FitchRatings

Non-Bank Financial Institutions Rating Criteria

Master

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This criteria report updates and replaces the Exposure Draft: Non-Bank Financial Institutions Rating Criteria, dated 17 February 2023, and the Non-Bank Financial Institutions Rating Criteria, dated 31 January 2022.

Related Criteria

Bank Rating Criteria (September 2022)

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Scope

This criteria report outlines Fitch Ratings' methodology for rating non-bank financial institution issuers and their financial obligations – including securities firms, investment managers (including investment companies and investment funds), business development companies (BDCs), finance and leasing companies (including mortgage real estate investment trusts [REITs] and non-bank policy institutions) and financial market infrastructure (FMI) companies. The criteria would apply globally to new and existing ratings, sometimes in conjunction with other criteria (see *Related Criteria*).

This criteria does not apply to banks (except for limited cases), or to insurance companies or equity REITs. More information on types of entities that may be out of scope can be found in the section *Additional Criteria Applicability Considerations and Limitations*.

Key Rating Drivers

Standalone Assessment: In assessing a non-bank financial institution's Standalone Credit Profile (SCP), Fitch first assesses the sector risk operating environment (SROE), which incorporates both jurisdiction and sector risk considerations. This then informs the assessments of seven key rating drivers (KRDs): business profile; management and strategy; risk profile; and four financial profile KRDs. Fitch applies fixed weightings to the scores for these KRDs to derive an implied SCP, which can then be adjusted up or down to get the final SCP, based on analytical judgement.

Balance Sheet Distinction: Within non-bank financial institution sub-sectors, Fitch makes distinctions in its analysis and assigned KRD weights between business models with high balance-sheet usage versus business models with low balance-sheet usage. Profitability metrics for balance-sheet-intensive businesses are focused on asset and equity yields, while leverage ratios focus on capitalisation measures. For asset-light businesses, operating margins are a common indicator of profitability, while cash-flow ratios are used to assess leverage.

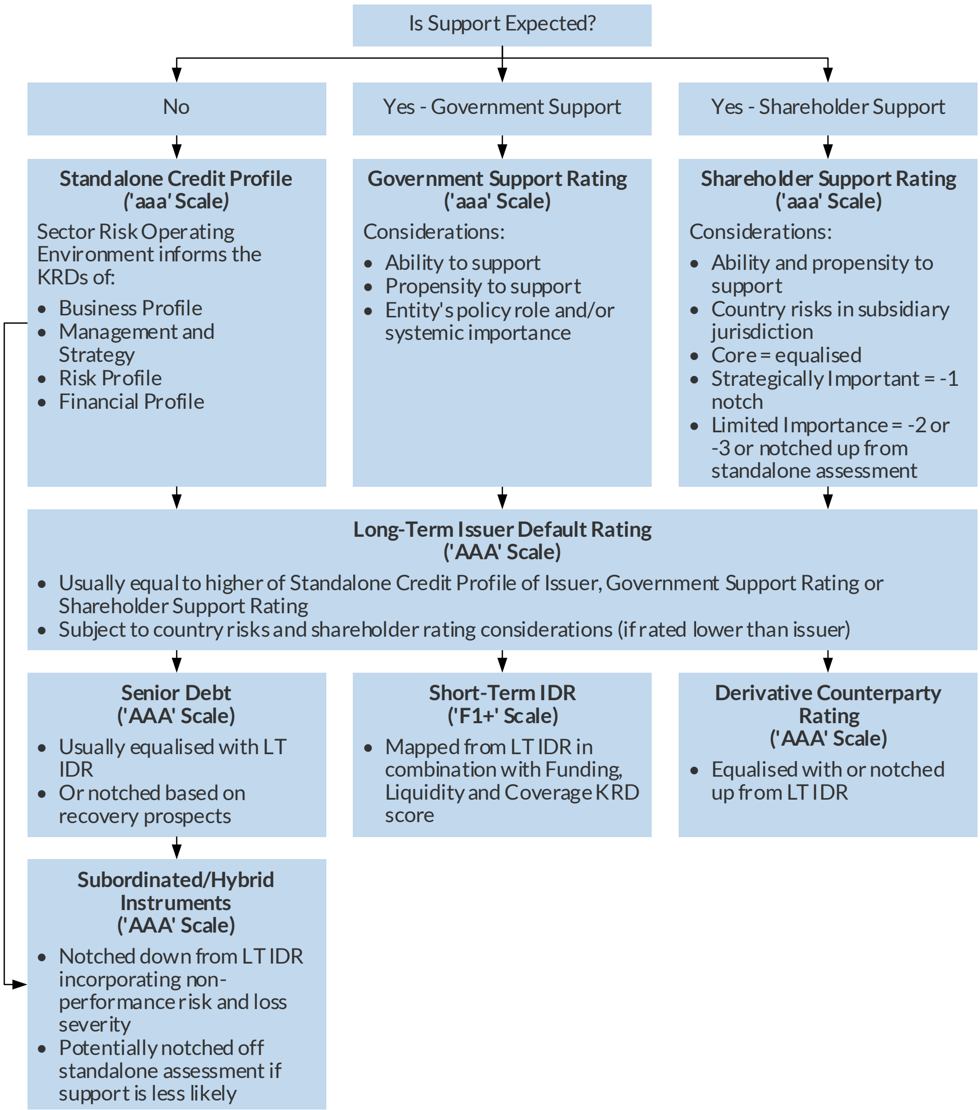
Support Factors: In assessing potential support from a shareholder/parent or sovereign entity, Fitch considers both the ability and propensity of the supporter to provide extraordinary support on a timely basis. Depending on the strength of perceived support, Issuer Default Ratings (IDRs) can be equalised with the support provider's rating, notched downwards from the support provider's rating or notched upwards from the entity's SCP. Where government support is a relevant analytical consideration, support is more often based on the non-bank financial institution's policy role than on its systemic importance.

Default Risks, Recovery Prospects: Issue ratings of non-bank financial institutions, in common with other corporate finance sectors, reflect Fitch's view of the overall level of credit risk attached to specific financial commitments, usually securities. This view incorporates an assessment of both the likelihood of default (or "non-performance" risk) on the specific obligation and of potential recoveries for creditors in case of default/non-performance.

Senior Debt Aligned with IDR: Ratings of a non-bank financial institution's senior unsecured obligations are usually equalised with its Long-Term IDR, although they can be notched down if there is effective subordination or high balance-sheet encumbrance. Other instruments may be notched up or down from the IDR, depending on recovery prospects and payment priority.

How Our Analysis Is Organised

Non-Bank Financial Institutions Ratings Framework (Simplified)



LT IDR - Long-Term Issuer Default Rating; ST IDR - Short-Term Issuer Default Rating
Source: Fitch Ratings

How This Criteria Report Is Structured

The *Relevance and Weighting of Key Rating Drivers section* introduces the KRDs for assessing a non-bank financial institutions' standalone creditworthiness, as reflected in the SCP (or, where assigned, the Viability Rating [VR]), and explains how the KRDs are weighted to derive implied ratings. This is followed by the KRDs for assessing Shareholder and Government Support Ratings. The three sections – *Standalone Assessment*, *Support Assessment*, and *Non-Bank Financial Institution Business Models* – then explain how we assess individual KRDs. Together, these sections form the core of this report and our analysis, and by themselves are sufficient to explain how we derive Long-Term IDRs for most non-bank financial institutions we rate.

The next section, entitled *Holding Companies*, explains how we analyse non-bank financial institution holding companies. The section on *Issue Ratings* explains how we rate non-bank financial institutions' securities, while the sections on *Country Risks* and *Differentiating Highly Speculative and Distressed Ratings* outline how these risks can influence non-bank financial institution ratings.

The section on *Rating Definitions and Scales* specifies what each of Fitch's ratings measures and how each is determined, and the section on *Non-Bank Financial Institution IDRs' Reference Obligation* specifies what Fitch considers as the reference obligation for an issuers' Long-Term IDR.

The final sections of the main body of the report highlight the information we use to rate non-bank financial institutions, the sensitivity of ratings to certain assumptions, and the use of stress-scenario assumptions and tools. There are also sections covering *Criteria Disclosures and Variations*, *Additional Criteria Applicability Considerations and Limitations*, and a list of *Related Criteria*.

Finally, the five annexes outline how we calculate non-bank financial institutions' financial metrics, the core financial benchmarks, the business profile benchmarks, the Recovery Rating valuation methods, and the typical characteristics of SCP KRDs.

Relevance and Weighting of Key Rating Drivers

Issuer Default Ratings

In assigning a non-bank financial institution a Long-Term IDR, Fitch generally adopts a "higher of" approach between the Long-Term IDR a non-bank financial institution could attain based solely on its standalone financial strength, and the Long-Term IDR the non-bank financial institution could attain based solely on support, whether it is government support or shareholder support. The Long-Term IDR is assigned at the higher of these two levels, absent constraints represented by the Country Ceiling.

When assigning first-time IDRs to non-bank financial institutions, Fitch typically seeks a sufficient financial track record or the probability of extraordinary government or shareholder support. If support cannot be factored in, then usually a minimum track record of three years of audited accounts (or three years of management accounts where the entity is the result of a carveout) is needed.

Standalone Credit Profile

The SCP is assessed on the 'aaa' scale. The KRDs for non-bank financial institutions, together with their weightings, are shown in the table below. There are two sets of weightings to accommodate the different degrees of balance-sheet usage employed by varying non-bank financial institution business models. The relative weights have been determined by analytical judgement informed by historical statistical analysis.

VRs are assigned to non-bank financial institutions in limited circumstances to aid transparency, as outlined in the text box to the right. If a non-bank financial institution is assigned a VR, it would be in accordance with criteria and standards applicable to assess a SCP for that type of entity.

We score each of the KRD factors on the 'aaa' scale and then weight these scores to determine an implied SCP, also on the 'aaa' scale. In the *Standalone Assessment* section, we outline how we score each of the KRDs for a non-bank financial institution.

Key Rating Drivers – Standalone Credit Profile

		Weighting (%)	
		High balance-sheet usage	Low balance-sheet usage
Sector Risk Operating Environment	Business profile	25	25
	Management & strategy	10	10
	Risk profile	10	10
	= Non-financial assessment	**45**	**45**
	Asset quality/asset performance/counterparty exposure	10	5
	Earnings & profitability	10	10
	Capitalisation & leverage	15	20
	Funding, liquidity & coverage	20	20
	= Financial profile	**55**	**55**

Source: Fitch Ratings

A non-bank financial institution's SROE influences its SCP through its impact on our assessments of the other KRDs. However, we do not assign the SROE an independent weighting to avoid double counting.

Assigning Viability Ratings to Non-Bank Financial Institutions
When the *Non-Bank Financial Institutions Rating Criteria* is the primary applicable criteria, Fitch may assign a VR in the following circumstances:

1. a. The non-bank financial institution has some features of a bank (bank license, deposit base, bank-like activities, etc.) or
   b. The non-bank financial institution is of systemic importance or has a policy role and would likely benefit from sovereign support.
2. Fitch has sufficient visibility into the entity's standalone credit attributes.

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

The set of weights used is guided by the extent of the business model's 'high' or 'low' balance-sheet usage. Where individual issuers undertake both 'high' and 'low' usage activities, the applied weightings will typically be determined by which business activity has the greater influence on the issuer's overall risk profile and financial performance, although subsequent adjustments to the implied SCP could be made to account for risks from other activities.

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

- **Sector Risk Operating Environment/Sovereign Rating Constraint:** We may assess the SCP at a level lower than the implied SCP where we believe the implied SCP is too high relative to the SROE score or the sovereign rating (see also Country Risks).
- **Business Profile, Management & Strategy, and/or Risk Profile:** An institution's non-financial KRDs (i.e. its business profile, management and strategy, or risk profile) may have a greater impact on the assigned SCP than the weighting would suggest. This is appropriate in cases where we believe that one, or a combination of, these KRDs will have a positive or negative impact on an issuer's financial metrics over the long term beyond that captured in the current financial KRD scores.
- **Weakest Link:** We may assign the SCP at a level lower than the implied SCP when one or more financial KRDs represent a non-bank financial institution's 'weakest link', in particular – but not exclusively – at low rating levels. The 'weakest link' KRD has a strong impact on our overall view of the issuer's credit profile and drags down the assessed SCP to, or close to, the level of the weakest link KRD score.

Support

For non-bank financial institutions, the most common source of support is from shareholders. Government support is a much less frequent occurrence for non-bank financial institutions than for banks, given the generally relatively smaller size and influence of a non-bank financial institution on a country's financial system. Fitch's view of the likelihood of external support being made available, in case of need, is reflected in a non-bank financial institution's Shareholder Support Rating (SSR) or Government Support Rating (GSR). The KRDs for determining non-bank financial institutions' SSRs and GSRs, which are assigned on the 'aaa' scale, are shown in the two tables below.[1]

Shareholder Support Rating

The typical weighting may change when we assess one of the KRDs that usually has lower or moderate importance as being particularly positive or negative for support.

Key Rating Drivers – Shareholder Support Rating

	Typical weightings	
Shareholder Ability to Support		
Shareholder rating	Higher	
Shareholder regulation	Moderate	
Relative size	Moderate	
Country risks[a]	Lower	Higher[a]
Shareholder Propensity to Support		
Subsidiary role and relevance	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 SSR.
Source: Fitch Ratings

[1] We collectively refer to GSRs and SSRs as 'Support Ratings'. When we refer to a non-bank financial institution'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).

Climate Risks and Other Considerations

Non-bank financial institutions are inherently exposed to climate risk through their financing activities or the balance sheet assets owned, or indirectly exposed through climate-sensitive assets managed on behalf of, or intermediary services provided to, third parties. Diversification, governance, risk management, as well as the extended time horizon over which non-bank financial institutions can implement adaptation strategies, can reduce the risk and may also present new economic opportunities.

Where climate-related risks are sufficiently foreseeable and material, they are most likely to be reflected in our analysis and scoring of relevant KRDs. Fitch's rating analysis may include:

1. physical risk, or the potential impact of higher temperatures, rising sea levels and more extreme weather events on an issuer's capacity to generate revenue while maintaining reasonable risk appetite,
2. transition risk, the effects of decarbonisation on business sentiment, technology and the long-term viability of certain economic sectors, and
3. adaptation capacity, including an issuer's geographic and business model diversification, its climate risk governance, as well its long-term greening strategy. Climate-related risks may also affect an issuer's operating environments, and financial profiles.

Non-bank financial institutions that exhibit relatively high vulnerability to climate risk may be subject to additional review to assess strategic actions that could mitigate or amplify this vulnerability. Analysis and data, including an issuer's disclosures, are moving forward rapidly. Fitch will continue to develop its approach to capturing risks related to climate change in its ratings over time.

With respect to social and governance risks, these are, in many respects, captured in Fitch's non-bank financial institution rating criteria framework. Corporate governance factors are explicitly considered in the management and strategy KRD, and indirectly in the risk profile KRD, while social factors are considered across the SROE score (e.g. regulatory impacts), the business profile KRD (e.g. franchise impacts) and the risk profile KRD (e.g. underwriting impacts).

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

Government Support Rating

Where government support is a relevant analytical consideration, support is more often based on the non-bank financial institution's policy role than on its systemic importance.

For systemically important non-bank financial institutions, the weighting of the KRDs depends on whether the entity operates in a market with a developed and credible resolution framework, which provides for bail-in of senior creditors and whether the resolution framework applies to non-bank financial institutions. Where a developed and credible resolution framework does exist (mostly developed markets), resolution legislation is typically a high-importance KRD and the non-bank financial institution's GSR is usually 'no support'.

Where such a framework does not exist, the weighting for resolution legislation will be of low importance, with the typical weightings of the other KRDs for systemically important non-bank financial institutions indicated in the table below, and the GSR 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 financial system's large size makes it difficult for the government to support it, the sovereign has limited financial flexibility to support the system/entities, or the authorities have a weak support stance, these KRDs may become of 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 non-bank financial institution, these KRDs may be of high importance and have a positive impact on the GSR.

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

Key Rating Drivers – Government Support Rating

	Typical weightings	
	Policy-Focused Non-Bank Financial Institution	**Systemically Important Non-Bank Financial Institution**
Government Ability to Support Non-Bank Financial Institution		
Sovereign rating	Higher	Higher
Size of financial system	n.a.	Moderate
Structure of financial system	n.a.	Moderate
Sovereign financial flexibility (for rating level)	Lower	Moderate
Government Propensity to Support Non-Bank Financial Institution		
Resolution legislation	Lower	Lower / Higher[a]
Support stance	Lower	Moderate
Systemic importance	Lower	Higher
Liability structure	Lower	Moderate
Ownership	Higher	Moderate
Policy Role and Status		
Policy role	Higher	n.a.
Guarantees and legal status	Moderate	n.a.

[a] Likely scored Higher in jurisdictions with developed resolution frameworks; if scored Higher, then all other factors will likely be scored Lower
Source: Fitch Ratings

Standalone Assessment

Overview

We determine non-bank financial institutions' SCP via the three-step process outlined below.

Three-Step Process for Determining Standalone Credit Profile

Step 1: Determine Sector Risk Operating Environment Score	→	Step 2: Determine KRD Scores	→	Step 3: Determine SCP
Derive implied score by using a two-factor matrix operating environment score and SRA		Derive implied scores		Derive implied SCP by weighting scores
Consider adjusting implied score to arrive at assigned score		Consider adjusting implied scores to arrive at assigned scores		Consider adjusting implied SCP to arrive at assessed SCP

Source: Fitch Ratings

We will disclose implied scores as well as the implied SCP, and adjustments applied to them, in our published research.

Step 1: Determine the Sector Risk Operating Environment Score

Implied Score: We derive an implied SROE category score on the 'aaa' scale for non-bank financial institutions by considering two aspects. The first is a jurisdiction-level (country or region) operating environment category score, and the second is the SRA, which reflects business model-specific attributes at a sector or industry level (see *Sector Risk Operating Environment* description).

The implied SROE score is equal to the lower of the jurisdiction-level operating environment category score and the category of the upper range of the SRA.

Adjustments and Assigned Score: Having derived the implied category SROE score, we then consider whether to adjust to arrive at the final, notch-specific, assigned SROE score. Possible reasons to adjust the implied SROE score are listed in the *Sector Risk 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 SROE score.

Step 2: Determine KRD Scores

The SROE will typically act as a constraint on the SCP given the strong influence of the operating environment on other aspects of an issuers' credit profile. The implied and assigned KRD scores are limited to one category above the assigned SROE score, with the exception of the business profile score, which is constrained in line with the SRA score. Exceptions include where a non-bank financial institution can demonstrate an ability to insulate itself from the environment(s) in which it operates.

Implied Scores: The implied KRD scores are derived by applying the benchmarks for the business profile and financial profile KRDs. For the management and strategy and risk profile KRDs, we do not use quantitative benchmarks to derive an implied score, as there is no single metric that correlates with our assessment of these two KRDs. Financial profile benchmarks by subs-sector are outlined in the *Non-Bank Financial Institutions Business Models* section of this report as referenced in the table to the right, and also in Annex 1.

The tiering of quantitative benchmarks by SROE is typically applied to high-balance-sheet-usage non-bank financial institutions, reflecting greater sensitivity of their business models and financial metrics (particularly impairment risk) to operating environment dynamics. Benchmarks are not tiered for low-balance-sheet-usage business models or for sectors where operating environment differences are not present (BDCs, for example, operate in a single operating environment).

Fitch uses four-year averages (where data are available) to determine implied KRD scores, except for the capitalisation & leverage and short-term liquidity benchmarks, where the latest available data point is used, as we view this as a more reliable indicator of the metrics' future

Standalone Credit Profile KRDs

The Sector Risk Operating Environment informs the KRDs of:

- Business Profile
- Management & Strategy
- Risk Profile
- Asset Quality, Performance or Counterparty Exposures
- Earnings & Profitability
- Capitalisation & Leverage
- Funding, Liquidity & Coverage

Sub-Sector Core and Complementary Financial Benchmark Page Reference

Finance and Leasing Companies	27
Securities Firms	32
Business Development Companies	35
Financial Market Infrastructure Companies (FMIs)	37
Investment Managers	40
Investment Companies and Funds	43

Source: Fitch Ratings

levels. Where a KRD has two core metrics, such as for funding, liquidity and coverage, the implied KRD score reflects an average of the implied score generated from each metric.

There may be instances where the assessment of the credit profile of an entity includes components of Fitch's *Bank Rating Criteria* and *Non-Bank Financial Institutions Rating Criteria*. For example, non-bank entities may transition to bank or financial holding companies or acquire bank subsidiaries, or both. In these instances, Fitch considers how the entity's credit profile compares to banks and non-bank financial institutions that undertake similar activities. Attributes likely to lead Fitch to apply the Bank Rating Criteria as the primary criteria are listed to the right.

Instances Where Application of the Bank Rating Criteria as Primary Criteria Is Likely:

- The entity is subject to prudential bank regulations;
- The entity has a meaningful reliance on deposit funding;
- The business model focuses primarily on bank-like activities.

Source: Fitch Ratings

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 that are relevant to Fitch's analysis but not fully captured in the core metrics that determine the implied score, or there may be cyclical 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 likely be in the 'bb' or 'a' category.

Key Rating Driver Adjustments Page Reference

Sector Risk Operating Environment	9
Business Profile	11
Asset Quality/Asset Performance/ Counterparty Exposure	14
Earnings and Profitability	16
Capitalisation and Leverage	16
Funding, Liquidity and Coverage	18

Source: Fitch Ratings

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

The possible adjustment reasons for each KRD are provided later in this criteria report, as referenced in the table to the right. 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 use several complementary metrics that can assist in determining whether adjustments to the implied KRD score are warranted. In determining KRD scores, Fitch will typically compare a non-bank financial institution's metrics and attributes to those of its peers. *Annex 1* outlines how we calculate core and complementary financial metrics.

The table on the following page 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 5* provides more detailed descriptions for each individual KRD at each rating category level. These provide important guidance in determining KRD scores for individual non-bank financial institutions.

Step 3: Combine KRD Scores to Determine SCP

Implied SCP: Fitch combines the KRD scores to determine a non-bank financial institution's implied SCP 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). 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 up and the rating down (e.g. a value of 1.5 would be rounded to 2, resulting in an implied SCP of 'aa+').

Typical KRD Characteristics

Score category	
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 standalone credit profile displaying substantial credit risk, suggesting high vulnerability to deterioration in the business and economic environment.

Source: Fitch Ratings

Adjustments and Assessed SCP: Fitch may adjust the implied SCP to arrive at the assessed SCP for the three reasons outlined in the section Relevance and Weighting of Key Rating Drivers.

When a SCP Is Not Assessed: For some support-driven non-bank financial institutions, it is not possible to assess the SCP of the entity independent from the attributes of the associated parent, most notably including the standalone franchise and funding profile of the entity. Furthermore, non-bank financial institutions rarely exhibit structural or regulatory limits on capital flows to their parent companies, the absence of which increases the likelihood of the entity's credit risk profile being correlated to that of its parent, rather than accurately expressed on a standalone basis.

Conversely, Fitch may assess a SCP of a non-bank financial institution that is expected to be a beneficiary of support (shareholder and government) if the agency believes the institution has sufficient information to determine the SCP of the entity independent from the attributes of the associated shareholder support provider.

Attributes that Constrain the Ability to Assess a SCP for Support-Driven Non-Bank Financial Institutions

Attribute	Rationale
The franchise position of the subsidiary is highly correlated with that of the parent.	The standalone franchise position of the subsidiary cannot be sufficiently determined.
There are high levels of financial, operational and management integration with the parent entity.	The standalone financial profile or management and strategy of the subsidiary cannot be sufficiently determined.
The subsidiary's access to funding is heavily dependent upon the parent.	The subsidiary's ability to independently access external funding has not been demonstrated or cannot be sufficiently relied upon in the context of a standalone assessment.
The subsidiary is small and of a non-material size relative to the parent.	The ability of the subsidiary to operate economically, let alone remain viable, on a standalone basis cannot be sufficiently determined.
The subsidiary's operations are largely determined by their policy roles (i.e. they have limited commercial operations).	The subsidiary's ability to underwrite and manage risk in a commercial context cannot be sufficiently determined.

Source: Fitch Ratings

Sector Risk Operating Environment

The SROE score captures Fitch's assessment of the ability of a non-bank financial institution in a particular jurisdiction or across a number of jurisdictions to generate business volumes while taking on acceptable levels of risk.

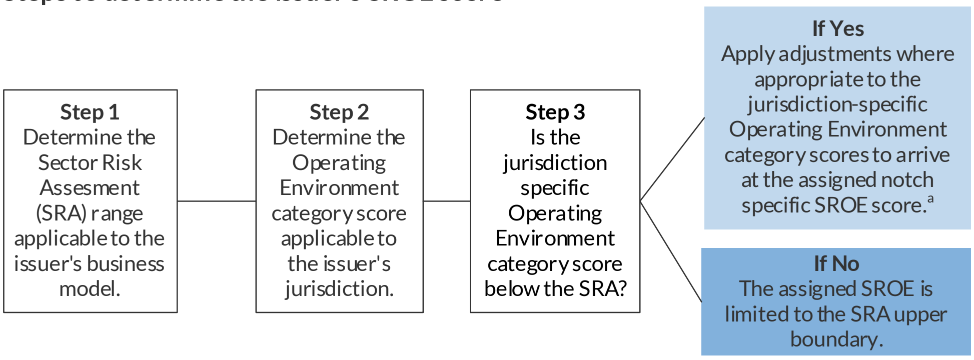
A jurisdiction's ranking on Fitch Solutions' Operational Risk Index has explanatory power because it captures the challenges of operating a business in a given jurisdiction, with a focus on four main risk areas: labour market, trade & investment, logistics, and crime & security. In the benchmarking matrix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

The SRA functions as a range, typically from a low point of 'b-' with the upper boundary intended to represent the typical maximum rating category an issuer within a given non-bank financial institution sub-sector could achieve. SCP's above a SRA may be possible if the issuer is a clear positive outlier across multiple factors.

Where an issuer undertakes activities across multiple SRA sectors, a SRA would be derived weighted towards the more dominant sector/industry.

See *Country Risks* for more information on the links between sovereign ratings, SROE scores and issuer ratings.

Steps to determine the issuer's SROE score



[a] The Operating Environment score may be adjusted using the considerations outlined in the table entitled 'Possible Adjustments to Implied Sector Risk Operating Environment Factor Score'.
Source: Fitch Ratings

Fitch considers two aspects for its operating environment assessment to arrive at an implied SROE category score. The first is a SRA category score (or upper boundary) that is applied to reflect business model-specific attributes at a sector or industry level. The second is a jurisdiction-level operating environment category score, determined by the matrix detailed below. The implied SROE category score is equal to the lower of the two.

Implied Jurisdiction Operating Environment Score

	Operational Risk Index (% rank)				
GDP per capita (USD 000)	**x>80**	**80≥x>60**	**60≥x>40**	**40≥x≥20**	**x<20**
x>45	aa	aa	a	a	bbb
45≥x≥35	aa	a	a	bbb	bb
35>x≥15	a	bbb	bbb	bb	b
15>x≥6	bbb	bb	bb	b	b
x<6	bb	b	b	b	b

Source: Fitch Ratings

Attributes Considered When Determining Sector Risk Assessment Ranges

	Attributes						
Score category	**Market composition**	**Barriers to entry**	**Regulatory/legal framework**	**Scale benefits**	**Long-term growth potential**	**Business volatility**	**Pricing power**
aa and Above	Globally signficiant and diversified operators	Very High/High	Very Strong	Very Strong	Very Stable	Very Low	Significant
a	Well-established global operators	Meaningful	Strong	Strong	Stable	Low	Strong
bbb	Successful nationally-based or mid-sized international operators	Moderate	Moderate	Moderate	Adequate	Some	Adequate
bb	Competitive nationally-based or small international operations	Modest	Modest	Modest	Variable	High	Modest
b	Opportunistic/aggressive peers or declining industry	Limited	Limited	Limited	Highly Variable	Very High	Low
ccc and Below	Fragmented or in accelerated decline	Non-Existent	Indiscernable	Indiscernable	Uncertain	Highly Cyclical	Non-Existent

Source: Fitch Ratings

At an industry level, which could be global, regional or jurisdiction-specific, the SRA considers the sector's structural features listed in the matrix on the previous page. In deciding how to arrive at the upper boundary of the SRA for a given sector, Fitch considers which description most closely reflects the sector attributes and whether they have a high, medium, or low influence on the upper boundary. The SRA upper boundary represents the typical profile of the leading non-bank financial institutions within the sector.

Fitch has not established SRAs for certain business models (such as investment companies) where the range of potential activities or regulatory frameworks within the sub-sector leads to broad sector risk considerations. Where this occurs, the implied SROE category score would be derived from the jurisdiction-level operating environment category score, which could then be adjusted up or down to derive the assigned SROE score using the adjustment factors to reflect any unique sector-specific risks that the business model may have. With respect to entities whose activities are more closely aligned with bank business models, Fitch may apply a similar approach as discussed above, or look to the Operating Environment factor scores assigned to peer banking institutions.

Where relevant, the operating environment adjustment factors listed on the following page may then be applied to the implied SROE score. Fitch would not adjust the implied SROE score for sector features that are captured in the SRA, except where relativities between the non-bank financial institution sector and the banking sector justify differentiation.

In rare cases, we may adjust a SRA upwards to reflect a unique business model, such as a corporate structure or regulatory/legal framework that affords an issuer greater stability than the rest of the sector. The adjustment would be limited to one rating category.

A change in the SROE score assigned to a non-bank financial institution is typically driven either by a change in the sovereign risks and broader country risks (typically related to a sovereign rating action – see Country Risks) of the jurisdiction in which the entity operates, or by structural changes affecting the economic environment in which the entity operates. Through-the-cycle fluctuations in economic conditions that do not drive structural changes are less likely to lead to changes in the assigned SROE score, but these could be reflected in the direct impact they have on the issuers' financial profile KRDs.

Fitch's assessment of the operating environment incorporates both sovereign risk and broader country risks related to doing business in a particular jurisdiction. However, it does not capture transfer and convertibility risks, which are reflected separately in Fitch's Country Ceiling.

The SRA ranges are subject to periodic review. The sectors and sub-sectors covered are those that Fitch has ratings coverage of and can be expanded should the ratings coverage warrant it.

Sector Risk Assessments by Sector or Sub-Sector

Sector	Sub-Sector(s)	SRA Upper Boundary Category
Finance & leasing companies	Consumer lenders, commercial lenders, financial services providers	bbb
	Aircraft/engine lessors	bbb
	Debt purchasers/collectors	bbb
	Mortgage real estate investment trusts	bbb
	Rolling stock leasing companies, railcar lessors	a
	Auto/equipment rental companies	bbb
	Mortgage originators/servicers	bbb
	Auto, truck and fleet lessors	a
Securities firms	Retail brokers, wealth managers	a
	Broker dealers, interdealer brokers, market makers	bbb
Business development companies	Business development companies	bbb
Financial market infrastructure (FMI) companies	Exchanges, clearinghouses, central securities depositories without bank licenses	aa
Investment managers	Traditional and alternative investment managers	aa
	Investment Companies	Not assigned

Source: Fitch Ratings

Possible Adjustments to Implied Sector Risk Operating Environment Factor Score

Adjustments	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 SROE 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 future volatility in macro variables; High dollarisation, if combined with high risk of foreign-exchange movements.
Level and growth of credit	Low level of financial system credit 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 financial sector; Effective institutional framework (credit bureaus, depositor protection, deep capital markets).	Developing or highly fragmented financial sector; Limited central bank liquidity support mechanisms and weaker institutional framework.
Regulatory and legal framework	Relatively strong regulatory and legal framework, effective regulatory bodies, protection of creditor rights and accounting standards.	Weaknesses in regulatory and legal framework; Undeveloped or weak corporate governance standards.
Reported and future GDP/capita	Future GDP per capita or Operational Risk Index score likely to improve notably; Reported GDP per capita understates potential for economy to generate moderate-risk business for non-bank financial institutions.	Future GDP per capita or Operational Risk Index score likely to weaken notably; Reported GDP per capita overstates potential for economy to generate moderate-risk business for non-bank financial institutions.
Regional, industry or sub-sector focus	A non-bank financial institution's operations are concentrated in region(s) with an economy notably stronger than national average.	A non-bank financial institution's operations are concentrated in regions with an economy notably weaker than national average.
International operations, divergence between domicile and business activity	For non-bank financial institutions with a significant portion of risk/asset exposures in foreign markets, the implied SROE score is based on a weighted average of jurisdiction scores. Higher weighting may be given to the home market due to the importance of regulatory, institutional and funding characteristics.	
Business model	Strengths or risks associated with a non-bank financial institution business model are not sufficiently captured in either the SRA or the implied GDP/Operational Risk Index score.	

Source: Fitch Ratings

Business Profile

The business profile KRD score captures the extent to which a non-bank financial institution's franchise and business model allow it to generate and defend business volumes and earnings while controlling levels of risk. The SROE score conditions and often constrains the business profile score because of the effects jurisdictional and sector/industry factors have on the robustness of a non-bank financial institution's franchise and business model. The business profile will typically not be scored above the SRA.

The business profile benchmarks, which vary by non-bank financial institution sector or sub-sector to reflect business model characteristics, are outlined in Annex 3.

The implied business profile score can be adjusted, based on the factors listed on the next page.

Possible Adjustments to Implied Business Profile Score

	Positive	Negative
Business model	Diversified by product or geography, consistent business model, primarily in lower-risk markets or segments with long-term client relationships and consistently high utilisation rates, generating stable earnings over time.	Concentrated by product or geography or changing business model, focus on higher-risk markets or segments, short-term client relationships, low or potentially volatile utilisation rates, or volatile earnings; Structural problems related to core profitability or burden of impaired assets.
	The legal/regulatory framework underpinning core products or services enhances business model stability and relative competitiveness over time.	Legal or regulatory weaknesses reduce business stability and increase financial performance volatility over time.
	Limited or extremely well-managed market value risks supported by a clear and consistent strategy, a high degree of transparency, appropriate leverage, stable funding sources and permanent capital.	Elevated market value risk with a high level of management discretion over investment strategy, low transparency over evolution of risk, in conjunction with high leverage, confident sensitive funding or non-permanent sources of capital.
Market position	High market shares in key product markets, significant pricing power and scale benefits, limited competitive pressure, strong and enduring customer relationships.	Small market shares, limited pricing power, significant competitive pressure from larger players and lacking critical mass, meaningful dependence on transactional business rather than longstanding customer relationships.
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 a broader group.
Organisational structure	Ownership dynamics materially reduce conflicts of interest between risk management and profit maximisation.	The issuer is part of an overly complex or opaque group legal structure. Ownership dynamics materially increase conflicts of interest between risk management and profit maximisation.
Accounting policies	Accounting policies significantly reduce the implied business profile score.	Accounting policies or non-recurring revenues significantly inflate the implied business profile score.
Historical and future developments	Franchise, business model 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

A notably strong or weak business profile that, over the long term, we believe will have a positive or negative impact on an issuer's financial metrics beyond that currently captured in the financial KRD scores, is one of the reasons a non-bank financial institution's SCP may be assigned at a level above or below its implied SCP (see *Relevance and Weighting of Key Rating Drivers/Standalone Credit Profile*).

