UniCredit Bank GmbH

Banks
Universal Commercial Banks
Germany

Key Rating Drivers

Intrinsic Profile Drives Ratings: 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 banking business model focused on Germany, which has strengthened following the upgrade of its parent UniCredit S.p.A. (UC; BBB+/Positive). HVB's ratings also reflect the improved profitability, in line with developments at the parent, solid capitalisation, satisfactory asset quality, and sound funding and liquidity.

Ratings Capped by Parent: The bank's VR has been capped at one notch above the parent's Long-Term IDR. This reflects Fitch Ratings' view that HVB's business profile is linked to UC's risk profile, given HVB's role as the group's investment banking and markets hub. Its Stable Outlook reflects that a further upgrade of UC would not immediately trigger an upgrade for HVB due to its standalone financial profile, which is in line with its 'a-' VR.

More Resilient Business Profile: HVB contributes significantly to UC's strengthened business profile as the group's investment banking and markets hub, and has a key role in the group's business with multinational corporates. Fitch believes UC's improved financial profile has reduced contagion risks for HVB that could have come from a weaker performance by the parent.

Profitability Underpins Ratings: HVB's profitability has consistently risen in recent years, driven by higher revenue, declining operating expenses and low loan impairment charges, which compare favourably with that of its peers. We believe that HVB is well on track to generate sustainably sound profitability, with an operating profit/risk-weighted assets (RWAs) ratio above 2.5% in the medium term.

Adequate Asset Quality: HVB's asset quality is stable, in line with that of other German commercial banks. Its corporate-banking business entails high single-borrower concentrations, similar to domestic peers. We expect asset quality to moderately weaken due to poor economic growth in many of HVB's core markets, but for the impaired loans ratio to remain well below 3%.

Solid Capitalisation: Capitalisation is stronger than that of most European peers, and is well above regulatory requirements. However, our assessment factors in potential channelling of capital to the parent, which could reduce capital ratios.

Established Funding Profile: HVB is a covered bond issuer and has well-established deposit franchises in retail and commercial banking. Customer deposits accounted for about 50% of total funding (including derivatives) at end-1H24 despite moderate outflows in the first six months of the year. The bank's issuance of covered bonds with long average debt maturities lowers its reliance on market funding. HVB's liquidity profile is solid.

Ratings

Foreign Currency	
Long-Term IDR	A-
Short-Term IDR	F2
Derivative Counterparty Rating	A(dcr)
Viability Rating	a-
Shareholder Support Rating	bbb-
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 (March 2024)

Related Research

Global Economic Outlook (December 2024)

Western European Banks Outlook 2025 (December 2024)

Fitch Upgrades UniCredit Bank GmbH to 'A-'; Outlook Stable (November 2024)

Fitch Upgrades UniCredit to 'BBB+'; Outlook Positive (October 2024)

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Rating Sensitivities

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

We could downgrade HVB's VR and Long-Term IDR, aligning them with UC's, if fungibility of capital within the UniCredit group increases, resulting in a CET1 ratio below 12%, or following a downgrade of UC's ratings. HVB's ratings could also be downgraded if its operating profit durably declines below 1.5% of risk-weighted assets (RWAs), in combination with a significant deterioration in its asset quality.

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

An upgrade of HVB's ratings would require further sustainable improvements in profitability while maintaining a strong risk profile, sound capitalisation and asset quality. This would have to be in combination with a further upgrade of UC's Long-Term IDR as HVB's VR is unlikely to be rated more than one notch above the parent's Long-Term IDR.

