

# UniCredit Bank GmbH

## Key Rating Drivers

**Intrinsic Profile Drives Rating:** Unicredit Bank GmbH's (HVB) Long-Term Issuer Default Rating (IDR) is driven by the bank's standalone credit strength, as expressed by its Viability Rating (VR). The ratings reflect a mostly wholesale business model that has an operational focus on Germany's economy, satisfactory asset quality, improved profitability, and a sound funding and liquidity profile.

We expect HVB's capital ratios will remain sound but that they could decline from the current high levels if excess common equity Tier 1 (CET1) capital is channelled to the parent under the group's preferred single-point-of-entry resolution strategy. Fitch believes that HVB's business activity is closely linked to that of its parent, UniCredit S.p.A. (BBB/Stable/F2/bbb), which means that HVB's VR will not be rated more than one notch above its parent's Long-Term IDR.

**Links with UniCredit:** HVB's business model is primarily based on its well-established domestic corporate and investment banking franchise, and is deeply integrated within the UniCredit group. HVB and UniCredit share the same brand, and HVB's reputation and franchise could suffer if UniCredit's credit profile materially deteriorates.

**Integrated Risk Framework:** HVB's risk profile reflects its corporate-centric business model, including investment banking and mainly client-induced trading activities, which make it vulnerable to economic swings. Risk controls and limits are closely monitored and deeply integrated into the parent's risk framework.

**Some Lending Concentration:** HVB's impaired loans ratio of 2.2% at end-1H23 has been stable over the past 12 months, but is higher than that of German peers. Its corporate banking business entails high single-borrower concentrations, similar to domestic peers. We expect asset quality to moderately weaken due to weak economic growth, and the impaired loans ratio to reach close to 3% by end-2025.

**Reasonable Profitability:** HVB generated strong profits in 2022 and 1H23 due to rising interest rates, high trading volumes and reduced operating costs. We expect HVB's operating profit/risk-weighted assets (RWAs) ratio to decline moderately from current levels (1H23: 3.7%) due to higher loan impairment charges (LICs) and interest rates moderating from their peaks, reducing net interest margins in 2024.

However, we believe HVB can achieve operating profits above 1.5% of RWAs on a sustained basis, which is well above the average of the past four years (1.2%), and underpins our positive profitability outlook.

**Capital Ratios Above Peers':** HVB's CET1 ratio (end-1H23: 21.3%) is strong compared with most European peers', supported by a decline in RWAs. We expect the bank's CET1 ratio to remain strong and well above its regulatory requirements. We do not expect material channelling of capital to the parent, which would reduce capital ratios to below sound levels of 14%–15%.

**Funding and Liquidity Strengths:** HVB has well-established deposit franchises in retail and commercial banking, which accounted for 58% of total funding at end-1H23. The bank's issuance of covered bonds with long average debt maturities (about 11% of total funding) lowers its reliance on market funding, which we believe could become confidence-sensitive with respect to its parent.

HVB's liquidity benefits from a large pool of liquid assets, well above its total wholesale funding maturing within 12 months.

## Ratings

Foreign Currency	
Long-Term IDR	BBB+
Short-Term IDR	F2
Derivative Counterparty Rating	A-(dcr)

Viability Rating	bbb+
Shareholder Support Rating	bb+

## Sovereign Risk (Germany)

Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA

## Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

## Applicable Criteria

[Bank Rating Criteria \(September 2023\)](#)

## Related Research

[Global Economic Outlook \(December 2023\)](#)

[Fitch Affirms UniCredit Bank GmbH at 'BBB+'; Outlook Stable \(January 2024\)](#)

[Western European Banks Outlook 2024 \(December 2023\)](#)

[Fitch Affirms UniCredit at 'BBB'; Outlook Stable \(November 2023\)](#)

## Analysts

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## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

We could downgrade HVB’s ratings if UniCredit’s ratings are downgraded. The ratings could also be downgraded and aligned with UniCredit’s if fungibility of capital within the UniCredit group increases, and if this indicates a change in the group’s capital management. The ratings could also be downgraded if HVB’s CET1 ratio falls below 12.5% (which, in the absence of sizeable capital-channelling to the parent, would imply significant losses), combined with operating profit at below 0.5% of RWAs and an impaired loans ratio at above 3%, all on a sustained basis.