Management and Strategy

The management and strategy assessment considers management quality, corporate governance, strategic objectives and execution. The assessment is typically conditioned, and often constrained, by the SROE and business profile assessments. Management and strategy factors scores higher or lower than the assigned business profile score would typically reflect considering the attributes listed below. In weaker operating environments, corporate governance issues tend to be more prevalent, strategic objectives may be more likely to shift over time or be more opportunistic, and execution of strategy is often more challenging. It is possible for the management and strategy score to be higher than the operating environment assessment (e.g. a very good management team operating in a weak environment).

While the quality and effectiveness of management is a subjective assessment, there will typically be some tangible evidence of management's through-the-cycle effectiveness in terms of its impact on its financial or risk metrics.

Important Attributes in Determining the Management and Strategy Score

Adjustment	Positive	Negative
Management quality	Deep, experienced, stable and credible senior management team underpinned by a high-integrity culture.	Weak senior management team, higher-than-standard management turnover or over-dependence on key individual(s).
Corporate governance	n.a.	Weak governance representing a risk to creditor interests, conflicts of interest are present or possible; High volumes of related-party transactions, especially if on non-market terms; 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; Elevated execution risks relating to ongoing merger, acquisition or restructuring initiatives.

Source: Fitch Ratings

Risk Profile

A non-bank financial institution's risk profile score is often closely aligned with its business profile score, which captures the extent to which an entity's franchise and business model allow it to generate and defend business volumes and earnings while controlling levels of risk. It is possible for a risk profile score to be higher than the SROE or business profile (e.g. an 'atypically' very low risk profile relative to the environment or the operating model), but this would be expected to be reflected in consistently better asset quality and less earnings volatility.

Similarly, for non-bank financial institutions where credit risk is the primary risk, there is also usually a close link between the risk profile score and the asset quality score. Where Fitch believes that asset quality metrics broadly reflect the company's 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 Fitch believes that current underwriting is much stronger than asset quality metrics might suggest (e.g. because the latter are affected by originations 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 that may not be sustained), then the risk profile score is likely to be below the asset quality score.

The stability of financial results throughout the cycle may be a useful indicator of the risk profile. A high risk profile may be mitigated through strong risk controls, collateral, and risk-based pricing, although the natural rating range for a company with an inherently higher risk profile will generally be lower than for a company whose risk profile Fitch considers modest or better-managed. In addition, risks can be high at non-bank financial institutions with stated low risk profiles, if controls are viewed by Fitch to be weak or ineffective.

The most typical form of market risk is interest-rate risk, but Fitch's assessment will include other elements, such as valuation, derivatives and foreign-exchange risks, where these are material and can have an effect on earnings. Market risks will be higher for institutions with material trading operations or where cross-border activity or balance sheet structure gives rise to foreign-exchange risks. Where business models such as securities firms have material trading activities, the risks are typically assessed using the metrics in the table to the right.

Market Risk Metrics

Average VaR/tangible equity
Fitch stressed VaR/tangible equity
Principal daily trading income/average trading VaR
Principal transaction income/total income

VaR: Value at risk
Source: Fitch Ratings

The risk controls assessment also includes consideration of non-financial risks, such as operational, reputational, litigation, regulatory, ESG or cyber risks, where material for an institution or an integral part of the business model or operating jurisdiction(s).

Important Attributes in Determining Risk Profile Score

Attribute	Positive	Negative
Underwriting standards	Consistent focus on lower-risk borrowers and segments.	Significant lending to higher-risk borrowers and segments, or to related parties.
	High portfolio diversification by borrower, sector and geography.	High portfolio concentrations.
	Highly collateralised or secured lending with robust valuations.	High unsecured lending or aggressive collateral valuations.
Counterparty/ investment risk management	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 for effective monitoring, mitigation and management of risks.	Risk infrastructure does not allow for effectively monitored, mitigated or managed 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.
Growth	Low to moderate balance sheet or business volume growth, which can be effectively managed in terms of impact on asset quality and capitalisation.	High real credit or business volume growth (i.e. adjusted for inflation and exchange rate changes), in particular where this is not mitigated by growth being (i) from a low base; (ii) in line with the market in a jurisdiction or sector with low penetration; or (iii) counter-cyclical at a time when other businesses are contracting.
Operational and other non-financial risks	Strong operational risk infrastructure; track record of low operational losses.	Heightened operational and other non-financial risks, such as reputational, litigation, regulatory and cyber.
		Material deficiencies in the management of such risks.

Source: Fitch Ratings

Asset Quality, Asset Performance or Counterparty Exposures

For a non-bank financial institution, the weighting for asset quality, asset performance or counterparty exposure as a KRD will vary depending on business model and degree of balance-sheet usage, and is outlined in the sections covering each of the five major non-bank financial institution sub-sectors.

Asset quality is relevant for high-balance-sheet-usage business models because weak asset quality can undermine a non-bank financial institution's balance sheet solvency, and ultimately its ability to meet obligations to creditors. Fitch's analysis of asset quality focuses primarily on the main asset risk, such as loans, receivables or leased assets. The analysis may consider other on- and off-balance-sheet exposures such as investments, to the extent these are relevant.

For non-bank financial institutions with low balance-sheet usage, asset quality may only be a secondary consideration or may even be viewed as not applicable. Instead, the primary emphasis is on asset performance. For example, for investment managers, the focus is on fund flows on an absolute and relative basis in order to understand a firm's ability to attract and retain fee-generating assets under management (AUM).

For investment companies and funds, Fitch considers a combination of asset performance and asset quality factors. Asset performance is intended to indicate how market value appreciation/depreciation has affected the value of assets collateralising outstanding debt while also providing an indication as to the asset selection capabilities of the investment company (or its investment manager). Asset quality captures the quality of the investments collateralising outstanding debt and the quality/reliability of the upstream dividend and interest income received from portfolio companies.

For financial market infrastructure companies, Fitch's primary emphasis is on counterparty exposure.

The relevant benchmark metrics are outlined in the Non-Bank Financial Institutions Business Models section.

Possible Adjustments to Implied Asset Quality/Asset Performance/ Counterparty Exposure Score

	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.
Loan charge-offs, depreciation or impairment policy	Low impaired loan generation, low residual value risk, conservative loss recognition/charge-offs/depreciation policy, impaired loans largely reflect legacy exposures.	High impaired loans/residual value risks, aggressive loss recognition/depreciation policy, impaired loans reduced by material write-offs or disposals.
Loan classification policies	Conservative classification of moderate risk loans.	Large proportion of high-risk loans not classified as impaired.
Concentrations; asset performance	For high-balance-sheet-usage business models, good diversification of portfolio/product exposures by borrowers or counterparties, economic sectors or geographies, or asset classes.	For high-balance-sheet-usage business models, high concentration of portfolio/product by borrowers/counterparties, economic sectors/geographies or asset classes.
	For investment managers, good diversification of assets under management by strategy (e.g. equities, fixed-income or alternatives), structure or geography.	For investment managers, high concentration of assets under management by strategy (e.g. equities, fixed-income or alternatives), structure or geography.
	For investment companies/funds, a well-diversified portfolio, meaningful asset liquidity or above peer quality/reliability of upstreamed dividends and interest income from portfolio investments.	For investment companies/funds, a more concentrated investment portfolio, limited asset liquidity or below peer quality/ reliability of upstreamed dividends and interest income from portfolio investments.
Non-loan exposures	High proportion of non-loan/non-lease assets on the balance sheet that are lower risk than loan/lease book.	Significant exposure to non-loan/non-lease assets or off-balance-sheet exposures that are of higher risk than the loan/lease book.
Underwriting standards	Lower-risk credit underwriting than is reflected in current financial metrics.	Higher-risk credit underwriting than is reflected in current financial metrics.
Growth	Deleveraging has resulted in a material contraction in gross loans, inflating the impaired loan ratio.	High loan growth has resulted in a lower impaired loan ratio and a fairly unseasoned loan book.
Risk profile and business model	A non-bank financial institution with a low risk profile or lower risk business model that is more likely to result in stronger asset quality performance and lower volatility.	A non-bank financial institution with a higher risk profile, or a business model or asset class specialisation that is more likely to result in outsized future asset quality deterioration or volatility.
Relative size/AUM flows	An investment manager, company or fund with more predictable inflows relative to peers or an ability to manage the pace of outflows.	An investment manager, company or fund exposed to prolonged periods of outsized AUM outflows relative to peers or greater potential for AUM outflows or capital redemptions.
Historical and future metrics	Impaired loan ratio or asset performance is likely to improve, e.g. due to positive changes in strategy or business focus, M&A activity or a more favourable part of economic or credit cycle.	Impaired loan ratio or asset performance is likely to weaken, e.g. due to negative changes in strategy or business focus, M&A activity or a more unfavourable part of economic or credit cycle.

Source: Fitch Ratings

Earnings and Profitability

The earnings and profitability analysis for high-balance-sheet-usage business models focuses on an issuer's ability to generate recurring profits relative to the risks it assumes, in order to build or conversely erode its capital. Fitch focuses primarily on portfolio yields and return-on-asset and return-on-equity measures. Fitch will also consider risk-adjusted margins to assess the level of profitability relative to the risk taken. A review of earnings quality primarily reflects an assessment of recurring cash-based core earnings, principally net interest, and lease and fee income, as opposed to non-recurring gains or losses, non-cash gains, or mark-to-market gains on derivatives or investments.

For low-balance-sheet-usage issuers, the analysis focuses on the stability and quality of earnings and the capacity to generate continuing cashflow through a business cycle. The primary cash flow profitability measure is the earnings before interest, taxes, depreciation and amortisation (EBITDA) margin. Investment managers' earnings and profitability is primarily based on fee-related earnings measures, such as the (F)EBITDA margin. EBITDA may be adjusted to exclude revenues that are believed to be more volatile over time or to exclude the depreciation expense if it is a recurring operating expense and no significant change in leased asset levels is expected.

The relevant benchmark metrics are outlined in the Non-Bank Financial Institutions Business Models section.

EBITDA Calculation[a]

Pre-tax income
+ interest expense
+ depreciation
+ amortisation
+/- adjustments for non-recurring items
+/- other analytical adjustments (e.g. non-cash items)
= EBITDA

[a] For investment managers, Fitch typically uses a fee-based EBITDA calculation (FEBITDA) as defined in the table here.
Source: Fitch Ratings

Possible Adjustments to Implied Earnings and Profitability Score

	Positive	Negative
Earnings stability	Earnings have shown limited volatility through multiple cycles.	Earnings have shown high volatility through cycles or more recent structural weakening.
Portfolio risk	Business model/asset class specialisation supports consistently lower risk performance.	Business model/asset class specialisation more vulnerable to cyclical performance swings.
Revenue diversification	Revenues from multiple business lines with high diversity and low correlation of performance. Quality of dividend upstream enhanced by the ability to influence strategy.	High reliance on a single or concentrated business line or revenue stream. Elevated regulatory risk or other impediment to upstream dividend flows.
Risk-adjusted profitability	Relative to peers higher risk-adjusted profitability.	Relative to peers lower risk-adjusted profitability.
Historical and future metrics	The core earnings metric is likely to improve, e.g. due to positive changes in strategy or business focus, M&A activity or a more favourable part of economic or credit cycle.	The core earnings metric is likely to weaken, e.g. due to negative changes in strategy or business focus, M&A activity or a more unfavourable part of economic or credit cycle.

Source: Fitch Ratings

Capitalisation and Leverage

In assessing capitalisation and leverage, Fitch focuses on tangible equity for high-balance-sheet-usage business models and cash flow leverage for low-balance-sheet-usage business models. Leverage is considered on an absolute basis, relative to the portfolio exposures and in the context of current market conditions. The quality and absolute size of a firm's capital is the fundamental consideration in assessing balance-sheet-intensive business models as this provides a cushion to absorb unreserved or unexpected losses.

Where securitisation is used to fund an entity's core financing/lending activities, the associated assets and liabilities are typically included in Fitch's calculation of leverage as securitisation is viewed as a form of secured financing. The fact that securitisation is often non-recourse typically does not influence Fitch's determination, reflecting issuers' propensity to manage portfolio composition or otherwise support securitisations to maintain on-going market access. Fitch may, however, consider leverage both on a corporate debt and consolidated debt basis, and place incrementally more weight on corporate debt calculations (i.e. excluding securitisation debt) where the issuing special-purpose vehicle is sufficiently remote from the issuer's core activities. Fitch is also more likely to exclude consolidated securitisations from the leverage calculations of balance sheet light business models where securitisation is used as a means to generate management fees as opposed to fund core activities.

Fitch's tangible equity calculation excludes goodwill and other intangibles, deferred tax assets, and non-loss-absorbing non-controlling interests, and includes the equity portion of any hybrid capital instruments (refer to the Issue Rating section). Where available, Fitch may consider complementary capitalisation metrics based on regulatory capital measures, such as common equity Tier 1 (CET1), or Fitch Core Capital (FCC), or both, as defined to the right. When relevant, Fitch will also consider capital covenant ratios to ensure the issuer is not in danger of becoming non-compliant.

Possible Adjustments to Implied Capitalisation and Leverage Score

	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 or fixed/ other assets.
Risk profile and business model	Business model or asset class specialisation underpins stability and predictability of cash flows making it less prone to cyclical performance swings supporting higher leverage tolerance; Good risk diversification.	Business model/asset class more prone to performance swings and cash flow variability or realisation is contingent on sale of less liquid assets reducing leverage tolerance; Higher concentrations to single borrowers, counterparties, sectors or asset classes.
Tangible capital/ leverage calculation	Reported tangible capital excludes items which Fitch views as loss-absorbing.	Reported tangible capital includes items that Fitch views as non-loss-absorbing, including as a result of regulatory forbearance. Excessive double leverage; low/declining capital covenant headroom.
Gross versus net leverage	Where an issuer maintains sustained, elevated cash balances, explicitly holds cash to prefund near-term debt maturities or takes other proactive/precautionary liquidity measures during stress periods, Fitch may focus on net debt leverage ratios.	n.a.
Regulatory or other complementary capitalisation ratios	Large buffers of regulatory capital, such as common equity Tier 1 (CET1) or Fitch Core Capital (FCC), that are expected to be sustained at robust levels relative to regulatory capital requirements or peers.	Limited buffers of core capital relative to regulatory capital requirements or peers.
Profitability, pay-outs and growth	Strong earnings or retention; Low expected growth.	Weak earnings retention either from low profits or high dividends/buyback programmes; Elevated risk of material capital extraction; High expected growth.
Capital flexibility and ordinary support	Strong ability to access capital from markets in case of need; Owners expected to provide ordinary capital to support growth if required.	Weak ability to access capital from markets in case of need: Onerous restrictions on capital fungibility across subsidiaries and owners.
Size of capital base	Large (in absolute terms) capital base.	Small (in absolute terms) capital base.
Historical and future metrics	Capital raised (or expected to be raised) after the last reporting date; A materially more conservative leverage policy on a go-forward basis relative to observed historical metrics.	Capital distributed (or expected to be distributed) after the last reporting date; A materially less conservative leverage policy on a go-forward basis relative to observed historical metrics.

Source: Fitch Ratings

Tangible Equity Calculation

Total shareholders' equity
- Goodwill and intangibles
- Deferred tax assets related to net operating losses brought forward (if available and at a minimum value of zero), otherwise net deferred tax assets in its entirety (at a minimum value of zero)
+ Non-controlling interests (also known as 'minority interests') if reported outside published equity
- Non-controlling interests not regarded by Fitch as loss-absorbing
+ Equity portion of any hybrid capital
= Tangible Equity

Source: Fitch Ratings

Fitch Core Capital Calculation

Total shareholders' equity
- Goodwill and intangibles (including mortgage servicing rights)
- Deferred tax assets related to net operating losses brought forward (if available and at a minimum value of zero), otherwise net deferred tax assets in its entirety (at a minimum value of zero)
+ Non-controlling interests (also known as 'minority interests') if reported outside published equity
- Non-controlling interests not regarded by Fitch as loss-absorbing
- First-loss tranches of securitisations on- and off-balance sheet
- The credit component of fair-value changes in the issuer's own debt
- Net asset value or embedded value of any insurance companies held
+ Equity portion of any hybrid capital
= Fitch Core capital

Source: Fitch Ratings

The relevant benchmark metrics are outlined in the Non-Bank Financial Institutions Business Models section. Where more than one business activity is a meaningful contributor to an entity's risk profile and operational performance, Fitch will attempt to allocate debt to the different business lines and assess the leverage profile of each according to the relevant benchmark ratios.

Fitch also considers double leverage, defined as equity investments in subsidiaries plus holding company intangibles divided by holding company equity, which reflects debt issued at the parent company level that has been downstreamed as equity into subsidiaries. Where double leverage is assessed as high (i.e. above 120% or more of a parent company's common equity) on a sustained basis, and without mitigants in place, this can result in increased rating differentials (typically one notch) between a parent company (rated lower) and its subsidiaries (rated higher), particularly if regulated subsidiaries are involved, because upstream dividends from these entities may be restricted.

IFRS 16 Lease Treatment:

Fitch will typically exclude operating lease liabilities (as per IFRS 16) in its leverage calculation and treat associated lease interest expense as operating expense.

However, if operating leases relate to the funding of core operational assets, we could apply IFRS 16 treatment or make adjustments to the benchmark implied score.

Funding, Liquidity and Coverage

The funding, liquidity and coverage score captures the extent to which a non-bank financial institution can meet its short-term obligations, and, more broadly, its ability to finance and maintain its operations. Meaningful near-term maturities or concentrated maturities in a given time period can be rating constraints.

Fitch assesses the issuer's funding flexibility including its funding mix and the ability to issue different funding instruments and tenors in different funding markets and currencies. Fitch also considers debt maturity profiles, sources of repayment for any near-term maturities, any material debt covenants, and headroom or performance thereunder. Like other forms of secured financing, securitisation activity is assessed in the context of an issuer's funding strategy and the trade-off between serving as an additional funding source and creating additional asset encumbrance. Fitch typically does not include securitisation obligations in its assessment of an issuer's debt maturity profile or in the denominator of liquidity coverage ratios given the self-liquidating nature of the structures, taking into account segregated assets and cash-flow waterfall mechanisms. Other considerations include an issuer's ability to generate liquidity from operations, the availability of unrestricted cash balances, undrawn committed facilities and distributions policies to service upcoming obligations.

The applicable core funding, liquidity and coverage metrics will vary depending on the non-bank financial institution business model and are outlined in the sections covering each of the five major non-bank financial institution sub-sectors. Where there are two core metrics for a particular non-bank sector, the overall implied score is an equal weight of the implied score generated from each core metric. The assigned score would be subject to the application of the possible adjustment factors, listed on the following page.

Where a non-bank financial institution has a deposit license, the applicable metric(s) and criteria will be guided by the extent of reliance on deposits as a funding source and the degree to which the entity undertakes bank-like activities. Where these considerations are material, the issuer is likely to be rated under the Bank Rating Criteria, while if deposit funding and bank-like activities are less significant, then the Bank Rating Criteria could be applied as secondary criteria.

The implied funding, liquidity and coverage score can be adjusted by the factors listed on the following page. Comparisons of metrics across geographies will reflect the differing operating, legal, and regulatory environments for non-bank financial institutions. Consequently, comparisons of funding, liquidity and coverage metrics across direct or in-market peers will likely have a greater importance in this assessment.

The relevant benchmark metrics are outlined in the Non-Bank Financial Institutions Business Models section.

Funding, liquidity and coverage increases in importance when an issuer encounters significant liquidity stress or other pressures on its funding profile. In such cases, the funding, liquidity and coverage KRD may be deemed a 'weakest link' for the non-bank financial institution's SCP, and exert greater influence on the rating (see *Relevance and Weighting of Key Rating Drivers: Standalone Credit Profile*).

When considering undrawn committed facilities, Fitch broadly defines these as bank facilities that have a maturity of greater than 12 months and a contractual commitment to lend. This would include unused asset-back facilities where asset eligibility requirements are deemed achievable relative to issuer's through-the-cycle underwriting standards.

The business profile can have a meaningful influence on the assessment of funding, liquidity and coverage, with the assigned score being limited to three notches above the business profile score.

Possible Adjustments to Implied Funding, Liquidity and Coverage Score

	Positive	Negative
Funding flexibility	Well diversified funding sources with a low proportion of near-term maturities; Strong and tested access under severe historical market conditions, established committed contingent liquidity; Access to parent or group 'ordinary' liquidity/funding support.	Concentrated funding by source or maturity, particularly including near-term maturities; Untested or weak access under severe market conditions; Limited funding market depth, low/declining covenant headroom, or elevated funding costs relative to peers.
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.
Business model/funding market convention	Business model stability; Predictable, low short-term liquidity needs; Funding market convention supports access to more stable or longer-term funding.	Business model instability; Variable/unpredictable short-term liquidity needs; Funding markets undeveloped, or prone to periods of instability in which funding access is constrained or unavailable; Regulatory driven funding access constraints.
Cash flow-generative business model	A non-bank financial institution's business model is viewed as highly cash flow generative, particularly during times of stress, economic slowdown or reduced capital expenditures.	n.a.
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.
Fungibility	n.a.	Material foreign or regulated subsidiaries with significant restrictions on transfers of liquidity within the group.
Historical and future metrics	Funding, liquidity and coverage metrics likely to improve, e.g. due to positive changes in strategy or business focus, or M&A activity.	Funding, liquidity and coverage metrics likely to weaken, e.g. due to negative changes in strategy or business focus, or M&A activity.

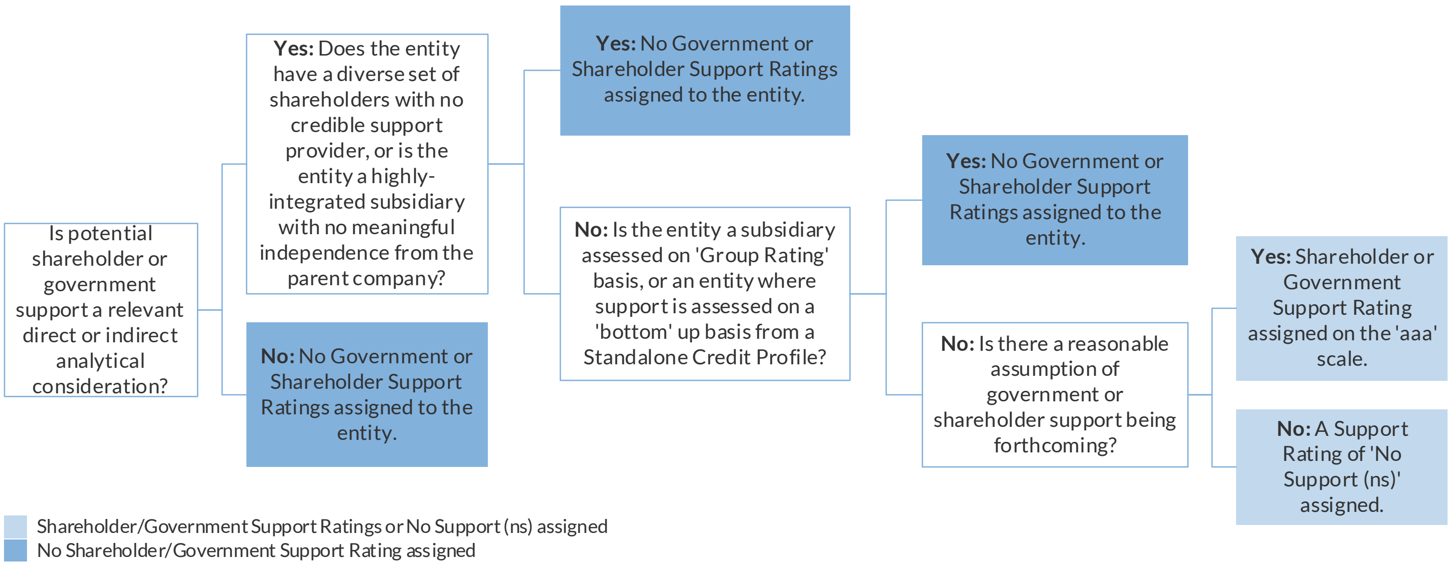
Source: Fitch Ratings

Support Assessment

The most usual source of potential support for non-bank financial institutions is shareholders, with potential support from government authorities being less common. Where government support is a relevant analytical consideration, it either reflects the entity's role in supporting policy objectives or its systemic importance. Where Fitch judges support to be unlikely or highly uncertain, the Long-Term IDR of an issuer may be based solely on its standalone strength, or, in some limited cases, could be notched up from an assessed SCP.

Where shareholder or government support is a relevant analytical consideration, Fitch assigns a SSR or GSR. Where there is a credible provider of support, but it is assessed that there is no reasonable assumption that extraordinary support will extend to the given issuer, a support rating of 'No Support (ns)' is assigned. The decision tree below outlines when a support rating will be assigned.

Considerations When Assigning Shareholder or Government Support Ratings to Non-Bank Financial Institutions



Source: Fitch Ratings

Shareholder Support

Fitch assigns SSRs by considering the KRDs listed on the next page related both to the ability and propensity of the shareholder (or in rare cases – other group entities) to provide support. The starting point is typically the shareholder's Long-Term IDR, which is usually closely linked to its ability to provide support. We then consider whether, and to what extent, to notch down the SSR from the shareholder rating based on the KRDs in the table below. In rare cases a subsidiary may be assigned a Long-Term IDR above its SSR – where it has a higher SCP or GSR and Country Ceilings and other risks of capital controls or extraction are not relevant.

Where a non-bank financial institution is a subsidiary of a bank and this parent bank's IDR is above its VR because of a buffer of qualifying junior debt, Fitch will typically use the parent's IDR as an anchor for the IDR of highly integrated domestic subsidiaries, and for highly integrated international subsidiaries where a large junior debt buffer has been pre-positioned or where other features (such as accepted resolution plans) exist that mean the subsidiary should benefit from the parent's debt buffers. Conversely, Fitch will typically use the parent bank's VR as anchor rating in cases where there is significant uncertainty that the subsidiary's senior creditors would benefit from the parent's junior debt buffer if the latter fails. See also the 'Uplift Within a Banking Group' section of the *Bank Rating Criteria*.

In the absence of support ability constraints, the typical notching of a subsidiary from the shareholder IDR is outlined in the textbox to the right. Where the shareholder IDR reflects potential government support, such as a systemically important bank or a state-owned enterprise, Fitch will consider if this support would be allowed to flow through to subsidiaries, in particular those in foreign jurisdictions.

Shareholder Support Notching[a]

- Core Subsidiary – Equalised with support from the provider's rating
- Strategically Important Subsidiary – One notch (in some cases, two notches) below the support provider's rating
- Limited Importance Subsidiary – Two or more notches below the support provider's rating, or notched up from the subsidiary's SCP

[a]See the 'Key Rating Drivers for Shareholder Support Rating' table for more detail on the attributes associated with the 'Core Subsidiary', 'Strategically Important Subsidiary' and 'Limited Importance Subsidiary' designations.
Source: Fitch Ratings

Key Rating Drivers for Shareholder Support Rating

Designation	Core	Strategically Important	Limited Importance
Rating Notching Relative to Support Provider	**Equalised with the support provider's rating[a]**	**One notch (and in some cases two notches) below the support provider's rating[a]**	**Two or more notches below the support provider's rating, or notched up from the subsidiary's SCP[a, b]**
Shareholder Ability to Support and Subsidiary's Ability to Use Support			
Shareholder regulation	Parent regulator or regulation would be likely to favour support of subsidiary by parent entity.	Parent regulator/regulation is neutral for subsidiary support.	Parent regulator/regulation may restrict support, or capital/tax implications of support may be very onerous.
	Group resolution plan makes support for subsidiary likely until parent defaults.	Moderate uncertainty that any sovereign support reflected in parent IDR will be made available to support subsidiary.	Significant uncertainty that any sovereign support reflected in parent IDR will be made available to support 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[c]	Country risks in subsidiary jurisdiction do not constrain subsidiary's ability to use parent support.	Country risks constrain the ability to use parent support at a level one notch below the parent's rating.	Country risks constrain the ability to use parent support at a level two or more notches below the parent's rating.
Shareholder Propensity to Support			
Subsidiary role and relevance	Subsidiary is a key and integral part of the group's business, providing core products/services in parent/core market(s) or strong government policy alignment.	Strong synergies with the parent, providing products/services in strategically important markets or moderate alignment with government policy objectives.	Limited synergies with the parent or shareholder, not operating in target markets or low alignment with government policy objectives.
	Sale is very hard to conceive, and would noticeably alter overall shape of group.	No plans to sell, although disposal would not fundamentally alter group franchise.	Potential candidate for sale, or might already be up for sale; disposal would not be material for group franchise.
		Country risks raise moderate doubts on long-term commitment to subsidiary.	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.	High reputational risk for parent, with potential for significant negative impact on other parts of group.	Reputational risk would probably be containable for parent.
	Subsidiary has same brand as parent.	Subsidiary branding combines parent and own branding.	Subsidiary is 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.	Significant management independence; Some operational/regulatory restrictions on transfers of capital and funding.	Considerable management independence; Significant operational/regulatory restrictions on transfers of capital and funding.
	Full ownership or large majority stake (more than 75%) supports integration.	Ownership of less than 75%, but minority shareholder(s) have limited impact on parent-subsidiary integration.	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 questions 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.	Parent has not made any legal commitment to support subsidiary.
		Potential acceleration of parent debt provides moderate incentive to prevent subsidiary default.	Subsidiary default would not trigger acceleration of parent debt.

[a] Indicates typical differential between support-driven Long-Term IDR of subsidiary and Long-Term IDR of parent. Subsidiary could be rated higher than the level implied by shareholder support if it has a higher SCP (subject to Country Ceilings or other risks related to capital controls/extraction) or GSR. When the shareholder's IDR is above its SCP (or VR for a bank due to a buffer of qualifying junior debt), the subsidiary's SSR may be notched off the parent SCP or VR
[b] Where Fitch judges support to be unlikely or highly uncertain, the Long-Term IDR of a subsidiary with limited importance may be based solely on its standalone strength, or may be notched up from a rating level commensurate with its standalone strength
[c] See below, *Country Risks* for more information on how Country Ceilings and our assessment of transfer and convertibility risks can constrain ratings
Source: Fitch Ratings

If there is significant uncertainty about support flowing through the shareholder, notching between shareholder and subsidiary IDRs may be increased. If this uncertainty is considered to be high, Fitch may use the shareholder's SCP (or VR, where assigned), rather than its IDR, as the anchor in assessing the shareholder's ability to support its subsidiary.

Group Ratings

Where a subsidiary is very large (for example, accounting for more than 25% of group assets, equity or revenues), the parent may not be able to support the subsidiary because its balance sheet is simply not big enough, it does not generate sufficient operating cash flow, or it does not have sufficient access to the capital markets. Furthermore, such very large subsidiaries tend to be highly integrated with their parents in terms of management, balance sheet fungibility and systems, meaning subsidiary and parent credit profiles are highly correlated. In such cases, Fitch will assign 'group' ratings to the parent and subsidiary, reflecting that their credit profiles cannot be meaningfully disentangled.

Both the size and integration characteristics must be met for group IDRs to be assigned. If a subsidiary is highly integrated, but relatively small and does not make a significant contribution to the group's overall credit profile, then its IDR, if assigned, will be based on either its parent rating (if shareholder support is believed to be forthcoming) or its own SCP (if shareholder support is not believed to be forthcoming). Group SCPs and, hence, IDRs, may also be applied to affiliate entities or entities in the same group, for example, under a holding company structure, where operations are highly integrated or complementary to the functioning of the group or where regulation effectively makes entities within a group liable for each other's losses.

Support from Affiliate Entities

Support from affiliate entities, as well as parent institutions, may be factored into non-bank financial institution ratings, where this potential support is considered strong. Fitch will consider in particular whether (i) the affiliate company's propensity to support could be materially weaker because it does not hold a stake and, therefore, would not suffer any direct balance-sheet impairment as a result of the rated entity's bankruptcy; and (ii) the regulator of the affiliate institution may restrict support to safeguard the solvency of the former.

Nature of Parent-Subsidiary Relationship

Subsidiaries that support the parent's core business (e.g. captive auto lenders, or non-bank financial institution subsidiaries of banks acting as group treasuries) are likely to have a higher propensity to receive support than non-bank financial institution subsidiaries of corporate parents, which are more akin to financial investments. Where the parent company is highly regulated (e.g. banks and insurance companies), we will consider the extent to which regulatory restrictions on capital/liquidity may affect the parent company's ability to support its subsidiary. Where entities, such as captive finance companies, are owned by lightly regulated non-financial shareholders, regulation typically has a lower weighting.

Potential support from federal, state or other subnational (regional, municipal or local) authorities as shareholders can be sufficiently strong to influence a non-bank financial institution's IDR and is typically expressed in the form of an SSR. In assessing a subnational's ability to provide support, Fitch considers the overall financial flexibility of the subnational government (to the extent that this may be greater or lower than suggested by its ratings), including the size of its budget, available liquidity and ability to raise additional debt, if required. Fitch will also consider the existence of any special relationship between the subnational and the non-bank financial institution (for instance, if the non-bank financial institution has an important policy role or agency function in the region). Lastly, the systemic importance of the non-bank financial institution to the regional financial system and economy as a whole will be considered (as measured, for example, by its shares of loans in the region).