Other Debt and Issuer Ratings

Rating level	Rating
Deposits	A/F1
Senior preferred debt	A/F1
Senior non-preferred debt	A-
Subordinated Tier 2 debt	BBB

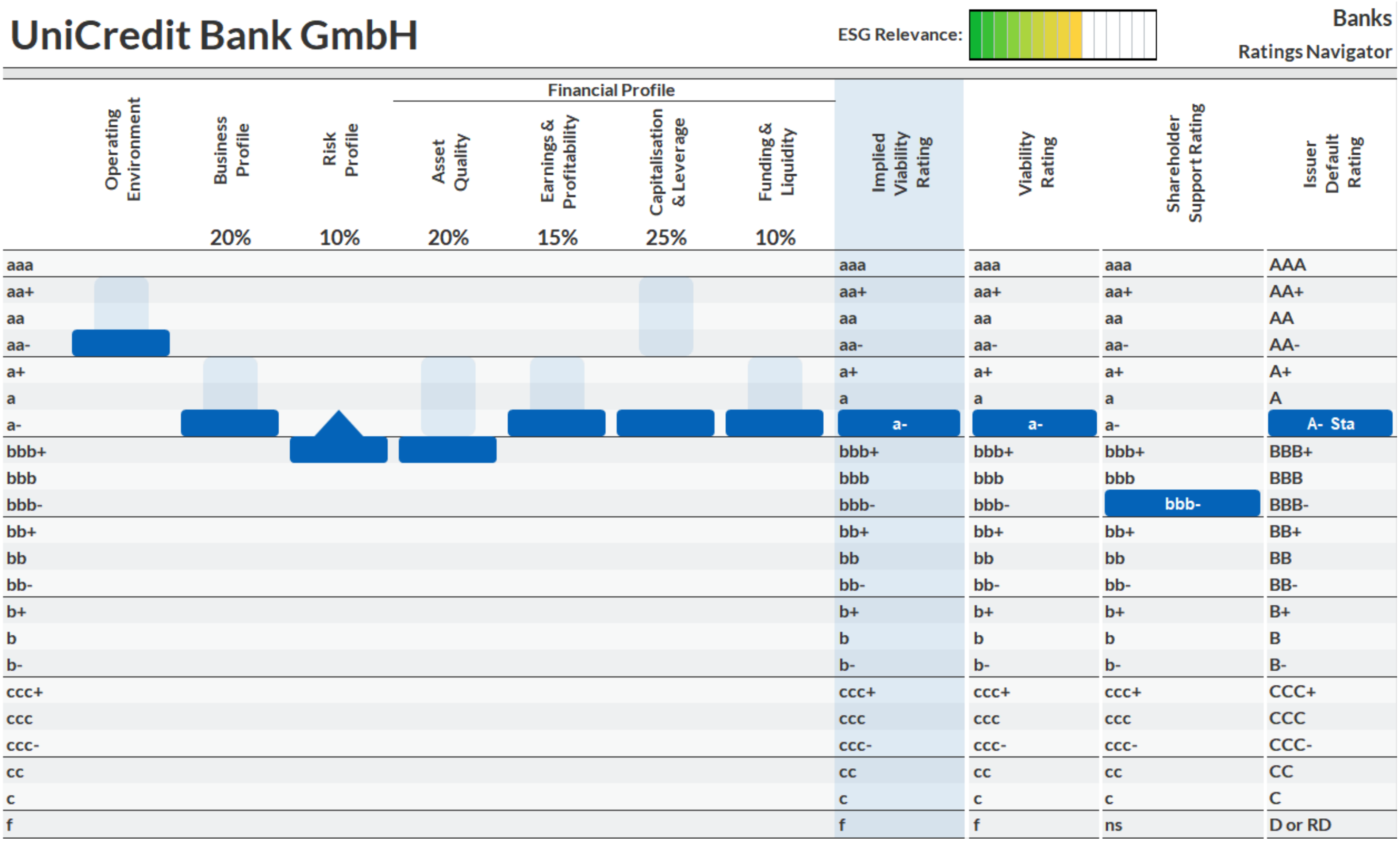
Source: Fitch Ratings

HVB's 'F2' Short-Term IDR is the lower of the two ratings that map to a 'A-' Long-Term IDR. This reflects its funding and liquidity score of 'a-', which is not sufficient to achieve a higher rating.

