank or BHC rated in the 'B' category or below when the following conditions both hold, as these potentially indicate heightened recovery risks for senior unsecured creditors:[11]

- Senior unsecured creditors are legally or effectively subordinated to a large majority of the bank's liabilities due to a combination of full/partial depositor preference, secured funding (resulting in encumbrance of assets), government funding and related-party funding; and
- The bank is likely to be liquidated upon default, or in Fitch's view the recoveries received by senior creditors in a default scenario are likely to be close to those which would be received on liquidation. In Fitch's view, characteristics of a bank which would usually make it more likely to be liquidated following default are low systemic importance, an absence of government or foreign ownership, and a prevalence of solvency risks over liquidity risks.

The recovery analysis comprises three steps:

- a write-down of the bank's assets at least sufficient to eliminate its equity and so simulate the solvency problems of a 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);
- application of haircuts to the assets to simulate losses relative to balance sheet value upon sale; and
- 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. Fitch will consider how sensitive expected recoveries are to small changes in assumptions, and will only notch down a bank's senior debt from its Long-Term IDR where its analysis predicts below-average recoveries under a range of reasonable assumptions.

[10] Senior obligations may also be notched up in situations where we think a bank's IDR may go to 'D' (e.g. it is liquidated as part of a resolution action), but all senior debt and obligations will avoid default e.g. because they are transferred to another bank.
[11] Fitch may also conduct such an analysis where one of the conditions does not hold, but the agency thinks that recoveries for senior unsecured creditors may be highly vulnerable in a default scenario.

Subordinated and Hybrid Obligation Ratings

Ratings of Subordinated and Hybrid Securities

Core features of securities	Example instrument	Baseline notching from anchor rating[a]: Non-performance	Loss severity	Total	Possible rationales for alternative notching: Higher rating (lower notching)	Lower rating (higher notching)
Subordination, no coupon flexibility (may have contractual or statutory loss absorption at the point of non-viability)	Basel III Tier 2	0	-2	**-2**	**Reduced loss severity:** Notching reduced to -1 where very high or full loss is less likely, e.g. due to: • Fitch expects bank to maintain large Tier 2+Tier 1 debt buffers (>10% of RWAs); • main risk is to timely payment rather than recoveries (e.g. in some cases of transfer and convertibility risk); • partial support in default is likely to mitigates losses; • early regulatory intervention is likely to reduce losses; • authorities' approach to resolution and/or prior cases suggest likely reduced losses for Tier 2.	**Higher non-performance risk:** • bond has contingent conversion or write-down trigger that creates moderate (one additional notch) or high (two additional notches) incremental non-performance risk relative to anchor; • risk of regulator-enforced losses is meaningfully greater than assessment of failure risk captured in VR (rare).
Subordination, cumulative coupon deferral	Deferrable Tier 2 (e.g. Upper Tier 2)	-1	-2	**-3**	**Reduced non-performance risk:** • Where anchor is support-driven IDR, security rating is notched only for loss severity.[b] **Rating compression:** • Total notching can be reduced to -2 when anchor rating is in 'BB' category or below.	**Higher non-performance risk:** • Coupon payments are subject to profits test. • Capital buffers over coupon omission triggers are thin (e.g. <100bp). • Distributable reserves are low, if relevant.
Deep subordination, significant incremental coupon risk, eg fully discretionary coupon omission	Basel III Tier 1	-2	-2	**-4**	**Reduced non-performance risk:** • Where anchor is support-driven IDR, security rating is notched only for loss severity.[b] • There are very high constraints to non-performance, especially if tested (some 'legacy' Tier 1 instruments; rare). **Rating compression:** • Total notching can be reduced to -3 when anchor rating is 'BB-' or below.	**Higher non-performance risk:** • Coupon payments are subject to profits test. • Capital buffers over coupon omission triggers are thin (eg <100bp). • Distributable reserves are low, if relevant.

[a] Usually VR, but Long-term IDR where Fitch thinks shareholder or sovereign support is likely to be extended further down the capital structure. See footnotes 13 and 14 on potential additional notching from anchor rating for non-performance risk in specific circumstances.
[b] In case of shareholder-support driven IDR, instrument rating is capped at the rating of the equivalent instrument issued by the shareholder. In case of sovereign-support driven IDR, rating is capped at 'BBB' if IDR is in the 'AA' category, and at 'BB+' if IDR is in the 'A' or 'BBB' category.
Source: Fitch Ratings

For ratings assigned to subordinated debt and more junior obligations, the anchor rating is usually the bank's VR. This reflects Fitch's view that extraordinary support, which is not captured in the VR, is less likely to extend to non-senior obligations.12, 13 However, where Fitch thinks shareholder or sovereign support is likely to be extended further down the capital structure, a bank's Long-Term IDR is used as the anchor rating for those obligations. [14]

[12] 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, or Fitch may undertake more bespoke analysis of the non-performance and loss severity risks (e.g. in the case of a non-operating, wind-down bank).
[13] Where Fitch thinks 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.
[14] The anchor rating is the Long-Term IDR if Fitch judges that support is as likely for junior debt as it is for senior debt. If Fitch judges support to be moderately lower for subordinated or hybrid debt relative to senior debt, then we may assess non-performance risk one notch lower than the IDR anchor. Where the probability of support is assessed as even lower, wider notching will apply from the IDR.

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 DDE.

Fitch's approach to rating performing subordinated and hybrid obligations is outlined below.

Very High Non-Performance Risk and Non-Performing Hybrid Obligations

Heightened Non-Performance Risk: When non-performance risk on hybrid obligations is very high, ratings will give increasing weight to the likely rating level should they become non-performing.

When Securities Become Non-Performing: Once a security becomes non-performing in any way, the ratings take into consideration the form and expected duration of loss absorption. For a bank rated 'RD' or 'D', a non-performing hybrid obligation will be rated 'C', unless we expect above average (above 50%) recoveries on the instrument, in which case it can be rated up to 'CCC'.

Non-performing hybrids of a bank whose IDR is not 'RD' or 'D' are rated in accordance with the table below. The ratings of such instruments are also based on expected loss severity, and consider the level of the bank's VR and the type of loss absorption being suffered (e.g. cumulative coupon deferral or coupon omission, any mitigating factors, temporary or permanent write-down).

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 an RR of RR1.
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 an RR of RR2.
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 RRs of RR3.
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 RRs of RR4-RR6.

Source: Fitch Ratings

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: Where Fitch has concerns about the timeliness of a guarantee, it may instead notch up the bond's rating from the issuer's IDR to reflect superior recovery expectations under the guarantee from a higher rated guarantor, following the principles outlined in the Recovery Rating Scale table (i.e. a maximum of three notches; see *Loss Severity: Notching*). Ratings will be capped at the level of the guarantor's Long-Term IDR.