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of HVB’s ratings would require an upgrade of UniCredit’s ratings as we believe that links between HVB and its parent limit HVB’s rating to one notch above its parent’s. An upgrade would also be contingent on the bank maintaining a CET1 ratio above 14%, and operating with a sound risk profile and healthy asset quality. An upgrade of the Short-Term IDR would require an upgrade of the funding and liquidity score to ‘a’.

## Other Debt and Issuer Ratings

Rating Level	Rating
Long-term deposits	A-
Senior non-preferred: long term	BBB+
Senior preferred: long term	A-
Senior preferred: short term	F2
Short-term deposits	F2
Subordinated: long term	BBB-


Source: Fitch Ratings

HVB’s Derivative Counterparty Rating (DCR), long-term senior preferred debt and long-term deposit ratings are one notch above the bank’s Long-Term IDR to reflect the protection that could accrue to these creditors from the build-up of junior resolution debt and equity buffers. This is because we expect HVB to meet its resolution buffer requirement with senior non-preferred and more junior instruments only. HVB’s senior non-preferred debt rating is aligned with its Long-Term IDR.

HVB’s short-term senior preferred and deposit ratings are the lower of two ratings mapping to a ‘A-’ long-term rating because HVB’s funding and liquidity score is not sufficient to achieve a higher short-term rating. The bank’s subordinated Tier 2 debt rating is notched down twice from its VR to reflect this debt class’s higher loss severity.

HVB’s Short-Term IDR is the lower of the two ratings that map to a ‘BBB+’ Long-Term IDR. This reflects its funding and liquidity score of ‘a’.

**Ratings Navigator**

UniCredit Bank GmbH							ESG Relevance: 	Banks Ratings Navigator		
Operating Environment	Business Profile	Risk Profile	Financial Profile				Implied Viability Rating	Viability Rating	Shareholder Support Rating	Issuer Default Rating
			Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity				
	20%	10%	20%	15%	25%	10%				
aaa							aaa	aaa	aaa	AAA
aa+							aa+	aa+	aa+	AA+
aa							aa	aa	aa	AA
aa-							aa-	aa-	aa-	AA-
a+							a+	a+	a+	A+
a							a	a	a	A
a-							a-	a-	a-	A-
bbb+							bbb+	bbb+	bbb+	BBB+ Sta
bbb							bbb	bbb	bbb	BBB
bbb-							bbb-	bbb-	bbb-	BBB-
bb+							bb+	bb+	bb+	BB+
bb							bb	bb	bb	BB
bb-							bb-	bb-	bb-	BB-
b+							b+	b+	b+	B+
b							b	b	b	B
b-							b-	b-	b-	B-
ccc+							ccc+	ccc+	ccc+	CCC+
ccc							ccc	ccc	ccc	CCC
ccc-							ccc-	ccc-	ccc-	CCC-
cc							cc	cc	cc	CC
c							c	c	c	C
f							f	f	ns	D or RD

The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

**VR - Adjustments to Key Rating Drivers**

The business profile score of 'bbb+' is below the 'a' implied category score due to the following adjustment reason: group benefits and risks (negative).

The asset quality score of 'bbb+' is below the 'a' implied category score due to the following adjustment reason: concentrations (negative).

The capitalisation and leverage score of 'a-' is below the 'aa' implied category score due to the following adjustment reason: internal capital generation and growth (negative).

## Company Summary and Key Qualitative Factors

### Business Profile

HVB is one of Germany’s largest banks and UniCredit’s investment banking and markets hub. It is a nationwide leading arranger of bonds, loans and Schuldscheine – German promissory notes – for large German corporates, and has a well-entrenched SME franchise in its core regions of Bavaria and northern Germany. HVB’s corporate banking division covers domestic SMEs and large corporates.

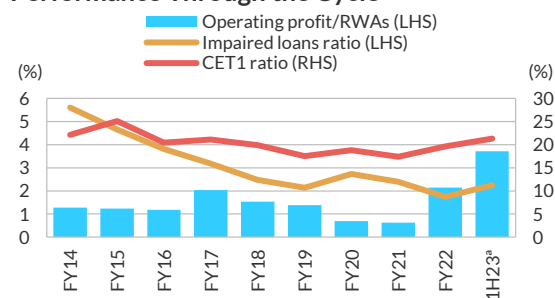
We believe HVB’s SME banking franchises and operations are more independent from its parent than its large corporate business, which is integrated in UniCredit and benefits from the group’s international network and leading market positions in central and eastern Europe. This constrains Fitch’s assessment of HVB’s business profile as HVB’s ability to do business could be affected if UniCredit’s risk profile deteriorates materially, resulting in a loss of corporate clients, derivative counterparties and investors.

