

Criteria Essentials - Bank Rating Framework

Operating Environment (OE) Score

- Ability of banks to generate business while taking on acceptable levels of risk
- Jurisdiction implied OE score ('aaa' scale): GDP per capita and Fitch Solutions' Operational Risk Index



6 Key Rating Drivers (KRDs)

- Implied KRD scores on 'aaa' scale from 2-factor matrices, except for Risk Profile which is assessed qualitatively.
- Factor 1: OE score; factor 2 as follows

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 ^a	10%

^a Or loans/customer deposits + covered bonds

Implied Viability Rating

- Complementary metrics and analytical judgment inform qualitative adjustments



Viability Rating (VR)



Bank Holding Companies (BHC)

- VR equalised with or notch down from the group's VR (or VR of the main bank subsidiary)
- Key factors: double leverage, liquidity management

Viability Rating (VR)

Bank's standalone credit profile

Government Support Rating (GSR)

Shareholder Support Rating (SSR)

Likelihood of receiving external support in case of need
Usually either GSR or SSR assigned

Higher of VR, GSR or SSR

Capped by Country Ceiling*

Long-Term Issuer Default Rating (IDR)

Vulnerability to default on senior financial obligations to 3rd-party non-government creditors

Short-Term IDR

Assigned according to LT/ST Rating correspondence table (see next page)

Informed by Funding & Liquidity if VR-driven LT IDR

Typically higher option if support-driven LT IDR

Obligation and Derivative Counterparty Ratings (see next page)

Guaranteed and senior secured debt
Deposit / Derivative Counterparty Rating
Senior unsecured debt
Subordinated and hybrid debt

Ex-Government Support Ratings (xgs)

Assigned selectively to facilitate Basel III preparation

*The Country Ceiling indicates Fitch's view of the likelihood of transfer and convertibility restrictions being imposed to a country's domestic private sector.

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[fitchratings.com/criteria/banks](https://www.fitchratings.com/criteria/banks) to view detailed bank rating criteria



- Government ability and propensity to provide support
- Separate key rating drivers for commercial vs policy banks



Bank Government Support Rating (GSR)

Shareholder Support Rating (SSR)

Assigned to non-core banks in banking groups



Key Rating Drivers (KRDs)

- Ability to support: shareholder regulation, relative size, country risks
- Propensity to support: role in group, reputational risk, integration, support record, subsidiary performance and prospects, legal commitments



Parent's Long-Term IDR (or VR in some instances)

Matrices for Viability Rating's Financial Key Rating Drivers

Asset Quality						Earnings & Profitability					Capitalisation & Leverage					Funding & Liquidity				
Operating environment	Impaired loans/gross loans (%; 4-year average)					Operating profit/risk-weighted assets (%; 4-year average)					Core capital ratio (%; latest)					Loans/customer deposits ^a (%; 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

Criteria Essentials - Bank Obligations and Derivative Counterparty Ratings

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 bank rating criteria



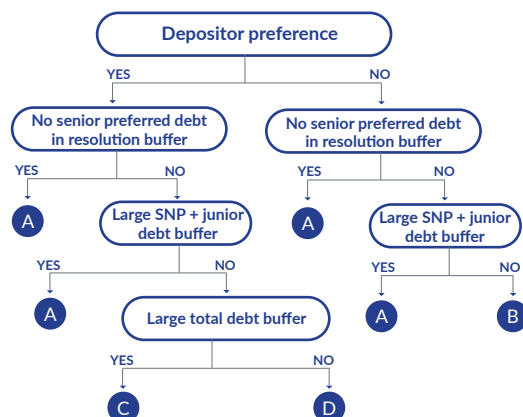
Senior Unsecured Long-Term Debt, Deposits and Derivative Counterparties

- Baseline** approach: Equalised with LT IDR
- If **developed resolution regime**: May be notched from IDR (bank-only structure) or VR (BHC structure) as detailed below
- If **issuing entity rated B+ or below**: May be notched from IDR due to greater visibility on selective default or potential recovery

Bank-only Structure

In jurisdictions with developed resolution regime, a class of senior unsecured debt, referred to as **senior non-preferred (SNP)**, has the role to absorb losses ahead of other senior liabilities when a bank fails.

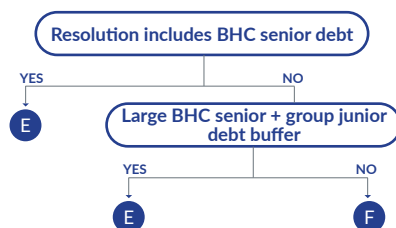
Senior preferred (SP) unsecured debt ranks ahead of and is protected by SNP and more junior debt.



Typical notching relative to Long-Term IDR

	A	B	C	D
Deposits	+1	0	+1	0
Derivative Counterparty	+1	0	0	0
Senior preferred debt	+1	0	0	-1
Senior non-preferred debt	0	-1	-1	-1

Operating Bank/Bank Holding Company (BHC) Structure



Typical Notching relative to bank VR

	E	F
Bank deposits	+2 if depositor preference +1 otherwise	+1 if depositor preference 0 otherwise
Bank Derivative Counterparty	+1	0
Bank senior	+1	0
BHC senior	0	-1

Derivative Counterparty Rating: Measures the bank's vulnerability to default on derivative contracts with 3rd-party non-government counterparties.

Deposit Rating: Measures the overall level of credit risk on the bank's riskiest material uninsured depositor class. It includes an assessment of both default risk and potential recovery.

Securities Rating: Measures the overall level of credit risk of the securities, including an assessment of the likelihood of default/non-performance and, only for long-term ratings, of potential recoveries

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
Lower option	F1+	F1	F1	F2	F2	F3	F3	B	C
Higher option		F1+	F1+	F1	F1	F2			

Funding & Liquidity

- If **equivalent LT obligation rating notched up from LT IDR**
 Derived from equivalent LT obligation rating and applying the LT/ST Rating correspondence table
 - Otherwise**
 Equalised with Short-Term IDR
- The bank Funding & Liquidity score is the primary determinant to assigning the higher of the two ST rating options.

Subordinated and Hybrid Debt

- Usually notched down from VR since extraordinary support not captured in VR (but captured in IDR) is less likely to extend to non-senior obligations.
- May be notched down from IDR if external support is likely to be extended to subordinated obligations

Typical notching relative to 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.