Secured or Collateralised Debt: Long-term senior secured debt without complex forms of structural enhancement may be rated under Fitch's *Bank Rating Criteria* and will receive a one-notch uplift above the bank's Long-Term IDR[15] 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.

Bank securities 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 other analytical groups based on separate criteria, or otherwise not rated by Fitch.

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 Short-Term IDR unless the equivalent long-term senior debt has been notched up to reflect lower vulnerability to default. In such cases, short-term debt ratings are determined from the equivalent long-term debt rating using a Rating Correspondence Table. At crossover points, Fitch adopts the approach outlined for Short-Term Issuer Default Ratings to determine whether to assign the higher or lower option (see *Rating Definitions and Scales*).

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. in the US) or lower vulnerability to default, equivalent short-term deposit ratings are determined from the equivalent long-term deposit rating using a Rating Correspondence Table. At crossover points, Fitch adopts the approach outlined under Short-Term IDRs to determine whether to assign the higher or lower option (see *Rating Definitions and Scales*).

Market-Linked Notes

Market-linked notes (MLNs) are securities that return amounts referenced to a market risk essentially independent of the creditworthiness of the bank which acts as issuer or guarantor. 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 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 (e.g. senior debt, preferred senior debt). 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, and 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.

[15] More than one notch is possible if IDRs are in the 'B' range or lower and recovery expectations are consistent with RR2 (plus two notches) or RR1 (plus three notches).

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 or subject to approval by a trustee.

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.

Country Risks

Different forms of country risk can have a significant influence on bank ratings. The table on the following page outlines how a bank's operating environment score, the domestic sovereign rating and the Country Ceiling can influence its ratings.

The operating environment score captures the risks of doing banking business in the jurisdiction(s) where the bank operates, the sovereign rating reflects the risk of the domestic government defaulting on its obligations, and the Country Ceiling indicates Fitch's view of the likelihood of transfer and convertibility restrictions being imposed which would prevent the domestic private sector from converting local currency into foreign currency and transferring this to non-resident creditors.[16]

In text following the table, we outline in more detail our criteria for rating banks above the sovereign.

[16] See *Related Criteria* for a link to the *Country Ceiling Criteria*.

Influence of Country Risks on Bank Ratings

		Influence of:		
		Operating Environment KRD score	Sovereign rating	Country Ceiling
Influence on:	VR KRD scores	The operating environment (OE) usually has a significant influence on our assessment of other VR KRDs, and constrains, but does not cap, the KRD scores. [a] This is because the OE can affect both a bank's financial profile – the vulnerability of its asset quality and capital, the sustainability of earnings and the stability of funding –and the non-financial aspects of our assessment – the robustness of a bank's franchise and business model, and the riskiness of its exposures. This link is captured in the benchmarking matrices which use OE as an input to derive implied KRD scores. KRD scores can be above the OE score when a specific aspect of a bank's credit profile is atypical for the given market, i.e. stronger than what might be expected for a reasonably well-performing bank which has broad exposure to the OE.	Sovereign risks and broader country risks (but not transfer and convertibility risks – see right) are incorporated into the OE score and hence indirectly into other implied KRD scores. The OE score is unlikely to be above the sovereign rating unless the latter is very low ('CCC' category or below). Conversely, if the sovereign rating is significantly above the implied OE score (as derived based on GDP per capita and the ORI index), and the sovereign credit profile is likely to support macro/market stability, this can result in an upward adjustment to the OE score from its implied level. The sovereign rating can also directly (not just via the OE score) influence and constrain individual KRD scores, when we judge that certain aspects of a bank's financial profile (e.g. its solvency or its funding stability) would be unlikely to survive a sovereign default.	No influence (see below).
	VR	The OE usually has a significant influence on the VR (through the impact on KRD scores, see above) and constrains, but does not cap, the VR. For a VR to be above the OE score, the bank's overall credit profile must be stronger than what might be expected from a reasonably well-performing bank which has broad exposure to the OE. Assigning a VR above the OE score will be less common than assigning individual KRD scores above the OE. When Fitch does not think it is appropriate to assign a bank's VR above the OE score, it may use the 'Operating Environment/Sovereign Rating Constraint' adjustment to cap the assigned VR at the OE score level, below that implied by the individual KRD scores (see page 3).	Fitch rarely assigns a bank VR above the sovereign rating because of the usually high correlation between sovereign and bank credit profiles. A VR above the sovereign is possible for a bank with a very strong (in the context of the domestic market) credit profile, but usually only by one notch. When Fitch does not think it is appropriate to assign a bank's VR above the sovereign rating, it may use the 'Operating Environment/Sovereign Rating Constraint' adjustment to cap the assigned VR at the sovereign rating level (see page 3). See the section following this table for more details on our criteria for rating banks above the sovereign.	No influence, as the transfer and convertibility (T&C) risks captured in the Country Ceiling (CC) are not factored into the VR. The VR measures a bank's stand-alone creditworthiness without considering either extraordinary external support or external constraints on a bank's ability to service its liabilities (such as T&C restrictions). In very rare circumstances, a bank's VR can be above the CC, although its FC IDR will still likely be constrained at the CC level (see below).
Influence on:	IDRs	For banks whose IDRs are driven by their VR, the OE score will usually have a significant influence on the IDRs, as described above. For banks whose IDRs are driven by Support Ratings, the OE score, as an input into the VR, has no direct impact on the IDRs. However, our assessment of the operating environment, and country risks more broadly, can have an impact on our assessment of a parent's long-term commitment to a foreign subsidiary, and hence the level of the latter's SSR and IDRs.	For banks whose IDRs are driven by their VR, ratings will rarely be above the sovereign (see above). For banks whose IDRs are driven by Shareholder Support Ratings, ratings can be above the sovereign where we think that the owner's commitment to its subsidiary is likely to survive a sovereign default <u>and</u> government restrictions are unlikely to be imposed which would prevent the bank servicing its obligations. Uplift is normally limited to two notches, but could go up to three where we view parent support as being very robust. See the section following this table for more details on our criteria for rating banks above the sovereign.	The CC almost always caps bank FC IDRs. It is exceptionally rare for a bank to be assigned an FC IDR above the CC as the latter captures the risk of T&C restrictions being imposed which would prevent substantially all non-government entities domiciled in the jurisdiction from servicing their FC obligations. Exceptions are possible only when we think a bank could continue to service its obligations notwithstanding such T&C restrictions, e.g. because sizable foreign assets/earnings or a supportive foreign shareholder can be utilised to service obligations outside of the jurisdiction of domicile (and domestic foreign-currency liabilities of the bank are minimal). Where Fitch thinks the risk of intervention risk in the banking system is greater than that captured in the CC, it may cap a bank's Foreign-Currency IDRs below the CC.