HVB’s retail and private banking franchise is less strongly developed than its corporates segment, but is a solid pillar of its deposit funding, which is key to reduce the bank’s reliance on wholesale funding. It reflects the bank’s lack of critical mass nationwide, with market shares concentrated in the wealthy regions of Bavaria and northern Germany. The bank has optimised its branch network with a view to be more advisory-centric and enhance digital product offerings. HVB aims to expand its wealth-management business from a low base and add visibility by leveraging on its relations with SMEs, but building up scale could prove challenging in the highly competitive German private banking market. The segment generates modest but rising profits, still limiting more meaningful profit diversification beyond corporate banking.

UniCredit’s 2022–2024 strategic plan has been executed successfully by HVB’s management so far. It entails a stronger focus on cost efficiency through staff reductions beyond the previous targets and a continued focus on process optimisation, streamlining of the product range, and digitalisation. We believe these measures underpin HVB’s business profile, particularly a sustained strong cost performance.

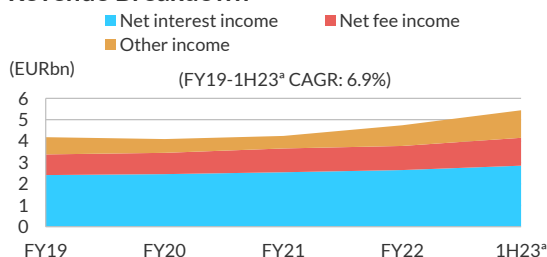
In December 2023, HVB changed its legal form from a stock corporation (Aktiengesellschaft) to a limited liability company (Gesellschaft mit begrenzter Haftung, GmbH). This transformation is aimed at simplification, improving its operational flexibility and reducing the administrative burden. The legal form of a GmbH is unusual for a bank of this size in Germany. It is neutral to Fitch’s assessment of the bank’s business profile given the presence of a single shareholder. We expect that the transformation will not result to material changes in HVB’s governance and that it will not affect the bank’s reputation, franchise, customer behaviour and staff stability.

### Performance Through the Cycle



\* Annualised  
 Source: Fitch Ratings, Fitch Solutions, HVB

### Revenue Breakdown



CAGR: compound annual growth rate  
 \* Annualised  
 Source: Fitch Ratings, Fitch Solutions, HVB

### Risk Profile

#### Disciplined Risk Profile, Well-Managed Market Risk

HVB’s risk controls and limits are derived from UniCredit’s risk appetite framework. Risks are concentrated in corporate, markets and investment banking, which account for most of the bank’s economic capital.

About a quarter of HVB’s balance sheet was composed of financial assets held for trading at end-1H23, but we believe that traded market risk is manageable in light of HVB’s large capital buffer and focus on non-proprietary, client-driven transactions. Interest-rate risk in the banking book is broadly in line with that of wholesale-focused domestic peers.

Underwriting standards and security investment guidelines are also in line with those of German peers. HVB’s customer loans declined in 1H23 in line with the weak economic environment, but the rating structure overall

improved during 1H23, primarily as a result of the increase in exposure of EUR 5.2billion in rating class 1, with a simultaneous decline in exposure, totalling EUR10.2 billion in rating classes 2 to 6.

To contain contagion risk, we understand that HVB caps its upstream exposure to UniCredit well below the limit of 100% of regulatory total capital set by the German regulator. However, direct or indirect exposure to UniCredit accounted for a significant proportion of HVB's EUR6.3 billion Italian exposure at end-1H23.

## Financial Profile

### Asset Quality

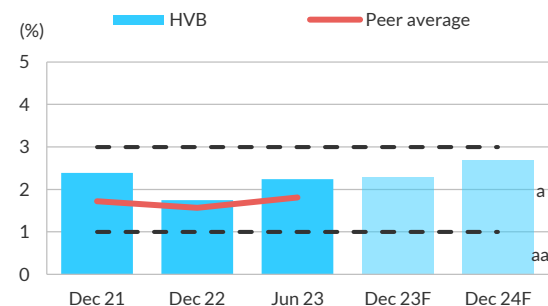
HVB's impaired loans ratio is slightly higher than its German peers', but has remained broadly stable since end-1H22. It indicates some corporate and sector resilience in light of the challenging operating environment in Germany. However, part of this was attributable to material government support through the pandemic, which has ended.

