FitchRatings

Sparkassen-Finanzgruppe Hessen-Thueringen

Key Rating Drivers

Regional Retail, Commercial Banking Group: Sparkassen-Finanzgruppe Hessen-Thueringen's (SFG-HT) ratings are underpinned by the strong local retail franchises of the group's savings bank members, which are complemented by the wholesale activities of Landesbank Hessen-Thueringen Girozentrale (Helaba), the group's central institution. The ratings also reflect the close integration of SFG-HT's members, and the group's sound asset quality, strong capitalisation and moderate recurring profitability.

Strong Mutual Support: SFG-HT is not a legal entity but a network that comprises 49 savings banks in Hesse and Thuringia as well as Helaba, and forms a common economic unit whose cohesion is supported by a mutual support scheme. SFG-HT's Issuer Default Ratings (IDRs) apply to each individual member bank (including Helaba) and are aligned with the group's Viability Rating (VR).

High Interest-Rate Risk: Interest-rate risk is high in the local banks' loan books and securities portfolios due to their asset/liability duration mismatches, a high share of fixed-rate lending and absence of widespread use of interest-rate hedging. However, Fitch views the group's strong deposit franchise, liquidity and capitalisation as sufficient mitigating factors.

Sound Asset Quality: We expect SFG-HT's impaired loans ratio to deteriorate modestly in 2023 as a result of the economic downturn, rising interest rates and inflation, but for it to remain below 2% in the medium term. SFG-HT's asset quality benefits from prudent underwriting standards, a high share of collateralised lending and a fairly standardised product offering. The group's large exposure to commercial real estate leaves it vulnerable to a real estate crisis, which is mitigated by strong collateralisation based on conservative valuations.

Resilient Pre-Impairment Profitability: The group's operating revenue is stable and benefits from the savings banks' strong regional market position, complemented by Helaba's low-margin wholesale activities. Fitch expects SFG-HT's profitability to have declined significantly in 2022 due to temporary valuation losses in the local banks' security portfolios. We expect profitability to recover in 2023 and the group's four-year average operating profit to remain at about 0.8% of its risk-weighted assets (RWAs) through the cycle.

Strong Capitalisation: SFG-HT's capitalisation is a rating strength. Based on Fitch's estimates, SFG-HT's common equity Tier 1 (CET1) ratio moderately declined at end-2022 due to an increase in RWA and temporary valuation losses, but should remain close to 17%. We expect healthy capital generation to strengthen SFG-HT's capital reserves and maintain its CET1 capital ratio above 16% in the medium term.

Banks
Universal Commercial Banks
Germany

Ratings

Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1+
Viability Rating	a+
Government Support Rating	ns
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 2022)

Related Research

Fitch Affirms Sparkassen-Finanzgruppe Hessen-Thueringen at 'A+'; Outlook Stable (April 2023)

Global Economic Outlook (March 2023)

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Rating Sensitivities

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

SFG-HT's, the savings banks' and Helaba's ratings are sensitive to changes in the group's VR. We could downgrade the VR if we expect the group's operating profit/RWA ratio to durably fall below 0.5% and its impaired loans ratio to durably exceed 3%. This could result from large single losses in Helaba's concentrated loan portfolio, notably in its large commercial real estate exposure. SFG-HT's Short-Term IDR is sensitive to changes in the Long-Term IDR and to a revision of the funding and liquidity score below 'aa-'.

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

The ratings would be upgraded if the group's VR was upgraded. An upgrade of the VR would require a material improvement in earnings generation and better cost efficiency and lifting the group's operating profit/RWAs ratio above 1.5% on a sustained basis, while maintaining a low impaired loans ratio and strong capitalisation.

In addition, SFG-HT's ratings are also sensitive to changes in those of Sparkassen-Finanzgruppe (Sparkassen; SFG A+/Stable), the nationwide savings bank network. This is because SFG-HT's savings banks are also part of the savings banks' nationwide mutual support mechanism, and would be affected by a material change of the overall savings bank sector's credit profile.

Other Debt and Issuer Ratings

Debt Rating Classes

Rating level	Helaba	Savings banks
Deposit ratings	AA-/F1+	A+/F1+
Senior preferred – long-term	AA-	-
Senior non-preferred	A+	-
Guaranteed debt	AAA	-
Tier 2 debt	A-	-

Source: Fitch Ratings

Deposit Ratings and Helaba's Derivative Counterparty Rating and Senior Debt Ratings

Helaba's Derivative Counterparty Rating (DCR), deposit ratings and senior preferred debt ratings are one notch above the bank's Long-Term IDR because of the protection provided by its sustainable resolution buffers to these preferred creditors. Helaba forms a resolution group that does not include SFG-HT's savings banks (except Frankfurter Sparkasse, of which Helaba owns 100%). Helaba is subject to minimum requirements for own funds and eligible liabilities, and we expect that the bank's junior and senior non-preferred debt buffer will continue to sustainably exceed 10% of its RWAs. Helaba's senior unsecured and senior non-preferred debt ratings are aligned with its IDRs for the same reason.