[a] The influence of the operating environment on the KRD scores, and on a bank's VR, will be higher when the Operating Environment score is relatively low and a bank's idiosyncratic risks are less significant. When the Operating Environment score is high, or when a bank has significant idiosyncratic weaknesses, the Operating Environment score will be less important in determining the KRD scores and the VR.
Source: Fitch Ratings

Rating Banks Above the Sovereign

Fitch will rate a bank above the sovereign – i.e. assign a bank a Long-Term Local-Currency IDR above the sovereign Long-Term-Local-Currency IDR, or a Long-Term Foreign-Currency IDR above the sovereign Long-Term Foreign-Currency IDR – when both of two conditions hold. First, Fitch must think that the bank – due to either its intrinsic strength or external support – would probably retain the capacity to service its obligations in the relevant currency following a sovereign default in that currency. Second, we must think 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.

Bank's Capacity to Service Obligations

Intrinsic Strength: Banks' standalone credit profiles usually deteriorate significantly when the domestic sovereign defaults due to an accompanying economic downturn, banks' significant exposures to the sovereign and broader public sector, funding market dislocations, heightened market risks in case of exchange rate/interest rate volatility, and potential regulatory pressure on banks to support the sovereign or the broader economy.

For these reasons, Fitch rarely assigns VRs above sovereign ratings. For Fitch to consider assigning a VR above the sovereign, a bank exposed predominantly to the domestic market must have a very strong credit profile in the context of that market, characterised by a strong and stable funding franchise and usually also superior loss absorption capacity. Moderate sovereign exposure, limited foreign-currency exposures/external funding and private ownership of the bank would also make consideration of a VR above the sovereign more possible. For such banks, the potential uplift of the VR over the sovereign rating would usually be limited to one notch.

In addition, banks with high geographical diversification (i.e. a large proportion of risk exposures to foreign markets, in particular if on their own, rather than subsidiaries' balance sheets) and specialised banks (e.g. central securities depositories or leasing companies with banking licenses) could be assigned VRs above the sovereign, potentially by more than one notch.

External Support: To rate a bank above the sovereign based on shareholder support, Fitch must think 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 often expects a parent bank to continue supporting its subsidiary after a sovereign default due to the potentially high reputational costs of a subsidiary default, and hence in many cases we rate subsidiary banks above the sovereign. However, potential uplift will usually be limited to two notches because of some uncertainty about the owner's commitment in a sovereign default scenario, potentially going up to three notches where we view parent support as being particularly robust.

Sovereign Restrictions on Debt Service[17]

In Foreign Currency: Bank FC IDRs are almost always capped at the level of the domestic Country Ceiling (see table above), which is usually assigned at a level of zero to three notches above the FC sovereign rating. Where Fitch thinks that the risk of transfer and convertibility restrictions for banks is greater than for non-bank issuers, it may cap bank Foreign-Currency IDRs at a level below that of the Country Ceiling.

In Local Currency: In a sovereign crisis, the authorities may impose restrictions such as deposit freezes or prolonged bank closures that prevent banks servicing their local currency, as well as foreign currency, obligations. In light of these risks, Fitch usually limits the uplift of bank local-currency ratings over sovereign local-currency ratings to one to three notches, with the degree of uplift depending on the rule of law and governance in the jurisdiction, and the authorities' record of intervention in the banking system.

Fitch usually views the risk of local-currency restrictions as lower than that of foreign-currency restrictions; this potentially allows for greater uplift of banks' local-currency ratings, and Fitch less often caps local-currency bank ratings at the level of the sovereign rating. However, given the significant correlation between foreign- and local-currency intervention risks, we will not usually assign a bank's Local-Currency IDR more than one notch above its Foreign-Currency IDR.

[17] 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 Bank Ratings Above the Sovereign

	Maximum uplift from sovereign[a]	Key factors in determining uplift
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 jurisdiction/sovereign of domicile.	Overall credit profile, in particular funding franchise, loss absorption capacity and sovereign exposure.
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 to 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 to 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 low rating levels, where maximum notching can be higher or lower (see *Rating Definitions and Scales/Assigning Bank Ratings at Low Levels*).
Source: Fitch Ratings

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,[18] even if the guarantor's Long-Term Foreign-Currency 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 bank, to honour the guarantee directly, regardless of T&C or other restrictions imposed by the sovereign in the subsidiary bank's jurisdiction. However, the jurisdiction and exact provisions of the guarantee may limit the rating uplift from the guarantee for the subsidiary's ratings.

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

Rating Definitions and Scales

In the tables below, we summarise for each bank rating (i) what the rating measures; (ii) when we assign the rating; (iii) the rating scale used; and (iv) how we determine the rating. Later in this section we also provide additional clarifications on our definitions of default (for bank IDRs) and failure (for the VR), as well as explaining how we determine Short-Term IDRs. Finally, we outline aspects of assigning bank ratings at low levels.