Consequently, we expect the weak German economy to increasingly affect the bank's asset quality. HVB's stock of non-performing loans (Stage 3) increased only moderately in 1H23, to EUR2.8 billion, but remained below the pandemic-driven levels of above EUR3 billion in 2020 and 2021. This corresponds to an impaired loans/gross loans ratio of 2.2% in 1H23 (end-2022: 1.8%). HVB's Stage 2 loans (at cost) rose moderately to 14% of gross customer loans in 6M23.

The three largest non-financial, non-public sector exposures in HVB's corporate bank at end-1H23 were to real estate (EUR33 billion), energy (EUR11.8 billion), and its fastest growing industry group, special products (EUR21.6 billion), which mostly include highly-rated European ABS/CDO investments, client-related and own securitisations, and structured credit products.

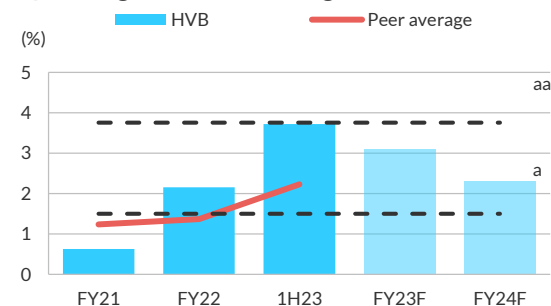
HVB's real-estate exposure focuses on residential property and offices with adequate collateralisation, but an increase in impaired loans in this segment are, in Fitch's opinion, likely, given pressure on the commercial real estate sector. HVB's exposure to Russia decreased further to EUR0.6 billion at end-1H23 (end-1H22: EUR1.3 billion), which has reduced the potential for a material deterioration of the bank's asset quality from this segment.

### Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

### Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

### Earnings and Profitability

HVB reported a 21% yoy increase in operating income in 1H23, while its pre-tax profit increased 43% yoy to EUR1.3 billion. HVB's results were supported by net interest and fee income growth, declining operating costs and low LICs. Significantly higher trading income, which more than doubled compared to 2022, and benefitted from increased client demand for hedging products, also contributed to the bank's strong performance. This has put its profitability at the higher end of its German commercial banks' peer group and at a reasonable level against European peers.

We expect HVB's profitability in 2024 and 2025 to remain better than before the interest rate increases despite some moderation in operating income from the current strong levels, and we expect that HVB can generate an operating profit/risk-weighted assets ratio of above 1.5% on a sustained basis in the coming years.

HVB's revenue sources are more diversified than domestic commercial banking peers' thanks to its investment banking and markets operations, even if its diversification into retail and private banking is modest.

HVB's cost base compares favourably with peers with similar operating models as it benefits from the cost savings from its downsized branch network. The bank's strategic plan aims to reduce operating costs further and targets a cost/income ratio of 50% by 2024 (2022: 55% based on operating income).

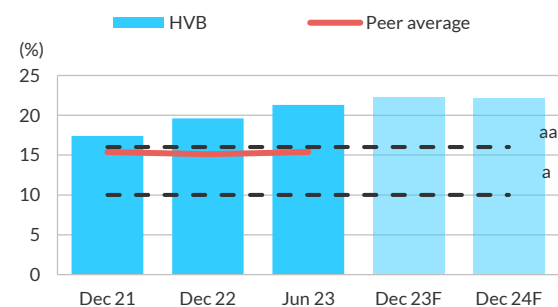
### Capital and Leverage

HVB's transitional CET1 ratio increased to 21.3% at end-1H23 (end-2022: 19.6%), and provides comfortable buffers over regulatory requirements despite a system-wide rise in the counter-cyclical buffer of 75bp on the domestic risk position, and the introduction of a 200bp systemic sectoral risk buffer for loans secured by residential property, as of February 2023. The strengthened CET1 ratio was primarily driven by sharply declining RWAs (-9% in 1H23) following HVB's strategy to increase capital efficiency. It also results from a reduction of corporate lending exposures.

