

# Introducing ESG Relevance Scores for Structured Finance and Covered Bonds

Marking the Intersection of Credit Risk and ESG Risks

## Related Research

What Investors Want to Know: Structured Finance and Covered Bond ESG Relevance Scores (October 2019)

Global Structured Finance and Covered Bonds ESG Dashboard Compendium (October 2019)

More information can be found at [fitchratings.com/site/esg](http://fitchratings.com/site/esg).

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### Structured Finance and Covered Bonds



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## Limited Impact as a Key Driver, but Widespread Resonance as a Credit Factor

**ESG Scoring System Provides Additional Transparency:** Fitch Ratings' Environmental, Social and Governance (ESG) Relevance Scores were built using a transaction / program level system to assign scores to Structured Finance (SF) which includes ABS, CMBS, and RMBS transactions, and Covered Bond (CVB) programs publicly rated on Fitch's international rating scale. The scores consider the structure and the relevance of ESG factors to Fitch's rated transactions and programs; thus, the scores were assigned independent of and do not necessarily correlate with the ESG Relevance Scores assigned to the originators or issuing financial institutions of the SF transaction or CVB program.

### ESG Scoring Definitions

Lowest Relevance		Neutral	Credit-relevant to Transaction	
1	2	3	4	5
Irrelevant to the transaction or program ratings and irrelevant to the sector.	Irrelevant to the transaction or program ratings but relevant to the sector.	Minimally relevant to ratings, either very low impact or actively mitigated in a way that results in no impact on the transaction or program ratings	Relevant to transaction or program ratings, not a key rating driver but has an impact on the ratings in combination with other factors.	Highly relevant, a key transaction or program rating driver that has a significant impact on an individual basis.

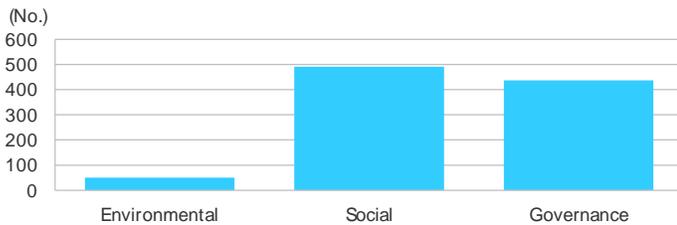
## ESG Scoring Definitions

**Limited Impact as Key Driver:** Based on Fitch's assignment of over 67,000 individual scores, which assessed the relevance and materiality of 14 ESG factors to approximately 4,800 SF transactions and CVB programs, ESG was observed to have a direct impact on just over 2% of all transactions. These transactions were consequently assigned at least one score of '5' indicating that the ESG factor was either a positive or a negative key driver of the rating on an individual basis.

**More Common as Influencer:** ESG Relevance Scores communicate how material an ESG factor was to a credit decision. By assigning elevated scores, scores of '4' or '5', Fitch analysts are able to highlight those factors that were deemed particularly relevant and, therefore, influential to a rating decision. Across Fitch's scored SF and CVB portfolios, elevated scores were assigned to approximately 18% of transactions and programs. While our scores speak to the significance of a particular ESG factor on a credit decision, Fitch's "Global Structured Finance and Covered Bonds ESG Dashboard Compendium" provides additional detail, by sector and region, regarding the factors and subfactors

considered for each transaction and program and the rationales for elevated scores, highlighting those that had a positive impact. While still small overall, the incidence of positive impact ESG.RS is notably higher in particular SF and CVB transactions and programs than in other asset classes.

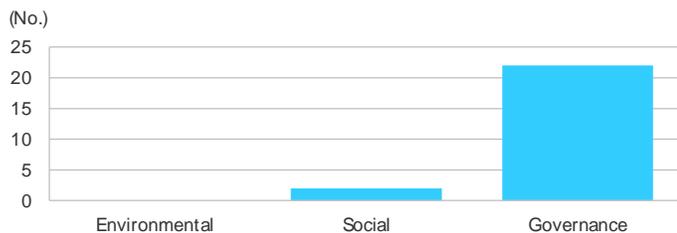
**ESG Elements Driving Transaction Credit Impact: SF**  
(ESG Score of 4 or 5)



Source: Fitch Ratings.

