



Environmental, Social and Governance (ESG) Risk Scoring for Covered Bonds

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A detailed map of Europe showing major countries and cities. The map is color-coded by country: Germany (orange), France (yellow), Spain (red), Italy (green), and others. Major cities like London, Paris, Berlin, Rome, and Moscow are marked with black dots. The map includes labels for the North Sea, English Channel, and various geographical features like the Pyrenees and Alps. A large, semi-transparent white box with a diagonal line is overlaid on the right side of the map.

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Fitch ESG Relevance Scoring Approach

FitchRatings

We Are Measuring Which ESG Risks Appear in Our Ratings



Source: Fitch Ratings



Summary Stats on ESG Relevance Scores By Sectors

Fitch Analytical Groups	ESG Templates	# of Issuers / Transactions	# of Data Points	# of E Scores	# of S Scores	# of G Scores	% Some Impact
Corporates	52	1,577	22,078	7,885	7,885	6,308	22%
Financial Institutions	4	986	13,804	4,930	4,930	3,944	20%
Sovereigns	1	118	1,770	590	590	590	100%
Public Finance & Infrastructure	20	2,683	38,676	13,415	13,415	11,846	5%
Structured Finance & Covered Bonds	18	4,821	67,494	24,105	24,105	19,284	18%
Totals	95	10,185	143,822	50,925	50,925	41,972	16%

How Are We Defining Relevance and Materiality to Credit?

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

Similar Environmental and Social Issues Across Sectors (except Sovereigns)

Environmental

Greenhouse Gas Emissions & Air Quality

Regulatory risks, fines, or compliance costs related to emissions, energy consumption and/or related reporting standards

Energy Management

Assets' energy/fuel efficiency and impact on valuation

Water & Wastewater Management

Water utilities' financial targets for water quality, leakage, and usage

Waste & Hazardous Materials Management, Ecological Impacts

Operations proximity to environmentally sensitive areas; ecological impact of operating incidents and spills

Exposure to Environmental Impacts

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

Human Rights, Community Relations, Access & Affordability

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

Compliance with consumer protection related regulatory requirements, such as fair/transparent lending, repossession/collection practices, safety and data security

Labor Relations & Practices

Labor practices, pension obligations and related litigation

Employee Wellbeing

n.a.

Exposure to Social Impacts

Macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior

Different Governance Issues for Covered Bonds

Structured Finance & Covered Bonds	Financial Institutions
Rule of Law, Institutional and Regulatory Quality Jurisdictional legal risks; regulatory & supervisory oversight; foreclosure laws; government support and intervention	Management Strategy Operational implementation of strategy
Transaction & Collateral Structure Asset isolation; resolution/insolvency remoteness; legal structure; complex structure	Governance Structure Board independence; ownership concentration; protection of stakeholder rights; compliance & legal risks; business continuity; key person risk; related parties
Transaction Parties & Operational Risk Counterparty risk; origination, underwriting and/or aggregator standards; borrower/lessee/sponsor risk; originator, services, manager and operational risk	Group Structure Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership
Data Transparency & Privacy Transaction data and periodic reporting	Financial Transparency Quality and frequency of financial reporting and auditing processes

A detailed map of Europe showing major cities, countries, and bodies of water. The map is color-coded by country: Germany (orange), France (yellow), Spain (red), Italy (green), and others. Major cities like London, Paris, Berlin, Rome, and Moscow are marked. The map is partially obscured by a white box on the right side.

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ESG Scores for Covered Bonds

Example of Published ESG Relevance Scores

FitchRatings

AEGON Bank N.V., Mortgage Registered Covered Bonds

Credit-Relevant ESG Derivation

AEGON Bank N.V., Mortgage Registered Covered Bonds has 1 ESG key rating driver and 6 ESG potential rating drivers

- AEGON Bank N.V., Mortgage Registered Covered Bonds has exposure to accessibility to affordable housing, GSE/agency issued or provision for social good, services for underbanked and underserved communities which, as an individual issue, has a significant impact on the rating
- AEGON Bank N.V., Mortgage Registered Covered Bonds has exposure to compliance risk including fair lending practices, mis-selling, repossession/foreclosure/recovery practices, borrower/consumer data protection (data security) but this has very low impact on the rating
- AEGON Bank N.V., Mortgage Registered Covered Bonds has exposure to macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior and underlying mortgages and mortgage availability but this has very low impact on the rating
- Governance is minimally relevant to the rating and is not currently a driver