Our assessment of HVB's capitalisation and leverage factors in a long-term risk of channelling capital from HVB to UniCredit, reflecting the parent's single-point-of-entry resolution strategy and strong focus on capital efficiency and distribution. Due to HVB's internal resolution buffer requirements, we believe this would result in a substitution of HVB's excess CET1 with senior non-preferred, and more junior, debt instruments issued to the parent. However, we expect that, even after a potential upstreaming of capital, HVB's CET1 capital would remain sound and comfortably exceed regulatory requirements. This is because the bank considers sound capitalisation important given its markets business, which can be confidence-sensitive, and because it needs to retain its ability to commit capital for large transactions and mitigate the fairly high single-name concentrations inherent in its loan book.

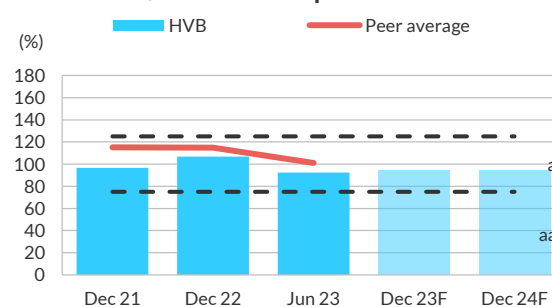
HVB's leverage ratio of 5.4% at end-1H23 was in line with domestic peers and remained broadly stable on a like-for-like basis compared to peers.

**CET1 Ratio**



Source: Fitch Ratings, Fitch Solutions, banks

**Gross Loans/Customer Deposits**



Source: Fitch Ratings, Fitch Solutions, banks

**Funding and Liquidity**

HVB's diversified funding underpins its role as UniCredit's self-sufficient liquidity centre for Germany. Its reliance on market funding is material, but its relatively long debt maturities and its resilient client deposit base limit its wholesale debt issuance needs, which it mainly covers via private placements, registered notes and structured retail issues. We expect HVB's loans/deposits ratio to remain below 100% within the next two years, as we expect broadly stable deposits and customer loans.

We view HVB's funding as more stable than UniCredit's. However, we believe that a deterioration of UniCredit's credit profile could result in a deterioration of HVB's access to wholesale funding. Deposits, mostly from corporate clients, account for 58% of HVB's total funding end-1H23 and are fungible across HVB's divisions. Excess liquidity from retail clients can therefore be used to fund corporate loans.

HVB's sound liquidity is underpinned by a large stock of high-quality liquid assets (HQLA). Its 12-month average HQLA totalled EUR65 billion at end-1H23, equivalent to about 21% of its total assets. Like its peers, HVB smoothly managed further repayments of the ECB's TLTRO funding.

**Additional Notes on Charts**

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's Bank Rating Criteria. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market.

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'aa' category. Light-blue columns represent Fitch's forecasts. Peer average includes Landesbank Baden-Wuerttemberg (VR: bbb+), Bayerische Landesbank (bbb+), Deutsche Bank AG (a-), ABN AMRO Bank N.V. (a).

## Financials

### Financial Statements

	30 Jun 23		31 Dec 22	31 Dec 21	31 Dec 20
	6 months - interim (USDm)	6 months - interim (EURm)	Year end (EURm)	Year end (EURm)	Year end (EURm)
<b>Summary income statement</b>					
Net interest and dividend income	1,553	1,429	2,654	2,544	2,450
Net fees and commissions	703	647	1,120	1,115	1,007
Other operating income	705	649	971	579	636
Total operating income	2,961	2,725	4,745	4,238	4,093
Operating costs	1,401	1,289	2,678	3,578	2,800
Pre-impairment operating profit	1,560	1,436	2,067	660	1,293
Loan and other impairment charges	55	51	299	115	735
Operating profit	1,505	1,385	1,768	545	558
Other non-operating items (net)	-49	-45	0	0	514
Tax	347	319	467	300	404
Net income	1,109	1,021	1,301	245	668
Other comprehensive income	-78	-72	962	57	-120
Fitch comprehensive income	1,031	949	2,263	302	548
<b>Summary balance sheet</b>					
<b>Assets</b>					
Gross loans	138,846	127,780	155,422	126,455	121,875
- Of which impaired	3,116	2,868	2,725	3,016	3,324
Loan loss allowances	2,059	1,895	1,818	1,761	1,910
Net loans	136,787	125,885	153,604	124,694	119,965
Interbank	7,194	6,621	10,100	11,592	12,855
Derivatives	58,738	54,057	61,524	48,306	56,794
Other securities and earning assets	85,941	79,092	50,902	92,903	96,031
Total earning assets	288,661	265,655	276,130	277,495	285,645
Cash and due from banks	40,577	37,343	36,833	27,692	47,531
Other assets	5,612	5,165	5,043	6,925	4,948
Total assets	334,850	308,163	318,006	312,112	338,124
<b>Liabilities</b>					
Customer deposits	150,189	138,219	145,723	130,943	133,010
Interbank and other short-term funding	55,271	50,866	52,266	64,009	83,491
Other long-term funding	44,002	40,495	31,140	32,408	32,006
Trading liabilities and derivatives	58,494	53,832	63,848	60,286	65,362
Total funding and derivatives	307,955	283,412	292,977	287,646	313,869
Other liabilities	5,675	5,223	5,290	6,757	6,330
Preference shares and hybrid capital	1,847	1,700	1,700	1,700	1,750
Total equity	19,372	17,828	18,039	16,009	16,175
Total liabilities and equity	334,850	308,163	318,006	312,112	338,124
Exchange rate		USD1 = EUR0.920302	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Source: Fitch Ratings, Fitch Solutions, UniCredit Bank GmbH