Notching Up for Support

In a small number of cases, Fitch may notch up from a non-bank financial institution's SCP where a top-down approach has been deemed to not be applicable, but there is a modest degree of support likelihood and the source of support (shareholder or government) is stronger than the SCP. A SSR or GSR will not be assigned in these cases, given that support ratings indicate the

Limitations on Bottom-Up Support Uplift Based on Support Provider's Credit Profile

Support Provider's IDR or SCP	Maximum Rating Uplift[a]
'A-' & above	Up to three notches with the IDR capped at 'A-'
'BBB' category	Up to three notches '
'BB' category	One notch
'B' category	No uplift
'CCC' category & below	No uplift

[a] In all instances, the maximum rating uplift is constrained to a level at least one notch below that implied by the most conservative top-down assessment (typically equal to or less than three notches below the shareholder ability anchor).
Source: Fitch Ratings

Limitations on Bottom-Up Support Uplift Based on Support Receiver's Credit Profile

Support Receiver's IDR or SCP	Maximum Rating Uplift[a]
'A-' & above	No uplift
'BBB' category	Up to three notches, but IDR capped at 'A-'
'BB' category	Up to three notches
'B+' or 'B'	Up to three notches
'B-'	Up to two notches
'CCC' category & below	Case-by-case. If uplift does not achieve at least 'B-' IDR, then no notches applied

[a] In all instances, the maximum rating uplift is constrained to a level at least one notch below that implied by the most conservative top-down assessment (typically equal to or less than three notches below the shareholder ability anchor).
Source: Fitch Ratings

Key Rating Drivers When Considering Notching Up For Support

	Two or Three Notches of Uplift from SCP [ab]	One Notch of Uplift from SCP[a]	No Uplift from SCP[a]
Shareholder Ability to Support			
Shareholder Ability [c]	Relative to the shareholders' IDR (or SCP/VR where the IDR reflects support that is not available to the investment/subsidiary), any required support would be immaterial. Country risks constrain the ability to use shareholder support at most two or three notches above the investment/ subsidiary's SCP.	Relative to the shareholders' IDR (or SCP/ VR where the IDR reflects support that is not available to the investment/ subsidiary), any required support would be manageable. Country risks constrain the ability to use shareholder support at most one notch above the investment/ subsidiary's SCP.	Relative to the shareholders' IDR (or SCP/VR where the IDR reflects support that is not available to the investment/ subsidiary), required support is considerable. Country risks constrain the ability to use shareholder support at a level no higher than the subsidiary's SCP.
Shareholder Propensity to Support			
Relevance to Supporting Entity	More meaningful product/service alignment with some benefit to the shareholders' competitive profile, or more meaningful alignment with government policy. Non-strategic/non-core majority or minority controlling investment stake with a longer-term investment horizon.	Modest product/service alignment with a modest benefit to the shareholders' competitive profile, or modest alignment with government policy. Non-strategic/non-core majority or minority controlling investment stake with a longer-term investment horizon.	The subsidiary exhibits no meaningful role in the activities of the shareholder. Shareholder investment is non-strategic, with a short or uncertain investment horizon.
Reputational Risk	Some, but containable, reputational risk for the shareholder in allowing the investment/subsidiary to default. Modest to meaningful brand alignment possible.	Low reputational risk for the shareholder in allowing the investment/subsidiary to default. No or modest brand alignment possible.	Low reputational risk for the shareholder in allowing the investment/subsidiary to default. Independently branded.
Integration	More meaningful integration or governance alignment possible.	Modest levels of integration or governance alignment possible.	No integration or governance alignment.
Extraordinary Support Record	Meaningful provision of funding support and enhanced funding market access.	Modest provision of funding support.	None or unproven.

[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 issuer in question. For each notch-up scenario the shareholder ability KRD should be met. [b] For three notches of uplift, all of the shareholder propensity KRD descriptions need to be met, or a KRD needs to be assessed with a stronger support propensity characteristic and carry a greater weight.
[c] The shareholder ability anchor should be at least one rating category above the SCP, plus any assigned uplift, in order to be applicable. There is no ability to notch up when the anchor rating is below 'bb-'. Any notching uplift is capped at 'a-'. Source: Fitch Ratings

minimum level to which an issuer's Long-Term IDRs could fall if Fitch does not change its view on potential support, which differs from a bottom-up rating approach.

Where the shareholder has a longer-term investment horizon, the investment or subsidiary has some strategic or governance alignment with the support provider or there has been evidence of the provision of funding, or both, Fitch may consider notching up from the non-bank financial institution's SCP for support. We consider whether, and to what extent, to notch up from the SCP by considering the KRDs relative to the descriptions in the above table.

The IDR (incorporating bottom-up support) is typically limited to the rating level implied by the most conservative top-down assessment (i.e. three notches below the shareholder ability anchor). This limitation may not apply where multiple layers of support exist, to avoid excessive or duplicative discounting of support, such as where a shareholder itself benefits from support from an ultimate parent or government entity, or if an entity benefits from multiple sources of potential support. In instances where a top-down approach is justified, we would also consider the implied rating of a bottom-up approach should it produce a higher IDR outcome.

At support provider ratings of 'BB+' and below (for the IDR) or 'bb+' and below (for the SCP or VR), maximum upward notching is progressively reduced, with no upward notching up for the 'b & below' category. The maximum ability to notch up relative to the shareholder's IDR/SCP and the support recipient's SCP are shown in the tables on the previous page.

Government Support Rating

Government support, as expressed by the GSR, usually comes from the national authorities of the jurisdiction where the non-bank financial institution is domiciled, but in rare cases, Fitch may also assess the possibility of extraordinary support being made available to a non-bank financial institution from a combination of national sovereign authorities, subnational authorities or international public institutions.

Key Rating Drivers for Policy Non-Bank Financial Institutions' GSRs

	Equalisation with Sovereign Rating[a]	Notched Down from Sovereign Rating[a]	No Impact from Government Ties[a]
Ownership	Government ownership is long-term and strategic; Government is usually the 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 or function, which would be difficult to transfer.	Less significant policy role or function, which could be more easily transferred to another entity; Significant commercial operations.	No or very limited policy role or function.
Guarantees and legal status	Full guarantee of entity or guarantees on most funding; Provision of capital support, or arrangements are in place to provide special access to government financing; Legal status provides protection for creditors.	Entity is 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 non-bank financial institution in question. Source: Fitch Ratings

Support decisions from the authorities for non-bank financial institutions are more often driven by the entity's policy role or function, as opposed to by its systemic importance. Such a role or function may be direct or indirect (e.g. as a subsidiary of a state-owned parent). Where certain non-bank financial institutions have activities more akin to financial utilities or more integrated into the wider financial system, Fitch may consider such entities to be systemically important.

Fitch's starting point in determining a GSR is the sovereign's Long-Term Foreign-Currency IDR. Although the sovereign rating only reflects Fitch's view on the likelihood of the government servicing its own debt, in practice this is usually closely correlated with its broader financial flexibility, and therefore its ability to provide support to the financial sector.

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 'b*' category or lower. Where Fitch does not assign a rating or Credit Opinion, Fitch will either not assign a GSR or assign a GSR at 'No Support', indicating either an inability to reliably assess sovereign creditworthiness or clear concerns about the authorities' ability or propensity to support the entity.

Policy Non-Bank Financial Institutions

Due to the roles, special status and ownership of policy-oriented non-bank financial institutions, we usually assign GSRs and IDRs to such entities in line with, or close to, the rating of the sovereign in the jurisdiction where it is domiciled. In deciding whether to equalise a policy non-bank financial institution's rating with the sovereign rating, or notch it down, we focus on the KRDs in the table above. The role or functions of policy non-bank financial institutions are typically conducted on a commercial basis or form part of a commercially driven entity. Where this is not applicable other criteria will likely apply (see right).

Government-related non-bank financial institutions that are not-for-profit would be typically rated by the International Public Finance Group using the Government-Related Entities Rating Criteria as the primary rating criteria.

Systemically Important Non-Bank Financial Institutions

Where a non-bank financial institution is assessed as systemically important, we start with the sovereign's Long-Term Foreign-Currency IDR. Where Fitch views the authorities' propensity to support as high, the GSR is typically close to the level of the sovereign rating, as shown below.

Typical Government Support Rating for Systemically Important Non-Bank Financial Institutions Where Support Propensity Is High

Sovereign Foreign-Currency IDR	Typical Government Support Rating in Case of High Support Propensity
'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 notches below sovereign rating
'B' category and Below	Equalised with sovereign rating

Source: Fitch Ratings

Key Rating Drivers for Systemically Important Non-Bank Financial Institutions' GSRs

	Positive Drivers[a]	Negative Drivers[a]
Government Ability to Support[b]		
Size of financial system	Low debt/GDP ratio and low/moderate vulnerability to large losses in downturn.	High debt/GDP ratio and moderate/high vulnerability to large losses in downturn.
Structure of financial system	Low/moderate system asset concentration, owned mainly by strong shareholders, reducing contingent liability for sovereign.	High concentration of system assets, limited ownership by strong shareholders.
Sovereign financial flexibility (for rating level)	Low sovereign debt or good market access, large foreign-currency reserves; Financial system predominantly funded by long-term/stable local-currency liabilities.	High sovereign debt or uncertain market access, low foreign-currency reserves; Financial system has considerable short-term foreign-currency funding.
Government Propensity to Support[b]		
Resolution legislation	n.a.	Legislation provides for losses being imposed on senior creditors in resolution, and authorities have credible intention to use it.
Support stance	Very strong and predictable record of timely support for systemic institutions; Consistently strong statements on support for the financial system.	Inconsistent record, possibly including significant defaults or concerns over support timeliness; Consistent statements on intention to bail in senior creditors.
Systemic importance	Exceptionally high systemic importance to financial system and contagion risk; Dominant market shares or highly strategic policy role.	Moderate or low systemic significance, more limited contagion risk or limited policy role.
Liability structure	Very limited, if any, politically acceptable possibilities to bail in senior creditors.	High foreign or 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] When scoring each KRD, we consider which description, in aggregate, best reflects our assessment of the given KRD for the issuer in question. Where neither the positive or negative assessments apply, the KRD will be scored as 'neutral'.
[b] The KRDs identified in this table determine the levels of GSRs relative to the ranges indicated in the *Typical Government Support Rating For Systemically Important Non-Bank Financial Institutions Where Support Propensity is High* table.
Source: Fitch Ratings

To determine where to assign an individual issuer's GSR with regard to the ranges indicated in the table on the previous page, Fitch considers the factors outlined in the table above, which focuses on the sovereign's ability and propensity to provide support to the financial system, and the issuer specifically. Where a KRD is scored as positive, this supports the 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 issuer's GSR will also take account of GSRs assigned to other systemic financial institutions in the market, such as banks.

The extent to which a positively or negatively scored KRD influences the GSR of a specific issuer depends on the weighting assigned to it. The typical weighting assigned to the KRDs is shown in the table entitled *Key Rating Drivers – Government Support Rating*. The 'Resolution Legislation' KRD can be particularly important for systemically important non-bank financial institutions. Where this is scored as negative and as of high importance, it usually results in the GSR being assigned at 'No Support'.

Non-Bank Financial Institution Business Models

This section outlines the core and complimentary financial metrics that, together with other relevant analytical considerations, are specific to the five major non-bank financial institution sub-sectors and any specific business models defined within these sub-sectors. The core metric(s) for each KRD are believed by Fitch to have the greatest explanatory power.

The table below outlines Fitch's classifications of balance-sheet usage by business model, with the applicable financial metrics guided by the extent of balance-sheet usage employed, as determined by the typical differentiating factors outlined in the table on the following page. There are business models within some sub-sectors that may have differing balance-sheet usage (for example, auto rental and equipment rental companies under commercial finance), in which case different metrics would be used. For hybrid business models that have both 'high' and 'low' balance-sheet-usage characteristics, the assessment is typically driven by the business activity that has the greater influence on the issuer's risk profile and financial performance.

The core metrics used to determine the implied business profile score for a non-bank financial institution, as a function of its business model, are outlined in Annex 3.

Fintech
Financial technology (fintech) companies span a wide range of business models, regulatory frameworks, degrees of balance-sheet risk and funding sources. These four factors will be the primary determinants of the applicable rating criteria for fintech companies (be it the Non-Bank Financial Institutions Criteria or otherwise). Fintech companies with hybrid business models may be assessed using a combination of rating criteria. When a fintech company is assessed as a non-bank financial institution, the substance of the business model and the extent of balance sheet usage will be the primary determinants of which sub-sector and core metrics are applied.

Broad Categorisations of Balance Sheet Usage by Business Model

Sector	Sub-sector	Business focus	Balance sheet usage
Finance and Leasing Companies	Consumer finance	Auto lending	High
		Credit card lending	High
		Student lending	High
		Mortgage origination	High
		Factoring	High
		Pawn brokerage	High
		Payday lending	High
		Debt purchasing	Medium
	Commercial finance	Commercial lending	High
		Mortgage REITs	High
	Leasing	Aircraft/engine leasing	High
		Container leasing	High
		Fleet leasing	High
		Truck leasing	High
		Railcar leasing	High
		Rolling stock leasing	Medium
	Other	Auto rental	High
		Equipment rental	High
		Marketplace lending	Low
		Mortgage servicing	Low
		Debt collection	Low
Securities Firms	Broker-dealers	-	High
	Interdealer brokers and market makers	-	Low
	Retail brokers and wealth managers	-	Medium
Business Development Companies	–	-	High
Financial Market Infrastructure Companies	Exchanges	-	Low
	Clearing houses	-	Low
	Central securities depositories without bank licenses	-	Low[a]
Investment Managers	Traditional IMs	-	Low
	Alternative IMs	-	Low/Medium
	Investment companies	-	High
	Pension funds	-	High
	Investment companies and permanent capital funds	-	High
	Open-end investment funds	-	High

[a] Excluding guaranty funds
Source: Fitch Ratings

Typical Differentiating Factors Between High and Low Balance-Sheet-Usage Non-Bank Financial Institutions

Attribute	High-Balance-Sheet-Usage Non-Bank Financial Institution	Low-Balance-Sheet-Usage Non-Bank Financial Institution
Level of tangible assets on balance sheet	High	Low
Balance-sheet exposure to market, credit and/or residual value risks	High	Low
Primary sources of earnings	Net interest margin, dividend/interest income, trading/investment gains	Commissions, fees, services, data/information sales
Primary uses of funding	Lending, investing, purchasing lease assets, financing securities inventory	Mergers and acquisitions, capital expenditures, enhanced return on equity, dividend recapitalisation
Reliance on funding in order to conduct core business activities	High	Low
Primary sources of debt repayment (absent refinancing)	Repayment or liquidation of balance sheet assets	Cash flow generation, monetisation of future contractual cash flows, platform sales

Source: Fitch Ratings

Finance and Leasing Companies

The sections below cover the core and complementary metrics and other analytical attributes considered for the financial profile KRDs applicable to both high- and low-balance-sheet-usage finance and leasing companies. Tiering of benchmarks by SROE is not applied to balance-sheet-light finance and leasing companies as they are less directly influenced by operating environment dynamics and exhibit limited balance-sheet impairment risk.

The degree of balance sheet usage by a finance and leasing company is the primary determinant of which core and complementary metrics Fitch applies in order to arrive at the implied KRD scores. Finance and leasing companies with high balance-sheet-usage will typically be assessed on the basis of balance sheet-oriented metrics and finance and leasing companies with low balance-sheet-usage will typically be assessed on the basis of cash flow-oriented metrics. That said, Fitch may focus on cash flow metrics or employ a hybrid analysis between balance sheet and cash flow metrics to assess the financial profile factor scores of high balance-sheet-usage finance and leasing companies where re-lease risk is relatively low, the lessees are of a high credit quality, cash flow is more predictable, residual value risk is limited or structural barriers to entry and competition exist.

The asset quality KRD core metric for finance and leasing companies is *impaired and non-performing loans or leased assets to loans or leased assets*. The complementary metrics listed to the right and other considerations discussed below provide important additional information relating to the assessment of asset quality. The assigned score can incorporate these considerations by applying the possible adjustment factors listed under the *Asset Quality*, *Asset Performance or Counterparty Exposures* portion of the *Standalone Assessment* section.

Complementary Asset Quality Metrics

Loan loss allowances/impaired loans
Impaired loans less loan loss allowances/tangible equity
Net chargeoffs/average loans
Residual value gains (losses)/book value of assets

Source: Fitch Ratings

Asset Quality Benchmark – Finance and Leasing Companies

		Implied KRD Score					
Metric (%)	SROE Score	aa and Above	a	bbb	bb	b	ccc and Below
Impaired and non-performing ratio[a]	'aa' category or higher	x≤1	1<x≤3	3<x≤6	6<x≤14	14<x≤25	x>25
Impaired and non-performing ratio[a]	'a' category	x≤0.25	0.25<x≤2	2<x≤5	5<x≤12	12<x≤20	x>20
Impaired and non-performing ratio[a]	'bbb' category		X≤0.5	0.5<x≤4	4<x≤10	10<x≤17.5	x>17.5
Impaired and non-performing ratio[a]	'bb' category			x≤0.75	0.75<x≤5	5<x≤15	x>15
Impaired and non-performing ratio[a]	'b' category				x≤1	1<x≤12.5	x>12.5
Impaired and non-performing ratio[a]	'ccc' category or lower					x≤1	x>1

[a] For countries or asset classes where the impaired and non-performing framework is not used, delinquency ratios (typically 30-day) may be used as a substitute. For leasing companies, the impairment ratio is calculated as impairments on leased assets plus incurred gains and losses on the sale of leased assets/total leased assets.
Note: Fitch may exclude or normalise a quarterly data point if it is believed to be unduly influenced by seasonality rather than reflecting a longer-term asset quality trend.
Source: Fitch Ratings

Earnings and Profitability Benchmarks – Finance and Leasing Companies[a]

		Implied KRD Score					
Metric (%)	SROE Score	aa and Above	a	bbb	bb	b	ccc and Below
Pre-tax income/average assets[b]	'aa' category or higher	x>4.0	3.0<x≤4.0	2.0<x≤3.0	1.0<x≤2.0	0<x≤1.0	x≤0
Pre-tax income/average assets[b]	'a' category	x>5.0	3.5<x≤5.0	2.5<x≤3.5	1.0<x≤2.5	0<x≤1.0	x≤0
Pre-tax income/average assets[b]	'bbb' category		x>6.0	4.0<x≤6.0	1.0<x≤4.0	0<x≤1.0	x≤0
Pre-tax income/average assets[b]	'bb' category			x>6.0	2.0<x≤6.0	0<x≤2.0	x≤0
Pre-tax income/average assets[b]	'b' category				x>7.0	0<x≤7.0	x≤0
Pre-tax income/average assets[b]	'ccc' category or lower					x>7.0	x≤7
EBITDA/total revenues[cd]	All	x>50	30<x≤50	20<x≤30	10<x≤20	0<x≤10	x≤0

[a] Excluding aircraft leasing companies and debt purchasers/collectors that are separately addressed below.
[b] For high balance-sheet-usage finance and leasing companies.
[c] For low balance-sheet-usage finance and leasing companies.
[d] Tiering by SROE is not applied given that balance-sheet-light finance and leasing companies are less directly influenced by operating environment dynamics, and exhibit limited balance-sheet-impairment risk.
Source: Fitch Ratings

Fitch assesses loan and lease impairments, related loss allowances and asset growth trends relative to market cycles and relative to the firm's underwriting criteria and articulated risk profile. Adjustments will also be made where necessary to account for seasonality and other distortions caused by growth.

When assessing types of businesses or equipment financed, granularity of portfolios, sector concentrations, loan-to-value ratios, and relative residual-value risks are important considerations. For rental companies, lessee quality may be less relevant depending on the duration of the rental agreement and the type of equipment being rented.

The quality of an issuer's servicing and collection platform is also an important consideration given its influence on impairment/delinquency and charge-off experience. For leasing companies, Fitch considers an issuer's ability to repossess and dispose of collateral, flexibility with regards to disposal channels and an issuer's ability to rapidly de-fleet or re-fleet in response to changing market conditions. Collateral sale proceeds are considered over time relative to residual values to assess the effectiveness of depreciation policies.

For low-balance-sheet-usage issuers, asset quality is assigned a lower weight. For debt purchasers, whose assets are typically impaired, but acquired at a significant discount, Fitch focuses on the stability and resilience of cash flow generation from acquired portfolios relative to their purchase price. Also assessed for debt purchasers are industry measures such as gross 'cash-on-cash' multiples, net cash-on-cash multiples (net of collection activity costs) and price paid/face value of purchased assets, where available.

The earnings and profitability KRD core metric for finance and leasing companies with high balance-sheet-usage is *pre-tax income/average assets*, while for finance and leasing companies with low balance-sheet-usage, the earnings and profitability KRD core metric is *EBITDA/revenue.*

The complementary metrics listed to the right provide important additional information about the drivers of the core metric. These considerations can be reflected in the application of the possible adjustment factors to listed in the *Earnings and Profitability* portion of the *Standalone Assessment* section.

In assessing earnings quality, the focus is on recurring cash-based earnings, principally net interest, lease and fee income, as opposed to nonrecurring gains/losses, non-cash gains or mark-to-market gains on derivatives or investments. Where a finance and leasing company securitises receivables and removes them from its balance sheet, or services assets not on its balance sheet, Fitch focuses on performance measures relative to average managed assets.

Fitch typically focuses on cash flow profitability metrics for leasing companies where the average lease term is relatively short, such as rental car companies and small-ticket lessors, and for companies with proven stable asset-based cash generation or significant non-balance sheet-

Complementary Earnings and Profitability Metrics

Pre-tax income/average equity[a]
Residual value gains (losses)/pre-tax income[a]
Operating expenses/total net operating income[a]
Depreciation expenses/total revenues[a]
Pre-tax income/revenues[b]

[a] Applicable to finance and leasing companies with high balance-sheet usage.
[b] Applicable to finance and leasing companies with low balance-sheet usage.
Source: Fitch Ratings

Earnings and Profitability Benchmark – Aircraft Lessors

Metric (%)	SROE Score	Implied KRD Score: aa and Above	a	bbb	bb	b	ccc and Below
Net spread (lease yield – funding costs)	'a' category or higher[a]	>15	5<x≤15	2<x≤5	1<x≤2	0<x≤1	x≤0
Net spread (lease yield – funding costs)	'bbb' category		>15	5<x≤15	1<x≤5	0<x≤1	x≤0
Net spread (lease yield – funding costs)	'bb' category			>15	5<x≤15	1<x≤5	x≤1
Net spread (lease yield – funding costs)	'b' category				>15	5<x≤15	x≤5
Net spread (lease yield – funding costs)	'ccc' category or lower					>15	x≤15

[a] SROE score above 'a' considered not relevant for the sector.
Source: Fitch Ratings

Earnings and Profitability Benchmark — Debt Purchasers/Collectors

Metric (%)	SROE Score	Implied KRD Score: aa and Above[a]	a	bbb	bb	b	ccc and Below
EBITDA/total revenue[b]	All		x>80.0	60<x≤80	40<x≤60	0<x≤40	x≤0

[a] Benchmark range above 'a' considered not relevant for the sector.
[b] Tiering by SROE not applied as operating environment dynamics have a less direct impact.
Source: Fitch Ratings

related earnings, such as debt purchasers and European based rolling stock companies. Fitch may adjust its EBITDA calculations to exclude depreciation expense if it is believed to be a recurring operating expense with limited scope to decrease capital expenditures in periods of weak economic activity or reduced operational liquidity. However, in that case, Fitch would look to add back proceeds from the sale of leased assets to its calculation of cash flow, as this would likely be deemed a significant source of debt repayment.

The flexibility of the cost structure is also an earnings and profitability consideration. Operating expenses are considered relative to revenue, loans or leases, including the mix of variable and fixed costs, as cost structures may be offset by other factors, such as lower credit losses or higher asset yields. Depreciation expense is typically a significant non-cash item for leasing companies and Fitch views it as an important cost consideration, as such companies typically need to continually replace equipment involved in operating leases and stay within certain age parameters.

For some finance and leasing sub-sectors, such as aircraft lessors and debt purchasers, we use a different metric/benchmark range to better take account of risk-adjusted returns or business model attributes specific to the sector.

The capitalisation and leverage KRD core metric for finance and leasing companies with high balance-sheet usage is *gross debt divided by tangible equity*. The assigned KRD score will reflect, where relevant, the metrics below and the application of possible adjustment factors listed under the *Capitalisation and Leverage* portion of the *Standalone Assessment* section.

For equipment lessors, Fitch will not exclude maintenance right assets and lease premiums from tangible equity if these balance sheet items have sufficient economic value to support creditors.

For finance and leasing companies with low balance-sheet usage, the core metric is *gross debt/EBITDA*. For debt purchasers, Fitch will also assess gross debt/estimated remaining collections, where available.

Certain finance and leasing business models/asset classes, despite being balance-sheet-intensive, may have features that warrant consideration of cash-flow-based leverage ratios as the core KRD metric. These features include benefitting from high-quality lessees, long-term contractual cash flows, limited order book/impairment risk or structural barriers to entry/competition. The same may be applicable for leasing companies where the average lease term is relatively short, such as rental car companies and small-ticket lessors.

Capitalisation and Leverage Benchmarks – Finance and Leasing Companies

		Implied KRD Score					
Metric (x)	SROE Score	aa and Above	a	bbb	bb	b	ccc and Below
Gross debt/tangible equity[a]	'aa' category or higher	x<1.0	1.0≤x<3.0	3.0≤x<5.0	5.0≤x<8.0	8.0≤x<25.0	x≥25.0
Gross debt/tangible equity[a]	'a' category	x<0.8	0.8≤x<3.0	3.0≤x<5.0	5.0≤x<7.5	7.5≤x<22.5	x≥22.5
Gross debt/tangible equity[a]	'bbb' category		x<0.75	0.75≤x<4.0	4.0≤x<7.0	7.0≤x<20.0	x≥20.0
Gross debt/tangible equity[a]	'bb' category			x<0.6	0.6≤x<5.5	5.5≤x<17.5	x≥17.5
Gross debt/tangible equity[a]	'b' category				x<0.5	0.5≤x<12.5	x≥12.5
Gross debt/tangible equity[a]	'ccc' category or lower					x<0.5	x≥0.5
Gross debt/EBITDA[bc]	All	x<0.50	0.50≤x<1.5	1.5≤x<2.5	2.5≤x<3.5	3.5≤x<5.0	x≥5.0

[a] For high balance-sheet-usage finance and leasing companies. With respect to equipment lessors, Fitch will not exclude maintenance right assets and lease premiums from tangible equity if these balance sheet items have sufficient economic value to support creditors.
[b] For low balance-sheet-usage finance and leasing companies.
[c] Tiering by SROE is not applied given that balance-sheet-light finance and leasing companies are less directly influenced by operating environment dynamics and exhibit limited balance sheet impairment risk.
Source: Fitch Ratings

For commercial mortgage lenders, Fitch may add back accumulated depreciation on the real estate portfolio to tangible equity given the view that property values in tier one markets will generally rise over the longer term. The company's track record of recognising gains upon exiting real estate assets will be important when determining this adjustment.

Fitch uses two core metrics – (i) unsecured debt/total debt and (ii) liquid assets (unrestricted cash and liquid investments) plus undrawn committed facilities/short-term funding – for the funding, liquidity and coverage KRD for high-balance-sheet-usage finance and leasing companies to assess funding flexibility and the ability to meet near-term commitments. The implied score is an average of the implied score generated from each core metric. For finance and leasing companies with low balance-sheet usage, Fitch assesses funding, liquidity and coverage, primarily on the basis of interest coverage, with the assessment of short-term liquidity a complementary metric. Where a high balance sheet business model involves a significant amount of capital expenditure and order book commitments, Fitch would also consider cashflow coverage of debt and other contractual obligations and adjust funding, liquidity and coverage scores further, if needed. Where preferred dividends are paid, Fitch calculates EBITDA coverage of both interest expense and preferred dividends.

The complementary metrics listed on the following page provide important additional information with the assigned score being subject to the application of the possible adjustment factors listed under the Funding, Liquidity and Coverage portion of the Standalone Assessment section.

Fitch focuses on unsecured debt as a percentage of total debt and, by extension, unencumbered assets relative to unsecured debt, as an overreliance on secured financing sources reduces financial flexibility. In considering unencumbered assets, Fitch also adjusts based on the seniority of liens that may exist in financing agreements and for pledged assets.

For finance and leasing companies with low balance-sheet usage, Fitch's analysis typically focuses on cash-flow metrics. The types of entities subject to this approach include leasing companies where the average lease term is relatively short, such as rental companies and small-ticket lessors, and companies with proven stable asset-based cash generation or significant non-balance sheet-related earnings, such as debt purchasers/collectors. Fitch's analysis will include an assessment of the extent to which, in a downturn scenario, companies have sufficient near-term capacity to conserve liquidity by reducing investment in new assets while continuing to extract cash flows from those already owned.

When assessing funding sources, Fitch looks at the diversity of funding sources, the portion of credit facilities that is committed versus uncommitted, the composition of the credit providers, the length of the funding relationships, and the frequency with which facilities are utilised.

Complementary Capitalisation and Leverage Metrics

Complementary Capitalisation and Leverage Metrics
Tangible equity/tangible assets[a]
Common equity Tier 1 capital ratio
(Net income-dividends-share repurchases)/beginning equity[a]

[a] Applicable to finance and leasing companies with high balance-sheet usage.
Source: Fitch Ratings

Funding, Liquidity and Coverage Benchmarks – Finance and Leasing Companies

		Implied KRD Score					
Metric	SROE Score	aa and Above	a	bbb	bb	b	ccc and Below
Unsecured debt/total debt (%)[a]	'aa' category or higher	x=100	x=100	35<x<100	10<x≤35	0<x≤10	x=0
Unsecured debt/total debt (%)[a]	'a' category	x=100	x=100	35<x<100	10<x≤35	0<x≤10	x=0
Unsecured debt/total debt (%)[a]	'bbb' category	x=100	x=100	35<x<100	10<x≤35	0<x≤10	x=0
Unsecured debt/total debt (%)[a]	'bb' category			x=100	50<x<100	20<x≤50	x≤20
Unsecured debt/total debt (%)[a]	'b' category				x>95	25<x≤95	x≤25
Unsecured debt/total debt (%)[a]	'ccc' category or lower					x>95	x≤95
Liquid assets + undrawn committed facilities/short-term funding (x)[a]	'aa' category or higher	x>3.5	2<x≤3.5	1<x≤2	0.75<x≤1	0.35<x≤0.75	x≤0.35
Liquid assets + undrawn committed facilities/short-term funding (x)[a]	'a' category	x>3.5	2<x≤3.5	1<x≤2	0.75<x≤1	0.35<x≤0.75	x≤0.35
Liquid assets + undrawn committed facilities/short-term funding (x)[a]	'bbb' category		x>2	1<x≤2	0.75<x≤1	0.35<x≤0.75	x≤0.35
Liquid assets + undrawn committed facilities/short-term funding (x)[a]	'bb' category			x>2.5	1<x≤2.5	0.4<x≤1	x≤0.4
Liquid assets + undrawn committed facilities/short-term funding (x)[a]	'b' category				x>3	0.5<x≤3	x≤0.5
Liquid assets + undrawn committed facilities/short-term funding (x)[a]	'ccc' category or lower					x>3	x≤3.0
EBITDA/interest expense (x)[bc]	All	x>15	10<x≤15	6<x≤10	3<x≤6	1<x≤3	x≤1

[a] For high balance-sheet-usage finance and leasing companies.
[b] For low balance-sheet-usage finance and leasing companies.
[c] Tiering by SROE is not applied given that balance-sheet-light finance and leasing companies are less directly influenced by operating environment dynamics and exhibit limited balance sheet impairment risk.
Source: Fitch Ratings

An assessment of an issuer's short-term funding profile and liquidity needs is also an important consideration. When assessing the risks relating to near-term or concentrated maturities in a given time period, Fitch will consider asset maturities, the ability of the issuer to generate cashflow, and the availability of contingent funding.

With respect to contingent funding, Fitch would expect investment-grade finance and leasing companies to be able to demonstrate contingency plans that allow the entity to navigate a prolonged disruption in liquidity and funding markets. Contingency funding plans take on added significance for leasing companies with large order books, given that these obligations must be financed through a variety of economic environments. Order books are more prevalent in the aircraft, railcar and container leasing sectors. A lessor's order book is considered in relation to the size of its balance sheet, existing fleet, operational and marketing capabilities, the extent to which committed leases are in place at the time of the order, as well as its capital-raising track record.

When there is a significant portion of securitisation activity, Fitch may compare the quality of securitised receivables to those remaining unencumbered to ensure that no "cherry picking" or adverse selection has occurred. Fitch may also assess the liquidity of the asset types originated. Where Fitch considers secondary market liquidity for a particular asset class as low, it may view additional capital or liquidity to support that particular asset as appropriate. Additionally, Fitch may factor in an increased likelihood of voluntary support for non-recourse obligations for issuers that are overly reliant on securitisation as a source of funding.

Where relevant, Fitch assesses covenant and security features. A covenant breach may negatively affect Fitch's funding, liquidity and coverage assessment if it is viewed as an indicator of a material change in the entity's risk profile or financial flexibility. While technical defaults, such as a financial covenant violation, may often be waived, these can point to underlying pressures and usually come at a considerable expense.

Fitch typically views mortgage REITs as having weaker liquidity positions than similar finance companies that have not elected REIT status, as REITs have weaker capital retention flexibility. However, REITs that address required dividend distributions through the issuance of new shares, as opposed to cash dividend payments, may have stronger liquidity than REITs that pay out the majority of taxable income as cash dividends to stockholders.

Complementary Funding, Liquidity and Coverage Metrics

Short-term debt/total debt[a]
EBITDA/interest expense[a]
Unencumbered assets/unsecured debt[a]
Dividends/net income[a]
Liquid assets (Unrestricted cash + liquid Investments) + undrawn committed facilities + EBITDA/Short-term funding (maturing within 12 months)[b]

[a] Applicable to finance and leasing companies with high balance-sheet-usage.
[b] Applicable to finance and leasing companies with low balance-sheet-usage.
Source: Fitch Ratings

Securities Firms

This section covers the core and complementary metrics and other analytical attributes considered for the financial profile KRDs applicable to both high and low balance sheet securities firms. The typical balance-sheet usage by activity is shown in the table to the right. For securities firms that have a combination of businesses with different degrees of balance-sheet usage, Fitch will typically evaluate both cash-flow and balance-sheet metrics. Tiering of benchmarks by SROE is not applied to balance-sheet-light securities firms as these are less directly influenced by operating environment dynamics and exhibit limited balance-sheet impairment risk.