The bank's Derivative Counterparty Rating (DCR), long-term senior preferred debt and long-term deposit ratings are one notch above its 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. For the same reason, 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 its 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.

Ratings Navigator



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 asset quality score of ‘bbb+’ has been assigned below the ‘a’ implied category score due to the following adjustment reason: concentration (negative).

The capitalisation and leverage score of ‘a-’ has been assigned 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

Leading Corporate Banking Franchise in Wealthy Areas, Limited Retail Presence

HVB is one of Germany's largest banks, and UniCredit's investment banking and markets hub, linking HVB's business profile with the parent. It is a 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 separately 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. 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. However, this risk has reduced following the improved profile of the parent and should help HVB to further strengthen and build its own market presence.

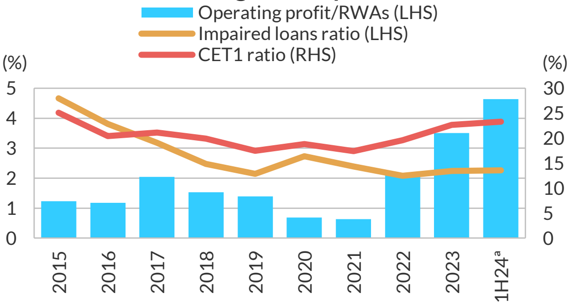
HVB's retail and private banking franchise is less developed than its corporates segment, but is a solid pillar of its deposit funding and helps maintain a moderate reliance on wholesale funding. HVB lacks critical mass nationwide and its market shares are concentrated in the wealthy regions of Bavaria and northern Germany. However, HVB has become one of the most profitable German banks since the implementation of UniCredit's 2022–2024 strategic plan with a strong focus on cost efficiency, process optimisation, streamlining of the product range, and digitalisation. This underpins our 'a-' business profile score.

Strategic Focus on Advisory, Wealth Management and Digitisation

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 comparably smaller but rising profits, still limiting more meaningful profit diversification beyond corporate banking.

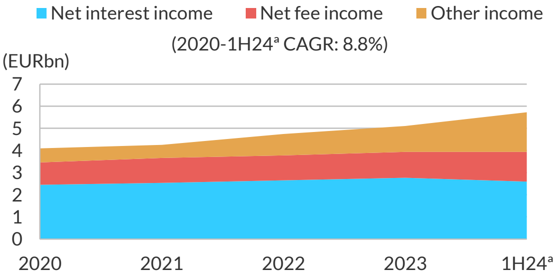
The change of HVB's legal form from a stock corporation (Aktiengesellschaft) to a limited liability company (Gesellschaft mit begrenzter Haftung, GmbH) at end-2023, despite being unusual for a large bank, did not affect the bank's reputation, franchise, customer behaviour and staff stability.

Performance Through the Cycle



a Annualised
Source: Fitch Ratings, Fitch Solutions, HVB

Revenue Breakdown



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

Risk Profile

Disciplined Risk Profile, Transfer of Most Trading Activities

HVB's risk profile reflects the corporate-centric business model, including investment banking and mainly client-induced trading activities, which make it comparably more vulnerable to economic swings. Corporate customers dominate its loan book (around 60% of total customer loans at end-1H24). Together with the retail segment, credit and counterparty risks represent about three quarters of RWAs at end-1H24.

HVB's risk strategy, controls and limits are derived from UniCredit's risk appetite framework. Underwriting standards and security investment guidelines are consistent with its business profile and also broadly in line with those of German peers. The complexity of HVB's products is also in line with others commercial banks and reflects a strong capacity to provide tailor-made investment solutions, which are an integral part of the bank's offerings in corporates and retail banking.