The deposit ratings of SFG-HT's savings banks are in line with their IDRs because each savings bank's junior and senior non-preferred debt buffers, when available, are insufficient to warrant a rating uplift. We do not expect the savings banks to build up significant buffers because SFG-HT is not regulated as a single resolution group. This means that in a highly unlikely scenario where the mutual support mechanism would fail to protect its members' viability, the preferred resolution strategy for each savings bank would be insolvency procedures.

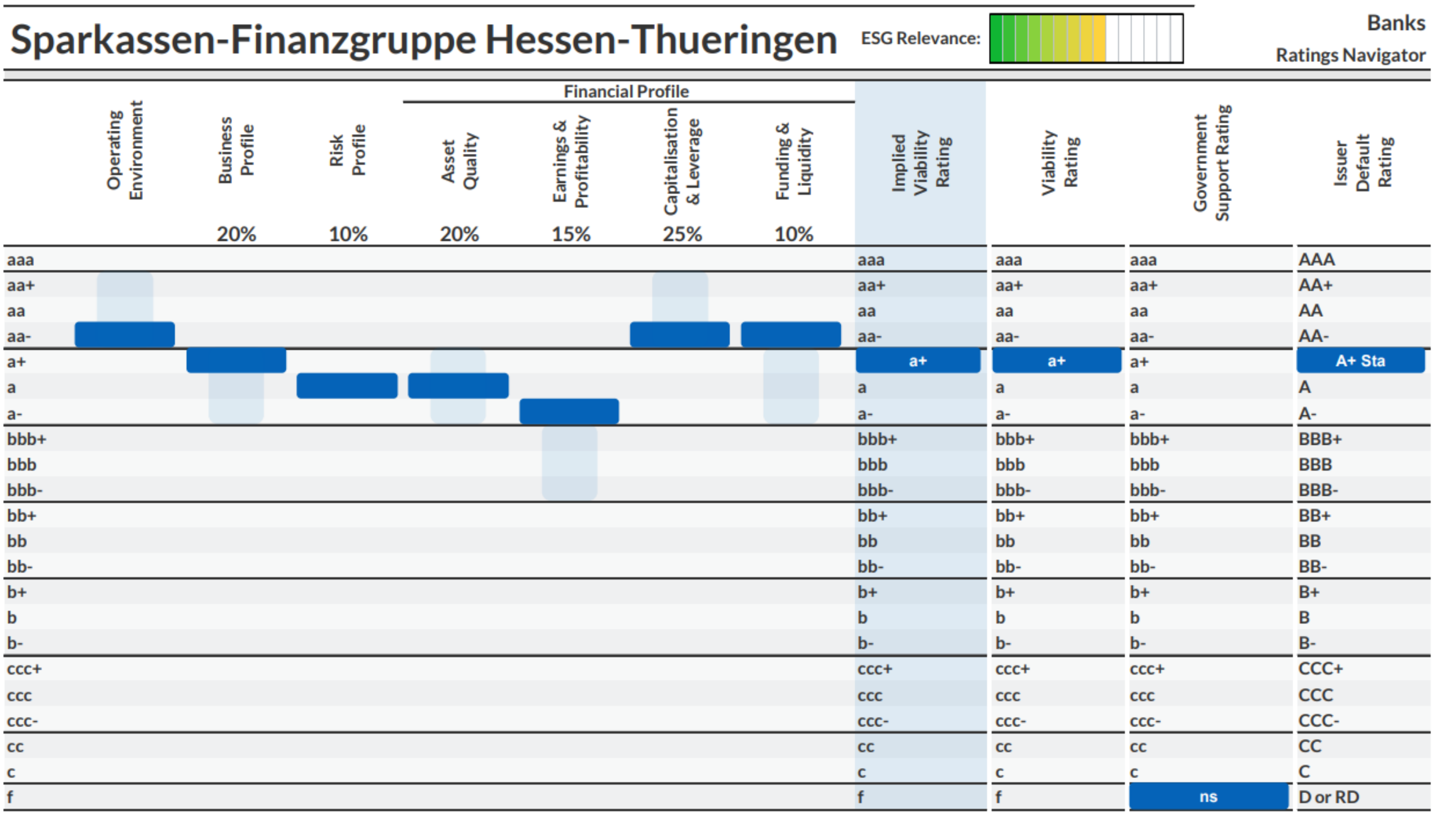
Helaba's State-Guaranteed Senior Unsecured and Subordinated Notes