**Social Relevance Biggest Surprise:** The credit impact of Social factors can be difficult to isolate within ESG; however, given the predominantly consumer-based assets involved, the impact across SF was significant, accounting for just over 50% of all elevated Relevance Scores. Within ABS, elevated scores were the result of pending litigation related to U.S. student loan transactions, in CMBS, the effect of structural shifts in consumer preferences impacting retail properties, and in RMBS, the positive impact of government-backed collateral. The impact on CVB programs was less pronounced with Social factors accounting for approximately 8% of elevated Relevance Scores.

**ESG Elements Driving Program Credit Impact: CVB**  
(ESG Score of 4 or 5)



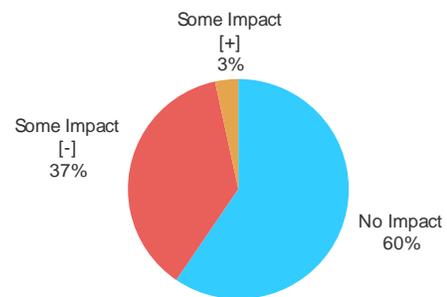
Source: Fitch Ratings.

**Governance Relevance as Expected:** Governance issues are consistent across SF and CVB but differ substantially from the Governance sector-specific issues identified in other Fitch-scored asset classes. Structural considerations for SF and CVB are considered unique and fundamental elements that required producing separate Governance sector-specific issues tailored for SF transactions and CVB programs. Further, given the importance of Governance overall, each of the four Governance general issue subfactors were deemed at least minimally relevant to each SF transaction and CVB program and assigned a baseline score of '3'. While the vast majority of Governance scores were assigned at this baseline, approximately 9% of SF transactions and 18% of CVB programs received at least one elevated Governance score.

**Distinct Regions, Asset Classes, Factors and Drivers:** Globally, ESG factors were found to be most impactful in EMEA where 32% of scored EMEA transactions received at least one elevated score, followed by LatAm with 23% of transactions and North America

with 16% of transactions receiving elevated scores. APAC transactions were least impacted by ESG factors, with only 5% of the region's transactions elevated. Among the transactions with elevated scores within EMEA, '4' was the most commonly assigned score, RMBS the most common sector and Social the most common factor. The most impactful factors within this subset related to affordability and material concentration of interest-only loans, both of which had a negative credit impact, and government backed collateral, which had a positive credit impact.

**Relevance to Transaction Portfolio: EMEA RMBS**

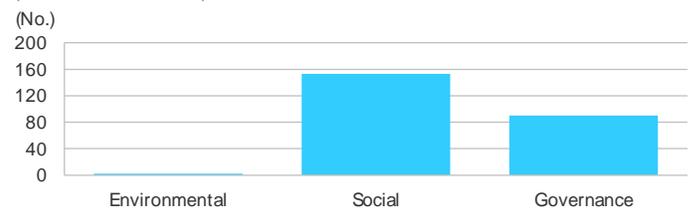


Source: Fitch Ratings.

RMBS was the most impacted SF sector with elevated Relevance scores assigned to 24% of scored transactions, principally driven by operational risk concerns including those regarding servicer disruption. CMBS followed with 17% of transactions assigned elevated scores largely the result of shifting consumer preferences impacting U.S. CMBS retail properties. In each case, the vast majority of scores assigned was a '4', indicating that the ESG factors influencing RMBS and CMBS, while impactful, were generally not material enough to drive a rating action. Of note, 3% of RMBS and 1% of CMBS transactions were observed to have ESG factors with a positive impact on the credit rating.

**ESG Elements Driving Transaction Credit Impact: EMEA RMBS**

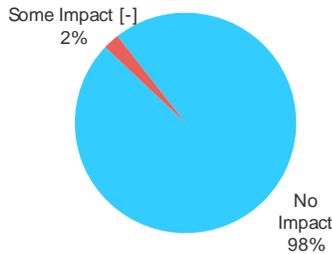
(ESG Score of 4 or 5)



Source: Fitch Ratings.

