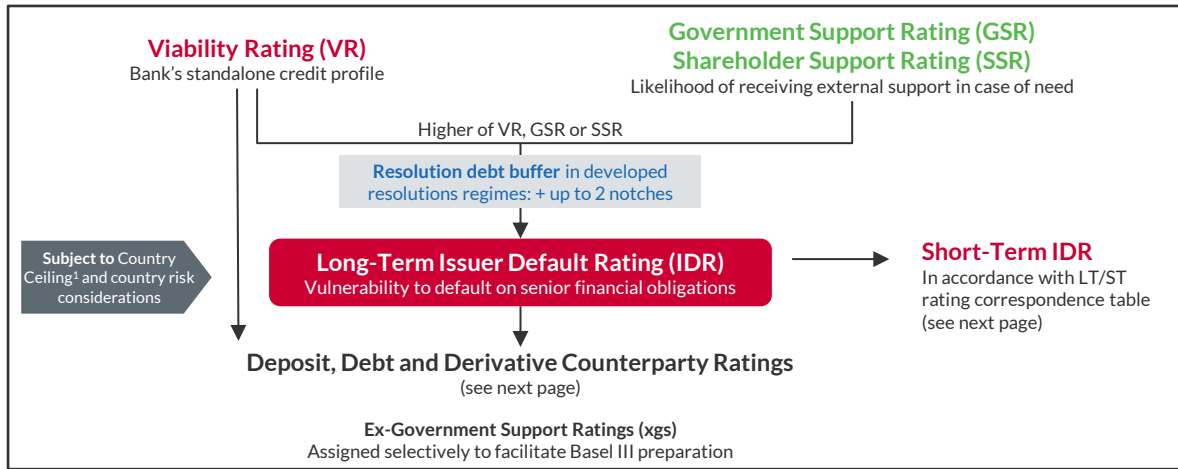




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Criteria Essentials – Bank Ratings (1/2)



Government and Shareholder Support Ratings

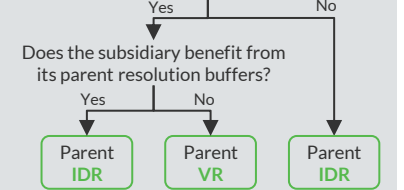
Usually either GSR or SSR assigned; 'aaa' scale, including 'no support'

- Government ability to support
- Government propensity to support
- And for policy banks, role and status

Government Support Rating (GSR)

Typically assigned at 'no support' for commercial banks in developed markets with resolution framework

Is the parent in developed resolution regimes?



Shareholder ability and propensity to support

Shareholder Support Rating (SSR)

Operating Environment (OE)

- Ability of banks to generate business with acceptable risk levels
- Implied OE score ('aaa' scale): GDP per capita and Fitch Solutions' Operational Risk Index

6 Key Rating Drivers (KRDs)

- KRD scores on 'aaa' scale from 2-factor matrices, except risk profile Metric 1: OE score; metric 2: see table
- Complementary metrics and analytical judgment inform qualitative adjustments

KRD	Metric 2	Weight
Business profile	Total operating income	20%
Risk profile	Qualitative attributes	10%
Asset quality	Impaired loans/gross loans	20%
Earnings & profitability	Operating profit/risk-weighted assets	15%
Capitalisation & leverage	Core capital ratio	25%
Funding & liquidity	Loans/customer deposits ²	10%

Implied Viability Rating

Viability Rating (VR)

Matrices for Viability Rating's Financial Key Rating Drivers

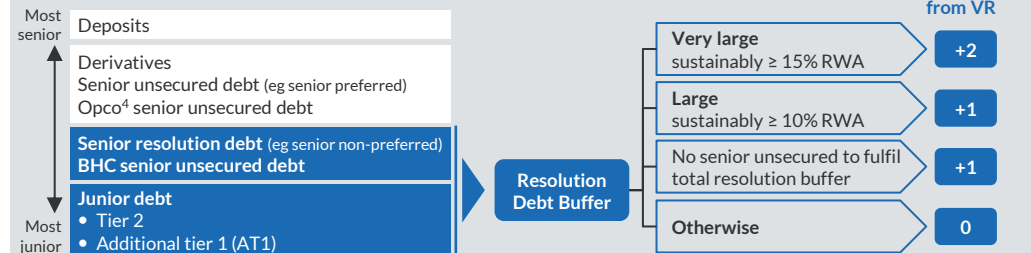
Operating environment	Asset Quality					Earnings & Profitability					Capitalisation & Leverage					Funding & Liquidity				
	Impaired loans/gross loans (%; 4-year average)					Operating profit/risk-weighted assets (%; 4-year average)					Core capital ratio (%; latest)					Loans/customer deposits ² (%; 4-year average)				
aa	≤1	≤3	≤6	≤14	>14	≥3.75	≥1.5	≥0.5	≥-0.25	<-0.25	≥16	≥10	≥8	≥6	<6	≤75	≤125	≤190	≤250	>250
a	≤0.25	≤2	≤5	≤12	>12	≥4	≥2	≥0.75	≥0	<0	≥19	≥14	≥9	≥7	<7	≤60	≤90	≤150	≤200	>200
bbb	≤0.5		≤4	≤10	>10	≥4.25		≥1.5	≥0.25	<0.25	≥20		≥13	≥9	<9	≤55		≤125	≤170	>170
bb	≤0.75			≤5	>5	≥4.75			≥1.25	<1.25	≥21			≥10	<10	≤50			≤140	>140
b & below	≤1				>1	≥5				<5	≥22				<22	≤45				>45
Implied KRD score	aa	a	bbb	bb	b & below	aa	a	bbb	bb	b & below	aa	a	bbb	bb	b & below	aa	a	bbb	bb	b & below