For securities firms with high balance-sheet usage, the asset quality KRD score typically has a lower weight in our assessment given that the core business activities (market-making, brokerage, advisory, etc.) incur limited long-term balance sheet risk. Where there is more meaningful balance-sheet exposure to investing and lending activities, the assessment of asset quality is akin to Fitch's analysis for other non-bank financial institution lenders, taking into account loan impairments, related loan loss allowances and asset growth. Inventory credit quality and counterparty risk are considerations for firms engaged in securities and derivatives transactions. For securities firms with low balance-sheet usage, asset quality is typically a lower-influence consideration.

The complementary metrics listed to the right and the other considerations discussed below can provide important additional information relating to the assessment of asset quality and can be reflected through the application of the possible adjustment factors to the implied score listed under the *Asset Quality*, *Asset Performance or Counterparty Exposures* portion of the *Standalone Assessment* section.

Where there is meaningful lending activity, Fitch considers reserve coverage ratios, the adequacy of collateral and margin requirements and the ability to enforce security claims.

Fitch also assesses a firm's exposure to securitisation risks and other on- and off-balance-sheet exposures to the extent these are relevant for the asset quality assessment. Off-balance-sheet risks and commitments will be considered when these are large in relation either to capital or risk-weighted assets, or where they pose significant reputational or liquidity risks.

Securities Firms' Primary Business Activities by Balance Sheet Usage

Activity	Balance Sheet Usage
Market making	High
Prime brokerage	High
Proprietary trading	High
Underwriting	High
Lending	High
Broking	Low
Financial advisory	Low
Post trade services	Low
Investment management	Low

Source: Fitch Ratings

Complementary Asset Quality Metrics[a]

Loan loss allowances/impaired loans (%)
Loan impairment charges/average gross loans (%)
Impaired loans less loan loss allowances/tangible equity
Growth of gross loans (%)

[a] Applicable for securities firms with high balance-sheet usage only.
Source: Fitch Ratings

Asset Quality Benchmarks – Securities Firms

		Implied KRD Score					
Metric (%)	SROE Score	aa and Above	a	bbb	bb	b	ccc and Below
Impaired and non-performing ratio[a]	'aa' category or higher	x≤1	1<x≤3	3<x≤6	6<x≤14	14<x≤25	x>25
Impaired and non-performing ratio[a]	'a' category	x≤0.25	0.25<x≤2	2<x≤5	5<x≤12	12<x≤20	x>20
Impaired and non-performing ratio[a]	'bbb' category		x≤0.5	0.5<x≤4	4<x≤10	10<x≤17.5	x>17.5
Impaired and non-performing ratio[a]	'bb' category			x≤0.75	0.75<x≤5	5<x≤15	x>15
Impaired and non-performing ratio[a]	'b' category				x≤1	1<x≤12.5	x>12.5
Impaired and non-performing ratio[a]	'ccc' category or lower					x≤1	x>1

[a] For high balance sheet securities firms with meaningful exposure to investing/lending. Where disclosed under IFRS 9, impaired loans will be loans classified as being at 'stage 3'. For countries or asset classes where the impaired and non-performing loan framework is not utilised, delinquency ratios (typically 30-day) may be used as a substitute
Source: Fitch Ratings

Earnings and Profitability Benchmarks – Securities Firms

		Implied KRD Score					
Metric (%)	SROE score	aa and Above	a	bbb	bb	b	ccc and Below
Operating profit/average equity[a]	'aa' category or higher	x>20	10<x≤20	5<x≤10	3<x≤5	0<x≤3	x≤0
Operating profit/average equity[a]	'a' category	x>25	15<x≤25	5<x≤15	3<x≤5	0<x≤3	x≤0
Operating profit/average equity[a]	'bbb' category		x>15	10<x≤15	3<x≤10	0<x≤3	x≤0
Operating profit/average equity[a]	'bb' category			x>15	10<x≤15	0<x≤10	x≤0
Operating profit/average equity[a]	'b' category				x>15	0<x≤15	x≤0
Operating profit/average equity[a]	'ccc' category or lower					x>20	x≤20
EBITDA/total gross operating income[b]	All	x>50	30<x≤50	20<x≤30	10<x≤20	0<x≤10	x≤0

[a] For securities firms with high balance-sheet usage.
[b] For securities firms with low balance-sheet usage. Tiering by SROE not applied given the less direct influence of operating environment dynamics and limited balance sheet impairment risk. Source: Fitch Ratings

The earnings and profitability KRD core metric for securities firms with high balance-sheet usage is operating profit/average equity, while for securities firms with low balance-sheet usage, the KRD core metric is EBITDA/revenue. The complementary metrics listed to the right can provide important additional information about the drivers of the core metric. These considerations could be reflected in the application of the possible adjustment factors to the implied score listed under the *Earnings and Profitability* portion of the *Standalone Assessment* section.

Additional earnings and profitability considerations include the stability of earnings and the flexibility of cost structures. Greater reliance on proprietary trading and investment activity would be a negative attribute, while, if a higher risk business is supplemented with more stable operating revenue, this can positively influence the earnings and profitability assessment. Where relevant, Fitch assesses cost structures by business mix. The stability of the compensation ratio through various revenue cycles is an important measure of flexibility of the cost structure.

The core metrics, *Tangible Assets – Reverse Repo – Securities Borrowed/Tangible Equity* and *Gross Debt/EBITDA*, have the greatest explanatory power for the capitalisation and leverage KRD scores for high balance-sheet and low balance-sheet securities firms, respectively. The complementary metrics listed to the right can provide important additional information about a firm's capitalisation and leverage profile and can be reflected through the application of the

Complementary Earnings and Profitability Metrics[a]

Operating expense/total gross operating income
Compensation/total net operating income

[a] Applicable for securities firms with high balance-sheet usage only.
Source: Fitch Ratings

Complementary Capitalisation and Leverage Metrics[a]

Total assets/total equity
(Tangible assets + grossed up derivatives, reverse repos & securities borrowed)/ tangible equity
(Tangible assets - reverse repos)/tangible equity
Common equity Tier I capital ratio

[a] Applicable for securities firms with high balance-sheet usage only.
Source: Fitch Ratings

Capitalisation and Leverage Benchmarks – Securities Firms

		Implied KRD Score					
Metric (x)	SROE Score	aa and Above	a	bbb	bb	b	ccc and Below
(Tangible assets – reverse repo – sec. borrowed)/tangible equity[a]	'aa' category or higher	x<5.0	5.0≤x<10.0	10.0≤x<15.0	15.0≤x<20.0	20.0≤x<30.0	30.0≤x
(Tangible assets – reverse repo – sec. borrowed)/ tangible equity[a]	'a' category	x<2.5	2.5≤x<10.0	10.0≤x<15.0	15.0≤x<20.0	20.0≤x<30.0	30.0≤x
(Tangible assets – reverse repo – sec. borrowed)/ tangible equity[a]	'bbb' category		x<5.0	5.0≤x<10.0	10.0≤x<15.0	15.0≤x<25.0	25.0≤x
(Tangible assets – reverse repo – sec. borrowed)/ tangible equity[a]	'bb' category		—	x<5.0	5.0≤x<12.0	12.0≤x<20.0	20.0≤x
(Tangible assets – reverse repo – sec. borrowed)/ tangible equity[a]	'b' category		—		x<7.0	7.0≤x<15.0	15.0≤x
(Tangible assets – reverse repo – sec. borrowed)/ tangible equity[a]	'ccc' category or lower					x<7.0	7.0≤x
Gross debt/EBITDA [b]	All	x<0.5	0.5≤x<1.5	1.5≤x<2.5	2.5≤x<3.5	3.5≤x<5.0	x≥5.0

[a] For securities firms with high balance-sheet usage.
[b] For securities firms with low balance-sheet usage. Tiering by SROE not applied given the less direct influence of operating environment dynamics and limited balance-sheet-impairment risk.
Source: Fitch Ratings

Funding, Liquidity and Coverage Benchmarks – Securities Firms

		Implied KRD Score					
Metric	SROE	aa and Above	a	bbb	bb	b	ccc and Below
Liquid assets + undrawn committed facilities/short-term funding (x)[a]	'aa' category or higher	x>3.5	2<x≤3.5	1<x≤2	0.75<x≤1	0.35<x≤0.75	x≤0.35
Liquid assets + undrawn committed facilities/short-term funding (x)[a]	'a' category	x>3.5	2<x≤3.5	1<x≤2	0.75<x≤1	0.35<x≤0.75	x≤0.35
Liquid assets + undrawn committed facilities/short-term funding (x)[a]	'bbb' category		x>2	1<x≤2	0.75<x≤1	0.35<x≤0.75	x≤0.35
Liquid assets + undrawn committed facilities/short-term funding (x)[a]	'bb' category			x>2.5	1<x≤2.5	0.4<x≤1	x≤0.4
Liquid assets + undrawn committed facilities/short-term funding (x)[a]	'b' category				x>3	0.5<x≤3	x≤0.5
Liquid assets + undrawn committed facilities/short-term funding (x)[a]	'ccc' category or lower					x>3	x≤3.0
EBITDA/interest expense (x)[b]	All	x>15	10<x≤15	6<x≤10	3<x≤6	1<x≤3	x≤1

[a] For securities firms with high balance-sheet usage. [b] For securities firms with low balance sheet usage. Tiering by SROE not applied given the less direct influence of operating environment dynamics and limited balance sheet impairment risk.
Source: Fitch Ratings

possible adjustment factors to the implied score are listed under the *Capitalisation and Leverage* portion of the *Standalone Assessment* section.

For securities firms that maintain substantial assets on the balance sheet or commitments that could require financing, Fitch's assessment of leverage more closely reflects a bank analysis. The quality of capital, absolute size of capital and the firm's capital adequacy ratio can be important considerations. In some jurisdictions where bank-style regulatory capital ratios are disclosed, these would form part of the complementary metrics.

For some securities firms with high balance-sheet usage, a large proportion of cash can be tied up in subsidiaries for regulatory and operational purposes, in which case greater emphasis can be placed on leverage on a net debt basis.

The core metrics for the funding, liquidity and coverage KRD score are *liquid assets plus undrawn committed facilities/short-term funding* for high balance sheet securities firms and *EBITDA/interest expense* for low balance sheet securities firms, respectively. The complementary metrics listed to the right can provide important additional information relating to an issuer's liquidity position and funding dependence.

Where relevant, qualitative considerations such as funding sources and mix, concentrations, business model considerations and refinancing risk, can be reflected through the application of the possible adjustment factors outlined in the *Funding, Liquidity and Coverage* portion of the *Standalone Assessment* section.

Complementary Funding, Liquidity and Coverage Metrics

Long-term funding/illiquid assets[a]
Liquid assets + undrawn committed facilities /short-term funding[b]

[a] Applicable for securities firms with high balance-sheet usage.
[b] Applicable for securities firms with low balance-sheet usage.
Source: Fitch Ratings

Business Development Companies

This section covers BDCs, a non-bank financial institution sub-sector specific to the US and are subject to a variety of regulatory requirements, as dictated by the Investment Company Act of 1940 (40 Act).

Given that BDCs operate in a single operating environment, financial benchmarks are not tiered by SROE.

Asset Quality Benchmark – Business Development Companies

	Implied KRD Score					
	aa and Above	a	bbb	bb	b	ccc and Below
Net realised gains/average portfolio, at value (%)	x>5	2<x≤5	(3)<x≤2	(6)<x≤(3)	(10)<x≤(6)	x≤(10)

Source: Fitch Ratings

The BDC asset quality KRD core metric is *net realised gains as a percent of average portfolio value,* which is a proxy for net charge-offs. The generation of significant cumulative net realised portfolio losses over a cycle may be an indicator of weak underwriting, particularly if performance is meaningfully weaker than peer BDCs.

Complementary metrics are listed in the table to the right. Trends in unrealised portfolio depreciation can serve as an early warning signal of potential asset-quality issues, as BDCs must incorporate the credit profile of the underlying borrowers into quarterly valuation decisions. Concentrations by issuer, industry or vintage are assessed to determine any sensitivity to outsized risk exposures. These factors would be reflected through the application of the possible adjustment factors to the implied score listed under the *Asset Quality, Asset Performance or Counterparty Exposures* portion of the *Standalone Assessment* section.

Net Investment Income/Average Portfolio, at Cost, is the core metric for the earnings and profitability KRD score for BDCs. Outsized investment returns can be as much of a concern as low (or negative) investment returns as the former may indicate an elevated risk profile, while the latter could signal weak underwriting or pricing power. The complementary metrics listed to the right can provide important additional information about the core metric drivers with the possible adjustment factors to the implied score listed under the *Earnings and Profitability* portion of the *Standalone Assessment* section.

Earnings profiles that are comprised primarily of interest income are viewed more favourably by Fitch given the relative stability of this income stream. Outsized contributions from transactional fees, driven by originations or repayment volume or more episodic equity yields are viewed more negatively, as these revenue sources are likely to be more volatile over time or provide the wrong motivations for growth.

When considering unrealised gains and losses arising from the accounting requirement to mark the portfolio to fair value every quarter, Fitch focuses on what gave rise to the changes and the likelihood these marks will be realised. A firm's net realised loss performance will be assessed over time and on a relative basis to gain insight into the strength of its underwriting standards.

A BDC's cost structure is analysed in order to determine the amount of potential flexibility when market conditions are less favourable. In this regard, Fitch considers how much of the cost base is variable. Fitch also considers the structure of the management contract for externally managed firms. A BDC's expenses as a percentage of the portfolio at cost provides insight into the scalability of the platform and its appropriateness with regard to the business model and strategy.

Complementary Asset Quality Metrics

Non-accruals/portfolio, at cost
Non-accruals/portfolio, at value
Net unrealised appreciation (depreciation)/ beginning portfolio, at fair value
Top 10 portfolio investments/equity

Source: Fitch Ratings

Complementary Earnings and Profitability Metrics

Investment income/average portfolio, at cost
Non-interest and non-incentive expenses/average portfolio, at cost
Management + incentive fees/average portfolio, at cost
Compensation/average portfolio, at cost
Net income/average assets

Source: Fitch Ratings

Earnings and Profitability Benchmark – Business Development Companies

	Implied KRD Score					
	aa and Above	a	bbb	bb	b	ccc and Below
Net investment income/average portfolio, at cost (%)	5<x≤10	5<x≤10	5<x≤10	x≤5 or x>10	x≤5 or x>10	x≤5 or x>10

Source: Fitch Ratings

Capitalisation and Leverage Benchmark – Business Development Companies

	Implied KRD Score					
	aa and Above	a	bbb	bb	b	ccc and Below
Asset coverage cushion (%)[a]	x>60%	33%<x≤60%	11%<x≤33%	5%<x≤11%	0%<x≤5%	x = 0%
Leverage implied by asset coverage cushion ranges						
Debt/tangible equity (x) at 200% asset coverage requirement	x<0.25	0.25≤x<0.50	0.50≤x<0.80	0.80≤x<0.90	0.90≤x<1	x≥1
Debt/tangible equity (x) at 150% asset coverage requirement	x<0.36	0.36≤x<0.80	0.80≤x<1.45	1.45≤x<1.73	1.73≤x<2	x≥2

[a] Asset Coverage Cushion is defined as (Total Assets - Total Liabilities Excluding Regulatory Debt - [Regulatory Debt x Asset Coverage Requirement])/(Total Assets - Total Liabilities Excluding Regulatory Debt). Regulatory debt is defined as term corporate debt excluding Small Business Administration borrowings.
Source: Fitch Ratings

Asset Coverage Cushion is the core metric for the capitalisation and leverage KRD score for BDCs. The 40 Act requires BDCs to maintain asset coverage of 200%, which essentially limits debt/equity to 1.0x. However, the Small Business Credit Availability Act permitted BDCs to reduce asset coverage requirements to 150%, subject to board or shareholder approval, which essentially limits debt/equity to 2.0x. A breach of the relevant limit would preclude the firm from incurring additional debt or paying a dividend and will often result in covenant breaches on a BDC's credit facilities.

A BDC's asset coverage cushion and leverage ratio are inter-related. The complementary metrics listed to the right can provide additional important information about the leverage profile. The possible adjustment factors to the implied score are listed under the *Capitalisation and Leverage* portion of the *Standalone Assessment* section.

Fitch uses two core metrics for the funding, liquidity and coverage KRD for BDCs to assess funding flexibility and liquidity coverage. The implied score is an average of the implied score generated from each core metric. The complementary metrics listed to the right can provide important additional information on a BDC's liquidity position and funding dependence. The final assigned score will be subject to the application of the possible adjustment factors to the implied score listed under the Funding, Liquidity and Coverage portion of the Standalone Assessment section.

Fitch evaluates BDCs' liquidity based on unrestricted balance-sheet cash, undrawn borrowing capacity on revolving facilities, portfolio cash generation and cash earnings coverage of dividend payments.

For dividend coverage, Fitch adjusts net interest income for non-cash income and expenses to match cash earnings with dividend payments. BDCs electing to be considered registered investment companies for tax purposes are required to distribute 90% of their taxable income annually to shareholders. As a result, Fitch expects net interest income to fund the majority of dividends over time. Non-cash earnings are generally in the form of payment-in-kind interest and dividends, which are capitalised to the principal amount of the loan or equity security.

Where relevant, qualitative considerations such as funding sources and mix, concentrations, business model considerations, and refinancing risk would be reflected through the application of the possible adjustment factors outlined in the Funding, Liquidity and Coverage portion of the Standalone Assessment section.

Complementary Capitalisation and Leverage Metrics

Debt/tangible equity
(Total assets - total liabilities excluding regulatory debt[a])/ regulatory debt

[a] Regulatory debt is defined as term corporate debt excluding Small Business Administration borrowings
Source: Fitch Ratings

Complementary Funding, Liquidity and Coverage Metrics

EBITDA/interest expense
(Net investment income - non-cash earnings + non-cash expenses)//dividends declared
Non-cash income/interest and dividend income
Short-term debt/total debt

Source: Fitch Ratings

Funding, Liquidity and Coverage Benchmark – Business Development Companies

Implied KRD score	aa and Above	a	bbb	bb	b	ccc and Below
Unsecured debt/total debt (%)	x=100	x=100	35<x<100	10<x≤35	0<x≤10	x = 0
Liquid assets + undrawn committed facilities/short-term funding (x)	x>3.5	2<x≤3.5	1<x≤2	0.75<x≤1	0.35<x≤0.75	x≤0.35

Source: Fitch Ratings

Financial Market Infrastructure Companies (FMIs)

The section focuses on the KRDs for FMIs, which includes exchanges, clearinghouses and non-bank central securities depositories (CSDs). Bank-licensed CSDs are rated under the *Bank Rating Criteria*. There is no tiering of the financial benchmarks by SROE given FMIs' utility-like business model, which is less directly influenced by (and potentially even countercyclical to) operating environment dynamics. Outlined below are the typical characteristics of the different business models within the FMI sub-sector and the applicable criteria.

FMI Sub-Sector Typical Characteristics and Analytical Considerations

	Exchanges	Clearing Houses	CSDs Without Banking License	Bank-Licensed CSDs
Primary Activities	Operate marketplace to buy/sell listed financial instruments, disseminate trade info, provide market data.	Clear and settle trades executed on an exchange, perform trade comparison, act as agent, principal or guarantor on settled trades.	Settle trades, provide safekeeping/custody of securities, act as paying and transfer agent, provide record-keeping services.	In addition to activities similar to those of CSDs without banking licenses, also take deposits from and provide overdraft credit facilities to clients.
Primary Risk(s)	Operational	Counterparty	Operational	Operational, counterparty
Degree of Balance Sheet Risk	Limited	Limited, aside from consolidated guaranty funds	Limited	Present, but often low risk
Degree of Counterparty Risk	Limited	Material	Limited	Modest
Primary Capitalisation and Leverage Metric(s)	Gross debt/EBITDA	Gross debt/EBITDA, supplemented with sufficiency of guaranty fund	Gross Debt/EBITDA	Core capital to weighted risks; regulatory ratios
Primary Earnings and Profitability Metric(s)	EBITDA margin, capex/gross operating income	EBITDA margin, capex/gross operating income	EBITDA margin, capex/gross operating income	Operating costs relative to fees
Primary Master Rating Criteria	Non-Bank Financial Institutions Rating Criteria	Non-Bank Financial Institutions Rating Criteria	Non-Bank Financial Institutions Rating Criteria	Bank Rating Criteria

Source: Fitch Ratings

Counterparty Exposure Attributes – Financial Market Infrastructure Companies

Implied KRD Drivers	aa and Above	a	bbb	bb	b	ccc and Below
Clearing Member Concentration	Very limited clearing member concentration.	Limited clearing member concentration.	Average clearing member concentration.	Average but more volatile clearing member concentration.	Above-average clearing member concentration.	Significant clearing member concentration.
Guarantee Fund Coverage	Guarantee fund covers loss from the simultaneous default of at least two of its largest clearing members.	Guarantee fund covers loss from the simultaneous default of at least two of its largest clearing members.	Guarantee fund covers loss from the simultaneous default of only two of its largest clearing members.	Guarantee fund sometimes covers loss from the simultaneous default of its two largest clearing members.	Guarantee fund covers loss from default of largest clearing member.	Guarantee fund does not cover loss from the default of largest clearing member.
Collateral Coverage of Margin and Guarantee Fund	Appropriate level of collateral to support margin and guarantee fund requirements.	Appropriate level of collateral to support margin and guarantee fund requirements.	Satisfactory level of collateral to support margin and guarantee fund requirements.	Acceptable level of collateral to support margin and guarantee fund requirements.	Sufficient level of collateral to support margin and guarantee fund requirements.	Insufficient level of collateral to support margin and guarantee fund requirements.
Investment Approach for Surplus Funds	Extremely prudent investment of surplus funds and extension of credit to facilitate settlement.	Prudent investment of surplus funds and extension of credit to facilitate settlement.	Less prudent investment of surplus funds and extension of credit to facilitate settlement.	Opportunistic investment of surplus funds and extension of credit to facilitate settlement.	Aggressive investment of surplus funds and extension of credit to facilitate settlement.	Very aggressive investment of surplus funds and extension of credit to facilitate settlement.

Source: Fitch Ratings

Counterparty Exposure — Financial Market Infrastructure Companies

Counterparty risk is the core KRD for clearinghouses given their more material exposure to this risk. CSDs are exposed to settlement risk, which can be mitigated by delivery-versus-payment settlement in central bank money. CSDs with a banking license can be additionally exposed to counterparty risk from short-term lending to clients and liquidity-management operations. For exchanges, counterparty credit risk is low.

The core and complementary considerations are listed in the table to the right and the attribute definitions are listed on the previous page. In analysing counterparty risk, concentrations to clearing members, their credit quality and the steps taken to manage exposure to individual clearing members are assessed. Fitch also assesses the margining process (including margin-setting, concentration by members, monitoring and breaches), adequacy of the guarantee fund, in particular in a stress scenario, and compliance with regulatory requirements. Overall, this assessment is more qualitative than quantitative.

Core and Complementary Counterparty Exposure Considerations

Member Concentration[a]
Collateral Margining[a]
Default Processes/Waterfalls[a]
Limits & Remediation[b]
Clearing Member Standards[b]

[a] Core consideration.
[b] Complementary consideration.
Source: Fitch Ratings

Earnings and Profitability Benchmark — Financial Market Infrastructure Companies

	Implied KRD Score					
	aa and Above	a	bbb	bb	b	ccc and Below
EBITDA/total gross operating income (%)[a]	x>50	30<x≤50	20<x≤30	10<x≤20	0<x≤10	x≤0

[a] There is no tiering of the financial benchmarks by SROE given FMIs' utility-like business model, which is less directly influenced by (and potentially even countercyclical to) operating environment dynamics.
Source: Fitch Ratings

The earnings and profitability KRD core metric for exchanges, clearinghouses and CSDs without banking licenses is *EBITDA margin*, defined as EBITDA divided by total gross operating income, with complementary metrics listed in the table to the right. The assigned score will reflect, where relevant, these metrics and the considerations below through the application of the possible adjustment factors listed in the *Earnings and Profitability* portion of the *Standalone Assessment* section.

Complementary Earnings and Profitability Metrics

Rate per contract
Capital expenditure/gross operating income
Capital expenditure/depreciation and amortisation

Source: Fitch Ratings

In analysing the profitability of FMIs, consideration is given to whether the entity is operating as a profit-maximising entity or not. If it is not a profit-maximising entity (i.e. it is member-owned), the focus is on cost controls (maintaining low execution, clearing, or settlement costs) and break-even results. Where excess profits are typically returned to owner-members, Fitch will assess the ability of a FMI to limit payouts to its owner-members during stressed conditions.

For FMIs that are not member-owned, Fitch assesses the ability to generate profits through various market cycles, the dependency of revenues on transaction volumes (executed, cleared or settled), and the amount of non-transactional revenue sources such as market data and information services, which can help diversify and stabilise performance. Revenues are also assessed by product, geography, and by asset class relative to volume (rate per contract).

Capital expenditures as a percentage of depreciation and amortisation are also assessed to ascertain the degree of reinvestment in the business through cycles. The magnitude of the ratio is not necessarily as important as whether it is positive (implying increased investment in the business), neutral (implying balanced reinvestment in the business) or negative (implying reduced investment in the business).

Gross Debt to EBITDA is the core metric for the capitalisation and leverage KRD score for FMIs due to the low balance-sheet usage of the business models. The complementary metrics listed

Capitalisation and Leverage Benchmark — Financial Market Infrastructure Companies

	Implied KRD Score					
	aa or Above	a	bbb	bb	b	ccc and Below
Gross debt/EBITDA (x)[a]	x<1.0	1.0≤x<2.5	2.5≤x<4.0	4.0≤x<6.0	6.0≤x<8.0	x≥8.0

[a] There is no tiering of the financial benchmarks by SROE given FMIs' utility-like business model, which is less directly influenced by (and potentially even countercyclical to) operating environment dynamics.
Source: Fitch Ratings

to the right can provide important additional information for FMIs' capitalisation and leverage profile, with the assigned score being subject to the application of the possible adjustment factors listed in the *Capitalisation and Leverage* portion of the *Standalone Assessment* section.

For clearinghouses, Fitch considers cash flow leverage metrics, especially in the cases where a clearinghouse does not take legal ownership of margin deposits, but will also review balance-sheet leverage metrics, collateral margining and guarantee fund contributions relative to counterparty exposure. With respect to balance sheet leverage metrics, Fitch primarily considers gross debt to tangible equity.

The assessment of capital adequacy will consider a FMI's capital structure and regulatory requirements, where applicable. Fitch also considers free cash flow relative to gross debt, in order to assess cash flow leverage net of the amount of capital expenditures FMIs are making to maintain and upgrade technology platforms.

As a clearinghouse bears all losses that are not associated with a clearing member default, Fitch may also assess the capital available outside the waterfall to manage potential losses outside of the clearing mechanism. Such losses could include operational losses on margin collateral, or losses or impairments associated with acquisitions.

EBITDA to Interest expense is the core metric for assessing FMIs' funding, liquidity and coverage. The complementary metrics listed to the right can provide important additional information with the assigned score being subject to the application of the possible adjustment factors listed in the *Funding, Liquidity and Coverage* portion of the *Standalone Assessment* section.

For FMIs, access to contingent funding sources is an important analytical consideration. Under normal operating conditions, an exchange or CSD without a banking license has low liquidity needs and primarily relies on operating cash flows to support capital expenditures and near-term debt maturities. Liquidity needs may be elevated during periods of stress and, as such, Fitch considers contingent funding sources such as lines of credit relative to capital expenditures and general corporate purposes.

Where activities require more balance-sheet usage, such as clearing, Fitch considers the amount of contingent funding available, including access to committed credit facilities, the size of available lines, for which offered products the lines can be used, and unrestricted cash and investment securities on the balance sheet. Where clearinghouses take legal ownership of margin deposits, Fitch will consider the percentage of liquid assets relative to potential outflows and the historical level and fluctuation of customer deposits when evaluating liquidity.

Additional analytical considerations also include FMIs' compliance with covenants (financial and negative) related to lines of credit and debt, and the extent of payouts of earnings, either to a parent company or to public or private shareholders.

Complementary Capitalisation and Leverage Metrics

Free cash flow/gross debt
Gross debt/tangible equity

Source: Fitch Ratings

Complementary Funding, Liquidity and Coverage Metrics

Liquid assets (unrestricted cash + liquid investments) + undrawn committed facilities + EBITDA/short-term funding (maturing within 12 months)
Short-term debt/total debt

Source: Fitch Ratings

Funding, Liquidity and Coverage Benchmark — Financial Market Infrastructure Companies

	Implied KRD Score					
	aa and Above	a	bbb	bb	b	ccc and Below
EBITDA/interest expense (x)[a]	x>12	8<x≤12	4<x≤8	2<x≤4	1<x≤2	x≤1

[a] There is no tiering of the financial benchmarks by SROE given FMIs' utility-like business model, which is less directly influenced by (and potentially even countercyclical to) operating environment dynamics.
Source: Fitch Ratings

Asset Performance Benchmark – Investment Managers

	Implied KRD Score					
	aa and Above	a	bbb	bb	b	ccc and Below
Net client flows/beginning (F)AUM (%)[a]	x>10	5<x≤10	(5)<x≤5	(10)<x≤(5)	(25)<x≤(10)	x≤(25)

[a] Tiering by SROE is not applied given the less direct influence of operating environment dynamics and limited balance sheet impairment risk.
Source: Fitch Ratings

Investment Managers

The investment manager sub-sector includes traditional and alternative investment managers, investment companies and investment funds (including pension funds). Traditional and alternative investment managers primarily manage third-party assets and, therefore, typically assume limited balance-sheet risk while earning revenue through management fees. Where balance sheet risk is higher, we would apply a hybrid approach. Investment companies typically deploy permanent capital to assume investment/balance sheet risk, while investment funds also invest their own capital and assume the associated investment/balance sheet risk, but are typically open-ended vehicles subject to redemption risk.

Tiering of benchmarks by SROE is not applied to the investment manager sector and related sub-sectors given business models are less directly influenced by operating environment dynamics due to the cross-jurisdictional nature of activities and, in the case of traditional and alternative investment managers, limited balance-sheet impairment risk.

Traditional and Alternative Investment Managers

For investment managers the asset performance KRD core metric is *net client flows as a percent of the beginning period fee-based assets under management (F)AUM* with complementary metrics listed in the table to the right. The assigned score will reflect, where relevant, these metrics and the considerations below through the possible application of the adjustment factors listed under the *Asset Quality, Asset Performance or Counterparty Exposures* portion of the *Standalone Assessment* section.

Fitch evaluates fund flows and stability of investment performance on an absolute and relative basis. More stable or predictable fund flows, which translate into greater fee stability over time, or an ability to manage the pace of outflows, can positively influence Fitch's assessment.

When assessing investment performance, we consider both firm-specific and independent sources of data based on underlying fund vintage, size, geography or strategy. Unexplained outperformance could lead to a negative adjustment to Fitch's asset performance assessment if material weaknesses in risk management or style drift are believed to be the catalyst.

Management fee stability is assessed for potential vulnerabilities to outsized exposures to any one client, fund, strategy, or region. Where available, average fee rates on individual strategies are considered to assess the investment manager's pricing power and ability to withstand incremental fee pressure.

The earnings and profitability KRD core metric for investment managers is *fee-related EBITDA as a percent of management fee income*, with complementary metrics listed to the right. The assigned score will reflect, where relevant, these metrics and the application of the possible adjustment factors listed under the *Earnings and Profitability* portion of the *Standalone Assessment* section.

Complementary Asset Performance Metrics

Management fees/average (F)AUM
Total gross operating income/average (F)AUM
(F)EBITDA/average (F)AUM

Source: Fitch Ratings

Complementary Earnings and Profitability Metrics

Management fees/total gross operating income
Incentive compensation/incentive fees
Net income/average equity

Source: Fitch Ratings

Earnings and Profitability Benchmark — Investment Managers

	Implied KRD Score					
	aa and Above	a	bbb	bb	b	ccc and Below
(F)EBITDA/fee income (%)[a]	x>50	30<x≤50	20<x≤30	10<x≤20	0.0<x≤10	x≤0

[a] Tiering by SROE is not applied given the less direct influence of operating environment dynamics and limited balance sheet impairment risk.
Source: Fitch Ratings

Fitch considers an investment manager's historical performance, their ability to generate profits through cycles, and the diversity and stability of earnings. The product mix and strength of performance by product are important considerations, as is whether there are lock-ups on fund investors. Fitch will also assess the cost structures by business mix. The stability of the compensation ratio through various revenue cycles is an important measure of flexibility of the cost structure.

Earnings and profitability is assessed primarily on the basis of fee-related earnings measures, such as (F)EBITDA margin. (F)EBITDA (defined to the right) includes transaction, monitoring and advisory fees, but Fitch may remove these from recurring cash flow if they are deemed to be excessively volatile.

For alternative investment managers that earn interest or dividend income from balance-sheet investments, these items could be added to (F)EBITDA if the revenue is contractual (e.g. interest coupons and preferred dividends), less correlated with core management fees and relatively stable over time.

Fitch focuses on recurring cash-flow measures when assessing an investment manager's core earnings performance. Co-investment income, fee-related incentive revenue and incentive income (also known as carry income and performance fees) will also be considered as they can provide an additional cushion for debt-service capacity and speak to the success of the fund manager, which aids the company in the raising of future funds and, hence, the generation of future management fees.

The structure and maturity of funds is an additional consideration. Laddered funds and lock-ups are generally more favourable from an earnings perspective because they reduce the sensitivity to a decline in fees, and, consequently, earnings from a fund closure or maturity.

The capitalisation and leverage KRD core metric for investment managers is *gross debt divided by (F)EBITDA*, with complementary metrics listed in the table to the right. The assigned score will reflect, where relevant, these metrics and the considerations below through the application of the possible adjustment factors listed under the *Capitalisation and Leverage* portion of the *Standalone Assessment* section.