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management, Ecological Impacts	2	Environmental site risk and associated remediation/liability costs; sustainable building practices including Green building certificate credentials	Asset Stresses; Cash Flow Stresses; OC Protection	2
Exposure to Environmental Impacts	2	Asset, operations and/or cash flow exposure to extreme weather events and other catastrophe risk, including but not limited to flooding, hurricanes, tornados, and earthquakes	Asset Stresses; Cash Flow Stresses; OC Protection	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	5	Accessibility to affordable housing; GSE/agency issued or provision for social good, services for underbanked and underserved communities	Asset Stresses; Cash Flow Stresses; OC Protection	5
Customer Welfare - Fair Messaging, Privacy & Data Security	4	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure/recovery practices, borrower/consumer data protection (data security)	Asset Stresses; Cash Flow Stresses; OC Protection; Issuer Risk Present	4
Labor Relations & Practices	1	n.a.	n.a.	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior and underlying mortgages and mortgage availability	Asset Stresses; Cash Flow Stresses; OC Protection	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Rule of Law, Institutional and Regulatory Quality	5	Jurisdictional legal risks, regulatory effectiveness, supervisory oversight, franchisee laws, government support and intervention	Issuer Risk Present; Payment Continuity Assessment; OC Protection; Asset Stresses; Cash Flow Stresses	5
Transaction & Collateral Structure	3	Asset selection; residential/inventory remoteness; legal structure; structural risk mitigants; complex structures	Issuer Risk Present; Payment Continuity Assessment; OC Protection; Asset Stresses; Cash Flow Stresses	4
Transaction Parties & Operational Risk	3	Counterparty risk, origination, underwriting and/or aggregator standards, borrower/tenant/tenant risk, originator/servicemanager/operational risk	Issuer Risk Present; Payment Continuity Assessment; OC Protection; Asset Stresses; Cash Flow Stresses	3
Data Transparency & Privacy	3	Transaction data and periodic reporting	Issuer Risk Present; Payment Continuity Assessment; OC Protection; Asset Stresses; Cash Flow Stresses	2
				1

Covered Bonds ESG Navigator Residential Mortgage and Public Sector

key driver	1	issues	5
driver	0	issues	4
potential driver	6	issues	3
not a rating driver	2	issues	2
	5	issues	1

How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The **Environmental (E), Social (S) and Governance (G)** tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General issues are relevant across all markets with Sector-Specific issues unique to a particular asset class. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the transaction's or program's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The **Credit-Relevant ESG Derivation table** shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the transaction's or program's credit rating. The three columns to the left of the overall ESG score summarize the transaction's or program's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the transaction's or program's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the Sustainability Accounting Standards Board (SASB).

CREDIT-RELEVANT ESG SCALE - DEFINITIONS

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key transaction or program rating driver that has a significant impact on an individual issue.
4	Relevant to transaction or program ratings, not a key rating driver but has an impact on the ratings in combination with other factors.
3	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.
2	Irrelevant to the transaction or program ratings, relevant to the sector.
1	Irrelevant to the transaction or program ratings, irrelevant to the sector.

Overall ESG Scale

key driver	1	issues	5
driver	0	issues	4
potential driver	6	issues	3
not a rating driver	2	issues	2
	5	issues	1

Example of Published ESG Relevance Scores

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	5	Accessibility to affordable housing; GSE/agency issued or provision for social good; services for underbanked and underserved communities	Asset Stresses; Cash Flow Stresses; OC Protection	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure/recovery practices, borrower/consumer data protection (data security)	Asset Stresses; Cash Flow Stresses; OC Protection; Issuer Risk Present	4
Labor Relations & Practices	1	n.a.	n.a.	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior and underlying mortgages and/or mortgage availability	Asset Stresses; Cash Flow Stresses; OC Protection	1

AEGON Bank N.V., Mortgage Registered Covered Bonds has an ESG Relevance Score of 5 for Human Rights, Community Relations, Access & Affordability due to exposure to National Mortgage Guarantee loans in the Netherlands, which has a positive impact on the credit profile, and is highly relevant to the rating, resulting in a higher level of recoveries and a reduced loss floor.

Key Elevated ESG Scores for Covered Bonds

Environmental

None

Social

- **Human Rights, Community Relations, Access & Affordability**
 - +5:** NHG guarantee for Dutch mortgage loans
 - +4:** Payroll deductibility, interest rate subsidies from government in Panama

Governance

- **Transaction & Collateral Structure**
 - 5:** Lack of liquidity protection
 - 4:** weaker asset recoveries
- **Transaction Parties & Operational Risk**
 - 5:** Overcollateralisation constraint
 - 5:** Weaker cover pool specific alternative management
- **Data Transparency & Privacy**
 - 5:** Limited rating uplift approach



A detailed map of Europe showing major cities, countries, and geographical features. The map is color-coded by country: Germany (orange), France (yellow), Spain (red), Italy (green), and others. Major cities like London, Paris, Berlin, Rome, and Moscow are marked. The map is partially obscured by a white overlay on the right side.