UniCredit's client selectivity, high interest rates and muted loan demand, particularly for mortgage loans, have led to moderate loan book deleveraging over the past 18 months. HVB's customer loans grew by 0.8% in 1H24 after their 3.6% decline in 2023, which was due to an efficiency review of the loan book and Germany's weak economic environment. We expect a modest but slow pick-up in activity across German industry sectors to start stimulate the banking's lending and business volumes next year. The rating structure of HVB's loan book was broadly stable in 6M24.

Interest rate risk in HVB's banking book is largely hedged. In a scenario of a 200bp upward interest rates parallel shift, the economic value of the bank's equity would be reduced by EUR1.7 billion, or 9.2%. The group has a robust, centralised governance. Traded market risks are low and managed conservatively. In July 2024 HVB has started to transfer some parts of its trading activities to the parent, a process that will likely continue up until end-2025. The operational benefits, namely a reduction in risks, profit volatilities and complexity, drive the positive outlook on HVB's risk profile score.

HVB caps its upstream exposure to UniCredit well below the limit of 100% of regulatory total capital set by the German regulator to mitigate contagion risk. However, direct or indirect exposure to UniCredit accounted for a significant proportion of HVB's EUR10 billion Italian exposure at end-1H24.

Financial Profile

Asset Quality

Asset Quality Resilient; but Mild Deterioration Expected

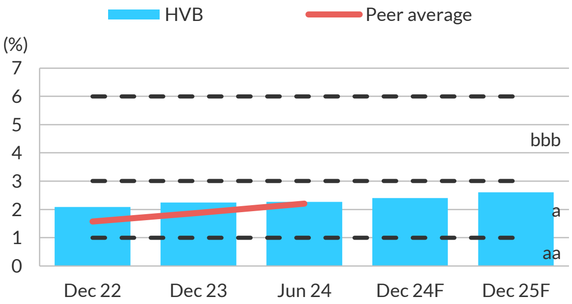
HVB's impaired loans ratio of 2.3% at end-1H24 is slightly higher than some of its German peers', reflecting the bank's strong corporate focus, but has remained broadly stable over the past two years despite a weak economic environment in Germany. The degree of corporate and sector resilience reflects HVB's solid underwriting standards and some tightening measures over the past 18 months. HVB's stock of non-performing loans (Stage 3) increased only marginally in 1H24 to EUR2.9 billion (2023: EUR2.8 billion), remaining below the pandemic-driven levels of above EUR3 billion in 2020 and 2021. Our asset quality assessment also reflects above-average concentration risks, as evidenced by HVB suffering from two larger defaults in 6M24. HVB's previously high level of Stage 2 loans declined markedly from EUR20.8 billion to EUR14.2 billion (11% of gross customer loans in 1H24) due to disposals and a significant transfer of loans back into Stage 1.

We expect HVB's asset quality to moderately deteriorate in the next 12 to 24 months, although the impaired loans ratio should remain below 3 %. We believe that structural factors weighing on the German economy and the corporate sector such as high energy costs, shortage of qualified labour, a loss of competitiveness and bureaucratic burden outweigh the modest economic recovery we expect for next year. We view energy intensive sectors as the most vulnerable, including automotive (EUR10.6 billion exposure), machinery and metals (EUR11.6 billion) and chemistry.

HVB also has a significant exposure to real estate (EUR33 billion; 13% of its credit default risk exposure at end-1H24), of which around EUR19 billion relates to commercial real estate. This segment has performed reasonably well so far, and in line with other domestic real estate lenders despite the impact of higher interest rates and declining valuations, and contrary to expectations. Fitch understands that a high share of fixed contracts with long maturities and moderate loan-to-value ratios (LTVs), typically below 60%, mitigate loan book risks. The share of loans with an LTV above 80% is contained below 5%.