Leverage is primarily assessed on a cash-flow basis with more conservative leverage benchmarks applied to investment managers with the majority of their fees assessed against net asset value (traditional investment managers and hedge fund managers), compared with those that have the majority of their fees assessed against committed capital (alternative investment managers). Where tangible common equity is low or negative, Fitch would expect investment managers to have enough cash and cash-generation capacity to offset unexpected litigation or operational losses, as appropriate.

Where investment managers assume balance-sheet risk, a blended analytical approach to leverage will be taken, with both cash-flow and balance-sheet metrics considered. All else equal, an investment manager that makes greater use of its balance sheet and invests in illiquid investments will tend to have a lower capitalisation and leverage score than one that makes little use of its balance sheet, unless offset by strong metrics on both cash flow and balance sheet leverage bases.

The structure and maturity of funds is an additional consideration. Laddered funds and lock-ups are generally more favourable from an earnings perspective because they reduce the sensitivity to a decline in fees, and, consequently, earnings from a fund closure or maturity.

Investment Manager Earnings Definitions

Base management fees
(+) Transaction and advisory fees
(-) Non-incentive compensation
(-) Equity compensation
(-) Operating expenses
(-) Interest expense
(=) Fee-related earnings
(+) Equity compensation
(+) Interest expense
(+) Depreciation and amortisation
(-) Non-cash income
(=) (F)EBITDA

Source: Fitch Ratings

Complementary Capitalisation and Leverage Metrics

Net debt/(F)EBITDA
Gross debt/(F)EBITDA +50% of incentive & investment income
Gross debt/tangible equity
Net debt/tangible equity

Source: Fitch Ratings

Capitalisation and Leverage Benchmarks – Investment Managers

	Implied KRD Score					
	aa and Above	a	bbb	bb	b	ccc and Below
Gross debt/(F)EBITDA (x)[ab]	x<0.50	0.50≤x<1.5	1.5≤x<3.0	3.0≤x<5.0	5.0≤x<7.0	x≥7.0
Gross debt/(F)EBITDA (x)[bc]	x<1.0	1.0≤x<2.5	2.5≤x<4.0	4.0≤x<6.0	6.0≤x<8.0	x≥8.0

[a] For investment managers with the majority of their fees assessed against net asset value.
[b] Tiering by SROE is not applied given the less direct influence of operating environment dynamics and limited balance sheet impairment risk. [c] For investment managers with the majority of their fees assessed against invested capital or committed capital.
Source: Fitch Ratings

Funding, Liquidity and Coverage Benchmarks — Investment Managers

	Implied KRD Score					
	aa and Above	a	bbb	bb	b	ccc and Below
(F)EBITDA/Interest Expense (x)[ab]	$x>15$	$10<x\le15$	$6<x\le10$	$3<x\le6$	$1<x\le3$	$x\le1$
(F)EBITDA/Interest Expense (x)[bc]	$x>12$	$8<x\le12$	$4<x\le8$	$2<x\le4$	$1<x\le2$	$x\le1$

[a] For investment managers with the majority of their fees assessed against net asset value.
[b] Tiering by SROE is not applied given the less direct influence of operating environment dynamics and limited balance sheet impairment risk.
[c] For investment managers with the majority of their fees assessed against invested capital or committed capital.
Source: Fitch Ratings

Fee EBITDA to interest expense is the core metric for assessing investment manager funding, liquidity and coverage. The complementary metrics listed to the right can provide important additional information on an investment manager's liquidity position and funding dependence. The final assigned score would be subject to the application of the possible adjustment factors to the implied score listed under the *Funding, Liquidity and Coverage* portion of the *Standalone Assessment* section.

More conservative interest coverage benchmarks, reflecting greater exposure to market valuation fluctuations, are applied for investment managers that have the majority of their fees assessed against net asset value, compared to investment managers with the majority of their fees assessed against committed capital. For investment managers that pay preferred dividends, Fitch will also calculate (F)EBITDA coverage of both interest expense and preferred dividends.

Fitch also seeks to assess policies relating to capital distributions and the flexibility to adjust them as necessary, as well as the track record (frequency and magnitude) of providing financial support to funds. If past support has created a perception that future support of funds may be more likely, material levels of expected future support may negatively affect an issuer's funding, liquidity and coverage score.

Complementary Funding, Liquidity and Coverage Metrics

Liquid assets (Unrestricted cash + liquid Investments) + undrawn committed facilities + EBITDA/short-term funding
(Cash + liquid investments)/total assets
(Cash + liquid investments)/debt
(Cash + liquid investments + co-investments)/debt
Cash + liquid investments/uncalled co-investment commitments
Dividends/cash earnings
Short-term debt/total debt

Source: Fitch Ratings

Investment Companies

This section focuses on investment companies and investment funds that deploy capital to assume investment or balance-sheet risk and seek to create value through asset appreciation, trading gains or dividend and interest income. Investment funds are typically open-ended vehicles subject to some degree of redemption risk, and can range from funds with more material redemption risk and shorter investment horizons (such as open-ended hedge funds) to funds with lower levels of near- and medium-term financial obligations, and, as a result, longer-term investment horizons (such as pension funds and sovereign wealth funds).

Certain types of investment companies are rated by Fitch's Corporate Group under the *Investment Holding Companies Rating Criteria*. The main differentiating factors are largely around investment objectives, portfolio concentration, sector focus and investment horizon. Portfolio investments for investment companies rated under this criteria are typically held for asset appreciation, dividend and interest income, with a medium-term investment horizon. For pension funds and commercially-driven sovereign wealth funds, investment horizons are more typically longer-term. Strategic influence on portfolio companies and operational integration is typically low, but influence can be higher where large minority or controlling stakes are held and influence over the strategy of portfolio companies may be part of the investment strategy to enhance the value of the asset.

Analytical Frameworks for Investment Funds, Investment Companies and Investment Holding Companies

		Investment Funds	Investment Companies	Investment Holding Companies
Analytical Framework	Analytical group	Financial institutions	Financial institutions	Corporates
	Applicable criteria	Non-Bank Financial Institutions Rating Criteria	Non-Bank Financial Institutions Rating Criteria	Investment Holding Companies Rating Criteria
Business Model	Balance sheet risk	High	High	High
	Redemption risk	Full spectrum	None	None
	Strength of regulatory framework	Modest to strong	Modest to strong	Modest to strong
Investment Portfolio	Degree of portfolio diversification	Full spectrum	Full spectrum	Low to medium[a]
	Degree of asset liquidity	Full spectrum	Full spectrum	Full spectrum
	Typical investment horizon	Full spectrum	Medium to long	Long to permanent
	Strategic influence on portfolio companies	Full spectrum	Full spectrum	Medium to high

[a] If the degree of underlying investment exposure to financial institutions is elevated, Fitch is more likely to analyse the entity as in investment company rather than an investment holding company.
Source: Fitch Ratings

Single-Holding Investment Companies

The investment company analysis may also be used to assess investment companies set up as leveraged acquisition vehicles by third-party investors, such as private equity investors, where debt is used to acquire an investment stake in an individual company with a finite investment horizon. Upstreamed dividends are intended to service holding company debt, while the ultimate sale of the investment is intended to repay holding company debt.

Fitch considers the dividend upstreaming capacity of the investment in relation to the investment company's debt quantum and interest expenses, as well as the liquidity of the underlying investment. In its assessment, Fitch will also assess structural subordination of the investment company debt relative to operating entity debt, in particular subordinated and hybrid instruments. Absent strong asset liquidity or other structural enhancements (e.g. debt-service reserve accounts) the rating of the investment company debt will typically not exceed the rating of outstanding junior debt of the operating entity.

For the analysis of non-bank holding companies that own or control their non-bank financial institution subsidiaries please refer to the Non-Bank Holding Company section on page 47.

In circumstances where the ability to upstream dividends to the investment company is materially impaired due to the strength of a ring-fencing mechanism, the risk of regulatory intervention or due to a very weak credit profile of the operating entity, Fitch may conclude that no rating can be assigned to the holding company or its debt instrument, or such ratings may be highly speculative (i.e. 'B-' or lower). Similarly, the investment company being a minority shareholder of the operating entity, or the investment company facing elevated or near-term refinancing risk could constrain Fitch's ability to assign a rating.

Asset Performance/Asset Quality – Investment Companies and Investment Funds

For investment companies and investment funds, asset performance and asset quality are primarily assessed on the basis of investment returns, weighted average credit quality of investments, asset liquidity and investment concentration. As investment company profiles can range from diversified investment portfolios with long-term investment horizons (e.g. pension funds) to private equity-backed leveraged single-holding investment companies, the relative importance of each consideration will vary. Starting with the complementary metric *weighted average credit quality of investments/portfolio companies*, we then adjust for the considerations below for the final score. For investment funds, the metric *net client flows as a percent of the beginning period fee-based assets under management (F)AUM* may also be considered if relevant (see *Investment Managers* section).

For more concentrated portfolios or where an individual holding is greater than 15% of total portfolio value, Fitch more explicitly considers the credit quality, seniority and liquidity of individual investments to assess the overall asset quality profile. This is typically achieved by looking to Fitch's ratings, Credit Opinions, relative peer analysis or other external sources.

Complementary Asset Quality Metrics

Weighted average credit quality of investments/portfolio companies

Source: Fitch Ratings

Important Attributes in Determining Asset Performance/Asset Quality[a]

Implied KRD Score	aa and Above	a	bbb	bb	b	ccc and Below
Asset Performance	Consistently outperforms benchmarks/internal return targets.	Largely meets, and sometimes outperforms benchmarks/ internal return targets.	Sound performance, may sometimes lag benchmarks/internal return targets.	Variable asset performance that, above average sensitivity to market conditions.	Persistently weak asset performance, elevated sensitivity to market conditions.	Very weak asset performance, significant sensitivity to market conditions.
Asset Liquidity	Almost exclusively investment-grade issuers and publicly listed or quoted assets in deep established markets.	Predominantly investment grade issuers and publicly listed or quoted assets in deep established markets. Low exposure to illiquid unlisted or private assets.	Majority of assets are listed or quoted, with good liquidity, but demand may be more sensitive to changes in sentiment or assets may be traded in shallower markets. Modest exposure to illiquid unlisted or private assets.	Some asset liquidity but demand could be susceptible due to sector or geographic focus. More meaningful exposure to illiquid unlisted/private assets.	Meaningful unlisted/ private assets or assets that are otherwise difficult to monetise.	Predominantly unlisted/ private assets or assets that are otherwise difficult to monetise.
Portfolio Concentration[b]	Diversified investment portfolio by asset class, sector and region; largest single investment below 10% and of high credit quality; low exposure to illiquid (unlisted, high-yield or emerging market) assets. More modest but diversified illiquid asset exposure closely aligned with liability profile.	Largest single investment below 20% with low sector or geographic overlap amongst largest exposures. More moderate illiquid asset exposure aligned with liability profile.	Five to ten individual stakes dominate; largest stake 20%-40%. Average regional or sector exposures.	Three or four individual stakes represent at least 75% assets; largest exposure approaching or in excess of 40%. Above average regional or sector exposure.	One or two individual exposures representing greater than 80% of assets. Elevated regional or sector exposure.	One or two individual exposures approaching 100% of assets. Very high regional or sector exposure, particularly to the region or sector in distress.
Weighted-Average Portfolio Credit Quality[c]	aa	a	bbb	bb	b	ccc

[a] The assigned score reflects the typical attribute description that most closely reflects our assessment. Assessments may reflect positive or negative adjustments for better/worse investment performance, stronger/weaker asset liquidity, lower/greater concentrations, or stronger/weaker credit profiles.
[b] The concentration assessment excludes liquid government securities. [c] Relates to the credit quality of the obligor.
Source: Fitch Ratings

Earnings and Profitability — Investment Companies and Investment Funds

For investment companies and investment funds, earnings and profitability can be influenced by unrealised gains or losses as a result of changes in the market values of underlying investments. As a result, the analysis is more focused on diversification of earnings sources, realised compared to unrealised gains, and stability and control of recurring revenues, in particular, dividend and interest income earned. The ability to influence strategic decisions around dividends and interest upstreaming is typically low for regulated assets or minority stakes. However, if an investment company's or fund's investment strategy, or the size of its ownership stake, leads to better predictability of upstreaming of revenues, this can potentially influence the earnings score in a positive manner. The complementary metrics for earnings and profitability are listed to the right.

The score is subject to the possible adjustment considerations listed under the *Earnings and Profitability* portion of the *Standalone Assessment* section.

The capitalisation and leverage KRD core metric for investment companies is *gross debt divided by tangible equity*. The assigned score would reflect this metric and the considerations below through the application of the possible adjustment factors listed under the *Capitalisation and Leverage* portion of the *Standalone Assessment* section.

Leverage is primarily assessed relative to the investment strategy, but additional considerations may include the extent of regulatory capital requirements, management's policies with regard to leverage targets or minimum capital ratios, share buyback programmes, dividend pay-outs, and the ability to raise or internally generate capital.

Consolidated leverage may be considered as a complementary metric to assess the aggregate degree of leverage across underlying portfolio investments. Consolidated leverage metrics are also considered when an investment company has a sustained track record of providing financial support to portfolio companies. For single-holding investment companies, Fitch may also consider gross holding company debt to the tangible equity of the operating entity.

For investment funds, Fitch typically analyses leverage similarly to securities firms, using long plus short positions as a proxy for debt and net asset value as a substitute for equity. Important considerations for investment fund leverage include the risk profile, liquidity and duration of assets.

Fitch uses two core metrics for the funding, liquidity and coverage KRD for investment companies. The implied score is an average of the implied score generated from each core metric. The complementary metrics listed on the following page provide important additional information with the assigned score being subject to the application of the possible adjustment factors to the implied score listed under the *Funding, Liquidity and Coverage* portion of the *Standalone Assessment* section.

For investment companies, coverage is assessed in the context of upstream dividend and interest income from portfolio companies and investments relative to holding company operating expenses, interest expenses and dividends, with greater than two years' coverage being viewed as consistent with an investment-grade funding, liquidity and coverage score. For privately held investment companies that do not have stated dividend policies, Fitch will likely remove holding company dividends from the denominator of this ratio, reflecting the highly discretionary nature of any such dividends and the absence of similar reputational risk that a publicly traded investment company may face by reducing or cutting its dividends.

Complementary Earnings and Profitability Metrics

Net income/average assets
Net income/average equity

Source: Fitch Ratings

Complementary Capitalisation and Leverage Metrics

Consolidated gross debt/tangible equity
Consolidated gross debt/EBITDA
(Gross long investment positions + gross short positions)/net asset value

Source: Fitch Ratings

Capitalisation and Leverage Benchmarks – Investment Companies

	Implied KRD Score					
	aa and Above	a	bbb	bb	b	ccc and Below
Gross debt/tangible equity (x)[a]	x<0.15	0.15≤x<0.35	0.35≤x<0.50	0.50≤x<1.0	1.0≤x<1.5	x≥1.5

[a] Tiering by SROE is not applied given the less direct influence of operating environment dynamics due to the often cross-jurisdictional nature of activities. Where balance sheet impairment risk is elevated or concentrated, operating environment considerations would be captured via the asset performance or asset quality assessment
Source: Fitch Ratings

Funding, Liquidity and Coverage Benchmarks – Investment Companies

	Implied KRD Score					
(x)	aa and Above	a	bbb	bb	b	ccc and Below
One year’s upstream dividend and interest income coverage of one year’s holdco interest expenses[ab]	x>10	6<x≤10	3.5<x≤6.0	2.5<x≤3.5	1.0<x≤2.5	x≤1
One year’s upstream dividend and interest income coverage of two years’ holdco operating expenses, interest expense and dividends[abc]	x>1.0	x>1.0	x>1.0	0<x≤1	0<x≤1	x≤0

[a] For investment companies.
[b] Tiering by SROE is not applied given the less direct influence of operating environment dynamics due to the often cross-jurisdictional nature of activities.
[c] For investment companies that are privately held and do not have stated dividend policies, Fitch will likely remove holding company dividends from the denominator of this ratio
Source: Fitch Ratings

For investment companies and investment funds, Fitch considers the debt maturity profile relative to asset maturities and asset liquidity, the nature of significant debt covenants, and current and recent performance under those covenants.

For investment funds, Fitch focuses more heavily on the liquidity of the assets rather than their cash flow-generation capacity. The structure of the initial lock-up period, and the redemption parameters (frequency, notice period, amount, etc.) of the funds thereafter, as well as any gates, are important considerations in Fitch’s assessment of liquidity management.

For single-holding investment companies, the additional complementary metrics listed here further inform Fitch on the sufficiency of dividends upstreamed to cover interest costs and the potential liquidity generation of the asset relative to investment company refinancing risk.

Complementary Funding, Liquidity and Coverage Metrics

Short-term debt/total debt[ab]
Liquid assets (unrestricted cash + liquid Investments) + undrawn committed facilities+EBITDA/short-term funding[a]
Total illiquid assets/net asset value[b]
Gross holding company debt/projected dividends during tenor of holding company debt[c]
Two-year average of upstreamed interest, dividends and realised gains/two years holdco operating expenses, interest expense and dividends[a].
Dividend and interest income received in the period + interest reserve account/one year's holding company interest expense[c]

[a] Applicable for investment companies.
[b] Applicable for investment funds and for single-holding investment companies.
Source: Fitch Ratings

Non-Bank Holding Companies

This section covers non-bank holding companies that own or control non-bank financial institution subsidiaries. The holding company may also own a bank subsidiary, but non-bank financial activities would typically need to be the predominant activity for the *Non-Bank Financial Institutions Rating Criteria* to apply.

Applicable non-bank holding companies typically exhibit strong strategic, operational or legal links between the holding company and the operating subsidiary, and the failure to service the holding company debt would have material implications for the creditworthiness, reputation and funding access of the operating subsidiary. If the holding company is subject to prudential requirements, the analysis of debt would be considered on a consolidated basis.

Where the credit risk of the holding company is less directly linked with that of a single or predominant underlying subsidiary, it would typically be assessed under the *Investment Company* section of this criteria, or otherwise would not be rated under this criteria.

Non-bank holding company IDRs are typically assigned at the same level as the consolidated group IDR (see *Group Ratings*) where Fitch views the entity's default risk as substantially the same as that of the group as a whole. Where the holding company has a higher default risk, we would notch the holding company IDR down from the group IDR (or, if no group IDR is assessed – from the IDR of the main subsidiary). The factors that determine whether we equalise or notch down the holding company IDR are outlined on the previous page.

Fitch may notch down a holding company's IDR by more than one notch where:

- The holding company's IDR is notched off the main subsidiary (rather than a group IDR) 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 that result in a more significant difference between the default probabilities of the holding company and subsidiary, for example (but not restricted to) very high double leverage or very high liquidity risk specific to the holding company, or notable lack of capital or liquidity fungibility within the group because of regulatory or covenant restrictions on cash flows from the operating subsidiary(ies).

Equalisation or Notching of Holding Companies

Factor	Typical Weighting		Attributes that Support Equalising Holding Company IDR with Group IDR (or with IDR of Main Subsidiary)	Attributes that Support Holding Company IDR Being Lower than Group IDR (or IDR of Main Subsidiary)
Double leverage	Higher		Low or moderate, i.e. common equity double leverage (defined as equity investments in subsidiaries plus holding company intangibles, divided by holding company common equity) of below 120%[a][b].	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 holding company debt service.
Holding company's liquidity management	Higher		Prudent, with sufficient liquidity coverage of near-term maturities addressed and contingency plans in place.	Less prudent, with insufficient liquidity coverage of near-term maturities or limited contingency plans in place. Mismatches in sources and use of holding company funds result in actual or potential cash flow mismatches.
Capital and liquidity fungibility	Moderate		Little or no regulatory or contractual restrictions on material subsidiaries paying dividends or upstreaming liquidity to holding company.	More onerous regulatory restrictions on dividends and liquidity transfers. Regulatory focus on protection of creditors could give rise to risk of holding company failure prior to group failure.
Jurisdiction	Moderate		Holding company and main subsidiary incorporated in same jurisdiction.	Holding company and main subsidiary incorporated in different jurisdictions, particularly when capital movement restrictions exist or may arise.
Subsidiary ownership	Lower		Full, or large majority, ownership and control of main subsidiary by holding company.	Significant minority ownership of, and influence over, main subsidiary.
Credit enhancement	Lower	Higher[b]	Guarantee of holding company debt by main operating subsidiary, or cross default clauses, referencing holding company debt, in subsidiary funding agreements.	No guarantees or cross default clauses.

[a] When a holding company issues senior debt to finance material non-common 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.
[b] Can exert a high influence when in existence.
Source: Fitch Ratings

Where relevant, Fitch would assign either a GSR or an SSR to a holding company, reflecting the stronger of government or shareholder support applying the consideration outlined under Support Assessment. However, a holding company SSR would not consider 'support' upstreamed from the group.

Assigning IDRs Above the Standalone Profile

In addition to rating uplift potentially afforded due to shareholder or government support, the Long-Term IDR of a non-bank financial institution or its holding company may be assigned at a level above the SCP in the following circumstances:

Qualifying Junior Debt Buffer

A non-bank financial institution's IDR could be above the level implied by its SCP if the issuer has sufficient levels of lower-ranking liabilities below the reference liabilities for its IDR that could be restructured or bailed-in to recapitalise the non-bank financial institution without the reference liabilities for its IDR suffering a default. As this is most typical for banks operating in markets with developed resolution frameworks, Fitch will use the 'qualifying junior debt' principles outlined in the Bank Rating Criteria to determine the sufficiency of the buffers.

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 non-bank financial institution experiences high levels of stress and its ratings migrate to very low levels, with the SCP in the 'ccc' category or lower. This is because, as ratings migrate to low levels, there is often greater visibility on how an issuer will be resolved, and this may involve losses for senior creditors. Any uplift of the Long-Term IDR above the SCP would be limited to no higher than the 'B' category when the SCP is in the 'ccc' category or below.

Short-Term IDRs

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

Fitch uses the Funding, Liquidity and Coverage factor score, as outlined in the various sub-sections of this criteria, as the principal determinant of whether the "baseline" or "higher" Short-Term IDR is assigned. The table on the next page shows the minimum factor score needed to achieve certain Short-Term IDRs.

When an operating company and its holding company are regulated together and liquidity is fungible, Fitch may assign the same short-term rating to both entities, based on Fitch's view of the consolidated funding, liquidity and coverage profile. However, in cases when an operating company has a first claim on the holding company's liquidity resources or when liquidity may not be available to the holding company (e.g. because of regulatory restrictions on capital flows, or if ring-fencing or other structural protections exist to preserve sufficient available liquidity resources at the operating company level), the holding company Short-Term IDR may be below the operating company's Short-Term IDR.

Minimum Non-Bank Financial Institution Funding, Liquidity and Coverage Sub-Factor Score to Achieve Higher Short-Term Rating

Short-Term Rating	Minimum Funding, Liquidity and Coverage Score
F1+	aa–
F1	a
F2	bbb+

Source: Fitch Ratings

When the Long-Term IDR is driven by shareholder support, Fitch typically assigns the higher Short-Term IDR, when the mapping table permits this, as propensity to support is typically more certain in the near term. An exception to this might be 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 support provider. For example, the nature of the subsidiary's

Rating Correspondence

Long-Term Rating	Short-Term Rating
From 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
From BB+ to B–	B
From CCC+ to C	C
RD	RD
D	D

Click here for full descriptions of each rating category.
Source: Fitch Ratings

role in the group and regulatory or jurisdictional factors can both create potential impediments to timely 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 non-bank financial institutions, including in foreign currency. When Fitch judges this “wrong-way” risk to be significant, or if Fitch has identified other potential impediments to the prompt flow of funds, Fitch would assign the baseline Short-Term IDR to reflect the potential for the sovereign to pay its direct obligations ahead of providing support to the financial sector.

The short-term rating of the supported entity will not be higher than the short-term rating of the support rating provider, except in cases when shareholder-supported entity is rated higher due to holding-company notching or ring-fencing.

For some issuers, foreign-currency liquidity and market access may be 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.

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.

When national scale ratings are assigned, short-term ratings are derived from long-term ratings using the same correspondence table and the same principles described for international short-term ratings. Where an issuer’s national long-term rating is driven by standalone strength, we consider its funding, liquidity and coverage in determining its national short-term rating.

Issue Ratings

This section outlines how Fitch assesses default/non-performance risks and recovery prospects on different types of non-bank financial institution obligations and how this is factored into ratings and Recovery Ratings (RRs) assigned to issues.

Our baseline approach to rating and assigning equity credit, where relevant, to the most common types of long-term securities issued by non-bank financial institutions and their holding companies is outlined in the table below:

Applicable Issue-Level Rating Criteria Based on Instrument Type and Attributes

Instrument Type	Other Attributes	Applicable Criteria	Other Comments
Senior secured obligations	n.a.	Non-Bank Financial Institutions Rating Criteria	Potentially notched up from the Long-Term IDR depending on recovery prospects
Senior unsecured obligations	n.a.	Non-Bank Financial Institutions Rating Criteria	Typically equalised with the Long-Term IDR
Traditional subordinated/hybrid securities	n.a.	Corporates Hybrids Treatment and Notching Criteria	n.a.
Traditional subordinated/hybrid securities	Issued by a prudentially regulated non-bank financial institution under a similar framework as a bank	Bank Rating Criteria	Perpetual instruments qualifying as Tier 1 capital under applicable bank regulation will typically be afforded 100% equity credit, while Tier 2 capital instruments will typically be treated as debt.
Traditional subordinated/hybrid securities	Issued by a prudentially regulated non-bank financial institution under a similar framework as insurance companies	Insurance Rating Criteria	n.a.
Shareholder loans	n.a.	Corporate Rating Criteria	n.a.

Source: Fitch Ratings

Non-Performance Risk and Loss Severity

The ratings assigned by Fitch to long-term non-bank financial institutions obligations 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.

In assessing non-performance risk, Fitch first determines the anchor rating that 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 is usually the SCP, but can also be the Long-Term IDR (see applicable criteria listed above).

Non-performance by a non-bank financial institution on its 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; and
- A distressed debt exchange.

Fitch notches for non-performance risk – down or up – from the anchor rating when it believes that this risk is materially lower or higher than that captured in the anchor. For example, the non-performance risk on a hybrid security may be higher than that captured by the SCP.

Fitch then notches for loss severity up or down from its assessment of non-performance risk to arrive at the final instrument rating when loss severity in case of non-performance is likely to be below or above average. The notching is outlined in the Recovery Analysis section.

Senior Unsecured Obligations

Ratings of senior unsecured obligations are usually assigned in line with a non-bank financial institution's Long-Term IDR, because:

- Fitch almost always views the likelihood of default on any given senior unsecured obligation as the same as the likelihood of default of the non-bank financial institution (as reflected by the Long-Term IDR) because default on any material class of senior unsecured obligations would be treated by Fitch as a default of the entity.
- Fitch usually treats senior unsecured obligations of non-bank financial institutions as having average recovery prospects.

Nevertheless, in the circumstances outlined below, senior unsecured issue ratings may be assigned at levels below, or above, the non-bank financial institution's Long-Term IDR:

Weak Recovery Prospects, Lower Issue Rating

When an issuer has substantial levels of secured borrowings, Fitch may view a senior unsecured issue as having weaker-than-average recovery prospects, resulting in it being assigned an issue rating below the Long-Term IDR. This may be because of general concerns about the quality of the issuer's assets, potentially impairing recovery prospects for all creditors in case of default. It may also be driven by specific concerns related to the issuer's funding structure; for example, very high levels of balance-sheet encumbrance or very deep subordination of senior unsecured creditors in the liability structure.

Strong Recovery Prospects, Higher Issue Rating

When an entity is close to default, there is greater visibility into recovery prospects, and recovery prospects are assessed as above-average for senior unsecured creditors, Fitch may rate senior unsecured liabilities higher than the issuer's Long-Term IDR.

Selective Default

In rare cases, Fitch may assess that a non-bank financial institution may selectively default on certain senior unsecured obligations, but that such a default would not indicate the uncured failure of the entity. This may relate to the specific circumstances of the default, usually due to regulatory intervention or if the obligations in question do not comprise a significant part of the overall funding structure. In such a case, the issue ratings may reflect the specific selective default risk relating to the instruments concerned, while the Long-Term IDR will continue to reflect the risk of default on the majority of the issuer's senior liabilities.

Substitution and Variation Clauses

Periodically, senior 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, among other options. 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.

Bank Parent Companies

Where a non-bank financial institution is owned by a bank, its senior debt rating could be notched up from its IDR if it is expected to be incrementally protected in resolution, by following the ratings approach outlined in the Obligation Ratings section of the Bank Rating Criteria.

Recovery Analysis

Where a non-bank financial institution has a Long-Term IDR of 'B+' or below, Fitch typically assigns a RR to the entity's issues rated on the long-term scale based on a bespoke recovery analysis. RRs provide greater transparency on the recovery component of Fitch's assessment of the credit risk of lower-rated issuers' securities, based on the scale outlined in the table on the next page.

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

Fitch applies RR constraints in a number of jurisdictions. Please see *Country-Specific Treatment of Recovery Ratings Criteria* for further details.

Recovery Rating Scale

Rating	Recovery prospects given default	Typical historical recoveries (%)	Notching of obligation Rating[a]
RR1	Outstanding (first-lien debt only)	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/-3[b]

[a] Relative to level of non-performance risk. It is rare for Fitch to notch up long-term senior unsecured debt for recovery reasons.
[b] As multiple instruments within an issuer's capital structure may be rated 'RR6', varied notching enables differentiation in subordination within this category.
Source: Fitch Ratings

Fitch's recovery analysis does not attempt to capture the full spectrum of possibly conflicting motivations for creditors, or the speed with which such motivations can change. Fitch would not assign RRs where it believes available information to be insufficient or the outcome of the analysis to be particularly unpredictable.

Fitch applies country constraints for RRs to encompass the creditor-friendliness (or otherwise) of jurisdictions and enforceability of security in the event of a default. These constraints permit the compression of senior and junior obligation ratings where jurisdictional or other structural features indicate that this is warranted.

Rating Approach for Debt of Issuers Rated 'BB-' or Above

Fitch uses a generic approach for rating instruments of issuers rated 'BB-' and above by notching instruments against the IDR. Instruments of a particular priority and security position will be assigned credit ratings that reflect the average recoveries expected to be received by such an instrument in the event of a default.

Notching Unsecured Debt Below the IDR: Fitch can denote contractual or structural subordination that is detrimental to the unsecured debt by rating it lower than the IDR. This can be the case where:

- There are large proportions of secured debt relative to total debt (around 75% or greater), leverage is relatively high for the business model, and balance sheet encumbrance is high.
- Collateral is of a lower quality, is less liquid and/or exhibits meaningful valuation variability, leading to below average recoveries for unsecured debt.
- A portion of debt is structurally removed from the operations and, therefore, debt servicing or repayment is reliant on dividend flows. Forms of subordination can also include lower levels of guarantees from group entities for a particular tranche of debt.

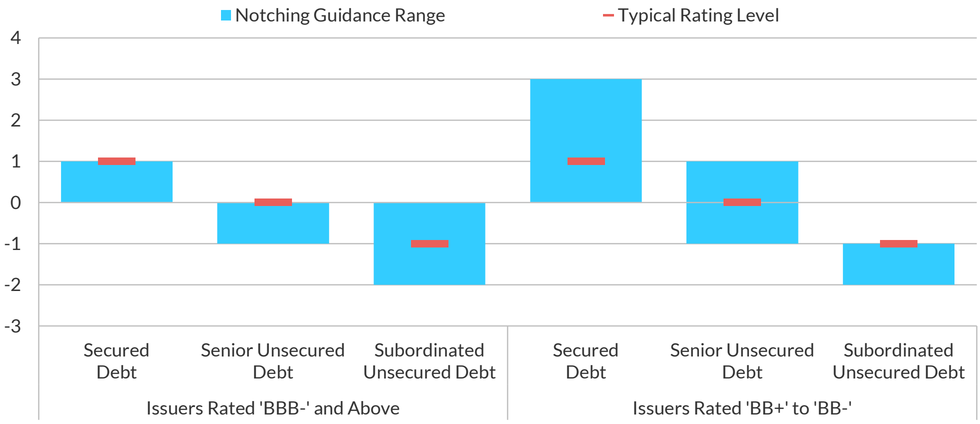
Moving Between Bespoke and Generic Recovery Analysis: Should an IDR migrate to the 'BB-' or above category from the 'B' rating category, an instrument rating that had previously been assessed 'RR2' or 'RR1' under a bespoke recovery analysis approach is unlikely to be upgraded, leading to compression between the IDR and the issue rating. This reflects that, at the higher rating category for the IDR, the assumptions for the bespoke recovery analysis under a default scenario would be too speculative.

Conversely, should an IDR migrate from 'BB-' or above to the 'B' rating category where bespoke recovery analysis is undertaken, Fitch may position ratings assigned to the different debt classes by undertaking recovery analysis so that an instrument rating upgrade does not occur when the IDR is downgraded.

Potential for Additional Issue Rating Uplift Within 'BB' IDR Category: In limited instances, Fitch may notch up secured debt of an issuer with an IDR in the 'BB' category by three notches but cap it at 'BBB-'. To achieve more than one notch of issue-level rating uplift, recovery expectations must be at least superior, supported by:

- Liquid assets within a strong ring-fence and collateral package and/or
- Predictable cashflows often underpinned by high quality long-term contacts and backed by conservative loan-to-values (examples include passenger trains/railcars and spare aircraft engines).

Notching Guidance for Issuers Rated 'BB-' and Above (Issue-Level Notching Relative to Issuer Default Rating)



Note: For issuers rated 'BB+' to 'BB-', uplift for secured debt is capped at 'BBB-'.
Source: Fitch Ratings

Rating Approach for Debt of Issuers Rated 'B+' or Below

For issuers with IDRs of 'B+' and below, the relationship between the IDR, the RR, and the issue-level rating is presented in the table above. Fitch performs a recovery analysis for each debt instrument, provided sufficient information is available and the outcome of the analysis is deemed to be sufficiently predictable. The three steps in this analysis include estimating a post-restructuring or post-liquidation enterprise value, estimating creditor claims and distributing the enterprise value according to the priority of claims. Recovery rating valuation methods are outlined in more detail in Annex 4.

To derive the RR, Fitch applies the liquidation value approach or the going-concern approach. The choice of approach may be influenced by common practice for specific non-bank financial institution sub-sectors, the issuer's ownership status, the make-up of multi-entity groups, or applicable insolvency regimes.