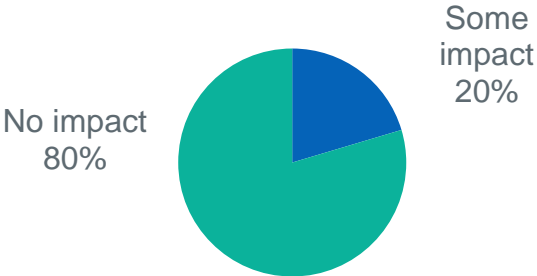
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ESG Relevance Scores Comparison

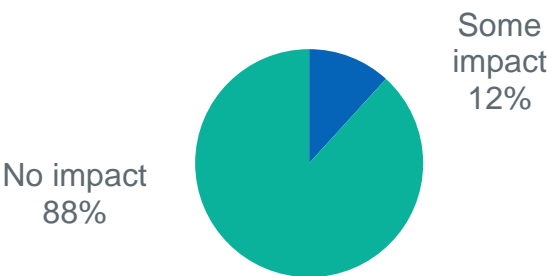
FitchRatings

Scoring Results (103 Programmes from 85 Issuing Groups)

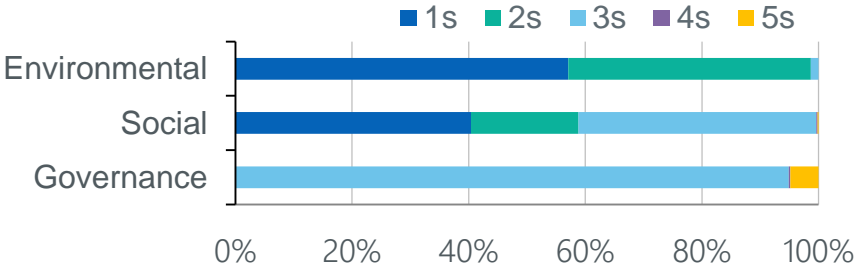
Relevance to Covered Bonds



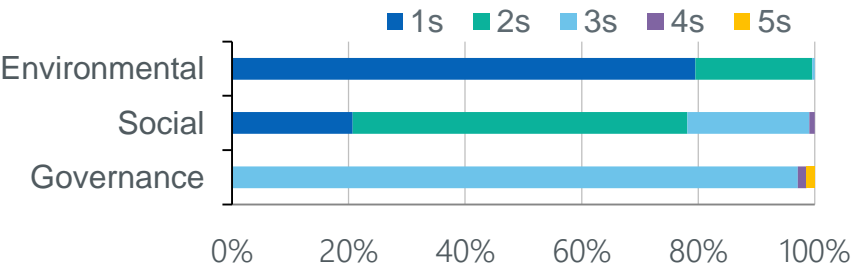
Relevance to Issuers/Referenced Parent



Covered Bonds Score Distribution



Issuers/Parent Score Distribution



Relationship Between Issuer and Covered Bonds ESG Relevance Scores

- No Correlation in Principle
- More Elevated Scores for Covered Bonds
 - Likely to fall with introduction of EU Covered Bond Directive
 - Some outliers issuing groups have higher scores than their programmes (Australia, Denmark, Germany)



Fitch Ratings – ESG Resources for Covered Bonds

Covered Bonds Surveillance Snapshot

- [3Q19 covered bonds surveillances snapshot](#)
- [3Q19 covered bonds surveillance snapshot - excel file](#)

Special Reports

- [Introducing ESG Relevance Scores for Structured Finance and Covered Bonds](#)
- [What Investors Want to Know: Structured Finance and Covered Bond ESG Relevance Scores](#)

Data

- [Structured Finance and Covered Bonds ESG Relevance Map](#)
- [SF and Covered Bonds ESG Dashboard Compendium](#)

Recorded Presentation

- [Webinar](#)

More information available at www.fitchratings.com/esg

Global Home > ESG

Environmental, Social and Governance - Defining Relevance to Credit

Fitch Ratings has launched a new integrated scoring system which shows how environmental, social and governance (ESG) factors impact individual credit rating decisions. We are the only CRA who currently offers this level of granularity or transparency about the impact of ESG on fundamental credit.

[Read the Announcement](#) | [Read Our FAQ](#)

ESG Relevance Scores for Structured Finance & Covered Bonds – The Fitch Approach

Listen to Fitch Ratings content on demand for webinars which will outline Fitch's recently launched ESG relevance scores for structured finance and covered bonds.

Listen Now
[EMEA & Asia Session](#)
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Download our ESG Relevance Scores

Fitch has assigned ESG Relevance Scores across its internationally-rated portfolio. Review all of the scores via our ESG Dashboard Compendiums here:

- Corporates
- Global Banks
- Infrastructure
- Insurance
- NBF
- Sovereigns
- US Public Finance
- International Public Finance
- Structured Finance & Covered Bonds

RESOURCES & HIGHLIGHTS

Initial findings – Corporate Credit Profiles

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