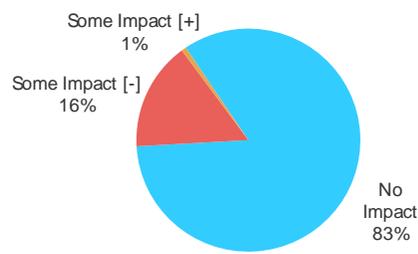
CVB programs were also significantly impacted by ESG factors, with 19% of scored CVB programs assigned elevated scores. However, in contrast to RMBS and CMBS, the elevated scores assigned to CVB were almost exclusively scores of '5', demonstrating the material influence that, in many cases, a single ESG factor had on the rating. For CVB, the elevated scores were primarily attributable to Governance factors, in particular Transaction & Collateral Structure, driven by certain Spanish and Portuguese programs with limited liquidity protection.

**Relevance to Transaction Portfolio:  
Global ABS**



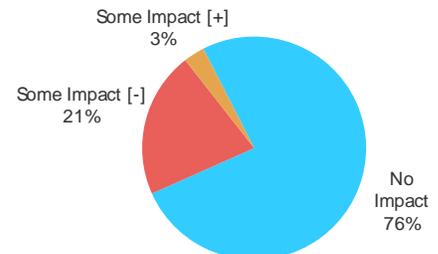
Source: Fitch Ratings.

**Relevance to Transaction Portfolio:  
Global CMBS**



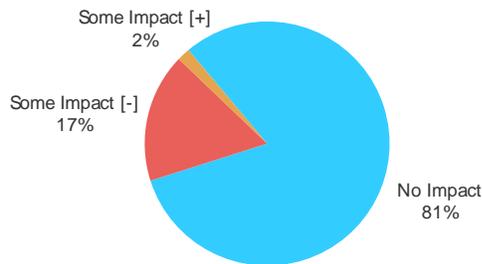
Source: Fitch Ratings.

**Relevance to Transaction Portfolio:  
Global RMBS**



Source: Fitch Ratings.

**Relevance to Program Portfolio: Global CVB**



Source: Fitch Ratings.

**How Did Fitch Decide Which ESG Risk Definitions to Apply?**

Fitch’s Global Sustainable Finance Group created general issue categories for consideration by our analysts that align with widely accepted external party risk classification categories and standards, such as those published by the Sustainability Accounting Standards Board (SASB). Fitch’s ESG Relevance Score template splits these into three broad groupings: one each for Environmental, Social and Governance. Fitch’s analysts identified and assigned categories of sector-specific credit rating aspects that related to each of the sub-elements listed under the general issues.

**How Did Fitch Generate the Relevance Scores?**

Fitch’s Sustainable Finance Group first guided our credit analysts to identify sector-specific ESG credit issues and then group them into categories based around the headline ESG elements. This enabled the analysts to separate elements of ESG that affect fundamental credit at a sector level within our existing rating criteria and then identify and display which of the ESG risk elements affect each transaction or program credit rating decisions.

**How Are Underlying ESG Risks and Relevance Scores Related?**

The analysts are not passing judgement on the effectiveness a transaction’s or program’s ESG but focusing on how the different elements of ESG impact the credit rating assigned to the transaction or program. A transaction or program with pronounced ESG risks that have no credit rating impact could receive a neutral score, in which case the lack of credit rating impact would be a valuable differentiator for use in portfolio analysis.

**Will the Relevance Scores Affect Ratings?**

Our Relevance Scores are observational as they look at how much an ESG element affects a rating. Therefore, by definition, no rating should change. However, the scores will provide greater granularity on why the ratings change and make it much more transparent where ESG risks have an impact on a rating decision under our existing criteria.