Where Fitch deems both methods to be viable outcomes, it will apply both and opt for the one that results in the higher enterprise value, consistent with the practice of creditors seeking to maximise firm value under bankruptcy proceedings.

In deriving a consolidated enterprise value, Fitch may separate an entity's operating units by segment or by region to distinctly apply the most relevant valuation method to the various components.

Instrument Ratings for Combinations of IDRs and RRs

Recovery	Long-Term IDR							
Rating	B+	B	B–	CCC+	CCC	CCC–	CC	C/RD/D
RR1	BB+	BB	BB–	B+	B	B–	CCC+	CCC
RR2	BB	BB–	B+	B	B–	CCC+	CCC	CCC–
RR3	BB–	B+	B	B–	CCC+	CCC	CCC–	CC
RR4	B+	B	B–	CCC+	CCC	CCC–	CC	C
RR5	B	B–	CCC+	CCC	CCC-	CC	C	C
RR6[a]	B–/CCC+	CCC+/CCC	CCC/CCC-	CCC–/CC	CC/C	C	C	C

Note: Assumes no incremental non-performance risk in instrument rating relative to the IDR. [a] At RR6 Fitch may apply an additional notch for further subordination due to structural and contractual features. Source: Fitch Ratings

In deriving a consolidated enterprise value, Fitch may separate an entity's operating units by segment or by region to distinctly apply the most relevant valuation method to the various components.

Applying the liquidation value or going concern approach requires a large number of assumptions concerning the structure of an issuer's financial profile upon default. In view of these assumptions, the agency will not necessarily map expected recoveries to corresponding RRs and long-term issue ratings. Instead, Fitch may increase or reduce the RRs suggested by the valuation and notching approaches, depending on the sensitivities of expected recoveries to small changes in assumptions, or pending events, contractual terms within specific instruments (i.e. structural subordination or structural priority), scope of collateral, or views about the operating environment of an issuer.

Short-Term Debt

Short-term debt ratings reflect only vulnerability to default and are typically aligned with the issuer's Short-Term IDR. An exception to aligning would be a non-bank financial institution that is owned by a bank and has had its senior debt notched up from its IDR to reflect a lower vulnerability to default as a result of the ratings approach outlined in the Issue Ratings section of the Bank Rating Criteria. In such cases, short-term debt ratings are determined from the equivalent long-term debt rating using the Rating Correspondence table.

For commercial paper and other short-term debt obligations of issuers that do not benefit from support Fitch considers backup liquidity an important element in assigning instrument-level ratings and in assessing the Long-Term IDR. Fitch typically expects investment-grade-rated commercial paper issuers to have full (100%) liquidity backup available for outstanding commercial paper and other short-term obligations. For issuers with substantial amounts of commercial paper outstanding, the existence of multiyear liquidity backup will typically be assessed. Backup liquidity may be in the form of bank commitments, cash or marketable securities, expected operational cash-flow sources, tangible shareholder support or other alternative forms of liquidity support, depending on how reliable these sources may be.

When commercial paper is backed by a direct-pay line of credit or similar form of guarantee, the ultimate commercial paper rating will be the higher of the rating of direct-pay line of credit or similar credit enhancement provider or the short-term rating of the issuer itself.

Guaranteed and Secured Debt

Guaranteed Debt

Fitch usually rates fully guaranteed debt (or debt that Fitch deems to be exposed to an equivalent degree of credit risk as guaranteed debt) in line with the higher of the rating of the guarantor's senior unsecured debt, or the rating of the issuer. Equalisation of the guaranteed debt rating with the senior unsecured rating of the guarantor will depend on the guarantee ranking equally with the guarantor's senior unsecured debt, the jurisdiction of the guarantee being acceptable to Fitch at the rating level, its enforceability, its timeliness, or expectations that the guarantor will honour the guarantee. An issuer's debt which benefits from a guarantee that ranks equally with the guarantor's subordinated obligations is usually rated in line with the subordinated debt rating of the guarantor.

Secured or Collateralised Debt

Senior secured debt of a non-bank financial institution without complex forms of structural enhancement may be rated under this criteria using the default risk/recovery prospects approach outlined in the *Recovery Analysis* section.

Senior secured debt (including debt issued by a special-purpose vehicle that benefits from a full parent guarantee) should allow the bondholder recourse both to the collateral and issuer. In addition, collateral should not be substituted beyond established parameters (that Fitch is in a position to monitor) and clearly indicate above-average recovery prospects. If the conditions above are not met, Fitch will rate such debt 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 of the aforementioned conditions (collateral and issuer recourse, prudent collateral substitution provisions, above-average recovery prospects) for uplift for secured or collateralised debt are met.

Issues with more complex forms of structural enhancement (such as securitisations, covered bonds or other standalone fund or special-purpose vehicle structures) are not rated under this criteria and instead will be evaluated by Fitch's Structured Finance, Covered Bonds or Funds and Asset Managers groups, based on separate criteria, or are otherwise not rated by Fitch.

Subordinated and Hybrid Securities

The applicable rating and equity credit criteria for assigning ratings to subordinated and hybrid instruments is driven by whether the non-bank financial institution is prudentially regulated under either a bank or insurance framework or they are traditional instruments with no prudentially framework (see the *Issue Ratings* section). In this context, 'prudentially regulated' means being subject to prudential capital requirements, on an either consolidated or issuer level basis, which are comparable to those of banks or insurance companies. Refer to *Non-Performance Risk and Loss Severity* for how non-performance by a non-bank financial institution on its subordinated/hybrid securities is defined.

Support Considerations

For debt instruments issued by a non-bank financial institution whose IDR is support-driven, the senior unsecured issue rating is typically equalised with (or notched off of) the support-driven IDR.

For secured obligations by issuers with IDRs of 'BB-' and above, Fitch follows the standard approach, as outlined in the table '*Notching Guidance for 'BB-' and Above Issuers*'. This typically results in one notch of uplift from the support-driven IDR for investment-grade issuers to reflect above-average recoveries. Where the IDR is below 'BB-', a bespoke approach would be followed, with a recovery analysis driving the notching.

However, that same level of support may not be available to all parts of a support-driven issuer's capital structure. This higher level of non-performance risk relative to the IDR may be reflected in either a wider notching relative to the IDR or use of the issuer's SCP or VR as the anchor. This is typically more relevant for subordinated and hybrid instruments but does not exclude other, more senior, portions of the capital structure. Where this is the case, Fitch will consider the intrinsic recovery prospects for the instrument to determine the appropriate notching relative to the adjusted anchor.

Market-Linked Notes

Some non-bank financial institutions issue or guarantee securities that return amounts referenced to a market risk essentially independent of the issuer's or guarantor's own creditworthiness (sometimes referred to as market-linked notes, or MLNs). 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 (senior debt, preferred senior debt, etc). 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 when the 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 rating criteria. These notes may be rated by Fitch's Structured Finance Group or other analytical groups based on separate criteria, or otherwise not rated by Fitch.

Debt Issuance Distinctions Between Non-Bank Holding Companies and Non-Bank Financial Institution Operating Subsidiaries

The rating of obligations issued by a holding company will reflect analytical considerations outlined in the *Non-Bank Holding Company* section of this criteria. This includes assessing the strategic, operational and legal linkages between the different elements in the corporate structure to determine if any structurally subordinated holding company debt should be consolidated in the analysis of the operating entity.

Strong Strategic, Operational and Reputational Linkages

If strategic, operational, or legal linkages between the debt-issuing holding company and the operating subsidiary are strong and the failure to service the holding company debt would have material implications for the creditworthiness and reputation of the operating subsidiary, Fitch will likely consolidate the structurally subordinated debt of the holding company in the analysis of the operating entity and use the operating entity's Long-Term IDR as the anchor rating for the holding company debt. This is more likely if the operating subsidiary is not, or is only lightly, prudentially regulated, resulting in no or limited ring-fencing constraining the flow of funds from the operating entity and the holders of its debt. Notching will reflect both subordination and recovery prospects.

Weak Strategic, Operational and Reputational Linkages

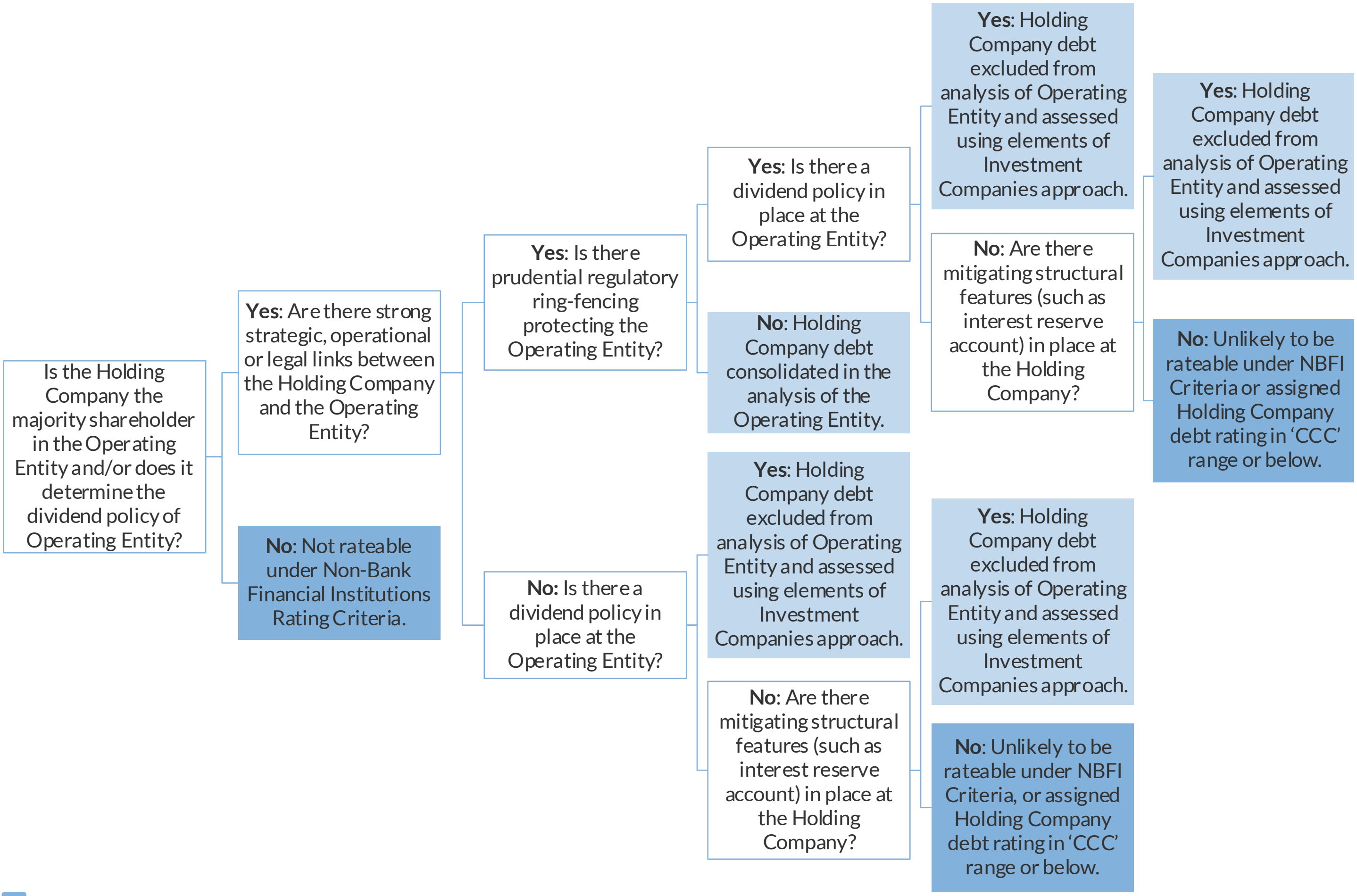
Where a structurally subordinated holding company and its debt are sufficiently isolated from the remainder of the group, and failure to service holding-company debt may have limited implications for the creditworthiness or reputation of the operating subsidiary, Fitch will likely exclude the structurally subordinated holding-company debt from the analysis of the operating subsidiary. The anchor rating for the holding-company debt would be the IDR of the holding company. This approach is more likely if the operating subsidiary is subject to prudential regulation or if other contractual strong ring-fencing mechanisms are in place, and the operational integration is low. Under this scenario, if the holding company is rateable, it is likely to be assessed as an Investment Company.

Payment-in-Kind Notes

Assessing the strategic, operational and legal linkages outlined above can also apply to payment-in-kind notes issued from a holding company which are, on rare occasions, part of non-bank financial institutions' liability structures, often associated with leveraged buyout transactions.

Provided a payment-in-kind instrument does not impose any obligation on an issuer to pay cash interest, then payment of interest-in-kind is not treated as payment default and (in the case of bullet repayment instruments) technical payment default only materialises at the final maturity date. However, to the extent that Fitch considers payment of interest-in-kind to be indicative of an issuer's deteriorating liquidity position or increasing refinancing risk (for instance due to the increase in the notes' principal amount post in-kind payment), then this could lead to negative rating actions on the payment-in-kind notes (if rated) or the rating of the operating entity (in cases where Fitch consolidates the payment-in-kind notes in its assessment of the operating entity's creditworthiness), or both. When assessing equity credit considerations for payment-in-kind notes, we apply the approach outlined in the Corporate Rating Criteria.

Analytical Treatment of Debt Issued by Holding Companies and Non-Bank-Financial Institution Operating Subsidiaries



Question
Likely rateable and/or analysed under Non-Bank Financial Institutions Criteria
Likely not rateable under Non-Bank Financial Institutions Criteria

Source: Fitch Ratings

Country Risks

Different forms of country risk can have a significant influence on non-bank financial institution ratings. The table titled *Influence of Country Risks on Non-Bank Financial Institutions* outlines how a non-bank financial institution's operating environment – as represented by the SROE score, the domestic sovereign rating and the Country Ceiling – can influence its ratings.

The SROE captures the risks of doing business in the jurisdiction(s) where the issuer 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 that would prevent the domestic private sector from converting local currency into foreign currency and transferring this to non-resident creditors.

Rating Non-Bank Financial Institutions Above the Sovereign

Fitch is more likely to rate a non-bank financial institution above the sovereign – i.e. assign a Local-Currency Long-Term IDR to the non-bank financial institution above the sovereign Local-Currency Long-Term IDR, or assign a Foreign-Currency Long-Term IDR to the non-bank financial institution above the sovereign Foreign Currency Long-Term IDR – when both of the following two conditions hold. Firstly, Fitch must believe that an issuer would retain the capacity to service its obligations in the relevant currency following a sovereign default in that currency. This capacity may be retained either because the issuer receives external support or because its intrinsic strength, as reflected in its standalone credit risk profile, is sufficient to enable it to continue servicing its obligations after a sovereign default.

Secondly, Fitch must believe that the sovereign, following its own default in a currency, would not impose restrictions on the non-bank financial institution's ability to service its obligations in that currency. Restrictions may be applied to local-currency or foreign-currency obligations. Fitch usually regards restrictions to the latter as more likely than the former, and this tends to result in the issuer's local-currency ratings being less constrained, relative to the sovereign, than foreign-currency ratings. However, in some countries where governments have been more interventionist, both the issuer's local-currency and foreign-currency ratings may be capped at the level of the sovereign.

Additionally, unlike banks, which often have strong ties to the credit profile of the sovereign in which they reside, non-bank financial institutions are typically rated lower, and thus may not experience the same immediate linkage or potential restrictions on their ability to service their own debt (see below).

Non-Bank Financial Institutions Capacity to Service Obligations

Intrinsic Strength

A non-bank financial institution's SCP represents its capacity to service obligations in both local and foreign currency. If the issuer's capacity, excluding the influence of transfer and convertibility risk, is weaker in one currency (usually foreign currency), then the SCP would typically represent this risk.

An issuer's SCP usually deteriorates significantly when the domestic sovereign defaults due to an accompanying economic downturn, which often includes a recession, weaker public- and private-sector balance sheets, funding market dislocations and heightened macroeconomic volatility. For these reasons, Fitch rarely assesses a SCP above the applicable sovereign rating. To consider assessing a SCP above the sovereign rating, an issuer would need to have an exceedingly low-risk business model, exceptionally strong attributes across other KRDs, or exhibit financial performance that is meaningfully independent of, and uncorrelated with, operating environment dynamics, making them 'atypical' in that market.

For certain non-bank financial institution business models, the geographic diversity of the activities or a lack of direct credit linkage to the sovereign's financial condition may mean that the sovereign rating acts as less of a constraint on the SROE score (when below the SRA upper boundary). For example, aircraft lessors may be domiciled in certain locations for tax purposes but have aircraft portfolios that are dispersed among lessees in many countries. Similarly, investment managers, investment companies and investment funds may manage funds, invest in assets, or service investors located in more favourable operating environments, or there are ring-fenced assets or cash flows that strongly support rated obligations.

FMIs may also be less exposed to sovereign risks in the country where they are domiciled relative to banks or other non-bank financial institutions, given that many FMIs do not typically have significant credit exposure to sovereigns by holding bonds or placements with central banks. FMIs also perform a utility-like financial service, which is less directly influenced by (and potentially even countercyclical to) sovereign dynamics. As a result, a FMI could have a rating modestly above the sovereign rating, with the exception of where a FMI holds a majority of its balance sheet or guarantee fund in sovereign securities.

External Support

To rate a non-bank financial institution above the sovereign based on shareholder support, Fitch must believe 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 would expect a parent company to continue supporting its subsidiary after a sovereign default due to the potentially high reputational costs of a subsidiary default. 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. Uplift may be higher than three notches in exceptional circumstances, for example when an entity has limited operations in its domestic market and has strong government or shareholder support from outside the jurisdiction, meeting criteria for the Foreign-Currency IDR to be rated above the Country Ceiling.

Sovereign Restrictions on Debt Service

In Foreign Currency

Non-bank financial institution's Foreign-Currency IDRs are almost always constrained at the level of the domestic Country Ceiling (see *Influence of Country Risks on Non-Bank Financial Institutions* table on the following page), which is usually assigned at zero to three notches above the foreign-currency sovereign rating.

In Local Currency

In a sovereign crisis, the authorities may impose restrictions, such as deposit freezes or prolonged bank closures, that prevent banks from servicing their local currency, as well as their foreign-currency obligations. While non-bank financial institutions are typically not directly affected under such a scenario, there will often be an indirect impact given non-bank financial institutions' reliance on the banking system to make payments. Given these risks, any uplift of non-bank financial institution local-currency ratings above sovereign local-currency ratings will typically closely mirror the rating uplift given to banks in that financial system. This can range from 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.

Guarantees

If a non-bank financial institution benefits from a blanket guarantee from a foreign parent (or other entity), its IDRs will normally be equalised with the IDRs of the guarantor (unless the non-bank financial institution is rated higher on a standalone basis), even if the guarantor's Long-Term Foreign-Currency IDR is higher than the Country Ceiling in the market where the subsidiary is domiciled. This reflects the fact that the guarantor would be obliged, in case of non-performance by the subsidiary, to honour the guarantee directly, regardless of transfer and convertibility constraints or other restrictions imposed by the sovereign in the subsidiary's jurisdiction. However, the jurisdiction and exact provisions of the guarantee may limit the rating uplift from the guarantee for the subsidiary's ratings.

Influence of Country Risks on Non-Bank Financial Institutions

Influence on:	Influence of: Sector risk operating environment score	Sovereign Rating	Country ceiling
SCP KRD Scores	The SROE usually has a significant influence on our assessment of other SCP KRDs, and constrains the KRD scores. This is because the SROE can affect a non-bank financial instution's financial profile – the vulnerability of its asset quality and capital, the sustainability of earnings and the stability of funding – and non-financial aspects of its profile – the robustness of the franchise and business model, and the riskiness of its exposures. This link is captured in benchmarking matrices that use SROE as an input to derive implied KRD scores. KRD scores can be above the SROE score when a specific aspect of an issuer's credit profile is atypically strong for the given market, i.e. stronger than what might be expected for a reasonably well-performing issuer which has broad exposure to that environment.	Sovereign risks and broader country risks (but not transfer and convertibility risks – see the Country Ceiling column at right) are incorporated into the SROE score and hence indirectly into other implied KRD scores. The SROE 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 jurisdiction-level operating environment score (as derived based on GDP per capita and the Operational Risk Index), and the sovereign credit profile is likely to support macro/market stability, this can result in an upward adjustment to the operating environment score from its implied level. The sovereign rating can also directly (not just via the operating environment score) influence and constrain individual KRD scores when we judge that certain aspects of a non-bank financial institution's financial profile (e.g. its solvency or its funding stability) would be unlikely to survive a sovereign default.	No influence.
SCP	The SROE usually has a significant influence on the SCP (through the impact on KRD scores, see above) and constrains the SCP. For a SCP to be above the SROE score, the non-bank financial institution's overall credit profile must be stronger than what might be expected from a reasonably well-performing non-bank financial institution that has broad exposure to the sector. Assigning a SCP above the SROE score will be less common than assigning individual KRD scores above the SROE.	Fitch rarely assigns a non-bank financial institution SCP above the sovereign rating because of the usually high correlation between sovereign's and the entity's credit profiles. A SCP above the sovereign is possible for an issuer 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 assess an entity's SCP above the sovereign rating, it may use the 'Operating Environment/ Sovereign Rating Constraint' adjustment to cap the SCP at the sovereign rating level. See *Rating Non-Bank Financial Institutions Above the Sovereign* for more detail.	The Country Ceiling has no influence on the SCP, as the SCP measures a non-bank financial institution's standalone creditworthiness, without considering either extraordinary external support or external constraints on a non-bank financial institution's ability to service its liabilities (such as transfer and convertibility restrictions). In very rare circumstances, a non-bank financial institution's SCP can be above the Country Ceiling, although its Foreign Currency IDR will still likely be constrained at the Country Ceiling level (see below).
IDRs	For non-bank financial institutions whose IDRs are driven by their SCP, the SROE score will usually have a significant influence on the IDR, as described above. For entities whose IDRs are driven by Support Ratings, the SROE score, as an input into the SCP, has no direct impact on the IDRs, except where support is assessed on a bottom up basis. However, our assessment of the operating environment, and country risks more broadly, can have an impact on our assessment of a shareholder's long-term commitment to a foreign subsidiary, and hence the levels of the latter's SSR and IDR.	For non-bank financial institutions whose IDRs are driven by their SCP, ratings will rarely be above the sovereign's. For non-bank financial institutions whose IDRs are driven by SSRs, ratings can be above the sovereign where the owner's commitment to its subsidiary is likely to withstand a sovereign default and government restrictions are unlikely to be imposed which would prevent the issuer from servicing its obligations. Uplift is normally limited to two notches above the sovereign rating, but could be three where parent support is viewed as very robust. In exceptional circumstances, three or more notches of uplift is possible for example for an entity with limited operations in its domestic market and with strong government or shareholder support from outside the jurisdiction.	The Country Ceiling almost always constrains non-bank financial institutions' Foreign-Currency IDRs. It is exceptionally rare for a non-bank financial institution to be assigned a Foreign-Currency IDR above the Country Ceiling as the latter captures the risk of transfer and convertibility restrictions being imposed which would prevent substantially all non-government entities domiciled in the jurisdiction from servicing their foreign-currency obligations. Exceptions are possible only when a non-bank financial institution could continue to service its obligations notwithstanding such transfer and convertibility restrictions, e.g. because sizeable foreign assets/earnings or a supportive foreign shareholder can be used to service obligations outside of the jurisdiction of domicile (and domestic foreign-currency liabilities of the issuers are minimal). Where Fitch believes the risk of intervention risk is greater than that captured in the Country Ceiling, it may constrain the issuer's Foreign-Currency IDR below the Country Ceiling.

Source: Fitch Ratings

Differentiating Highly Speculative and Distressed Ratings

At low rating levels, when the ratings of a non-bank financial institution, the domestic sovereign or the entity's shareholder are in the 'B' category or distressed (i.e. 'CCC' category and below), some of the rating relationships and constraints outlined in this criteria report may be less relevant.

For example, issuer-specific attributes or trends will often have a higher influence on ratings with the assessment driven by weakest links, while positive attributes will typically have a lower influence in the overall rating. For example, material near-term refinancing risk can far outweigh a very strong business model and strategy and ultimately exert downward ratings pressure.

Credit profiles at highly speculative and distressed levels can potentially be more "transitory" in nature, meaning they may be rapidly evolving, with the potential for binary or tail-event outcomes that could result in multi-notch rating migration over the outlook horizon. The table below summarises the typical attributes at these levels between a static credit profile and one that is more transitory.

Factors Differentiating Highly Speculative and Distressed Ratings

	Static credit profile	Transitory credit profile
Description	An entity with long-term structural or fundamental attributes that suggest the entity is firmly positioned within the current rating category with modest potential upward/downward rating momentum over the outlook horizon.	An entity exhibiting a rapidly-evolving credit risk profile, including the potential for binary or tail-event outcomes which could result in multi-notch rating migration over the outlook horizon.
Use of +/- modifiers at 'CCC' category	More Likely	Less Likely
Attributes more consistent with 'B' category	• Nominal scale/franchise; • Inconsistent or very limited operating history; • Overly reliant on highly volatile business activites; • Undefined or variable underwriting standards, heightened risk appetite; • Certain risk-management deficiencies are present; • Frequently changing strategic objectives, limited or inconsistent execution track record; • Highly variable or weak asset quality/performance, highly correlated to economic/rate cycles; • Highly variable or weak profitability, highly correlated to economic/rate cycles; • Very high asset concentration risks; • Capital not commensurate with risk, or highly sensitive to shocks; • Less stable and diversified funding sources, short duration, largely/fully secured, limited contingent sources	• Not applicable, as a transitory credit profile is not viewed as commensurate with a 'B' rating category credit profile.
Attributes more consistent with 'CCC' category	• Extremely limited scale/franchise; • Lack of operating history or unsuccessful operating history; • Rapidly evolving business model; • Lack of underwriting track record, extremely high risk appetite; • Significant risk control deficiencies are present; • Lack of strategic objectives or poor or non-existent execution track record; • Sustained asset quality considerably weaker than norms; • Structurally unprofitable with return to break-even highly uncertain; • Clear capitalisation deficiencies or significant outlier.	• Material near-term refinancing risk or other liquidity or coverage weaknesses; • Escalating regulatory actions or intervention; • Material management or governance shortcomings; • Business model instability, impairment or disruption; • Other forms of material reputational damage or legal risks.
Attributes more consistent with 'CC' category	• Not applicable, as a static profile is not viewed as commensurate with a 'CC' rating category credit profile.	• Restructuring firm hired to develop a plan to engage creditors for a balance-sheet restructuring • Imminent breaching of financial covenants • The requesting of waivers from covenant breaches • Entering into formal negotiations with lenders
Attributes more consistent with 'C' category	• Not applicable, as a static profile is not viewed as commensurate with a 'C' rating category credit profile.	• Default or default-like process has begun, or issuer is in a formal payment stand-still period.

Source: Fitch Ratings

Furthermore, the table below summarises the ways in which certain rating relationships or constraints change at low rating levels.

Assigning Non-Bank Financial Institution Ratings at Low Levels

Rating consideration	Usual treatment	Treatment at low Rating levels
Assigning non-bank financial institution SCPs above the sovereign rating	Non-bank financial institutions predominantly exposed to their domestic market rarely have SCPs above the sovereign, and potential uplift above the sovereign for very strong domestic issuers 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 a non-bank financial institution's failure. Accordingly, issuers may be incrementally more likely to have SCPs above the sovereign when the latter is rated in the 'CCC' category or below, and this uplift may be by multiple notches.
Assigning non-bank financial institution IDRs above the sovereign rating	Non-bank financial institution's Foreign-Currency IDRs are almost always constrained at the Country Ceiling, which is usually assigned at zero to three notches above the sovereign Foreign-Currency IDR. Non-bank financial institution 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 financial sector (see *Country Risks*).	As the sovereign moves towards default, it may become clearer whether the authorities will impose restrictions on non-bank financial institutions servicing their obligations. Accordingly, when the sovereign is rated in the 'CCC' category or below, non-bank financial institutions may be rated higher relative to the sovereign than usual. Conversely, where the risk of restrictions becomes high, non-bank financial institutions previously rated above the sovereign may be downgraded to the level of the sovereign rating. [a]
Assigning non-bank financial institution IDRs above SCPs	A non-bank financial institution's Long-Term IDR may be assigned above its SCP 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 Standalone Profile*).	As a non-bank financial institution moves towards failure, it may become clearer whether this will result in a default on senior obligations. Accordingly, when an standalone entity's SCP is in the 'b' category or below, the uplift of the Long-Term IDR above the SCP can potentially be by more than one notch.
Assigning subsidiary non-bank financial institution SCPs above the shareholder or parent IDR	A subsidiary's SCP can be assigned above the shareholder/parent IDR where, subject to capital extraction considerations, integration with and contagion risk from the shareholder or parent are viewed as limited. Such uplift is usually by a maximum of three notches.	As a shareholder/parent moves towards default, it may become clearer whether a shareholder/parent default will result in the failure of the subsidiary. Accordingly, when a shareholder or parent approaches default and the non-bank financial institution's SCP is in the 'b' category or below, it is more possible for the uplift of the subsidiary above the shareholder/parent to be more than three notches, provided Fitch believes contagion or capital extraction risks are mitigated.
Assigning non-bank financial institution GSRs above the sovereign rating	A non-bank financial institution's GSR is usually capped at the level of the sovereign IDR, as government support for a non-bank financial institution 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 non-bank financial institutions, 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 non-bank financial institution's GSR may be assigned above this, based on selective government support.
Assigning non-bank financial institution IDRs above the GSR	A non-bank financial institution's IDR can be above the GSR when the SCP is assessed to be stronger than the GSR and the above-referenced considerations with respect to assigning non-bank financial institution SCP above the sovereign rating are met. Where a SCP is not able to be assessed on a standalone basis because of the entity's policy role or high level of integration, the issuer's IDR would be in line with its GSR, if assigned.	As a sovereign moves towards default, sovereign support may no longer be relied upon, in which case a 'ns' GSR would typically be assigned. Where no SCP is assessed, the IDR can be modestly above the GSR (but not above the sovereign IDR) reflecting that a default-like process has yet to begin.
Notching subsidiary SSR off parent IDR	A subsidiary non-bank financial institution'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 moves towards default, it may become clearer whether support for the subsidiary will continue. 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 relative to the IDR.
Notching of non-bank financial institution debt ratings off anchor ratings	A non-bank financial institution's senior and subordinated debt ratings can be notched off its Long-Term IDR or SCP/VR due to either incremental non-performance risk or potential loss severity (see *Issue Ratings*).	As a non-bank financial institution moves towards failure it may become clearer which obligations it will default on and what the loss severity may be. Accordingly, when the anchor Long-Term IDR or SCP/VR is in the 'B'/'b' category or below, debt ratings may be raised or lowered in relation to the anchor.

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

Rating Definitions and Scales

The tables below summarises for each non-bank financial institution rating (i) what the rating measures; (ii) when we assign the rating; (iii) the rating scale used; and (iv) how we determine the rating.

Overview of Non-Bank Financial Institution 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 Issuer Default Rating	The entity's vulnerability to default on senior financial obligations and its subordinated obligations (except for prudentially regulated non-bank financial institutions) or, where material, leases or other major contracts, to third-party, non-government creditors. See *Non-Bank Financial Institution IDRs: Reference Obligations* below for additional clarifications on which senior obligations are reference liabilities for issuer's IDRs.	To virtually all non-bank financial institutions 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 National Rating.	'AAA' scale (see Fitch's Rating Definitions).	The Long-Term IDR is usually at the higher of the entity's SCP (or VR), GSR or SSR. In some cases – when lower ranking liabilities or debt buffers are large, or the SCP is very low – the Long-Term IDR may be above the SCP (see *Assigning IDRs Above the Standalone Profile*). The Long-Term IDR may also be constrained below the SCP by the Country Ceiling.
Short-Term Issuer Default Rating	The entity's vulnerability in the short term to default on senior financial obligations to third-party, non-government creditors.	To non-bank financial institutions with Long-Term IDRs and material short-term obligations.	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 *How We Determine Short-Term IDRs*).
Viability Rating	The entity's standalone credit profile, or the likelihood that it will fail, i.e. (i) default on senior debt; or (ii) need extraordinary support, or (iii) to impose losses on subordinated debt, to avoid such a default and restore its viability (see Bank Rating Criteria).	Assigning VRs to non-bank financial institutions and their holding companies is rare. VRs may be assigned if the entity is bank-like (with a bank license, deposit base, or bank-like activities) or is of systemic importance, or has a policy role and may benefit from soveriegn support. VRs are not assigned to (i) highly integrated subsidiaries that do not have a meaningful standalone franchise; and (ii) policy institutions whose operations are largely determined by their policy roles.	'aaa' scale (see Fitch's Rating Definitions).	Similar to the SCP, the VR is determined based on analysis of seven key rating drivers (see Standalone Assessment).
Government Support Rating	The likelihood that, in case of failure, the entity will receive extraordinary support from government sources to prevent it from defaulting on its senior obligations. The rating level indicates the minimum level to which an issuer's Long-Term IDR could fall if Fitch does not change its view on potential government support.	A GSR is assigned where Fitch views government support as a relevant anlytical consideration and as more reliable than shareholder support.[a]	'aaa' scale (see Fitch's Rating Definitions).	The GSR is assigned based on the KRDs relating to the ability and propensity of the sovereign to provide support (see *Government Support Rating*).
Shareholder Support Rating	The likelihood that, in case of failure, the entity will receive extraordinary support from its shareholder(s) or other group entities to prevent it from defaulting on its senior obligations. The rating level indicates the minimum level to which an issuer's Long-Term IDR could fall if Fitch does not change its view on potential shareholder support.	An SSR is assigned where Fitch views shareholder support as a relevant anlytical consideration and as more reliable than government support.[a]	'aaa' scale (see Fitch's Rating Definitions).	The SSR is assigned based on the KRDs relating to the ability and propensity of the shareholder(s) to provide support (see *Shareholder Support Rating*).
Derivative Counterparty Rating	The entity's vulnerability to default on derivative contracts to third-party, non-government counterparties.	A Derivative Counterparty Rating is assigned when (i) default risk on derivative obligatons may be lower than on other senior obligations (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.	'AAA' scale with '(dcr)' suffix (see Fitch's Rating Definitions).	DCRs are notched up from the Long-Term IDR if equally ranking senior liabilities are notched up to reflect a lower default risk than captured by the IDR. Otherwise, the DCR is aligned with the IDR.