Overview of Bank Ratings: International Issuer Ratings

	What the rating measures	When the rating is assigned	What rating scale is used	How the rating is determined
Long-Term IDR	The entity's vulnerability to default on senior financial obligations to third-party, non-government creditors. See below *(IDRs: Reference Obligations and Types of Default*) for additional clarifications on which senior obligations are reference liabilities for banks' IDRs, and how we define default.	To virtually all banks with international ratings. We assign both Long-Term Foreign- and Local-Currency IDRs where (i) there is, or could be, a material difference in default risk in foreign and local currency; or (ii) a Local-Currency IDR is needed to derive a bank's National Rating.	'AAA' scale (see Fitch's Rating Definitions).	Usually, the Long-Term IDR is assigned at a level equal to the higher of the bank's VR, GSR or SSR. In some circumstances – when debt buffers are large, or the VR is at a very low level – the Long-Term IDR may be notched up from the VR (see *Assigning IDRs Above VRs*). The Long-Term IDR may also be constrained at a level below the VR by the Country Ceiling.
Short-Term IDR	The entity's vulnerability in the short term to default on senior financial obligations to third-party, non-government creditors.	To virtually all banks with Long-Term IDRs.	Short-term rating scale (see Fitch's Rating Definitions).	The Short-Term IDR is derived from the Long-Term IDR based on a rating correspondence table (see below, *How We Determine Short-Term IDRs*).
VR	The intrinsic creditworthiness of a bank, or the likelihood that it will fail, i.e. either (i) default on senior obligations; or (ii) need extraordinary support, or to impose losses on subordinated obligations, to avoid such a default and restore its viability (see below, *Viability Ratings: Definition of Failure*).	VRs are assigned to most commercial banks and BHCs. VRs are not assigned to (i) highly integrated subsidiary banks which do not have a meaningful standalone franchise; and (ii) policy banks whose operations are largely determined by their policy roles.	'aaa' scale (see Fitch's Rating Definitions).	The VR is assigned based on analysis of seven key rating drivers (see *Viability Rating*).
GSR	The likelihood that, in case of failure, the bank will receive extraordinary support from government sources to prevent it defaulting on its senior obligations.	A GSR is assigned where Fitch views government support as more reliable than shareholder support, or where we think neither source of support can be relied upon.[a]	aaa scale, where 'aaa' represents the highest likelihood that government support will prevent default on an issuer's senior obligations consistent with an 'AAA' IDR. Where there is no reasonable assumption that such support will be available, a GSR of 'no support' is assigned (see Fitch's Rating Definitions).	The GSR is assigned based on 11 KRDs relating to the ability and propensity of the sovereign to provide support (see *Government Support Rating*).
SSR	The likelihood that, in case of failure, the bank will receive extraordinary support from its shareholder(s) or other group entities to prevent it defaulting on its senior obligations.	An SSR is assigned where Fitch views shareholder support as more reliable than government support.[a]	'aaa' scale, where 'aaa' represents the highest likelihood that shareholder support will prevent default on an issuer's senior obligations consistent with an 'AAA' IDR. Where there is no reasonable assumption that such support will be available, an SSR of 'no support' is assigned (see Fitch's Rating Definitions).	The SSR is assigned based on 10 KRDs relating to the ability and propensity of the shareholder(s) to provide support (see *Shareholder Support Rating*).
DCR	The entity's vulnerability to default on derivative contracts to third-party, non-government counterparties.	A DCR is assigned where both (i) the default risk on derivative obligatons may be lower than on other senior obligations (e.g. due to an effective resolution regime or legal preference) and (ii) an issuer is a notable derivatives counterparty, or acts as such in Fitch-rated transactions, or there is market interest otherwise.	'AAA' scale with '(dcr)' suffix.	DCRs are notched up from the Long-Term IDR if equally ranking preferred senior liabilities are nothced up to reflect a lower default risk than captured by the IDR. Otherwise, the DCR is aligned with the IDR (see *Rating Senior Obligations in Jurisdictions with Developed Resolution Regimes*).

[a] Fitch usually assigns either a GSR or an SSR to a bank. However, in rare cases where we think it is useful to indicate the likelihood of both government and shareholder support, we may assign both a GSR and an SSR. In such cases, the Long-term IDR is usually assigned at a level equal to the higher of the VR, GSR or SSR. Banks whose IDRs are assigned based on a group VR are not normally assigned SSRs (see *Banking Groups*).
Source: Fitch Ratings

Overview of Bank Ratings: Obligation Ratings and National Scale Ratings

	What the rating measures	When the rating is assigned	What rating scale is used	How the rating is determined
Long-term securities ratings	Overall level of credit risk of the securities, including an assessment of both the level of default/non-performance risk and potential recoveries in case of default/non-performance.	Can be assigned to individual obligations or debt programmes with initial maturity of more than 13 months.[a]	'AAA' scale for Corporate Finance Obligations (see Fitch's Rating Definitions).	(1) Determine the anchor rating (Long-Term IDR or VR) which most closely reflects the securities' non-performance risk; (2) notch up or down from the anchor rating where we think that non-performance risk is materially lower or higher than captured in the anchor rating; (3) notch up or down from the assessment of non-performance risk when we expect recoveries following non-performance to be above or below average (see *Obligation Ratings*).
Short-term securities ratings	Only the default risk of the securities (not potential recoveries).	Can be assigned to individual obligations or debt programmes with initial maturity of less than 13 months.[a]	Short-term rating scale.	Aligned with the Short-Term IDR, unless the equivalent long-term senior debt has been notched up to reflect lower vulnerability of default; in the latter case, the short-term debt rating is mapped from the long-term debt rating using the same approach as for mapping Short-Term IDRs from Long-Term IDRs (see below).
Long-term deposit ratings	The overall level of credit risk on the bank's riskiest material uninsured depositor class. Includes an assessment of both default risk and potential recoveries in case of default.	In jurisdictions with depositor preference and/or where Fitch thinks there is market interest in deposit ratings.	'AAA' scale.	Equalised or notched up from Long-Term IDR. Notched up when default risk on deposits is materially lower than that captured in Long-Term IDR, or recoveries on default expected to be above average.
Short-term deposit ratings	The overall level of short-term credit risk on the bank's riskiest material uninsured depositor class.	In jurisdictions with depositor preference, and/or where Fitch thinks there is market interest in deposit ratings.	Short-term rating scale.	Derived from long-term deposit rating using rating correspondence table (see below).
National scale issuer ratings	The entity's vulnerability to default on senior financial obligations to third-party, non-government creditors relative to the universe of issuers within a single jurisdiction or monetary union.	In emerging market jurisdictions where Fitch judges there to be market interest in such ratings or a regulatory requirement to assign them.	'AAA' (for long-term) and short-term rating scales, but with a country suffix to identify them as national scale ratings (see *National Scale Rating Criteria*).	Long-term national ratings are derived from the issuer's Long-Term IDR using the national rating correspondence table for the jurisdiction, which identifies a range of appropriate national scale ratings. Relativities with national peers are analysed to determine the final national scale rating. Short-term national ratings are derived from long-term national ratings using the same correspondence table as for international ratings (see below).
National scale issue ratings	Overall level of credit risk of long-term securities, relative to other issues in the jurisdiction. Default risk of short-term securities relative to other issues in the jurisdiction.	As above for national scale issuer ratings.	As above for national scale issuer ratings.	Long-term national scale issue ratings are equalised with or notched from the national issuer rating using the same approach as for issue ratings on the international scale. Short-term national scale issue ratings are usually aligned with the issuer's short-term national rating.

[a] Whether Fitch rates issues on the long-term or short-term scale will also depend on market convention and local regulation.
Source: Fitch Ratings

Issuer Default Ratings: Reference Obligations and Types of Default

Reference Obligations

Senior, Third-Party, Non-Government Obligations: A bank's (or BHC's) IDRs reflect Fitch's view on its vulnerability to default on senior financial obligations to third-party, non-government creditors. Accordingly, the IDRs do not capture the risk of non-performance on subordinated liabilities or on obligations to related parties or government creditors. Such non-performance will therefore by itself not result in IDRs being downgraded to default level, although if indicative of broader stress could result in the IDRs being lowered to the 'CCC' category or below.

Senior Non-Preferred Liabilities *are* usually[19] reference obligations for the IDRs, and default on such liabilities will therefore usually result in an issuer's IDRs being downgraded to 'RD' or 'D' (Restricted Default or Default)**.** Sometimes called 'senior subordinated' or 'senior non-preferred', these liabilities do not qualify as regulatory capital (or rank equally with regulatory capital in insolvency) but are subordinated to certain other senior operational liabilities.