**Does Fitch Expect the Relevance Scores to Change Over Time?**

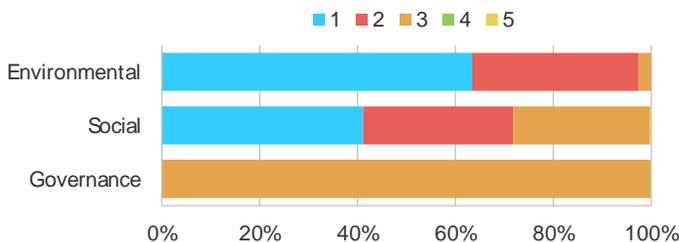
The Relevance Scores record the relevance of an ESG element to a given rating decision. As individual transaction and program ratings are reviewed, the factors that influence those ratings inevitably change over time. Those changes will be tracked in updated Relevance Scores, communicated via an ESG Navigator.

**How Does Fitch’s Relevance Score Compare to Competitors’?**

Fitch’s coverage is global for all transactions and programs publically rated on our international rating scale. The scores are assigned by the same analysts who assign our public credit ratings rather than a separate, unrelated team. Fitch hopes to be the first global rating agency to address the relevance of ESG risks to SF and CVB ratings in this way.

## What Were the Main Takeaways for Each Asset Class?

### ESG Element Scoring Distribution: Global ABS

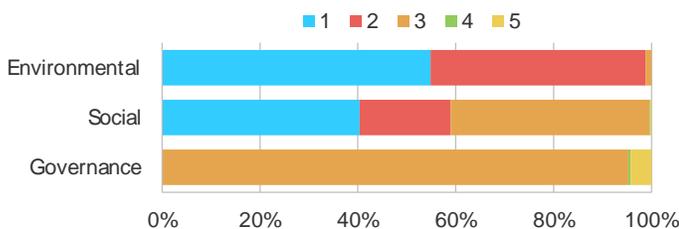


Source: Fitch Ratings.

### ABS

Fitch’s analysis showed that the scored ABS portfolio, comprising 14 subsectors, was least impacted by ESG factors, with only 2.5% of transactions assigned an elevated score. This is largely attributable to the relatively short tenures of ABS transactions, including those for auto, equipment, and credit cards, coupled with a benign economic environment. In general, Fitch more frequently observed higher scores in seasoned SF transactions; this was the case for ABS, where the bulk of elevated scores were the result of Consumer Financial Protection Bureau (CFPB) litigation related to U.S. student loans. The remaining elevated scores were generally driven by regulatory risk related factors identified in EMEA and LatAm rated transactions. No ABS transactions rated in our APAC region were found to be impacted by an elevated ESG factor at the time of our analysis.

### ESG Element Scoring Distribution: Global CVB

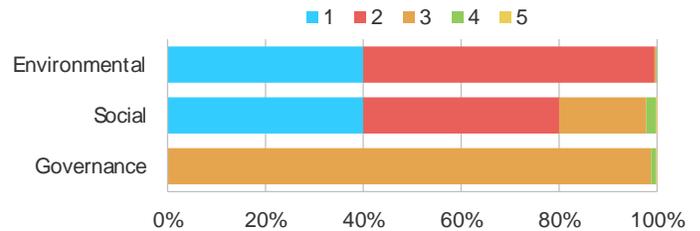


Source: Fitch Ratings.

### CVB

Of 117 CVB programs rated by Fitch, 19% received at least one elevated score, driven primarily by Governance factors observed in southern European programs. Spanish and some Portuguese programs rated by Fitch lack liquidity protection mechanisms, limiting the maximum achievable uplift Fitch can assign above the bank’s Issuer Default Rating by three to six notches. This had a direct impact on the rating despite available overcollateralization and resulted in the programs being assigned a Relevance Score of ‘5’ for Transaction & Collateral Structure within the Governance factors. This situation is likely to reverse once the upcoming EU Covered Bond Directive is enacted and transposed into national law as it includes mandatory 180-day liquidity coverage. Elevated scores also related to programs that Fitch rates on a limited uplift approach due to a lack of internal or external data, while positive elevated scores were assigned to mortgage programs whose assets have a track record of lower loss rates.