[a] Fitch usually assigns either a GSR or an SSR to a non-bank financial institution when it is a relevant analytical consideration. Non-banks financial institutions whose IDRs are assigned based on a group SCP are not normally assigned SSRs.
Source: Fitch Ratings

Overview of Non-Bank Financial Institution 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 an initial maturity of more than 13 months.[a]	'AAA' scale (see Fitch's Rating Definitions).	(1) Determine the anchor rating (Long-Term IDR, SCP or VR) which most closely reflects the securities' non-performance risk; (2) notch up or down from the anchor rating where 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 recovery expectations due to non-performance are above or below average (see *Issue 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 an initial maturity of less than 13 months.[a]	Short-term rating scale(see Fitch's Rating Definitions).	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.
Recovery Ratings	The recovery prospects of individual securities and obligations. They provide greater transparency on the recovery component of the credit risk assessment of low-rated issuers' securities.	Can be assigned to individual obligations when an issuer has a Long-Term IDR of 'B+' or below.	'RR1'-'RR6' Recovery Rating scale (see Fitch's Rating Definitions).	When an issuer's Long-Term IDR is at 'B+' or below, the recovery prospects in case of default/non-performance of the individual obligation are assessed to assign a long-term security rating. Where recovery prospects are viewed as average, the issue rating is in line with the IDR. Recovery prospects of above- or below-average will lead to an issue rating above or below the IDR.
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.	Long-term (AAA) and short-term (F1+)rating scales, but with a country suffix to identify them as national scale ratings (see *National Scale Rating Criteria*).	Long-term national scale 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 by a rating committee 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.
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 scale issuer rating using the same approach for international issue ratings. Short-term national scale issue ratings are usually aligned with the issuer's short-term national scale 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

Non-Bank Financial Institution IDRs' Reference Obligations

A non-bank financial institution's IDR usually expresses Fitch's opinion on the risk of default on its senior obligations and its subordinated obligations (with the exception of a small number of prudentially regulated non-bank financial institutions) or, where material, leases or other major contracts, to third-party, non-government creditors, as, in Fitch's view, these are typically the obligations whose non-performance would best reflect the uncured failure of the entity.

In accordance with Fitch's rating definitions, a non-bank financial institution's default may take a number of forms, including non-payment of obligations beyond the available cure period, bail-in, a distressed debt exchange (DDE) or the issuer entering into bankruptcy proceedings.

Fitch does not normally regard the following as extraordinary support and would not usually view such cases as evidence that an issuer has failed:

- Provision of new capital by existing shareholders, primarily with the aim of supporting business growth, rather than addressing a capital shortfall;
- Provision of capital by existing shareholders that an issuer 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 systemwide stabilisation support measures (e.g. guarantees of new funding facilities, provision of new capital) by fundamentally viable issuers during a material market stress;
- Use of secured central bank funding or liquidity facilities, or of unsecured facilities if these were made available to the issuer in line with other issuers in the market; and
- External support provided to an issuer's creditors or counterparties that indirectly also benefits the issuer.

DDEs are most commonly applied to bond and bank loans, but they can also be applied to other classes of obligations, such as leases or other major contracts.

When considering whether a debt restructuring or exchange should be classified as a DDE, Fitch expects both of the following to apply:

i. The restructuring imposes a material reduction in terms compared with the original contractual terms; and

ii. The restructuring or exchange is conducted to avoid bankruptcy, similar insolvency or intervention (including resolution) proceedings or a traditional payment default.

The difference between a DDE and a robust non-public bilateral negotiation occurring in the normal course of business could be slight. In such circumstances, a DDE will only be called when there is compelling evidence of its existence. For example, a material reduction in terms, by itself, is not sufficient for an amendment to a revolving credit or term loan to be classified as a DDE.

Examples of Material Reductions in Terms

Bonds	Revolving credit facilities and term loans
• Reduction in principal; • Reduction in interest or fees; • Extension of maturity date; • Change from a cash pay basis to payment-in-kind, discount basis or other form of non-cash payment (but not the exercise of a previously agreed payment-in-kind option); • Exchange of debt for equity, hybrids or other instruments; • Cash tender for less than par if acceptance is conditional on a minimum aggregate amount being tendered, or if combined with a consent solicitation to amend restrictive covenants; or • Exchange offers or cash tenders that are accepted only if the tendering bondholder also consents to indenture amendments that materially impair the position of holders that do not tender.	• All examples under the 'Bonds' column The introduction of payment-in-kind interest (but not the exercise of a previously agreed payment-in-kind option).

Source: Fitch Ratings

A non-bank financial institution's GSR or SSR, where applicable, also rate to the same reference obligations, i.e. they reflect Fitch's view on whether external support will be sufficient for an issuer to avoid default on its relevant obligations to third-party, non-government creditors.

The rationale for Fitch's definition of reference obligations for IDRs is as follows:

Third-Party Versus Intra-Group Obligations

Non-bank financial institution IDRs do not usually rate to default risk on funding from entities under common control (such as parent/sister companies or related non-financial corporations) for three main reasons. Firstly, these facilities may not be extended with the same expectations of an unaffiliated creditor; for example, the borrower may not always be expected to repay, rather than roll-over, the facilities at maturity. Secondly, Fitch would not usually expect there to be a high level of transparency on whether an entity has "defaulted" on intra-group debt, e.g. whether a roll-over has been "voluntary" or "forced." Thirdly, Fitch would not usually regard entities under common control as the main users of its ratings, as in most cases they would have privileged, direct access to information on the financial condition of the borrower.

Private Versus Government Creditors

Non-bank financial institutions are largely funded in the private sector, as they do not generally have access to central bank funding. However, non-bank financial institutions that, for example, have a policy role or banking license but are viewed by Fitch as more akin to non-bank financial institutions, may have access to government funding, particularly during periods of market stress. When this is the case, non-bank financial institution IDRs will not usually rate to default risk on obligations owed to central banks and other national government institutions. This reflects the special relationship between a central bank, as lender of last resort, and issuers that benefit from this form of funding, and the fact that, where facilities due to central banks are rolled over or restructured, there is likely to be considerable ambiguity regarding whether such a restructuring should be regarded as "voluntary" or "forced." In addition, it is often difficult to ascertain in a timely fashion whether an issuer has performed on debt owed to its central bank.

Different Categories of Obligations

In some cases, a non-bank financial institution may default on some categories of third-party, private-sector debt, while continuing to perform on others. Where Fitch considers there to be significantly different levels of default risk on different categories of applicable liabilities, the IDRs will rate to the material category with highest risk. If a non-bank financial institution defaults on a material category of third-party, private-sector senior or subordinated debt, but remains current on other categories, its IDRs will be downgraded to 'RD' (Restricted Default).

Data Sources

Ratings are based on a thorough analysis of all information known and considered to be relevant. This includes publicly available information, information provided directly by, or during 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.

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 disclosures made by the issuer's management, public regulatory filings and official industry commentary.

Non-Public Information

Public disclosure is often supplemented by additional information provided directly to Fitch by an issuer or its advisors. Such additional information may take the form of more frequent or confidential updates of information typically disclosed publicly or specific non-public information considered analytically important. Meetings may be held with members of the issuer's 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 rating 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 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 non-bank financial institution is taken to rating committee;
- The non-bank financial institution is issued with a request for additional specific information (Fitch may also place it on Rating Watch at this point); or
- Fitch may conclude that no action is necessary.

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

Rating Assumption Sensitivity

Non-bank financial institution ratings are subject to positive or negative adjustment based on actual or projected financial and operational performance. Below is a non-exhaustive list of the primary assumption sensitivities, or shifts in KRDs, that can influence ratings.

Sector Risk Operating Environment

Deterioration in an issuer's sector-specific operating environment due to weakening of the general economic environment, sovereign risks, financial market health, changes in regulatory or 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 by its position or franchise in key markets, its business model and 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 or 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 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 non-bank financial institutions have an asset-liability mismatch (asset duration longer than funding duration), they can be vulnerable to extreme liquidity stress. While funding, liquidity and coverage 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 the likelihood of extraordinary support being available to an issuer, for example due to a change in ownership or developments in resolution frameworks.

Instrument-Specific Risks

A change in an instrument's seniority, volume/expected volume of pari passu liabilities or the volume/expected volume and relative ranking of other liability layers.

Ratings Case, Stress Scenarios and Other Tools

Fitch evaluates the risks of rated entities on a "through-the-cycle" basis by applying a variety of scenarios to seek to ensure rating stability. Scenario analysis, stress testing and forecasts help to determine the amount of headroom in an issuer's credit ratings, typically over an 18 to 24 month timeframe, and inform the appropriateness of any potential change in the rating or Outlook.

Scenario Assumptions

Scenarios assumptions are developed based on potential risks an issuer may encounter and will be established at an issuer, sector, country or region level. Scenarios typically include a set of conservative projections that form the basis of the assessment of the issuer, combined with more punitive scenarios that may cause the rating to be downgraded by at least one notch.

Assumptions used will vary, but will typically incorporate macro-economic variables, loss rates and changes in risk parameters (such as probability of default and loss given default), and the impact will typically be framed in the context of impact on earnings, liquidity, interest coverage or capital/leverage.

Tools Used in the Rating Process

Fitch will use a range of standardised tools to simulate the effect of asset quality/performance, earnings, capital and liquidity stresses. Stress testing may be supplemented by bespoke simulations in cases where standardised approaches are not sufficient or appropriate.

To the extent that regulators conduct stress tests across a country or sector, Fitch may consider the outputs of such tests in addition to its own tools to better understand regulatory stress tests and their sensitivities, recognising the varying degrees of disclosure regarding factors such as baseline data and stress variables.

Stress and scenario testing may require standard issuer inputs of a non-public nature, and Fitch will request those that are considered necessary. If not provided, Fitch will use conservative estimates based on analytical judgement. Alternatively, Fitch may be provided with an issuer's own scenario analyses, which will be reviewed with the issuer to understand the underlying assumptions used in the analysis, and, if appropriate, make further analytical adjustments.

Criteria Disclosures and Variations

Criteria Disclosures

Fitch's Rating Action Commentary will always outline the KRDs and, with the exception of rating withdrawals, the rating sensitivities associated with the issuer. Other analytical aspects which Fitch will typically disclose in its Rating Action Commentaries include:

- In the case of non-bank financial institutions for which Fitch employs a blended or hybrid analytical approach across more than one rating criteria, the extent to which any and all relevant criteria are applied.
- In the case of non-bank financial institutions for which Fitch employs a blended, hybrid or bespoke analytical approach across more than one sub-sector within the non-bank financial institutions criteria, details on the approach employed.
- Any material additional financial ratios considered as part of the analysis.
- Any criteria variations, including their impact on the rating(s) where appropriate.

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 judgement applied on an issuer-by-issuer basis and full disclosure via rating commentary strengthens Fitch's rating process while assisting market participants in understanding the analysis behind the ratings.

A rating committee may adjust the application of this criteria to reflect the risks of a specific entity. Such adjustments are called variations. All variations will be disclosed in the respective Rating Action Commentaries.

A variation can be approved by a ratings committee where the risk, feature or other factor 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 entity.

Additional Criteria Applicability Considerations and Limitations

The non-bank financial institutions rating criteria contemplates a "going concern" analysis of established entities with clearly defined strategic objectives and manageable exposure to measurable credit, market and liquidity risks. The criteria are applicable to a wide range of financial institutions, but issuers with the following attributes may not be fully addressed in this criteria and so may not be rated under this criteria. Structures outside the scope of these rating criteria may be evaluated by or in conjunction with other analytical groups within Fitch or otherwise not rated by Fitch.

This rating criteria identifies factors that are considered by Fitch in assigning ratings to a particular entity or obligation within the scope of the master criteria. Not all factors in these criteria may apply to each individual rating or rating action. Each specific Rating Action Commentary or rating report will discuss those factors most relevant to the individual rating action.

Ratings, as well as Rating Watches and Rating Outlooks, assigned by Fitch are subject to the limitations specified in Fitch's Rating Definitions. More specifically for non-bank financial institutions, IDRs, VRs, GSRs, SSRs and Derivative Counterparty Ratings (DCRs) do not specifically address transfer and convertibility risk for each and every foreign jurisdiction in which a non-bank financial institution operates, nor do they reflect jurisdiction-specific resolution risks.

Criteria Applicability Considerations

Attribute	Not rateable under Non-Bank financial institutions criteria	Potentially rateable under Non-Bank financial institutions criteria
Special-purpose vehicles (excluding guaranteed debt-issuing subsidiaries of rated entities)	✓	
Fixed-life vehicles	✓	
Investment vehicles with unidentified assets at inception	✓	
Investment vehicles invested in real/non-financial assets for which there is limited insight into the credit risk, market risk, cash flow stability or leveragability of the asset class(es)	✓	
Open-end investment vehicles with a very high degree of market value risk[a] as a result of the reliance on the sale of less liquid assets or the reliance or the sale of moderately liquid assets but within a very short time frame to meet redemptions	✓	
Open-end investment vehicles with an elevated but generally manageable degree of market value risk, as a result of the reliance on the sale of liquid assets to meet near-term redemptions		✓
Open-end investment vehicles with a limited degree of market value risk[a] as a result of well-established redemption frameworks that are subject to the availability of cash proceeds (queues) and therefore provide non-discretionary, structural protection against liquidity mismatches		✓
Quasi open-end investment vehicles with a limited degree of market risk[a] due to the lack of near-term redemption risk, highly predictable cash inflows and outflows, and the ability to increase the former or reduce the latter		✓
Closed-end investment vehicles with permanent capital and no requirements for the liquidation or forced sale of underlying assets		✓

[a] Market value risks include valuation risk with respect to underlying assets, the use of leverage or confidence-sensitive funding sources which may magnify such valuation risks, or redemption risks associated with non-permanent capital sources.
Source: Fitch Ratings

Non-bank financial institution ratings are also 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.

Related Criteria

In some situations, non-bank financial institutions may be rated by applying a combination of both the Non-Bank Financial Institutions Criteria and the Bank Rating Criteria as disclosed in relevant Rating Action Commentaries. In addition, the following cross-sector criteria reports will be applied to the ratings of non-bank financial institutions, where appropriate.

Bank Ex-Government Support Ratings Criteria

Country Ceilings Criteria

Sukuk Rating Criteria

National Scale Rating Criteria

Corporate Rating Criteria

Corporates Hybrids Treatment and Notching Criteria

Corporates Recovery Ratings and Instrument Ratings Criteria

Country-Specific Treatment of Recovery Ratings Criteria

Third-Party Partial Credit Support Rating Criteria

DIP (Debtor-in-Possession) Rating Criteria

Annex 1: Financial Metrics

The core and complementary metrics used in Fitch's non-bank financial institution rating analysis are based on data published in issuers' financial statements or regulatory reporting.

Finance and Leasing Company Ratios

Metric	Definition	Core or complementary	Consumer and commercial finance companies - high balance-sheet usage	Leasing companies - high balance-sheet usage	Finance and leasing companies - low balance-sheet usage
Asset quality					
Impaired and non-performing ratio	Loans or leases where income has either stopped accruing, loan has been restructured, or the receivable is deemed otherwise impaired/period-end loans or leases	Core[a]	✓	✓	
Impairment to capital ratio	(Impaired loans and leases – loan loss allowances)/ tangible equity	Complementary	✓	✓	
Net charge-off rate	(Gross principal losses - recoveries)/ average loans during the period	Complementary	✓	✓	
Reserve coverage of impaired loans	Allowances for impairments/impaired loans and leases	Complementary	✓	✓	
Residual gain (loss) rate	Gain or loss on sale of residual vehicles and equipment/ depreciated value of the assets sold	Complementary		✓	
Earnings and profitability					
Pre-tax return on average assets	Pre-tax net income/average assets	Core	✓	✓	
EBITDA margin	Earnings before interest, taxes, depreciation and amortisation/revenues with adjustments for significant non-cash items. Fitch may make adjustments to its EBITDA calculation to exclude depreciation expense if it is believed to be a recurring operating expense and no significant change in leased asset levels is expected. However, in that case, Fitch would look to add back proceeds from the sale of leased assets to its calculation of cash flow, as it would likely be deemed a significant source of debt repayment.	Core (for low balance-sheet-usage finance and leasing companies) Complementary (for high balance-sheet-usage finance and leasing companies)	✓	✓	✓
Net spread	(Lease and rental income/average book value of aircraft assets) - (interest expense/average debt outstanding) (%)	Core[b]		✓	
Pre-tax return on average equity	Pre-tax net income/average equity	Complementary	✓	✓	✓
Pre-tax income margin	Pre-tax operating income/total revenues	Complementary	✓	✓	✓
Operating expense ratio	Operating expenses/total net operating income	Complementary	✓	✓	✓
Depreciation expense ratio	Depreciation expenses/total revenues	Complementary		✓	
Residual value gain (loss) contribution	Gain or loss on sale of residual vehicles and equipment/reported pre-tax net income	Complementary		✓	
Capitalisation and leverage					
Tangible balance-sheet leverage	(Reported debt + debt portion of hybrid capital)/(total shareholders' equity - goodwill – intangibles – deferred tax assets related to net operating losses brought forward (if available and at a minimum value of zero), otherwise net deferred tax assets in its entirety (at a minimum value of zero) – non-controlling interests[c] + equity portion of hybrid capital)	Core	✓	✓	

Finance and Leasing Company Ratios

Metric	Definition	Core or complementary	Consumer and commercial finance companies - high balance-sheet usage	Leasing companies - high balance-sheet usage	Finance and leasing companies - low balance-sheet usage
Cash flow leverage	Total debt/earnings before interest, taxes, depreciation and amortisation (see EBITDA definition above)	Core (for low balance-sheet-usage finance and leasing companies) Complementary (for high balance-sheet-usage finance and leasing companies)	✓	✓	✓
Equity asset ratio	Tangible equity/tangible assets	Complementary	✓	✓	
Common equity Tier I capital ratio	Ratio as reported to the regulators in the relevant jurisdiction; the calculation is: common equity as defined by local regulators as a percentage of risk-weighted assets as defined by local regulators.	Complementary	✓	✓	
Retained income ratio	(Net income-dividends-share repurchases)/beginning equity	Complementary	✓	✓	
Funding, liquidity and coverage					
Unsecured debt usage	Debt unsecured by corporate assets/total interest-bearing liabilities	Core[b] (for high balance-sheet-usage finance and leasing companies) Complementary (for low balance-sheet-usage finance and leasing companies)	✓	✓	✓
Short-term liquidity[d]	Unrestricted cash + liquid investments + undrawn committed facilities/short-term funding	Core (for high balance-sheet-usage finance and leasing companies) Complementary (for low balance-sheet-usage finance and leasing companies)	✓	✓	✓
Interest coverage	Earnings before interest, taxes, depreciation and amortisation/interest expense	Core (for low balance-sheet-usage finance and leasing companies) Complementary (for high balance-sheet-usage finance and leasing companies)	✓	✓	✓
Short-term funding reliance	(Short-term debt + current portion of long-term debt)/total interest-bearing liabilities	Complementary	✓	✓	✓
Short-term liquidity[d]	Unrestricted cash + liquid investments + undrawn committed facilities + EBITDA/short-term funding	Complementary	✓	✓	✓
Unencumbered asset coverage	Amount of assets free and clear of any encumbrance/ unsecured debt	Complementary	✓	✓	
Payout ratio	Dividends/reported net income	Complementary	✓	✓	✓

[a] Where disclosed under IFRS 9, impaired loans will be loans classified as Stage 3. For leasing companies, asset quality ratios are calculated as impairments on leased assets plus incurred losses on the sale of leased assets/total leased assets. For equipment lessors, Fitch will not exclude maintenance right assets and lease premiums from tangible equity if these balance sheet items are believed to contain sufficient economic value to support creditors. [b] Applicable to aircraft lessors. [c] Non-controlling interests are excluded unless believed to exhibit loss absorption capacity. [d] Liquid investments includes treasury or government securities, other central bank-eligible securities, and short-dated bank debt securities.
Note: If or when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for the issuer
Source: Fitch Ratings

Securities Firm Ratios

Metric	Definition	Core or complementary	Securities firms - high balance-sheet usage	Securities firms - low balance-sheet usage
Asset quality				
Impaired and non-performing[a] ratio	Loans where income has stopped accruing, loan has been restructured or the receivable is deemed otherwise impaired/period-end loans.	Core (when lending is meaningful)	✓	
Loan loss allowances/impaired loans	Allowances for impairments/impaired loans	Complementary	✓	
Loan impairment charges/average gross loans	Impairment charges on loans/average gross loans	Complementary	✓	
Impaired loans less loan loss allowances/ tangible equity	(Impaired loans and leases – loan loss allowances)/tangible equity	Complementary	✓	
Growth of gross loans	Total customer loans at the end of the accounting period less total customer loans at the beginning of the accounting period as a percentage of customer loans at the beginning of the accounting period.	Complementary	✓	
Market risk				
Average VaR/tangible equity	Average period trading VaR considered as reported and adjusted to 99% confidence interval and one-day holding period; data are assessed both including and excluding attributed diversification.	Complementary	✓	
Fitch stressed VaR/ tangible equity	Fitch stressed VaR is calculated by multiplying the aggregated 10-day, 99% level maximum VaR by a factor of five; intended to capture market risk under extremely severe market conditions.	Complementary	✓	
Trading efficiency ratio	Principal daily trading revenue (annual/252 days) or (quarterly/63 days)/average trading VaR (99%, one day, US dollars)	Complementary	✓	
Principal activity	Principal transaction revenue/total revenue	Complementary	✓	
Earnings and profitability				
Operating profit/ average equity	Pre-tax profit before non-recurring and non-operating income and expenses as a percentage of average reported equity.	Core	✓	
EBITDA/gross operating income	EBITDA with adjustments for significant non-cash items, such as non-cash compensation expenses, as a percentage of gross operating income.	Core		✓
Operating expense/gross operating income	Operating expenses, including interest expense, as a percentage of total gross operating income.	Complementary	✓	
Compensation/total net operating income	Compensation paid in the period as a percentage of net operating income, isolated for brokers and traders compensation where possible	Complementary	✓	
Capitalisation and leverage				
Net adjusted leverage	(Tangible assets - reverse repurchase agreements - securities borrowed)/tangible equity	Core	✓	
Gross debt/EBITDA	Gross debt divided by EBITDA, with adjustments for significant non-cash items such as non-cash compensation expenses	Core		✓
Gross leverage	Total assets divided by total equity	Complementary	✓	
Tangible gross leverage	(Tangible assets plus gross ups for derivatives, reverse repurchase agreements and securities borrowed)/tangible equity. Tangible assets equal total assets minus goodwill and intangibles.	Complementary	✓	

Securities Firm Ratios

Metric	Definition	Core or complementary	Securities firms - high balance-sheet usage	Securities firms - low balance-sheet usage
	Derivatives, reverse repurchase agreements and securities borrowed are grossed up for any netting amounts that may otherwise be excluded from amounts reported on the balance sheet.			
Adjusted leverage	(Tangible assets – reverse repurchase agreements)/tangible equity	Complementary	✓	
Common equity Tier I capital ratio	Ratio as reported to the regulators in the relevant jurisdiction; the calculation is: common equity as defined by local regulators as a percentage of risk-weighted assets as defined by local regulators.	Complementary	✓	
Funding, liquidity and coverage				
Short-term liquidity[b]	Unrestricted cash + liquid investments + undrawn committed facilities/short-term funding	Core (for high balance-sheet-usage securities firms) Complementary (for low balance-sheet-usage securities firms)	✓	✓
EBITDA/interest expense	EBITDA with adjustments for significant non-cash items, such as noncash compensation expenses, as a multiple of interest expense	Core		✓
Long-term funding/illiquid assets[c]	Equity and long-term borrowing as a percentage of illiquid assets	Complementary	✓	

[a] Where disclosed under IFRS 9, impaired loans will be loans classified as being at 'Stage 3'. [b] Liquid investments includes treasury/government securities, other central bank-eligible securities, and short-dated bank debt securities. [c] Illiquid assets typically include high yield debt + merchant bank, private equity investments + emerging market + consumer loans + bank loans + goodwill + intangibles + non-investment-grade derivatives marked to market + other assets + non-investment-grade residual assets.
Note: If or when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for the issuer.
Source: Fitch Ratings

Business Development Company Ratios

Metric	Definition	Core or complementary
Asset quality		
Net portfolio gains (losses)	Net realised gains/average portfolio, at value	Core
Non-accruals, at cost	Non-accruals/portfolio, at cost	Complementary
Non-accruals, at fair value	Non-accruals/portfolio, at fair value	Complementary
Net portfolio valuation marks	Net unrealised appreciation (depreciation)/beginning portfolio, at fair value	Complementary
Portfolio concentrations	Top 10 portfolio investments, at value/equity	Complementary
Earnings and profitability		
Net investment income yield	Net investment income/average portfolio, at cost	Core
Investment income yield	Investment income/average portfolio, at cost	Complementary
Operating efficiency	Non-interest and non-incentive expenses/average portfolio, at cost	Complementary
Compensation ratio (externally managed)	Management + incentive fees/average portfolio, at cost	Complementary
Compensation ratio (internally managed)	Compensation/average portfolio, at cost	Complementary
Return on average assets	Net income/average assets	Complementary
Capitalisation and leverage		
Asset coverage cushion[a]	(Total assets - total liabilities excluding regulatory debt - [par value of regulatory debt x asset coverage requirement])/ (total assets - total liabilities excluding regulatory debt)	Core
Leverage	Gross debt/tangible equity	Complementary
Asset coverage ratio[a]	(Total assets - total liabilities excluding regulatory debt)/regulatory debt	Complementary
Funding, liquidity and coverage		
Funding mix	Unsecured debt/total debt	Core
Short-term liquidity[b]	Unrestricted cash + liquid investments + undrawn committed facilities/short-term funding	Core
Total short-term funding reliance	(Short-term debt + current portion of long-term debt)/total debt	Complementary
Interest coverage	EBITDA/interest expense	Complementary
Cash earnings coverage of dividend	(Net investment income - non-cash earnings + non-cash expenses)/ dividends declared	Complementary
Earnings coverage of dividends	Net investment income/dividends declared	Complementary
Non-cash income[c]	Non-cash income/interest and dividend income	Complementary

[a] Regulatory debt is defined as term corporate debt excluding Small Business Administration borrowings. [b] Liquid investments includes treasury or government securities, other central bank-eligible securities, and short-dated bank debt securities [c] Adjusted for non-cash earnings received in cash, where available.
Note: If/when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for the issuer.
Source: Fitch Ratings

Financial Market Infrastructure Company Ratios

Ratio	Definitions	Core or complementary	Exchanges	Clearing houses	CSDs without a banking license
Capitalisation and leverage					
Gross debt/EBITDA	Gross debt divided by EBITDA, with adjustments for significant non-cash items such as non-cash compensation	Core	✓	✓	✓
Free cash flow/gross debt	Net cash provided by operations less capital expenditures and dividends divided by gross debt	Complementary	✓	✓	✓
Gross debt/tangible equity	Gross debt divided by tangible equity	Complementary		✓	
Funding, liquidity and coverage					
EBITDA/interest expense	EBITDA with adjustments for significant non-cash items as a multiple of interest expense	Core	✓	✓	✓
Short-term liquidity[a]	Unrestricted cash + liquid investments + undrawn committed facilities + EBITDA/short-term funding	Complementary	✓	✓	✓
Total short-term funding reliance	(Short-term debt + current portion of long-term debt)/ total interest-bearing liabilities	Complementary	✓	✓	✓
Earnings and profitability					
EBITDA margin	EBITDA with adjustments for significant non-cash items as a percentage of total gross operating income	Core	✓	✓	✓
Rate per contract	Revenue divided by contract volume	Complementary	✓	✓	
Capital expenditure/revenues	Capital expenditures divided by total gross operating income	Complementary	✓	✓	✓
Capital expenditure/depreciation and amortisation	Capital expenditures divided by depreciation and amortisation	Complementary	✓	✓	✓

[a]Liquid investments includes treasury or government securities, other central bank-eligible securities, and short-dated bank debt securities.
Note: If and when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for such issuer.
Source: Fitch Ratings

Investment Manager Ratios

Metric	Definition	Core or complementary	Alternative investment managers	Traditional investment managers
Asset performance				
(F)AUM growth rate	Net client flows/beginning (F)AUM	Core	✓	✓
Management fee yield	Management fees/average (F)AUM	Complementary	✓	✓
Revenue yield	Total revenue/average (F)AUM	Complementary	✓	✓
(F)EBITDA yield	(F)EBITDA/average (F)AUM	Complementary	✓	✓
Earnings and profitability				
(F)EBITDA margin	(F)EBITDA/total fee income	Core	✓	✓
Total management fee contribution	Management fees/total gross operating income	Complementary	✓	
Operating efficiency	(Base compensation + operating expenses)/total fee income	Complementary	✓	✓
Incentive compensation ratio	Incentive compensation/incentive fees	Complementary	✓	
Return on average equity	(Economic) net income/average equity	Complementary	✓	✓
Capitalisation and leverage				
Cash flow leverage	Gross debt/(F)EBITDA, with adjustments made for significant noncash and nonrecurring items. (F)EBITDA is defined as management, transaction, monitoring, and advisory fees - operating expenses + interest expense + depreciation + amortisation + equity compensation. Interest and dividend revenue may be included if deemed recurring in nature.	Core	✓	✓
Net cash flow leverage	(Gross debt - balance sheet cash and equivalents)/(F)EBITDA, with adjustments made for significant noncash and nonrecurring items	Complementary	✓	✓
Incentive adjusted cash flow leverage	Gross debt/(F)EBITDA + 50% of incentive and investment income	Complementary	✓	
Balance sheet leverage	Gross debt/tangible equity. In making balance sheet leverage calculations for investment managers, Fitch typically focuses on the unconsolidated balance sheet to exclude the effects of non-recourse assets and liabilities.	Complementary	✓	✓
Net balance sheet leverage	Net debt (gross debt - balance sheet cash and equivalents)/ tangible equity	Complementary	✓	✓
Funding, liquidity and coverage				
Interest coverage	(F)EBITDA, with adjustments for significant noncash or non-recurring items/interest expense	Core	✓	✓
Short-term liquidity[a]	Unrestricted cash + liquid investments + undrawn committed facilities + EBITDA/short-term funding	Complementary	✓	✓
Short-term funding reliance	(Short-term debt + current portion of long-term debt)/ total debt	Complementary	✓	✓
Liquid asset debt coverage[a]	(Cash + liquid investments)/gross debt	Complementary	✓	✓
Asset debt coverage[a]	(Cash + liquid investments + balance sheet co-investments)/ gross debt	Complementary	✓	✓
Liquid coverage of co-investment commitments[a]	(Cash + liquid investments)/ uncalled co-investment commitments	Complementary	✓	✓
Liquid assets[a]	(Cash + liquid investments)/total assets	Complementary	✓	✓
Payout ratio	Distributions/cash earnings	Complementary	✓	✓

[a]Liquid investments includes treasury or government securities, other central bank-eligible securities, and short-dated bank debt securities.
Note: If or when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for the issuer
Source: Fitch Ratings

Investment Company and Investment Fund Ratios

Metric	Definition	Core or complementary	Investment companies	Open-end investment funds	Other investment funds
Asset quality/performance					
Portfolio credit risk profile	Weighted average credit quality of investments/ portfolio companies	Complementary	✓		
Earnings and profitability					
Return on average assets	Net income/average assets	Complementary	✓	✓	✓
Return on average equity	Net income/average equity	Complementary	✓	✓	✓
Capitalisation and leverage					
Balance sheet leverage	Gross debt/tangible equity or total debt/ net asset value	Core	✓		✓
Gross leverage	(Gross long investment positions + gross short positions)/net asset value	Core		✓	
Funding, liquidity and coverage					
Cash and unencumbered securities coverage	(Cash + unpledged assets)/unsecured debt	Core		✓	✓
Interest coverage	One year's upstream dividend and interest income (or EBITDA) coverage of one year's holdco operating interest expense	Core	✓		
Operating expense coverage[a]	One year's upstream dividend and interest income (or EBITDA) coverage of two years' holdco operating expenses, interest expense and dividends	Core	✓		
Short-term liquidity[b]	Unrestricted cash + liquid investments + undrawn committed facilities/short-term funding	Complementary	✓		
Short-term funding reliance[c]	(Short-term debt + current portion of long-term debt)/ total debt	Complementary	✓		
Gross debt coverage[c]	Gross holding company debt/projected dividends during tenor of holding company debt	Complementary	✓		
Interest, dividends and realised gains coverage of holdco operating expenses, interest expense and dividends	Two year average of upstreamed interest, dividends and realised gains/two years holdco operating expenses, interest expense and dividends.	Complementary	✓		
Dividend, interest income & interest reserve expense coverage[c]	Dividend and interest income received in the period + interest reserve account/one year's holding company interest expense	Complementary	✓		
Illiquid assets	Total illiquid assets/net asset value	Complementary		✓	

[a] For investment companies that are privately held and do not have stated dividend policies, Fitch will likely remove holding company dividends from the denominator of this ratio. [b] Liquid investments includes treasury or government securities, other central bank-eligible securities, and short-dated bank debt securities.
[c] Relevant for Single-Holding Investment Companies.
Note: If or when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for the issuer.
Source: Fitch Ratings