Foreign Branch Liabilities: These are hardly ever treated as reference obligations for a bank's IDRs, i.e. 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'.[20] This is because bank IDRs do not capture transfer and convertibility risks in foreign jurisdictions where branches operate, nor do they reflect branch-specific resolution risks.

Different Risk Levels on Senior Liabilities: Where Fitch considers there to be significantly different levels of default risk on different categories of a bank's senior liabilities – e.g. higher on debt and lower on deposits – the IDRs will rate to the category with highest risk. If a bank defaults on a material category of third-party, private-sector senior liabilities, but remains current on other categories, its IDRs will be downgraded to 'RD'.[21]

Types of Default

In accordance with Fitch's rating definitions, we will view a bank as having defaulted, and downgrade its IDRs to either 'D' or 'RD', upon occurrence of the following events in respect to senior financial obligations to third-party, non-government creditors:

- non-payment of obligations beyond the available cure period;
- a deposit freeze for an extended period of time due to extreme stress at the bank or in the banking system;
- bail in, including the write-down of senior profit-and-loss-sharing liabilities used in Islamic finance;
- a DDE (see below); 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.

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

[19] If a 'senior' instrument has certain loss-absorbing features more usually associated with junior obligations (e.g. a going concern, 'high trigger' write-down/conversion feature) then it would be unlikely to be considered a reference obligation for the bank's IDR.
[20] The same rationale applies to DCRs and deposit ratings, i.e. these would not be downgraded to default levels if a foreign branch defaults on such obligations.
[21] The same rationale applies to DCRs and deposit ratings, which reflect the (material) class of derivatives/deposits with the highest level of risk (should the risk level differ across derivatives/deposits).

obligations, including deposits, are subjected to a DDE, an issuer's IDRs will be downgraded to default level.[22]

Fitch uses the table below to help guide its decision whether a bank's debt restructuring, exchange or tender offer meets the two conditions to be classified as a DDE.

Conditions of Distressed Debt Exchanges for Banks

DDE conditions	DDE	Not a DDE
Material reduction in terms	Reduction in principal; Reduction or deferral of interest; Maturity extension; Foreign-currency principal or interest payments changed to local currency; Exchange/partial exchange for more junior instrument or equity; Sub-par cash tender.	Investor is being fairly compensated for accepting an exchange or tender offer and would likely be at least indifferent in respect to the new terms versus the original terms.
Necessary to avoid bankruptcy, intervention or payment default	Creditor is powerless to avoid material reduction in terms because it is imposed by banking authorities or legal process in a stress situation; Creditor has no realistic option but to accept offer to avoid worse outcome than is contractually due; Insufficient foreign-currency liquidity to meet contractual foreign-currency payments; Failure to conduct exchange or tender would likely trigger a default, for example due to supervisory intervention/resolution decision or a loss of liquidity; and Necessary to comply with capital controls, even if sufficient liquidity exists to pay.	Issuer is sufficiently solvent to execute refinancing, meaning the investor has a choice: failure to take up the exchange/tender offer would be likely to have no adverse consequences; Bank has sufficient relevant currency liquidity to settle contractual payments and still comply with supervisory and legal requirements; and Exchange or tender offer is opportunistic.

Note Both DDE conditions must be met for a restructuring or exchange to be classified as a DDE.
Source: Fitch Ratings

After a bank has completed a DDE, its IDRs and debt ratings will be upgraded to levels that reflect their degree of credit risk following the restructuring.

How We Determine Short-Term IDRs

Short-Term IDRs are assigned in accordance with a correspondence table between Long- and Short-Term IDRs (see table in the margin). Below we outline how we decide which of two possible Short-Term IDRs to assign when the Long-Term IDR is between 'A+' and 'BBB'.

Banks with IDRs Driven by VRs

For banks whose IDRs are driven by their VRs, the Funding & Liquidity KRD, given its particular focus on short-term risks, is the principal determinant of whether the lower or higher of two possible Short-Term IDRs is assigned. The table below shows the minimum KRD score needed to achieve certain Short-Term IDRs.

Minimum Funding & Liquidity KRD Score to Achieve Higher Short-Term Rating

Short-term rating	Minimum Funding & Liquidity KRD score
F1+	aa-
F1	a
F2	bbb+

Source: Fitch Ratings

Rating Correspondence Table

Long-term rating	Short-term rating
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
BB+ to B-	B
CCC+ to C	C
RD	RD
D	D

Source: Fitch Ratings

[22] 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'.

Bank and BHC Short-Term IDRs: In cases when a bank and its BHC have the same Long-Term IDR, their Short-Term IDRs will also be equalised and determined based on the table above. In cases where a bank's Long-Term IDR is higher than the BHC's Long-Term IDR, the bank's Short-Term IDR will still be assigned based on the table above. However, the BHC's Short-Term IDR may be equalised with, or below, the bank's Short-Term IDR, depending on the extent to which Fitch views the BHC's liquidity profile as materially different (weaker) than that of the bank, for example, where a bank has first call on a BHC's liquid resources.

Banks with Support-Driven IDRs

When the Long-Term IDR 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.

Government Support: When the Long-Term IDR is driven by government 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 the risk of such simultaneous deterioration to be significant and/or if Fitch has identified other potential impediments to the prompt flow of funds, Fitch assigns the lower Short-Term IDR to reflect the potential for the sovereign to pay its direct obligations ahead of providing support to the financial sector.

Shareholder Support: When the Long-Term IDR is driven by shareholder support, Fitch may assign the lower Short-Term IDR when the subsidiary has "standalone" risk management short-comings, or if Fitch has identified potential impediments to the prompt flow of funds to the subsidiary from the shareholder (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 provider.

Other Considerations

Foreign- versus Local-Currency Liquidity: 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. This may cause Fitch to assign the lower Short-Term IDR when foreign-currency liquidity and market access is weak.

Country Ceiling: 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 than in the long term.

Debt Buffer Uplift: When the Long-Term IDR is assigned at a level higher than the VR due to a junior debt buffer, the higher Short-Term IDR corresponding to the Long-Term IDR can be assigned where a bank's Funding & Liquidity KRD score is at or above the minimum level required in order to achieve this (as per the table above).

Short-Term Deposit and Senior Debt Ratings: When long-term deposit and senior (preferred) debt ratings are assigned at levels above the Long-Term IDR due to debt buffers, the corresponding short-term deposit/debt rating can be assigned at the higher of the two levels corresponding to the long-term rating where a bank's Funding & Liquidity KRD score is at or above the minimum level required to achieve this (as per the table above).