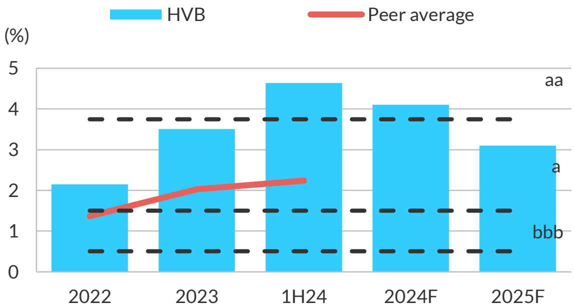
The bank adopts a conservative level of loan loss reserves, and its loan loss allowance coverage ratio of above 60% remains above peers'. HVB applies conservative management overlays (end-1H24: EUR162 million) for geopolitical risks and commercial real estate. We expect a higher use of such post-model provision adjustments to mitigate rising loan loss vulnerability.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

Restructuring and Efficiency Gains Drive Above-Average Profitability

HVB's 1H24 results were well ahead of Fitch's initial 2024 forecasts and superior to German peers. We have therefore revised our operating profit/RWAs ratio forecast for the bank to around 4.1% for 2024 (from 2.7%). We expect that HVB will generate an operating profit/risk-weighted assets ratio of above 2.5% on a sustained basis in the next two years (previously above 1.5%).

Our revision reflects the positive impact of the bank's restructuring efforts and much more risk-conscious pricing, which drove down average RWAs by almost 20% since end-2020, thus improving HVB's profitability metrics. Most importantly, the bank's rigorous cost discipline, which has lowered its cost/income ratio (end-1H24: 40%; end-2020: 68%), supports its structural profitability. This included sizeable branch closures and staff reduction without harming its franchise. We believe that the bank's cost performance is sustainable and will manifest its cost leadership among German banks with similar operating models.

HVB's net operating profit increased by 11% year-on-year (yoy) in 1H24, to EUR1.6 billion. The result was driven by solid operating revenues, particularly trading income (up 22% yoy), and still moderate, albeit increasing, loan impairment charges (LICs). We expect LICs to grow and weigh on HVB's profit in 2H24 and the next two years, including due to the usual seasonal moderation of activities towards year-end. Nevertheless, cost of risk should remain under control and within in the group's guidance of 20bp–25bp. We therefore expect HVB's profitability in 2024 and 2025 to remain better than its domestic peers.

HVB expects the transfer of a substantial part of its trading activities to the parent to support its long-term profitability, capital ratios and the leverage ratio, while reducing risks, profit volatility and operational complexity. We cannot finally assess the full impact of this project on the bank's profitability, but assume a broad balance of the impact on revenues and RWAs, although with less revenue diversification.

Capitalisation and Leverage

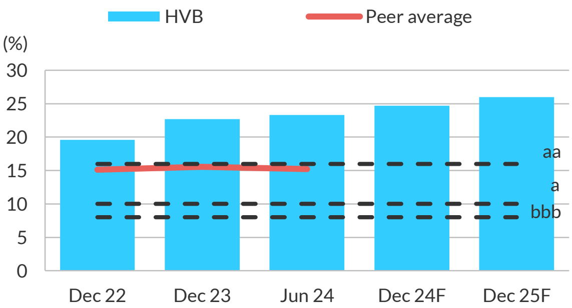
Strong Capital Metrics Vulnerable to Changes in Group Capital Allocation

HVB's CET1 ratio (end-1H24: 23.3%; end-2023: 22.7%) increased to well above that of both German and European peers. The ratio of loan loss allowances to impaired loans is above average, and the CET1 ratio provides a very comfortable buffers over regulatory requirements. The strengthened CET1 ratio was driven by declining RWAs (-2.5% in 6M24) and slow loan growth in its corporate lending exposures amid Germany's weak operating environment. Additionally, HVB has increased capital efficiency by using securitisations and a more efficient deployment of collateral.

HVB holds a substantial part of the group's equity. Therefore, 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. Due to HVB's resolution buffer requirements, we believe that, should it happen, this would result in a substitution of HVB's excess CET1 with senior non-preferred, and more junior, debt instruments issued to the parent.