## Key Ratios

	30 Jun 23	31 Dec 22	31 Dec 21	31 Dec 20
<b>Ratios (%; annualised as appropriate)</b>				
<b>Profitability</b>				
Operating profit/risk-weighted assets	3.7	2.2	0.6	0.7
Net interest income/average earning assets	1.1	1.0	0.9	0.9
Non-interest expense/gross revenue	47.3	56.4	84.2	68.4
Net income/average equity	11.5	7.6	1.5	3.9
<b>Asset quality</b>				
Impaired loans ratio	2.2	1.8	2.4	2.7
Growth in gross loans	-17.8	22.9	3.8	-2.2
Loan loss allowances/impaired loans	66.1	66.7	58.4	57.5
Loan impairment charges/average gross loans	0.1	0.1	0.1	0.6
<b>Capitalisation</b>				
Common equity Tier 1 ratio	21.3	19.6	17.4	18.8
Tangible common equity/tangible assets	5.6	5.7	5.1	4.8
Basel leverage ratio	5.4	5.4	5.3	4.9
Net impaired loans/common equity Tier 1	6.1	5.7	8.3	9.4
<b>Funding and liquidity</b>				
Gross loans/customer deposits	92.5	106.7	96.6	91.6
Gross loans/customer deposits + covered bonds	77.7	92.2	82.7	78.9
Customer deposits/total non-equity funding	57.5	60.3	53.6	50.1

Source: Fitch Ratings, Fitch Solutions, UniCredit Bank GmbH

## Support Assessment

Shareholder Support	
Parent IDR	BBB
Total Adjustments (notches)	-2
Shareholder Support Rating	bb+
<b>Shareholder ability to support</b>	
Shareholder Rating	BBB/ Stable
Shareholder regulation	Equalised
Relative size	2+ Notches
Country risks	Equalised
<b>Shareholder propensity to support</b>	
Role in group	Equalised
Reputational risk	Equalised
Integration	Equalised
Support record	1 Notch
Subsidiary performance and prospects	Equalised
Legal commitments	2+ Notches

The colours indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

### High Support Propensity Constrained by HVB’s Size

UniCredit’s strong propensity to support primarily reflects HVB’s role as the group’s investment-banking hub and sizeable corporate-banking operations in Europe’s largest economy.

HVB’s SSR reflects UniCredit’s strong propensity to support HVB, but its limited capacity results in a moderate likelihood of extraordinary support.

The SSR is two notches below UniCredit’s Long-Term IDR because, while the group’s preferred resolution strategy is a single-point-of entry approach, the solvency support that HVB would likely require is high relative to the capital available in the rest of the group. This is because a large share of UniCredit’s consolidated equity is in HVB.

## Environmental, Social and Governance Considerations

### FitchRatings UniCredit Bank GmbH

Banks  
Ratings Navigator

#### Credit-Relevant ESG Derivation

UniCredit Bank GmbH has 5 ESG potential rating drivers

- UniCredit Bank GmbH has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

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

#### Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

**How to Read This Page**  
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact. Scores of 3, 4 or 5) and provides a brief explanation for the score.

#### Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

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 United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

#### Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE	
How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>

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