National Scale Short-Term Ratings: National scale short-term ratings are derived from long-term ratings using the same correspondence table and the same principles described above for international short-term ratings. Where a bank's national long-term rating is driven by stand-alone strength, we consider its liquidity and funding in determining its national short-term rating.

Viability Ratings: Definition of Failure

VRs reflect Fitch's view on the intrinsic creditworthiness of a bank or the likelihood that it will fail, i.e. either:

- default on senior obligations to third-party, non-government creditors (apart from in case of legal restrictions; see below); or
- require extraordinary support, or need to impose losses on subordinated obligations, in order to avoid such a default and 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 assigning VRs, Fitch distinguishes between 'ordinary support', which the bank receives from shareholders or government authorities in the normal course of business and is reflected in the VR, and 'extraordinary support', which a bank requires to restore its viability and is captured in the GSR or SSR. Ordinary support includes benefits that accrue to all banks because of their status as banks, including routine access to central bank liquidity. 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. In practice, there is not always a clear distinction between extraordinary and ordinary support, so 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; and
- 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 (e.g. on buffer requirements);
- use of system-wide stabilisation support packages (e.g. 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; and
- 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 thinks 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.

Assigning Bank Ratings at Low Levels

At low rating levels – when a bank's own ratings are in the 'B' category or below, or when those of the domestic sovereign or of the bank's shareholder fall to these levels – some of the rating relationships and constraints outlined in this criteria report may no longer hold. This is mainly because at low rating levels, as an entity moves closer to default or failure, there may be more visibility on what the implications of such a default/failure would be for different classes of creditors or for other entities. The table below summarises the ways in which certain rating relationships or constraints change at low rating levels.

In addition, Fitch is more selective in assigning '+' or '–' modifiers to ratings in the 'CCC' category than at higher levels. 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). Use of '+' or '–' modifiers in the 'CCC' range is more likely for the latter than the former.

Assigning Bank Ratings at Low Levels

Rating relationship	Usual treatment	Treatment at low rating levels
Assigning bank VR above sovereign	Banks predominantly exposed to their domestic market are rarely assigned VRs above the sovereign, and potential uplift above the sovereign for very strong domestic banks is usually limited to one notch (see *Country Risks*).	As the sovereign moves towards default, it may become clearer whether this is likely to result in bank failures. Accordingly, more banks may be assigned VRs above the sovereign when the latter is rated in the 'CCC' category or below, and this uplift may be by multiple notches.
Assigning bank IDR above sovereign	Banks' Foreign-Currency IDRs are almost always capped at the Country Ceiling, which is usually assigned at zero to three notches above the sovereign Foreign-Currency IDR. Bank Local-Currency IDRs are usually constrained at a level one to three notches above the sovereign Local-Currency IDR, reflecting the risk of sovereign intervention in the banking sector (see *Country Risks*).	As the sovereign moves towards default, it may become clearer whether the authorities will impose restrictions on banks servicing their obligations. Accordingly, when the sovereign is rated in the 'CCC' category or below, banks may be rated higher relative to the sovereign than usual. Conversely, where the risk of such restrictions becomes high, banks previously rated above the sovereign may be downgraded to the sovereign level.[a]
Assigning bank IDR above VR	A bank's Long-Term IDR may be assigned above its VR if there is a large buffer of junior debt that could protect senior obligations from default in case of failure. Potential uplift is usually limited to one notch (see *Assigning IDRs Above VRs*).	As a bank moves towards failure, it may become clearer whether this will result in a default on senior obligations. Accordingly, when a bank's VR is in the 'b' category or below, the uplift of the Long-Term IDR above the VR can be by more than one notch.
Assigning subsidiary bank VR above parent IDR	A subsidiary bank's VR can be assigned above the parent IDR where integration with, and contagion risk from, the parent are viewed as limited. Such uplift is usually by a maximum of three notches (see *Banking Groups*).	As a parent bank moves towards default, it may become clearer whether a parent default will result in the failure of the subsidiary. Accordingly, when a bank's VR is in the 'b' category or below, it is more possible for the uplift of the subsidiary above the parent to be more than three notches.
Assigning bank GSR above sovereign IDR	A bank's GSR is usually capped at the level of the sovereign IDR, as government support for a bank cannot usually be relied upon when the sovereign is in default (see *Government Support Rating*).	As a sovereign moves towards default, it may in rare circumstances continue to support certain banks, prioritising this above the servicing of its own debt. Accordingly, when the sovereign IDR is in the 'CCC' category or below, it is possible that a bank's GSR may be assigned above this, based on selective government support.
Notching of subsidiary SSR off parent IDR	A subsidiary bank's SSR may be equalised with, or notched off, the parent's IDR, based on our assessment of the owner's ability and propensity to support (see *Shareholder Support Rating*).	As a parent bank moves towards default, it may become clearer whether support for the subsidiary will continue to the moment of a parent default. For this reason, and due to rating compression, when the parent's IDR is in the 'B' category or below, we may narrow the notching of the SSR.
Notching of bank debt ratings off anchor ratings	A bank's senior and subordinated debt ratings can be notched off its Long-Term IDR or VR due to either incremental non-performance risk or potential loss severity (see *Obligation Ratings*).	As a bank moves towards failure it may become clearer which obligations it will default on and what loss severity may be. Accordingly, when the anchor VR or Long-Term IDR is in the 'b'/'B' category or below, debt ratings may be raised or lowered relative to these.

[a] Country Ceilings can be assigned more than three notches above the sovereign rating when the sovereign is lowly rated.
Source: Fitch Ratings

Related Criteria

In some situations, banks may be rated under both the *Bank Rating Criteria* and the Non-Bank Financial Institutions Rating Criteria (February 2020), as disclosed in relevant rating action commentaries.

In addition, the following cross-sector criteria reports will be applied to the ratings of banks, where appropriate.

Country Ceilings Criteria	July 2020
National Scale Rating Criteria	December 2020
Sukuk Rating Criteria	February 2021
Third-Party Partial Credit Support Rating Criteria	June 2021

Changes to Criteria

The main substantive changes to Fitch's *Bank Rating Criteria* are outlined in the table below.