The 'AAA' rating on Helaba's guaranteed senior unsecured and subordinated Tier 2 debt are based on Fitch's view of the State of Hesse and the Free State of Thuringia's extremely high ability and propensity to honour their grandfathered statutory guarantor's liability ("Gewaehrtraegerhaftung"). Fitch believes that the senior and subordinated instruments are similarly protected because the guarantee does not differentiate between seniorities. In our view, the regulatory and EU state aid frameworks do not constrain support for grandfathered debt.

Helaba's Non-Guaranteed Subordinated Debt

Helaba's subordinated Tier 2 notes that do not benefit from the state guarantee are notched down twice from SFG-HT's VR to reflect Fitch's baseline notching for loss-severity and the assumption that extraordinary support from SFG-HT would be forthcoming to support these junior instruments, if needed, even though junior instruments are not formally covered by the group's mutual support scheme.

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 earnings & profitability score of 'a-' has been assigned above the category implied score of 'bbb' due to the following adjustment reason: risk-weight calculation (positive).

The funding & liquidity score of 'aa-' has been assigned above the category implied score of 'a' due to the following adjustment reason: deposit structure (positive).

Company Summary and Key Qualitative Factors

Business Profile

Strong Regional Banking Group

SFG-HT is a group of regional German savings banks with a large branch network interlinked with Helaba as their central institution. It comprises 33 savings banks in Hesse and 16 in Thuringia (EUR156 billion total assets at end-2022) and Helaba (EUR212 billion, including a building society) as well as an insurer.

The savings banks are owned and controlled by their respective municipalities and operate within a local area delimited by law. This ensures the knowledge of their local environment and high client loyalty within their local communities. Helaba (SFG-HT's largest member by a wide margin) is the central institution and prime cooperation partner for the savings banks in Hesse and Thuringia, as well as those in North Rhine-Westphalia and Brandenburg, although the latter are not members of SFG-HT.

Business Model Aimed at Cooperation

SFG-HT's members are part of the German savings banks' (SFGs) nationwide network of interlinked regional mutual support schemes, which is designed as an institutional protection scheme and recognised as such by the regulators. In addition, SFG-HT has its own regional reserve fund to emphasise its members' solidarity. The fund's volume was EUR600 million at end-2022. We believe the fund's rather moderate size would not necessarily be sufficient to address a severe idiosyncratic crisis, most likely triggered by large losses at Helaba. However, in our view the fund, alongside SFG-HT's common business and risk strategy, risk monitoring and its publication of consolidated accounts, shows a higher cohesion than at SFG.

Risk Profile

Conservative Approach to Credit Risk

The savings banks' focus on granular and highly collateralised lending and their prudent underwriting standards underpin SFG-HT's conservative risk profile. SFG-HT operates a group-wide risk monitoring system, including intervention rights of the group's risk committee in case of non-compliance, supplementing the risk management process at the local level in each savings bank.

Asset-Liability Duration Mismatch Drives Significant Structural Interest-Rate Risk

SFG-HT's 2022 performance was negatively affected by temporary valuation losses from largely unhedged securities portfolios. Like Genossenschaftliche Finanzgruppe (AA-/Stable/F1+), a majority of savings banks have not hedged their securities portfolios against rising interest rates. According to SFG, the steepening of the euro interest rate curve resulted in temporary valuation losses in the nationwide savings banks' liquidity portfolios of EUR7.8 billion on aggregate in 2022, net of the effect of the release of undisclosed German GAAP reserves. Fitch estimates, given SFG-HT's size relative to the nationwide savings banks, that this effect could have resulted in around EUR1.3 billion temporary valuation losses for SFG-HT in 2022. Depending on how the interest rate curve evolves in the coming quarters, this could continue into 2023.

In the long term we believe virtually all valuation losses will gradually be reversed by the pull-to-par effect. This is because the savings banks' strong liquidity makes a fire sale of securities holdings highly unlikely, allowing for securities to be held to maturity. Moreover, we understand that only a negligible portion of bonds was bought above par. We also expect valuation losses triggered by widening of credit spreads, as well as actual losses driven by bond issuers' defaults, to be low, due to the predominantly very high quality of the bank's securities portfolios.