### ESG Element Scoring Distribution: Global CMBS

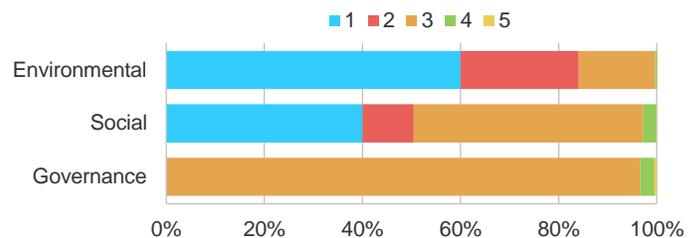


Source: Fitch Ratings.

### CMBS

Across CMBS, elevated scores impacted approximately 17% of all CMBS transactions, 5% positively, and differed by region. In North America, 16% of transactions were assigned elevated Social scores primarily driven by the structural shift in consumer preference to online shopping, which has had a negative and direct impact on the performance of malls. In Europe, 32% of transactions received an elevated score, almost entirely due to governance factors related to uncertainties surrounding mortgage enforcement in Italy. Finally, APAC was the least impacted by ESG factors with only one transaction assigned an elevated score associated with a governance related ESG factor.

### ESG Element Scoring Distribution: Global RMBS



Source: Fitch Ratings.

### RMBS

Approximately 24% of RMBS transactions scored globally have an elevated score assigned to at least one factor. Elevated scoring was driven by a diverse set of factors across the broad ESG categories but was observed to be most heavily influenced both negatively and positively by social factors, which accounted for 50% of all elevated scores, and secondarily by governance factors, which negatively influenced 45% of the elevated scores. The impact was most closely tied to ESG risks identified in legacy transactions in the U.S. and EMEA, most of which closed between 2003 and 2007. While APAC had few elevated scores and fewer legacy considerations, the majority of APAC’s elevated scores were RMBS related. While only 11 LatAm RMBS transactions were scored, their overall ESG distribution was most similar to that of EMEA. Elevated environmental drivers were not common and accounted for approximately only 5% of elevated scores, mostly driven by catastrophic risk adjustments in the U.S. Of note, global RMBS also accounts for the largest number of elevated scores with a positive credit impact, totaling 88 individual securitizations primarily in the U.S. and EMEA, driven by several successful and strong performing government-supported programs.

## Credit Specific ESG Risk Elements for ABS

These ESG Sector-Specific Issues are used in the following ABS ESG Navigators: Aircraft, Auto, Consumer ABS-Secured, Equipment, SME and Utility Tariff Bonds

Environmental General Issues	Sector-Specific Issues
GHG Emissions and Air Quality (EAQ)	Regulatory risks, fines, or compliance costs related to emissions, energy consumption and/or related reporting standards
Energy Management (EFM)	Assets' energy/fuel efficiency and impact on valuation
Water & Wastewater Management (EWT)	n.a.
Waste & Hazardous Material Management; Ecological Impacts (EHZ)	n.a.
Exposure to Environmental Impacts (EIM)	Asset, operations and/or cash flow exposure to extreme weather events and other catastrophe risk, including but not limited to flooding, hurricanes, tornadoes, and earthquakes
Social General Issues	Sector-Specific Issues
Human Rights, Community Relations, Access & Affordability (SCR)	n.a.
Customer Welfare – Fair Messaging, Privacy & Data Security (SCW)	Compliance with consumer protection related regulatory requirements, such as fair/transparent lending, data security, and safety standards
Labor Relations & Practices (SLB)	Labor practices, pension obligations and related litigation
Employee Wellbeing (SEW)	n.a.
Exposure to Social Impacts (SIM)	Macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior
Governance General Issues	Sector-Specific Issues
Rule of Law, Institutional & Regulatory Quality, Control of Corruption (GRL)	Jurisdictional legal risks; regulatory effectiveness; supervisory oversight; foreclosure laws; government support and intervention
Transaction & Collateral Structure (GTC)	Asset isolation; resolution/insolvency remoteness; legal structure; structural risk mitigants; complex structures
Transaction Parties & Operational Risk (GOR)	Counterparty risk; origination, underwriting and/or aggregator standards; borrower/lessee/sponsor risk; originator/servicer/manager/operational risk
Data Transparency & Privacy (GDT)	Transaction data and periodic reporting

Source: Fitch Ratings.