Key Changes to Criteria

Implied VR Based on KRD Scores: We introduce a fixed weighting scheme to derive implied VRs from a bank's scores for each Key Rating Driver. Committees will be able to adjust the implied VR to arrive at the final VR in certain, defined circumstances (see *Relevance and Weighting of Key Rating Drivers / Viability Rating*).
Support Framework: We introduce an SSR, assigned on the 'aaa' scale, which would provide our view on support only from a bank's owners (our Support Ratings on the 1-5 scale could reflect either shareholder or sovereign support). We also replace our Support Rating Floors with GSRs (also to be assigned on the 'aaa' scale) to make it clearer that these reflect our view only on potential sovereign support. We will assign both SSRs and GSRs on the 'aaa' scale to make clearer how they can map to a bank's Long-Term IDR. We will also withdraw our existing Support Ratings (assigned on the 1-5 scale) as these would become redundant (see *Relevance and Weighting of Key Rating Drivers / Government Support Rating* and *Shareholder Support Rating*).
Operating Environment: We change the way we derive an implied Operating Environment score for a given jurisdiction by using Fitch Solutions' Operational Risk Index (ORI) score instead of the World Bank Ease of Doing Business (EODB) rankings. The ORI score is combined with GDP per capita (as the EODB rankings were) to derive the implied Operating Environment score. The implied score can still be adjusted for the same reasons as before to arrive at the final Operating Environment score for a jurisdiction and an individual bank (see *Viability Rating/Operating Environment*).
Business Profile: We have changed the name of this factor from Company Profile previously as we believe the new name better reflects what we analyse in this part of our assessment. We have also changed how we analyse a bank's Business Profile in three ways. Firstly, we introduce a quantitative benchmarking matrix, based on a bank's Operating Environment score and its total operating income, to derive an implied Business Profile score. This implied score can be adjusted to arrive at the final score. Secondly, we merge the Business Profile and Management & Strategy assessments, with factors that were previously part of our Management & Strategy analysis now becoming some of the possible adjustments to the implied Business Profile score. Thirdly, we no longer determine separate sub-scores for component parts of the Business Profile (and Management & Strategy) assessment as we believe this aspect of a bank's credit profile can best be assessed holistically rather than by breaking it down into discrete components (see *Viability Rating/Business Profile*).
Risk Profile: We rename the Risk Appetite KRD as Risk Profile as this more closely reflects what we analyse in this part of criteria. As with Business Profile, we no longer determine separate sub-scores for component parts of the Risk Profile assessment, as we believe this aspect of a bank's credit profile can best be assessed holistically rather than by breaking it down into discrete components (see *Viability Rating/Risk Profile*).
Acquisition Vehicle Holding Companies: Under our *Bank Rating Criteria*, we longer rate bank holding companies (BHCs) whose credit risk is not closely linked with that of the bank(s) they own. This includes for example unregulated BHCs set up by private equity sponsors to issue debt to finance or refinance an investment in a bank or to extract a dividend from a bank investment ahead of an ultimate exit (see *Banking Groups / Bank Holding Companies*).
Source: Fitch Ratings

Information We Use to Analyse Banks

Analysts must base their research and rating analysis on a thorough analysis of all information known and considered by them to be relevant to the analysis and the rating decision. This includes publicly available information, information provided directly by or during their interaction with the issuer, information provided by third parties and 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. No rating shall be assigned or maintained where there is insufficient information to assign or maintain a rating.

Publicly Available Information

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.

Non-Public Information

Public disclosure is often supplemented by additional information provided directly by an issuer's management team. 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, for example, on specific risk exposures. 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 would typically include a description of the institution's core products, client base, geographical markets, risk management framework, group structure, ownership and strategy.

Frequency of Reporting

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 be 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.

Reasonable Verification

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 place it on Rating Watch at this point); or
- Fitch may also conclude that no action is necessary.

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

Rating Assumption Sensitivity

Fitch's opinions are forward-looking and include Fitch's views of likely 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 KRDs for specific credits, that can influence the ratings.

Operating Environment Risk: Deterioration in an issuer's operating environment due to weakening of the 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 a cyber-attack – or internally triggered, such as a change in policy on capitalisation, a major acquisition, fraud or other material operational/regulatory/ litigation risk event, or a management or strategic restructuring. As most banks tend to be funded shorter than they lend, 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 bank'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.

Criteria Disclosures and Considerations

Limitations Associated with Assigned Ratings

Ratings, including Rating Watches and Outlooks, assigned by Fitch are subject to the limitations specified in Fitch's Ratings Definitions.

They are available at https://www.fitchratings.com/site/definitions.

Bank ratings are limited in respect of unforeseen events, which are excluded from ratings until they become explicit or defined. Event risks can be externally triggered – such as a change in law, a natural disaster, a political shock, an ownership change or a cyber-attack – or internally triggered, such as a change in policy on capitalisation, a major acquisition, fraud or other material operational/regulatory/litigation risk event, or a management or strategic restructuring.

Information Used to Derive Criteria

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.

Criteria Variations

Fitch's criteria are designed to be used in conjunction with experienced analytical judgement 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 rating committee where the risk, feature, or other factors 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.

Annex 1: Financial Metrics

The 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 (and in some cases asset-quality) 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 these statements.

Core and Complementary Financial Metrics

Core metric or complementary	Metric (%)	Definition and comments
Asset quality		
Core	Impaired loans/ gross loans	Impaired loans are those classified as Stage 3 under IFRS 9, where these are disclosed. Where Stage 3 loans are not disclosed, Fitch uses the most common reference point in the given jurisdiction; typically, this will include loans 90 days past due and those not yet 90 days past due but identified as having incurred some degree of impairment so that the bank has doubts it will receive full repayment. Gross loans are loans gross of loan loss allowances/reserves, excluding loans to banks and repos. (This definition of gross loans also applies to certain complemetary ratios, see below.)
Complementary	Growth of gross loans	Gross loans at the end of the accounting period less gross loans at the beginning of the period as a percentage of gross loans at the beginning of a period.
Complementary	Loan loss allowances/ impaired loans	Loan loss allowances include all allowances (also called reserves or provisions) against loans on the balance sheet, including allowances not specifically related to impaired loans.
Complementary	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). The denominator is an average number.[a]
Earnings and profitability		
Core	Operating profit/RWAs	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	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 latter does not include interest or coupons paid on preference shares or hybrid capital reported in equity, but where material Fitch often deducts this as an interest expense in additional metrics. 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.[a]
Complementary	Non-interest expense/gross revenue	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 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	Loans and securities impairment charges/pre-impairment 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	Operating profit/average total assets	This metric is similar to the core earnings and profitability metric. The numerator is the same, but the denominator is average total assets.

Core and Complementary Financial Metrics (Cont.)

Core metric or complementary	Metric (%)	Definition and comments
Complementary	Net income/average 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.[a]
Capitalisation and Leverage		
Core	CET1 regulatory capital ratio	This regulatory ratio is reported by the bank. The numerator is common equity Tier 1 (CET1) capital and the denominator is RWAs.[b]
Alternative core	FCC/FCC-adjusted RWAs	The numerator, Fitch Core Capital (FCC), is defined in the table below. The denominator uses 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.
Complementary	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 additional Tier 1 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	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.
Complementary	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. Impaired loans and loan loss allowances are defined in the same way as for 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	Gross 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	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	Customer deposits/total non-equity funding	The numerator is the same as the denominator in the core metric for funding and liquidity. The denominator is all non-equity 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 (the latter whether reported as 'equity' in accounts or not). 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.