Banking Groups

- Core banks:** VR based on consolidated group credit profile
- Non-core banks:** VR based on standalone credit profile
- Bank holding companies (BHC):** VR equalised with or notch down from group VR
Key factors: double leverage; liquidity management

Assigning IDR above VR³ on Resolution Debt Buffer

In effective developed resolution regimes and subject to country risk considerations



¹ Fitch's view of the likelihood of transfer and convertibility restrictions being imposed to a country's domestic private sector. ² Or loans/customer deposits + covered bonds. ³ Anchor is typically the VR in effective developed resolution regimes; GSR/SSR can apply. ⁴ Operating company
 This document is a summary of, and complementary material to, our current Bank Rating Criteria report available on Fitch Ratings' public website. It does not replace our criteria and should be used in conjunction with it.



Criteria Essentials – Bank Ratings (2/2)

Senior Unsecured Long-Term Debt, Deposits and Derivative Counterparties

1 **Baseline approach:** equalised with LT IDR **3** **If issuing entity rated B+ or below:** May be notched from IDR due to greater visibility on selective default or potential recovery

2 **If developed resolution regime,** typical obligation notching from VR:

	More protection for senior creditors			Less protection for senior creditors	
	Resolution debt buffer ≥15% RWA	Resolution debt buffer ≥10% RWA	Resolution debt buffer <10% and no senior debt to fulfil regulatory resolution buffer requirement ¹	Resolution debt buffer <10% RWA	No regulatory resolution buffer requirement
Deposits with depositor preference	+2	+2	+2	+2	+1 +2 in jurisdictions with higher recoveries
Deposits no depositor preference	+2	+2	+2	+1	0
Derivative counterparty	+2	+1	+1	0	0
Senior unsecured debt (eg senior preferred) / Opco² senior debt	+2	+1	+1	0	0 +1 if AT1+T2 > 10% of RWA
Senior resolution debt (eg senior non-preferred) / BHC senior debt	0	0	-1	-1	-1

Senior resolution / BHC senior debt: additional considerations that may lead to equalisation with VR:

- Debt class not structurally or contractually subordinated to other non-deposits senior liabilities
- Tier 2 only notched down once
- BHC VR notched down from group VR
- Highly diversified/material subsidiaries

Senior Unsecured Short-Term Debt and Deposit (initial maturity ≤13 months)

Correspondence table between Long- and Short-Term Ratings

Long-Term Rating	AAA to AA-	A+	A	A-	BBB+	BBB	BBB-	BB+ to B-	CCC+ to C
Short-Term Rating	F1+	F1	F1	F2	F2	F3	F3	B	C
Lower option									
Higher option		F1+	F1+	F1	F1	F2			
Min funding & liquidity score for higher ST option	aa-	aa-	a	a	bbb+				

- 1** **If equivalent LT obligation rating notched up from LT IDR**
- Derived from equivalent LT obligation rating
 - Funding & liquidity is primary determinant for higher ST rating option
- 2** **Otherwise,** equalised with short-term IDR

Subordinated and Hybrid Debt

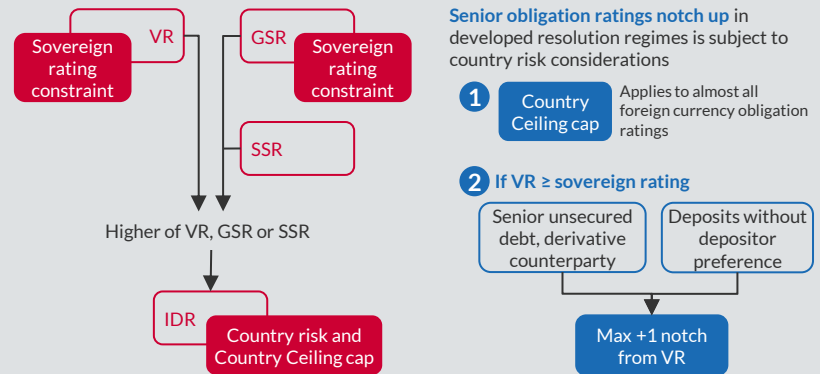
- 1** **Usually notched down from VR** since extraordinary support not captured in VR (but captured in IDR) less likely to extend to subordinated debt
- 2** **May be notched down from IDR** if external support likely to be extended to subordinated debt

Typical notching from VR (or IDR)

	Example instrument	Risk of non-performance	Loss severity	Total notching
Subordinated debt, no coupon flexibility	Basel III Tier 2	0	-2	-2
Deep subordinated debt, significant incremental coupon risk	Basel III Additional Tier 1	-2	-2	-4

Different notching applies to legacy instruments

Country Risk Considerations



Senior obligation ratings notch up in developed resolution regimes is subject to country risk considerations

1 **Country Ceiling cap** Applies to almost all foreign currency obligation ratings

2 **If VR ≥ sovereign rating**

Senior unsecured debt, derivative counterparty

Deposits without depositor preference

Max +1 notch from VR

Subsidiaries Debt Ratings in Developed Resolution Regimes

- Debt anchored on higher of subsidiary VR and SSR
- When the subsidiary benefits from its parent resolution buffers:
 - **Senior unsecured debt and derivative counterparty ratings** generally equalised with debt anchor rating
 - **Deposits** may be notched up from debt anchor rating if depositor preference

¹ Not applicable to bank holding company (BHC) structures. ² Operating company in BHC structure