## Credit Specific ESG Risk Elements for ABS

These ESG Sector-Specific Issues are used in the following ABS ESG Navigators: Credit Card, Consumer ABS – Unsecured, U.K. and U.S. Student Loans

Environmental General Issues	Sector-Specific Issues
GHG Emissions and Air Quality (EAQ)	n.a.
Energy Management (EFM)	n.a.
Water & Wastewater Management (EWT)	n.a.
Waste & Hazardous Material Management; Ecological Impacts (EHZ)	n.a.
Exposure to Environmental Impacts (EIM)	Asset, operations and/or cash flow exposure to extreme weather events and other catastrophe risks, including but not limited to flooding, hurricanes, tornadoes, and earthquakes
Social General Issues	Sector-Specific Issues
Human Rights, Community Relations, Access & Affordability (SCR)	Risk-based pricing/repricing, social programs, services geared to underbanked/underserved communities and impact on accessibility and affordability
Customer Welfare – Fair Messaging, Privacy & Data Security (SCW)	Compliance with consumer protection related regulatory requirements, such as fair/transparent lending, data security, and safety standards
Labor Relations & Practices (SLB)	n.a.
Employee Wellbeing (SEW)	n.a.
Exposure to Social Impacts (SIM)	Macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior
Governance General Issues	Sector-Specific Issues
Rule of Law, Institutional & Regulatory Quality, Control of Corruption (GRL)	Jurisdictional legal risks; regulatory effectiveness; supervisory oversight; foreclosure laws; government support and intervention
Transaction & Collateral Structure (GTC)	Asset isolation; resolution/insolvency remoteness; legal structure; structural risk mitigants; complex structures
Transaction Parties & Operational Risk (GOR)	Counterparty risk; origination, underwriting and/or aggregator standards; borrower/lessee/sponsor risk; originator/servicer/manager/operational risk
Data Transparency & Privacy (GDT)	Transaction data and periodic reporting

Source: Fitch Ratings.

## Credit Specific ESG Risk Elements for ABS

These ESG Sector-Specific Issues are used in the following ABS ESG Navigators: Future Flow Receivables, Oil Vessel- Backed, Sprint Spectrum and Timeshare Loans

Environmental General Issues	Sector-Specific Issues
GHG Emissions and Air Quality (EAQ)	Regulatory risks, fines, or compliance costs related to emissions, energy consumption and/or related reporting standards
Energy Management (EFM)	Assets' energy/fuel efficiency and impact on valuation
Water & Wastewater Management (EWT)	Water utilities' financial targets for water quality, leakage, and usage
Waste & Hazardous Material Management; Ecological Impacts (EHZ)	Operations proximity to environmentally sensitive areas; ecological impact of operating incidents and spills
Exposure to Environmental Impacts (EIM)	Asset, operations and/or cash flow exposure to extreme weather events and other catastrophe risk, including but not limited to flooding, hurricanes, tornadoes, and earthquakes
Social General Issues	Sector-Specific Issues
Human Rights, Community Relations, Access & Affordability (SCR)	Risk-based pricing/repricing, social programs, services/resources for underbanked/underserved communities and impact on accessibility and affordability
Customer Welfare - Fair Messaging, Privacy & Data Security (SCW)	Compliance with consumer protection related regulatory requirements, such as fair/transparent lending, repossession/collection practices, safety and data security
Labor Relations & Practices (SLB)	Labor practices, pension obligations and related litigation
Employee Wellbeing (SEW)	n.a.
Exposure to Social Impacts (SIM)	Macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior
Governance General Issues	Sector-Specific Issues
Rule of Law, Institutional & Regulatory Quality, Control of Corruption (GRL)	Jurisdictional legal risks; regulatory effectiveness; supervisory oversight; foreclosure laws; government support and intervention
Transaction & Collateral Structure (GTC)	Asset isolation; resolution/insolvency remoteness; legal structure; structural risk mitigants; complex structures
Transaction Parties & Operational Risk (GOR)	Counterparty risk; origination, underwriting and/or aggregator standards; borrower/lessee/sponsor risk; originator/servicer/manager/operational risk
Data Transparency & Privacy (GDT)	Transaction data and periodic reporting

Source: Fitch Ratings.