[a] Where the bank reports an average metric (for gross loans, assets, earning assets or equity), this is taken as the denominator in the relevant ratio. Otherwise, the denominator is an average calculated by Fitch 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 average also takes into account interim data during the reporting period.
[b] 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, where available.
Source: Fitch Ratings

Fitch Core Capital

Where we use FCC to derive an alternative core metric for Capitalisation & Leverage, this is calculated based on the table below.

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.

Where equity interests in insurance companies or securitisations are deducted from FCC, the equivalent RWAs are deducted from the denominator to derive 'FCC-adjusted RWAs'. Where the equivalent insurance or securitisation assets are not disclosed, Fitch may instead deduct an estimate of these.

Calculation of 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

Annex 2: Typical Characteristics of VR KRDs

Typical Characteristics of VR KRDs[a]

	aaa	aa	a	bbb	bb	b	ccc and below
Operating Environment	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 less easily managed.	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 more prominent.	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 significant.
Business Profile	Dominant franchise in multiple sectors / geographies, offering very strong competitive advantages and pricing power. Highly diverse and stable business model weighted towards commercial banking with minimum reliance on volatile businesses. Clear, highly consistent and sustainable long-term strategy supported by exceptionally strong management and governance.	Leading franchise in multiple sectors / geographies, offering solid competitive advantages and pricing power. Very diverse and stable business model weighted towards commercial banking with modest reliance on volatile businesses. Clear, very consistent and sustainable long-term strategy supported by very strong management and governance.	Strong franchise in key sectors / regions, offering some competitive advantages and pricing power. Diverse and stable business model weighted towards commercial banking but with some reliance on volatile businesses. Clear medium-term strategy, which may shift modestly over time. Strong management and governance.	Adequate franchise, offering occasional competitive advantages and pricing power, or operating in somewhat less developed markets. Less diverse and stable business model weighted towards commercial banking but with greater reliance on volatile businesses. Clear medium-term strategy, which may shift over time. Good management and governance.	Moderate franchise, offering limited competitive advantages, or operating mostly in speculative quality markets. Less diverse and stable business model, possibly weighted towards non-traditional banking activities with significant reliance on volatile businesses. Short-term, potentially opportunistic strategy. Reasonable management and governance.	Nominal franchise, offering negligible competitive advantages, or operating mostly in highly speculative quality markets. Limited business model stability, may be wholly reliant on volatile businesses or economies. Strategic objectives not articulated or shift frequently. Noticeable weaknesses in management and governance.	No discernible franchise, value or competitive advantage, or operating in undeveloped or very high risk markets. Business model rapidly evolving or influenced by unstable economy. Strategic objectives are lacking or highly variable due to economic instability. Management and governance deficiencies may be significant.

Typical Characteristics of VR KRDs[a] (Cont.)

	aaa	aa	a	bbb	bb	b	ccc and below
Risk Profile	Highly risk-averse underwriting standards with minimal changes over economic cycles. Growth is very unlikely to pressure solvency or be unsustainable. Risk controls are extremely robust and permeate the organisation. Risk limits are highly conservative and exhibit minimal changes over time. Exposure to market and non-financial risks is very low.	Very risk-averse underwriting standards with nominal changes over economic cycles. Growth is unlikely to pressure solvency or be unsustainable. Risk controls are very robust and permeate the organisation. Risk limits are very conservative and exhibit nominal changes over time. Exposure to market and non-financial risks is low.	Low risk underwriting standards that may vary moderately over economic cycles. Growth only at times likely to pressure solvency and/or exceed long-term sustainable rates. Risk controls are robust and centralised. Risk limits are conservative, but may change based on business conditions. Exposure to market and non-financial risks is modest.	Underwriting standards give rise to some significant risks and vary over economic cycles. Growth could more often pressure solvency and/or exceedlong-term sustainable rates. Risk controls are less pervasive across the organisation. Risk limits are sound, but may change based on opportunities. Exposure to market and non-financial risks is moderate.	Underwriting standards reflect above-average risk appetite and change noticeably over economic cycles. Growth quite often likely to pressure solvency and/or exceeds long-term sustainable rates. Risk limits are monitored less frequently and may fluctuate based on opportunities. Greater exposure to market and non-financial risks.	Underwriting standards reflect heightened risk appetite and change considerably over economic cycles. Growth typically pressures solvency and/or exceeds long-term sustainable rates. Risk limits may not be monitored frequently and breaches may be tolerated by management. Exposure to market and non-financial risks is high.	Underwriting standards lead to high-risk exposures and may fluctuate frequently. Growth may be well in excess of sustainable rates. There are significant risk control deficiencies. Exposure to market and non-financial risks is very high.
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 much better than comparable institutions. Concentration risks are very low or very effectively mitigated.	Has a very high degree of stability, as reflected in low levels of impaired assets and/or low losses over multiple economic and/or interest rate cycles. Asset-quality measures are much better than comparable institutions. Concentration risks are low or effectively mitigated.	Has a high degree of stability as 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 better than at peer institutions or less vulnerable to economic and/or interest rate cycles. Concentration risks are 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 peers.	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 peers and could threaten the bank's solvency.

Typical Characteristics of VR KRDs[a] (Cont.)

	aaa	aa	a	bbb	bb	b	ccc and below
Earnings & Profitability	Earnings and profitability are highly stable throughout economic and/or interest rate cycles. Profitability measures are consistently commensurate with risk-averse nature.	Earnings and profitability are very stable over multiple economic and interest rate cycles. Profitability measures are commensurate with very low risk, but may vary modestly, although they remain 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 at peer institutions.	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 generally in line with peer institutions.	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 frequent variability. Profitability is below peer institutions.	Earnings and profitability are volatile and highly correlated with economic and/or interest rate cycles. Profitability measures often do not fully compensate inherent risk and are variable. Profitability is well below peer institutions.	May be structurally unprofitable on either a reported or operating basis. Return to break-even or sustainable profitability is highly uncertain.
Capitalisation & 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 very strong and commensurate with risk. Capitalisation and leverage are maintained with considerable buffers over regulatory minimums as well as peer institutions. Capital targets incorporate ability to withstand significant shocks. Access to capital is very strong.	Capitalisation is strong and 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 strong.	Capital is adequate but may not always 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 is generally good but may be less certain at times.	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 thin, 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.

Typical Characteristics of VR KRDs[a] (Cont.)

	aaa	aa	a	bbb	bb	b	ccc and below
Funding & 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 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 typically 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.

[a] In assessing each KRD, we consider which description, in aggregate, most closely reflects our assessment of the given KRD for the bank in question.
Source: Fitch Ratings

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