Annex 2: Non-Bank Financial Institution Core Financial Benchmark Ranges

		SROE Score	aa or Above	a	bbb	bb	b	ccc or Below
Finance and Leasing Companies (High-Balance-Sheet Usage)								
Asset quality[a]	Impaired loans/gross loans or impairments on leased assets/ total leased assets (%)	'aa' category or higher	x≤1	1<x≤3	3<x≤6	6<x≤14	14<x≤25	x>25
		'a' category	x≤0.25	0.25<x≤2	2<x≤5	5<x≤12	12<x≤20	x>20
		'bbb' category		X≤0.5	0.5<x≤4	4<x≤10	10<x≤17.5	x>17.5
		'bb' category			x≤0.75	0.75<x≤5	5<x≤15	x>15
		'b' category				x≤1	1<x≤12.5	x>12.5
		'ccc' category or lower					x≤1	x>1
Earnings and profitability	Pre-tax income/average assets (%)	'aa' category or higher	x>4.0	3.0<x≤4.0	2.0<x≤3.0	1.0<x≤2.0	0<x≤1.0	x≤0
		'a' category	x>5.0	3.5<x≤5.0	2.5<x≤3.5	1.0<x≤2.5	0<x≤1.0	x≤0
		'bbb' category		x>6.0	4.0<x≤6.0	1.0<x≤4.0	0<x≤1.0	x≤0
		'bb' category			x>6.0	2.0<x≤6.0	0<x≤2.0	x≤0
		'b' category				x>7.0	0<x≤7.0	x≤0
		'ccc' category or lower					x>7.0	x≤7
Capitalisation and leverage	Debt/tangible equity (x)	'aa' category or higher	x<1.0	1.0≤x<3.0	3.0≤x<5.0	5.0≤x<8.0	8.0≤x<25.0	x≥25.0
		'a' category	x<0.8	0.8≤x<3.0	3.0≤x<5.0	5.0≤x<7.5	7.5≤x<22.5	x≥22.5
		'bbb' category		x<0.75	0.75≤x<4.0	4.0≤x<7.0	7.0≤x<20.0	x≥20.0
		'bb' category			x<0.6	0.6≤x<5.5	5.5≤x<17.5	x≥17.5
		'b' category				x<0.5	0.5≤x<12.5	x≥12.5
		'ccc' category or lower					x<0.5	x≥0.5
Funding, liquidity and coverage	Unsecured debt/total debt (%)	'aa' category or higher	x=100	x=100	35<x<100	10<x≤35	0<x≤10	x=0
		'a' category	x=100	x=100	35<x<100	10<x≤35	0<x≤10	x=0
		'bbb' category	x=100	x=100	35<x<100	10<x≤35	0<x≤10	x=0
		'bb' category			x=100	50<x<100	20<x≤50	x≤20
		'b' category				x>95	25<x≤95	x≤25
		'ccc' category or lower					x>95	x≤95
Funding, liquidity and coverage	Liquid assets + undrawn committed facilities/short-term funding (x)	'aa' category or higher	x>3.5	2<x≤3.5	1<x≤2	0.75<x≤1	0.35<x≤0.75	x≤0.35
		'a' category	x>3.5	2<x≤3.5	1<x≤2	0.75<x≤1	0.35<x≤0.75	x≤0.35
		'bbb' category		x>2	1<x≤2	0.75<x≤1	0.35<x≤0.75	x≤0.35
		'bb' category			x>2.5	1<x≤2.5	0.4<x≤1	x≤0.4
		'b' category				x>3	0.5<x≤3	x≤0.5
		'ccc' category or lower					x>3	x≤3.0
Aircraft Lessors								
Earnings and profitability	Net spread (lease yield – funding costs)	'a' category or higher	>15	5<x≤15	2<x≤5	1<x≤2	0<x≤1	x≤0
		'bbb' category		>15	5<x≤15	1<x≤5	0<x≤1	x≤0
		'bb' category			>15	5<x≤15	1<x≤5	x≤1
		'b' category				>15	5<x≤15	x≤5
		'ccc' category or lower					>15	x≤15
Finance and Leasing Companies (Low Balance Sheet Usage)								
Earnings and profitability	EBITDA/total revenues (%)	All	x>50	30<x≤50	20<x≤30	10<x≤20	0<x≤10	x≤0
Capitalisation and leverage	Debt/EBITDA (x)	All	x<0.5	0.5≤x<1.5	1.5≤x<2.5	2.5≤x<3.5	3.5≤x<5.0	x≥5.0
Funding, liquidity and coverage	EBITDA/interest expense (x)	All	x>15	10<x≤15	6<x≤10	3<x≤6	1<x≤3	x≤1
Debt Purchasers/Collectors								
Earnings and profitability	EBITDA/total revenues (%)	All		x>80.0	60<x≤80	40<x≤60	0<x≤40	x≤0

[a] For leasing companies, asset-quality ratios are calculated as impairments on leased assets plus incurred gains and losses on the sale of leased assets/total leased assets.
Note: If/when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for such issuer.
Source: Fitch Ratings

		SROE Score	aa or Above	a	bbb	bb	b	ccc or Below
Securities Firms (High Balance Sheet Usage)								
Earnings and profitability	Operating income/average equity(%)	‘aa’ category or higher	x>20	10<x≤20	5<x≤10	3<x≤5	0<x≤3	x≤0
		‘a’ category	x>25	15<x≤25	5<x≤15	3<x≤5	0<x≤3	x≤0
		‘bbb’ category		x>15	10<x≤15	3<x≤10	0<x≤3	x≤0
		‘bb’ category			x>15	10<x≤15	0<x≤10	x≤0
		‘b’ category				x>15	0<x≤15	x≤0
		‘ccc’ category or lower					x>20	x≤20
Capitalisation and leverage	(Tangible assets – reverse repo – sec. borrowed)/tangible equity (x)	‘aa’ category or higher	x<5.0	5.0≤x<10.0	10.0≤x<15.0	15.0≤x<20.0	20.0≤x<30.0	30.0≤x
		‘a’ category	x<2.5	2.5≤x<10.0	10.0≤x<15.0	15.0≤x<20.0	20.0≤x<30.0	30.0≤x
		‘bbb’ category		x<5.0	5.0≤x<10.0	10.0≤x<15.0	15.0≤x<25.0	25.0≤x
		‘bb’ category			x<5.0	5.0≤x<12.0	12.0≤x<20.0	20.0≤x
		‘b’ category				x<7.0	7.0≤x<15.0	15.0≤x
		‘ccc’ category or lower					x<7.0	7.0≤x
Funding, liquidity and coverage	Liquid assets + undrawn committed facilities/short-term funding (x)	‘aa’ category or higher	x>3.5	2<x≤3.5	1<x≤2	0.75<x≤1	0.35<x≤0.75	x≤0.35
		‘a’ category	x>3.5	2<x≤3.5	1<x≤2	0.75<x≤1	0.35<x≤0.75	x≤0.35
		‘bbb’ category		x>2	1<x≤2	0.75<x≤1	0.35<x≤0.75	x≤0.35
		‘bb’ category			x>2.5	1<x≤2.5	0.4<x≤1	x≤0.4
		‘b’ category				x>3	0.5<x≤3	x≤0.5
		‘ccc’ category or lower					x>3	x≤3.0
Securities Firms (Low Balance Sheet Usage)								
Earnings and profitability	EBITDA/total gross operating income(%)	All	x>50	30<x≤50	20<x≤30	10<x≤20	0<x≤10	x≤0
Capitalisation and leverage	Gross debt/EBITDA (x)	All	x<0.5	0.5≤x<1.5	1.5≤x<2.5	2.5≤x<3.5	3.5≤x<5.0	x≥5.0
Funding, liquidity and coverage	EBITDA/interest expense (x)	All	x>15	10<x≤15	6<x≤10	3<x≤6	1<x≤3	x≤1
Business Development Companies								
Asset quality	Net realised gains/ average portfolio, at value (%)	All	x>5	2<x≤5	(3)<x≤2	(6)<x≤(3)	(10)<x≤(6)	x≤(10)
Earnings and profitability	Net investment income/ average portfolio, at cost (%)	All	5<x≤10	5<x≤10	5<x≤10	x≤5 or x>10	x≤5 or x>10	x≤5 or x>10
Capitalisation and leverage	(total assets-total liabilities excluding regulatory debt[a]-[regulatory debt x asset coverage requirement])/(total assets-total liabilities excluding regulatory debt) (%)	All	x>60%	33%<x≤60%	11%<x≤33%	5%<x≤11%	0%<x≤5%	x = 0%
	Implied debt/tangible equity (200% asset coverage requirement)	All	x<0.25	0.25≤x<0.50	0.50≤x<0.80	0.80≤x<0.90	0.90≤x<1	x≥1
	Implied debt/tangible equity (150% asset coverage requirement)	All	x<0.36	0.36≤x<0.80	0.80≤x<1.45	1.45≤x<1.73	1.73≤x<2	x≥2
Funding, liquidity and coverage	Unsecured debt/total debt (%)	All	x=100	x=100	35<x<100	10<x≤35	0<x≤10	x = 0
	Liquid assets + undrawn committed facilities/short-term funding (x)	All	x>3.5	2<x≤3.5	1<x≤2	0.75<x≤1	0.35<x≤0.75	x≤0.35

[a] Regulatory debt is defined as term corporate debt excluding Small Business Administration borrowings.
Note: If/when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for such issuer.
Source: Fitch Ratings.

		SROE Score	aa or Above	a	bbb	bb	b	ccc or Below
Financial Market Infrastructure Companies (Exchanges, CCPs and Non-Bank CSDs)								
Earnings and profitability	EBITDA/revenue (%)	All	x>50	30<x≤50	20<x≤30	10<x≤20	0<x≤10	x≤0
Capitalisation and leverage	Gross debt/EBITDA (x)	All	x<1.0	1.0≤x<2.5	2.5≤x<4.0	4.0≤x<6.0	6.0≤x<8.0	x≥8.0
Funding, liquidity and coverage	EBITDA/interest expense (x)	All	x>12	8<x≤12	4<x≤8	2<x≤4	1<x≤2	x≤1
Investment Managers Primarily Charging Fees Based on Net Asset Value (Traditional Investment Managers and Hedge Fund Managers)								
Asset performance	Net client flows/beginning (F)AUM (%)	All	x>10	5<x≤10	5>x>(5)	(10)<x≤(5)	(25)<x≤(10)	x≤(25)
Earnings and profitability	(F)EBITDA/fee revenue (%)	All	x>50	30<x≤50	20<x≤30	10<x≤20	0.0<x≤10	x≤0
Capitalisation and leverage	Gross debt/adjusted (F)EBITDA (x)	All	x<0.50	0.50≤x<1.5	1.5≤x<3.0	3.0≤x<5.0	5.0≤x<7.0	x≥7.0
Funding, liquidity and coverage	(F)EBITDA/interest expense (x)	All	x>15	10<x≤15	6<x≤10	3<x≤6	1<x≤3	x≤1
Investment Managers Primarily Charging Fees Based on Invested/Committed Capital (Alternative Investment Managers)								
Asset performance	Net client flows/beginning (F)AUM (%)	All	x>10	5<x≤10	5>x>(5)	(5)>x>(10)	(25)<x≤(10)	x≤(25)
Earnings and profitability	(F)EBITDA/fee income (%) profitability	All	x>50	30<x≤50	20<x≤30	10<x≤20	0.0<x≤10	x≤0
Capitalisation and leverage	Gross debt/adjusted (F)EBITDA (x)	All	x<1.0	1.0≤x<2.5	2.5≤x<4.0	4.0≤x<6.0	6.0≤x<8.0	x≥8.0
Funding, liquidity and coverage	(F)EBITDA/interest expense (x)	All	x>12	8<x≤12	4<x≤8	2<x≤4	1<x≤2	x≤1
Investment Companies								
Capitalisation and leverage	Gross debt/tangible equity (x)	All	x<0.15	0.15≤x<0.35	0.35≤x<0.50	0.50≤x<1.0	1.0≤x<1.5	x≥1.5
Funding, liquidity and coverage	One year's upstream dividend and interest income coverage of one years' holdco operating expenses, interest expense (x)	All	x>10	6<x≤10	3.5<x≤6.0	2.5<x≤3.5	1.0<x≤2.5	x≤1
	One year's upstream dividend and interest income coverage of two years' holdco operating expenses, interest expense and dividends (x)	All	x>1.0	x>1.0	x>1.0	0<x≤1	0<x≤1	x≤0

Note: If/when additional ratios are considered material on an issuer-specific basis, such ratios will be articulated in the accompanying Rating Action Commentary for such issuer.
Source: Fitch Ratings

Annex 3: Business Profile Benchmarks

Below are the core metrics, by sector, used to determine the implied business profile KRD score.

Finance and Leasing Companies and Securities Firms

Total Net Operating Income[a] - 4 Year Average (USD)						
SROE category	aa and Above	a	bbb	bb	b	ccc and Below
a and above	>50bn	5bn<x≤50bn	200m<x≤5bn	25m<x≤200m	5m<x≤25m	≤5m
bbb		>20bn	200m<x≤20bn	25m<x≤200m	5m<x≤25m	≤5m
bb			>5bn	25m<x≤5bn	5m<x≤25m	≤5m
b				>1.5bn	5m<x≤1.5bn	≤5m
ccc and below					>750m	≤750m
Business Development Companies						
		a and above	bbb	bb	b	ccc and Below
Total assets – 4-year average (USD)		>10bn	1bn<x≤10bn	500m<x≤1bn	250m<x≤500m	≤250m
Traditional Investment Managers						
	aa and Above	a	bbb	bb	b	ccc and Below
Assets under management – 4-year average (USD)	>5tr	500bn<x≤5tr	100bn<x≤500bn	10bn<x≤100bn	1bn<x≤10bn	≤1bn
Alternative Investment Managers						
	aa and Above	a	bbb	bb	b	ccc and Below
Fee assets under management – 4-year average (USD)	>600bn	100bn<x≤600bn	20bn<x≤100bn	10bn<x≤20bn	5bn<x≤10bn	≤5bn
Investment Companies						
	aa and Above	a	bbb	bb	b	ccc and Below
Total assets (or net assets for funds) – 4-year average (USD)	>50bn	20bn<x≤50bn	2bn<x≤20bn	500m<x≤2bn	100m<x≤500m	≤100m
Financial Market Infrastructure Companies – Exchanges and CSDs Without a Banking License						
Total Net Operating Income - 4 year average (USD)						
SROE category	aa and Above	a	bbb	bb	b and Below[a]	
aa and above	>4.5bn	1bn<x≤4.5bn	250m<x≤1bn	50m<x≤250m	≤50m	
a	>4bn	1.25bn<x≤4bn	250m<x≤1.25bn	100m<x≤250m	≤100m	
bbb		>2bn	250m<x≤2bn	125m<x≤250m	≤125m	
bb			>750m	150m<x≤750m	≤150m	
b				>250m	≤250m	
ccc and below				>250m	≤250m	
Financial Market Infrastructure Companies – Clearinghouses						
Total Collateral Required - 4 year average (USD)						
SROE category	aa and Above	a	bbb	bb	b and Below[a]	
aa and above	>75bn	15bn<x≤75bn	5bn<x≤15bn	2bn<x≤5bn	≤2bn	
a	>100bn	25bn<x≤100bn	10bn<x≤25bn	5bn<x≤10bn	≤5bn	
bbb		>30bn	15bn<x≤30bn	5bn<x≤15bn	≤5bn	
bb			>20bn	5bn<x≤20bn	≤5bn	
b				>10bn	≤10bn	
ccc and below				>10bn	≤10bn	

[a]Total Net Operating Income is defined as Total Gross Operating Income less Interest Expense.
Note: Tiering by SROE is not applied for sectors operating in a single jurisdiction (BDCs), or for balance-sheet-light sectors that are less directly influenced by operating environment dynamics and exhibit limited balance-sheet impairment risk. For certain sub-sectors, certain benchmark ranges (i.e. aa & above, ccc & below) have not been established. This reflects Fitch's view that available data are not statistically significant enough to justify more granularity.
Source: Fitch Ratings

Annex 4: Recovery Rating Valuation Methods

Liquidation Approach

Under this approach, Fitch typically conducts a break-up analysis of the issuer's balance sheet to assess potential recoveries for creditors. Haircuts are applied to the issuer's assets to reflect Fitch's expectation that these assets would likely be sold for less than book value in liquidation. Fitch then allocates the cash generated by asset sales to the creditors, based on the expected priority of claims.

Fitch's base case assumption is that the issuer's creditors will not have the immediate benefit of any surplus residual values or cash flows associated with securitisations or other secured financings, as there could be some delay in the excess cash flow or residual value of the assets flowing to the unsecured creditors.

Hence, assets consolidated on balance sheets but assigned directly to specific creditors of the institution will be excluded from the recovery calculation, as will the associated debt. Similarly, assets still on balance sheet but pledged to support securitisation issues will be excluded from recovery calculations.

Haircuts applied can vary significantly by business model, asset class and region, among other factors, and Fitch will assess this on a case-by-case basis. The table below reflects typical discount ranges for a number of broad asset classes that are often found on the balance sheets of asset-heavy non-bank financial institutions.

Asset Haircuts[a]

Asset	Characteristics	Discount (%)
Cash and equivalents	Low risk, but adjusted to reflect expected balance at default	50–100
Fixed-income securities	Variability in risk and liquidity	5–75
Equities	Variability in liquidity and volatility	15–100
Tangible fixed assets	Variability in liquidity and volatility	15–75
Mortgage lending	Low risk if first charge, higher risk if second charge; variable liquidity	5–40
Unsecured personal lending	High risk	25–75
Associates and joint ventures	Illiquid and variable value	50–100
Problem loans	Very high risk	50–100
Related-party exposures	Questionable value in distress	50–100
Intangible assets[b]	Illiquid and questionable value in distress	70–100
Other assets deemed non-loss-absorbing	Difficult to monetise or limited economic value	70–100
Derivative assets	Subject to settlement or offset, not realisable in liquidation	100

[a] For assets purchased at a significant discount (e.g. in the case of debt purchasers), Fitch will typically apply a haircut at the lower end of the indicated range to reflect more limited additional write-down risk in a stressed scenario.
[b] For non-bank financial institutions with sizeable balance sheet-light subsidiaries (that could be sold as a going concern in their entirety), haircuts on intangibles might be at the lower end of the cited 70% to 100% range.
Source: Fitch Ratings

Going-Concern Approach

The going-concern approach involves a two-step process:

- Estimate the level of post-default earnings, typically stressed EBITDA, upon which to base the valuation.
- Apply a conservative valuation multiple reflecting a company's relative position within its sector, based on actual or expected market or distressed multiples. Where no statistically significant sample of market transactions is available, analysts will use proxy sectors or assumptions based on general trends for distressed market transactions.

Valuation multiple ranges provided in the *Valuation Method by Non-Bank Financial Institution Segment* table below are purposefully broad for the various sub-sectors. The actual multiple that is applied in the recovery analysis will be dependent upon a review of then-current market conditions and an assessment of valuation multiples applied to similar market transactions around the time of the analysis.

Valuation Method and Stressed Multiple Ranges by Non-Bank Financial Institution Sub-Sector

Non-Bank Financial Institutions Sub-Sector	Typical Approach	Stressed EBITA Multiple Range (Going-Concern Approach)
Securities Firms		
Low balance-sheet-usage business model	Going-concern	5.0x–10x
High balance-sheet-usage business model	Liquidation value	
Investment Managers/Companies/Funds		
Low balance-sheet-usage business model	Going-concern	4.0x–10x
High balance-sheet-usage business model	Liquidation value	
Business Development Companies	Liquidation value	
Finance and Leasing Companies		
Low balance-sheet-usage business model	Going-concern	4.0x–10x
High balance-sheet-usage business model	Liquidation value	
Financial Market Infrastructure Companies	Going-concern	5.0x–10.0x

Source: Fitch Ratings

For some non-bank financial institutions sub-sectors, Fitch may apply additional segment-specific valuation approaches. For example, for investment managers Fitch may consider valuation as percentage of stressed AUM in addition to a stressed EBITDA multiple approach. For mortgage REITs, Fitch may consider stressed values based on the criteria reports US and Canadian Multiborrower CMBS Rating Criteria and Structured Finance CDOs Surveillance Rating Criteria, in addition to a stressed EBITDA multiple approach.

Estimating Creditor Claims

In an effort to estimate creditor claims Fitch's analysis takes into consideration:

- **Revolving Claims:** Fitch assumes that unused portions of committed lines of credit (secured or unsecured), revolving credit facilities and letter of credit commitments not subject to borrowing base requirements are fully drawn to the extent permitted. Greater judgement is exercised for facilities that can only be drawn for specific uses, such as those designated for acquisitions and capital expenditures. Fitch will assess the extent to which such drawings may also give rise to additional recoverable assets, according to the purposes for which these credit lines are typically utilised.
- **Priority Administrative Claims:** These are assumed to be 10% of distressed liquidation or enterprise value, unless believed to be higher or lower based on the institution's country, size or complexity.
- **Lease Rejection Claims:** Where lease rejection claims have been made, Fitch assesses the ability of the issuer to rationalise leases in a default scenario and notes that under the going-concern approach a certain level of leases must typically be maintained, while

under the liquidation-value approach, 100% of non-residential leases are typically deemed rejected. The value of rejected leases is calculated consistent with the bankruptcy code applicable in each jurisdiction, where such concepts exist.

- **Concession Assumption:** The value distributed to senior unsecured creditors may be reduced by an amount that is redistributed to junior claimants to secure their approval of the plan of reorganisation or liquidation. The amount of such concession payments is highly dependent on circumstances.
- **Pension and Other Post-Employment Benefit Obligations:** Underfunded pension plans and other post-employment benefit claims can be significant claims on the bankruptcy estate, although the claims may vary in priority depending on jurisdiction and issuer-specific intercreditor agreements.
- **Other Claims:** Other non-debt and contingent claims, including material lawsuits, net derivative (assets)/liabilities and contingent liabilities (and guarantees) may be considered, where these are particularly pertinent to an institution.
- **Related-Party Funding:** Fitch will consider whether related-party creditors would be likely to effectively become senior to other creditors by withdrawing their funds prior to default.

Distribution of Enterprise Value

Fitch's recovery analysis typically takes a legal waterfall approach, with the resulting post-restructuring/liquidation enterprise value being allocated to creditors in the order of the relative seniority of their claims. However, application of value is not only affected by relative priority of instruments for a particular issuer but also by organisational structure. Absent a specific legal or regulatory construct to the contrary, Fitch will assume creditors of specific legal entities have a priority claim on assets of that entity relative to creditors of affiliates and related entities. In instances where there are multiple entities in a group, Fitch may establish valuation and claims at the entity level and consider the residual values available for creditors of parent or affiliated entities.

In this context, Fitch will generally use an entity's unconsolidated balance sheet as the basis for its recovery calculations. Factors that may partially offset the effect of structural subordination include the presence of upstream guarantees and intercompany obligations owed by the subsidiary to the parent. Cross-border complexities may add conservatism to the analysis of recoveries for non-bank financial institutions that operate internationally.

Annex 5: Typical Characteristics of SCP KRDs

Typical Characteristics of SCP KRDs[a]

	aaa	aa	a	bbb	bb	b	ccc and below
Sector risk operating environment	Sector risk operating environment presents, or is expected to present, exceptionally good opportunities for non-bank financial institutions to do consistently profitable business within their area of focus throughout the credit cycle. The economic environment and sovereign credit profile are exceptionally strong, income levels are very high and structural weaknesses are absent.	Sector risk operating environment presents, or is expected to present, very good opportunities for non-bank financial institutions to do consistently profitable business within their area of focus throughout the credit cycle. The economic environment and sovereign credit profile are very strong, income levels are high and structural weaknesses are very limited.	Sector risk operating environment presents, or is expected to present, good opportunities for non-bank financial institutions to do consistently profitable business within their area of focus throughout the credit cycle. The economic environment and sovereign credit profile are strong, income levels are quite high and structural weaknesses are limited.	Sector risk operating environment presents, or is expected to present, reasonable opportunities for non-bank financial institutions to do consistently profitable business within their area of focus throughout the credit cycle. The economic environment and sovereign credit profile are good, income levels are acceptable and any structural weaknesses should be manageable.	Sector risk operating environment presents, or is expected to present, moderate opportunities for non-bank financial institutions to do consistently profitable business within their area of focus 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.	Sector risk operating environment presents, or is expected to present, limited opportunities for non-bank financial institutions to do consistently profitable business within their area of focus throughout the credit cycle. The economic environment and sovereign credit profile are weak, income levels are low and structural weaknesses are more prominent.	Sector risk operating environment presents, or is expected to present, very limited opportunities for non-bank financial institutions to do consistently profitable business within their area of focus 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 or geographies, offering very strong competitive advantages and pricing power. Highly diverse and stable business model, critical mass in all business segments or geographies, with minimum reliance on volatile businesses.	Leading franchise in multiple sectors or geographies, or underpinned by legal or regulatory framework that offers solid competitive advantages and pricing power. Very diverse and stable business model, critical mass in most business segments or geographies, with modest reliance on volatile businesses.	Strong franchise in key sectors or regions or underpinned by legal or regulatory framework that offers some competitive advantages and pricing power. Diverse and stable business model, critical mass in key operating segments or geographies, with some reliance on volatile businesses.	Adequate franchise, offering occasional competitive advantages and pricing power, or operating in slightly less developed markets. Less diverse and stable business model, potentially dominated by key operating segments or geographies, with greater reliance on volatile businesses.	Moderate franchise, offering limited competitive advantages, or operating mostly in speculative quality markets. Less diverse and stable business model, potentially with more specialisation in a key operating segments or less stable or advanced economies, with significant reliance on volatile businesses.	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.	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.

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

	aaa	aa	a	bbb	bb	b	ccc and below
Management and strategy	Management has an unparalleled degree of depth and experience: key-person risk is non-existent; very strong corporate governance; strategic objectives are clearly articulated and reflect long-term sustainable levels of business and financial performance; consistently meets target business and financial objectives.	Management has a very high degree of depth and experience; key-person risk is limited; very strong corporate governance; strategic objectives are clearly articulated and reflect a long-term sustainable level of business and financial performance; routinely meets target business and financial objectives with very limited variability.	Management has a high degree of depth and experience; key-person risk is modest; reasonably sound corporate governance; strategic objectives are well articulated and reflect a medium-term level of business and financial performance; generally meets target business and financial objectives, albeit with modest variability.	Management has a good degree of depth and experience; key-person risk is moderate: reasonably sound corporate governance; strategic objectives are documented and reflect a medium-term level of business and financial performance; generally meets target business and financial objectives; execution could be more variable.	Management has an acceptable degree of depth and experience, key-person risk is higher; governance is less developed than for higher-rated peers; strategic objectives may not be clearly articulated or may reflect a short-term level of business and financial performance; often fails to meet target business and financial objectives or has a limited execution track record.	Management may have noticeable weaknesses; key-person risk is high; governance gives rise to significant risks; strategic objectives are not articulated and reflect a short-term level of business and financial performance; typically fails to meet target business and financial objectives or has an extremely limited execution track record.	Management deficiencies may be significant; governance gives rise to major risks; strategic objectives lacking or likely to be highly variable; does not meet business or financial objectives.
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 likely to pressure solvency or exceed long-term sustainable rates at times. 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 or exceed long-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 or exceed 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 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.

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

	aaa	aa	a	bbb	bb	b	ccc and below
Asset quality/ asset performance	Has an unparalleled degree of stability, as reflected in very low levels of impaired assets or minimal losses throughout economic or interest-rate cycles. Asset-quality measures are consistently much better than those of comparable institutions. Concentration risks are very low or very effectively mitigated. Counterparty risk is extremely well managed and diversified. Exceptionally strong track record of (F)AUM inflows/stability through market cycles.	Has a very high degree of stability, as reflected in low levels of impaired assets or low losses over multiple economic or interest-rate cycles. Asset-quality measures are much better than comparable institutions. Concentration risks are low or effectively mitigated. Counterparty risk is well managed and diversified. Very strong track record of (F)AUM inflows or stability through market cycles.	Has a high degree of stability, as reflected in modest levels of impaired assets 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 or interest-rate cycles. Concentration risks are better than peers'. Counterparty risk is reasonably managed and diversified. Strong track record of (F)AUM inflows or stability through market cycles, although flows may turn negative in periods of extreme market stress.	Has a degree of stability, as may be reflected in average levels of impaired assets or losses. Asset-quality measures are likely to fluctuate over economic or interest-rate cycles. Asset-quality or concentration risk measures are generally in line with peers. Counterparty risk is adequately managed and diversified. (F)AUM inflows or stability may be more affected by market conditions or trends.	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 or interest-rate cycles and generally worse or more vulnerable than global industry averages. Concentration risks may be high. Counterparty risk management is below average with limited diversification. (F)AUM flows may be significantly affected by market conditions or trends.	Has significantly above-average levels of impaired assets and losses. Asset-quality measures are likely to be very volatile based on changes in economic or interest rate cycles and generally significantly worse or more vulnerable than global industry averages. Concentration risks may be very high. Weak counterparty risk management with high concentration.(F)AUM flows may stay negative after extreme market stress due to concentration in product or fund type.	Has, or is likely to have, asset-quality measures that are considerably weaker than industry benchmarks or historical norms. Significant counterparty risk management shortfalls. (F)AUM flows are highly volatile due to significant concentration within funds or asset classes.
Earnings & profitability	Earnings and profitability are highly stable throughout economic or interest-rate cycles. Limited reliance on transactional revenue. Highly variable cost structure. Profitability measures are commensurate with a risk-averse nature and consistently superior compared to that of peer institutions.	Earnings and profitability are very stable over multiple economic and interest-rate cycles. Limited reliance on transactional revenue. Highly variable cost structure. Profitability measures are commensurate with very low risk, but may vary modestly, although they remain strong compared to that of peer institutions.	Earnings and profitability are moderately variable over economic or interest rate cycles. Modest reliance on transactional revenue. Largely variable cost structure. Profitability measures are generally commensurate with low risk, but aresubject to variability. Profitability is generally solid compared to that of peer institutions.	Earnings and profitability may be variable over economic or interest-rate cycles. Modest reliance on transactional revenue. Largely variable cost structure. Profitability measures reflect inherent risk or a highly competitive environment and can be subject to increased variability. Profitability is adequate compared to that of peer institutions.	Earnings and profitability may be highly variable over economic or interest rate cycles. Moderate reliance on transactional revenue. Cost structure is less variable than peer firms. 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 or interest-rate cycles. Heavy reliance on transactional revenue. Cost structure is largely fixed. Profitability measures often do not fully compensate inherent risk and are variable. Profitability is well below that of peer institutions.	May be structurally unprofitable on either a reported or operating basis. Return to break-even or sustainable profitability is highly uncertain.

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

	aaa	aa	a	bbb	bb	b	ccc and below
Capitalisation & leverage	Capitalisation and leverage are extremely strong and are commensurate with balance sheet risk or earnings variability. Capitalisation and leverage are maintained with very significant buffers over stated targets or regulatory minimums, or as compared to peer institutions. Capital and leverage targets incorporate an ability to withstand severe shocks. Access to equity markets demonstrated across cycles.	Capitalisation and leverage are very strong and commensurate with balance sheet risk or earnings variability. Capitalisation and leverage are maintained with comfortable buffers over stated targets or regulatory minimums, or as compared to peer institutions. Capital and leverage targets incorporate ability to withstand significant shocks. Demonstrated access to equity markets across cycles.	Capitalisation and leverage are strong and commensurate with balance-sheet risk or earnings variability. Capitalisation and leverage are maintained with solid buffers over stated targets, regulatory minimums or as compared to peer institutions. Capital and leverage may be more volatile but likely only modestly affected by significant asset-quality or market-value shocks. Demonstrated access to equity markets across cycles.	Capitalisation and leverage are broadly commensurate with balance-sheet risk or earnings variability. Capitalisation and leverage are maintained with satisfactory buffers over stated targets, regulatory minimums and are generally in line with peer institutions. Capital and leverage levels may be more vulnerable to significant shocks. Demonstrated access to equity markets may be more sensitive to market conditions.	Capitalisation and leverage are not fully commensurate with balance-sheet riskor earnings variability. Capitalisation and leverage are maintained with moderate buffers over stated targets, regulatory minimums and may be below that of peer institutions. Capital and leverage are highly vulnerable to significant shocks but can withstand moderate shocks. No proven ability to access the equity markets.	Capitalisation and leverage are not commensurate with balance-sheet risk or earnings. Capitalisation and leverage are low, and buffers over stated targets, or regulatory minimums are small. Capital and leverage levels may be well below peer institutions and highly vulnerable to shocks. Inability to access the equity markets.	Capitalisation and leverage have clear deficiencies that either have required, or may require, capital injections.
Funding, liquidity and coverage	Funding and liquidity are exceptionally stable. Extremely strong operating cash flows and liquidity buffers relative to near-term debt maturities or interest obligations. Minimal reliance on wholesale funding. Funding is not confidence-sensitive, sources and maturities are highly diverse, with duration significantly exceeding the average maturity of assets. Funding is fully unsecured, supported by an extremely robust pool of unencumbered assets. Extremely robust contingency funding plans in place.	Funding and liquidity are very stable. Very strong operating cash flows and liquidity buffers relative to near-term debt maturities or interest obligations. Minimal reliance on short-term funding. Wholesale funding is predominantly long-term with established investor appetite. Funding is less confidence-sensitive, sources and maturities very diverse, duration exceeds average asset maturity. Predominantly unsecured funding supported by a very robust pool of unencumbered assets. Very robust contingency funding plans.	Funding and liquidity are stable. Strong operating cash flows and liquidity buffers relative to near-term debt maturities or interest obligations. Wholesale funding is predominantly long-term. Funding may be modestly confidence-sensitive, sources and maturities relatively diverse with duration commersurate with average maturity of assets. Funding is largely unsecured supported by a robust pool of unencumbered assets. Robust contingency funding plans are in place.	Funding and liquidity are typically stable, although there may be moderate funding or maturity concentrations or reliance on less stable wholesale funding sources. Sound operating cash flows and liquidity buffers relative to near-term debt maturities or interest obligations. Funding is confidence sensitive and duration commersurate with average maturity of assets. Meaningful unsecured funding supported by a modest pool of unencumbered assets. 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. Limited operating cash flows and liquidity with modest shortfalls in near-term maturities or interest coverage are likely. Access to funding may be uncertain during periods of market stress and duration may not be commensurate with the average maturity of assets. Meaningful secured funding with some encumbrance of balance sheet assets. Contingency funding plans may not be sufficient.	Funding and liquidity are less stable and may be prone to sudden changes in creditor sentiment. Very limited operating cash flows and liquidity with material shortfalls in near-term maturities or interest coverage likely. Access to funding during periods of market stress is very uncertain and duration is not be commensurate with the average maturity of assets. Largely secured funding with meaningful encumbrance of balance-sheet assets. Near-term maturity concentrations present. Contingent funding plans may not be well developed.	Funding and liquidity are unstable. No operating cash flows and liquidity, with near-term maturities or interest coverage non-existent. Funding duration is very short-term. Fully secured funded and fully encumbered balance sheet. Material near-term maturity concentrations are present. Contingent funding plans are non-existent.

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