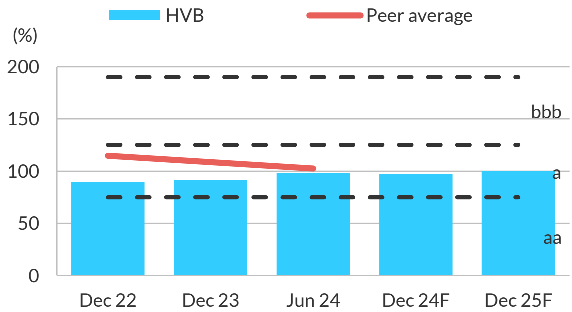
The upstreaming risk has reduced as the parent's profitability has improved. We expect that, even after a potential upstreaming of capital, HVB's CET1 capital would remain sound and comfortably exceed regulatory requirements. This is because the bank considers sound capitalisation important given its 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.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

Well-Diversified Funding Sources, Sound Liquidity

HVB's diversified funding underpins its role as UniCredit's self-sufficient liquidity centre for Germany. This means that HVB manages its funding and liquidity profile on its own but in accordance with the group-wide framework to optimise market access and funding costs.

Customer deposits are HVB's dominant funding source. The bank's loans/deposits ratio rose to 98% at end-1H24 due to a 5.7% decrease in customer deposits, while loan volumes increased slightly. We forecast the loans/deposits ratio to increase further in the medium term, but for the four-year average to remain below 100%, as loan growth resumes and deposits gathering reduces with lower rates.

HVB has material reliance on market funding, but nearly 75% of its outstanding wholesale funding at end-1H24 is represented by long-dated covered bonds mainly backed by mortgage loans. These are supplemented by smaller private placements, registered notes and structured retail issues. The focus and credit quality on secured lending mitigates contagion risks should UniCredit's credit profile markedly deteriorate.

Debt market issuance volumes in 2024 are well below the previous year's EUR5.1 billion because of the bank's solid liquidity position. By the end of June 2024, HVB Group had raised EUR1.5 billion longer-term funding (1H23: EUR6.1 billion).

HVB comfortably meets its 2024 interim internal minimum requirements for own funds and eligible liabilities (MREL) of 26.9% of RWAs (including the combined buffer requirement at end-1H24) through SNP and more junior debt underwritten by the parent. HVB's MREL requirement must be met entirely with SNP or more junior debt, because instruments eligible for group internal MREL are required to be more junior than (or pari passu with) notes placed outside of the group.