**Credit Specific ESG Risk Elements for CMBS**

<b>Environmental General Issues</b>	<b>Sector-Specific Issues</b>
GHG Emissions and Air Quality (EAQ)	Regulatory risks, fines, or compliance costs from building emissions standards (including energy consumption) and related reporting standards
Energy Management (EFM)	n.a.— Included in sustainable building practices
Water & Wastewater Management (EWT)	n.a. – Included in sustainable building practices
Waste & Hazardous Material Management; Ecological Impacts (EHZ)	Environmental site risk and associated remediation/liability costs; sustainable building practices including Green building certificate credentials
Exposure to Environmental Impacts (EIM)	Asset, operations and/or cash flow exposure to extreme weather events and other catastrophe risk, including but not limited to flooding, hurricanes, tornadoes, and earthquakes
<b>Social General Issues</b>	<b>Sector-Specific Issues</b>
Human Rights, Community Relations, Access & Affordability (SCR)	Low income housing; GSE/agency issued or provision for social good
Customer Welfare – Fair Messaging, Privacy & Data Security (SCW)	n.a.
Labor Relations & Practices (SLB)	Labor practices and employee (dis)satisfaction, especially for hotels and healthcare properties; tenant safety and wellbeing
Employee Wellbeing (SEW)	n.a.
Exposure to Social Impacts (SIM)	Sustained structural shift in secular preferences affecting consumer trends, occupancy trends, etc.
<b>Governance General Issues</b>	<b>Sector-Specific Issues</b>
Rule of Law, Institutional & Regulatory Quality, Control of Corruption (GRL)	Jurisdictional legal risks; regulatory effectiveness; supervisory oversight; foreclosure laws; government support and intervention
Transaction & Collateral Structure (GTC)	Asset isolation; resolution/insolvency remoteness; legal structure; structural risk mitigants; complex structures
Transaction Parties & Operational Risk (GOR)	Counterparty risk; origination, underwriting and/or aggregator standards; borrower/lessee/sponsor risk; originator/servicer/manager/operational risk
Data Transparency & Privacy (GDT)	Transaction data and periodic reporting

Source: Fitch Ratings.

**Credit Specific ESG Risk Elements for RMBS**

<b>Environmental General Issues</b>	<b>Sector-Specific Issues</b>
GHG Emissions and Air Quality (EAQ)	n.a.
Energy Management (EFM)	n.a.
Water & Wastewater Management (EWT)	n.a.
Waste & Hazardous Material Management; Ecological Impacts (EHZ)	Environmental site risk and associated remediation/liability costs; sustainable building practices including Green building certificate credentials
Exposure to Environmental Impacts (EIM)	Asset, operations and/or cash flow exposure to extreme weather events and other catastrophe risk, including but not limited to flooding, hurricanes, tornadoes, and earthquakes
<b>Social General Issues</b>	<b>Sector-Specific Issues</b>
Human Rights, Community Relations, Access & Affordability (SCR)	Accessibility to affordable housing
Customer Welfare – Fair Messaging, Privacy & Data Security (SCW)	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)
Labor Relations & Practices (SLB)	n.a.
Employee Wellbeing (SEW)	n.a.
Exposure to Social Impacts (SIM)	Macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior and underlying mortgages and/or mortgage availability
<b>Governance General Issues</b>	<b>Sector-Specific Issues</b>
Rule of Law, Institutional & Regulatory Quality, Control of Corruption (GRL)	Jurisdictional legal risks; regulatory effectiveness; supervisory oversight; foreclosure laws; government support and intervention
Transaction & Collateral Structure (GTC)	Asset isolation; resolution/insolvency remoteness; legal structure; structural risk mitigants; complex structures
Transaction Parties & Operational Risk (GOR)	Counterparty risk; origination, underwriting and/or aggregator standards; borrower/lessee/sponsor risk; originator/servicer/manager/operational risk
Data Transparency & Privacy (GDT)	Transaction data and periodic reporting

Source: Fitch Ratings.

## Credit Specific ESG Risk Elements for Covered Bonds

These ESG Sector-Specific Issues are used in the following CVB ESG Navigators: Commercial Real Estate Loans and Mixed Mortgage and Multi-Issuer Cedulas Hipotecarias

Environmental General Issues	Sector-Specific Issues
GHG Emissions and Air Quality (EAQ)	Regulatory risks, fines, or compliance costs from building emissions standards (including energy consumption) and related reporting standards
Energy Management (EFM)	n.a.
Water & Wastewater Management (EWT)	n.a.
Waste & Hazardous Material Management; Ecological Impacts (EHZ)	Environmental site risk and associated remediation/liability costs; sustainable building practices including Green building certificate credentials
Exposure to Environmental Impacts (EIM)	Asset, operations and/or cash flow exposure to extreme weather events and other catastrophe risk, including but not limited to flooding, hurricanes, tornadoes, and earthquakes
Social General Issues	Sector-Specific Issues
Human Rights, Community Relations, Access & Affordability (SCR)	Accessibility to affordable housing; GSE/agency issued or provision for social good; services for underbanked and underserved communities
Customer Welfare – Fair Messaging, Privacy & Data Security (SCW)	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure/recovery practices, borrower/consumer data protection (data security)
Labor Relations & Practices (SLB)	n.a.
Employee Wellbeing (SEW)	n.a.
Exposure to Social Impacts (SIM)	Macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior and underlying mortgages and/or mortgage availability
Governance General Issues	Sector-Specific Issues
Rule of Law, Institutional & Regulatory Quality, Control of Corruption (GRL)	Jurisdictional legal risks; regulatory effectiveness; supervisory oversight; foreclosure laws; government support and intervention
Transaction & Collateral Structure (GTC)	Asset isolation; resolution/insolvency remoteness; legal structure; structural risk mitigants; complex structures
Transaction Parties & Operational Risk (GOR)	Counterparty risk; origination, underwriting and/or aggregator standards; borrower/lessee/sponsor risk; originator/servicer/manager/operational risk
Data Transparency & Privacy (GDT)	Transaction data and periodic reporting

Source: Fitch Ratings.

## General ESG Risk Elements for Covered Bonds

These ESG Sector-Specific Issues are used in the following CVB ESG Navigator: Residential Mortgage and Public Sector

Environmental General Issues	Sector-Specific Issues
GHG Emissions and Air Quality (EAQ)	n.a.
Energy Management (EFM)	n.a.
Water & Wastewater Management (EWT)	n.a.
Waste & Hazardous Material Management; Ecological Impacts (EHZ)	Environmental site risk and associated remediation/liability costs; sustainable building practices including Green building certificate credentials
Exposure to Environmental Impacts (EIM)	Asset, operations and/or cash flow exposure to extreme weather events and other catastrophe risk, including but not limited to flooding, hurricanes, tornadoes, and earthquakes
Social General Issues	Sector-Specific Issues
Human Rights, Community Relations, Access & Affordability (SCR)	Accessibility to affordable housing; GSE/agency issued or provision for social good; services for underbanked and underserved communities
Customer Welfare – Fair Messaging, Privacy & Data Security (SCW)	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure/recovery practices, borrower/consumer data protection (data security)
Labor Relations & Practices (SLB)	n.a.
Employee Wellbeing (SEW)	n.a.
Exposure to Social Impacts (SIM)	Macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior and underlying mortgages and/or mortgage availability
Governance General Issues	Sector-Specific Issues
Rule of Law, Institutional & Regulatory Quality, Control of Corruption (GRL)	Jurisdictional legal risks; regulatory effectiveness; supervisory oversight; foreclosure laws; government support and intervention
Transaction & Collateral Structure (GTC)	Asset isolation; resolution/insolvency remoteness; legal structure; structural risk mitigants; complex structures
Transaction Parties & Operational Risk (GOR)	Counterparty risk; origination, underwriting and/or aggregator standards; borrower/lessee/sponsor risk; originator/servicer/manager/operational risk
Data Transparency & Privacy (GDT)	Transaction data and periodic reporting

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