HVB's sound liquidity is underpinned by a large stock of high-quality liquid assets. These totalled EUR59 billion, on average, in the past 12 months at end-1H24, equivalent to about 21% of total assets. Additional liquidity can be generated by further covered bond issuance given overcollateralisation of the mortgage bonds cover pool of about 28% end-1H24. Like its peers, HVB smoothly managed full 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 24 1st half (USDm)	30 Jun 24 1st half (EURm)	31 Dec 23 12 months (EURm)	31 Dec 22 12 months (EURm)	31 Dec 21 12 months (EURm)
Summary income statement					
Net interest and dividend income	1,394	1,297	2,767	2,654	2,544
Net fees and commissions	720	670	1,165	1,120	1,115
Other operating income	963	896	1,180	971	579
Total operating income	3,076	2,863	5,112	4,745	4,238
Operating costs	1,247	1,161	2,497	2,678	3,578
Pre-impairment operating profit	1,829	1,702	2,615	2,067	660
Loan and other impairment charges	142	132	167	299	115
Operating profit	1,687	1,570	2,448	1,768	545
Other non-operating items (net)	4	4	-309	0	0
Tax	545	507	404	467	300
Net income	1,146	1,067	1,735	1,301	245
Other comprehensive income	-35	-33	-271	962	57
Fitch comprehensive income	1,111	1,034	1,464	2,263	302
Summary balance sheet					
Assets					
Gross loans	136,674	127,198	126,187	130,915	126,455
– of which impaired	3,092	2,878	2,831	2,725	3,016
Loan loss allowances	1,980	1,843	1,819	1,818	1,761
Net loans	134,694	125,355	124,368	129,097	124,694
Interbank	7,587	7,061	6,279	10,103	11,592
Derivatives	47,481	44,189	46,324	61,524	48,306
Other securities and earning assets	97,799	91,018	78,830	75,741	92,903
Total earning assets	287,561	267,623	255,801	276,465	277,495
Cash and due from banks	11,649	10,841	23,293	36,833	27,692
Other assets	4,231	3,938	4,198	4,708	6,925
Total assets	303,441	282,402	283,292	318,006	312,112
Liabilities					
Customer deposits	139,271	129,615	137,513	145,723	130,943
Interbank and other short-term funding	49,612	46,172	31,412	52,266	64,009
Other long-term funding	40,577	37,764	44,964	31,140	32,408
Trading liabilities and derivatives	48,258	44,912	44,877	63,848	60,286
Total funding and derivatives	277,719	258,463	258,766	292,977	287,646
Other liabilities	5,013	4,665	4,586	5,290	6,757
Preference shares and hybrid capital	1,827	1,700	1,700	1,700	1,700
Total equity	18,883	17,574	18,240	18,039	16,009
Total liabilities and equity	303,441	282,402	283,292	318,006	312,112
Exchange rate		USD1 = EUR0.930665	USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173

Source: Fitch Ratings, Fitch Solutions, HVB

Key Ratios

	30 Jun 24	31 Dec 23	31 Dec 22	31 Dec 21
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	4.6	3.5	2.2	0.6
Net interest income/average earning assets	1.0	1.0	1.0	0.9
Non-interest expense/gross revenue	40.5	48.9	56.4	84.2
Net income/average equity	12.0	9.6	7.6	1.5
Asset quality				
Impaired loans ratio	2.3	2.2	2.1	2.4
Growth in gross loans	0.8	-3.6	3.5	3.8
Loan loss allowances/impaired loans	64.0	64.3	66.7	58.4
Loan impairment charges/average gross loans	0.2	0.1	0.1	0.1
Capitalisation				
Common equity Tier 1 ratio	23.3	22.7	19.6	17.4
Tangible common equity/tangible assets	6.0	6.4	5.7	5.1
Basel leverage ratio	5.6	5.7	5.4	5.3
Net impaired loans/common equity Tier 1	6.5	6.4	5.7	8.3
Funding and liquidity				
Gross loans/customer deposits	98.1	91.8	89.8	96.6
Gross loans/customer deposits + covered bonds	82.5	77.8	77.7	82.7
Liquidity coverage ratio	–	–	–	–
Customer deposits/total non-equity funding	58.1	62.1	60.3	53.6
Net stable funding ratio	–	–	–	–

Source: Fitch Ratings, Fitch Solutions, HVB

Support Assessment

Shareholder Support	
Parent IDR	BBB+
Total Adjustments (notches)	-2
Shareholder Support Rating	bbb-
Shareholder ability to support	
Shareholder Rating	BBB+/ Positive
Shareholder regulation	Equalised
Relative size	2+ Notches
Country risks	Equalised
Shareholder propensity to support	
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

HVB's Shareholder Support Rating is two notches below UC's Long-Term IDR because the parent's ability to provide support is constrained by HVB's large size. Under the group's resolution strategy (single-point-of entry), the solvency support that HVB would be likely to require is high relative to the capital available in the rest of the group. UC's strong propensity to support primarily reflects HVB's role as the group's investment-banking hub and substantial corporate banking operations in Europe's largest economy.

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.

			ESG Relevance to Credit Rating
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

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

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

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 reflect a negative impact unless indicated with a '+' sign for positive impact.h 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 United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

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.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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