SFG-HT's 2022 IFRS accounts will reflect the lower market values of the group's securities holdings, including the temporary valuation losses mitigated by the release of undisclosed reserves. To limit the impact of their securities holdings' decreasing market values, the local banks could have reclassified some of their holdings from their liquidity portfolios to their investment portfolios during 2022. This is because the local banks only report under German GAAP, where only the liquidity portfolio (not the investment securities portfolios) must be marked to market. However, in SFG-HT's IFRS accounts, the lower market values of the banks' liquidity and investment portfolios are likely to have reduced the group's 2022 profits or other comprehensive income (OCI), respectively, and consequently SFG-HT's end-2022 capital.

Financial Profile

Asset Quality

Moderate Increase in Impaired Loans Likely

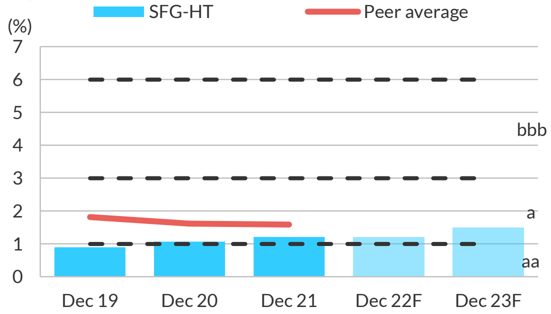
SFG-HT's asset quality has been resilient so far, despite the gradually worsening operating environment in Germany. Fitch estimates the impaired loans ratio remained stable at about 1.2% at end-2022, which is stronger than the German banking sector average. It continues to benefit from its focus on German retail customers, municipalities and real-estate lending, and Helaba's smaller corporate loan book than other Landesbanken.

However, given the economic downturn in Germany, we expect an increase in impaired loans of up to 50bp/gross loans over the next 24 months. We expect little pressure on retail mortgage loans, given their robust collateralisation and borrowers' good repayment behaviour.

The group's commercial real estate (CRE) business (EUR44 billion at end-2022) includes inherently high loan concentrations, which in our view is mitigated by adequate provisioning and strong collateralisation. However, higher interest rates together with structural changes in the market, some of which have been accelerated by the pandemic - including lower office demand due to flexible working arrangements and the shift to online shopping - could weigh on the quality of CRE assets in the longer term. In the short term, CRE financings vulnerable to refinancing risks due to the rising rate environment could also come under pressure and result in higher-than-expected inflows of new impaired loans.

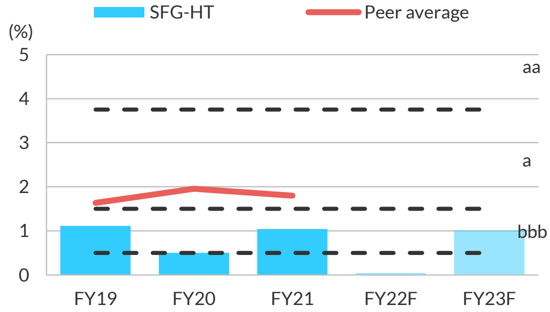
Helaba's corporate loan book (26% of total credit exposure at end-2022) is vulnerable to adverse economic developments due to the expected recession in Germany, as it is exposed to cyclical industries and sectors we consider more affected by high inflation (such as retail) and industries (energy and manufacturing) exposed to rising energy prices and supply issues.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions

Earnings and Profitability

Resilient Pre-Impairment Profits; Temporary Valuation Losses on Securities Portfolios

We expect SFG-HT to achieve an operating return on RWA of about 0.8% through the cycle, which we consider good when taking the group's high RWA density resulting from the savings banks' use of the standardised approach to assess their credit risks into consideration. In 2022 SFG-HT's operating profit/RWA is likely to have declined to close to 0%, from its 1.0% in 2021, due to temporary valuation losses.

We expect SFG-HT's 2022 pre-impairment profits to have slightly improved, supported by the resilient performance of Helaba and the savings banks. Helaba's pre-tax income increased by 11% (yoy), due to a good operating performance based on profitable new business and increasing fee income, despite rising interest rates causing lower valuation gains on fair-value instruments. Helaba continued to strengthen its stock of loan loss allowances. The reported loan impairment charges of EUR162 million were mainly driven by post-model adjustments (EUR137 million), referring to Stage 2 loans rather than actual defaults.

The savings banks reported slightly improving 2022 pre-impairment profit, based on their solid regional business model and new business, while significant temporary write-downs in the securities portfolios, which have not been specified and were driven by rising interest rates, weighed on the group's operating profit. New business remained strong in 2022, reflected in loan growth of 5.2% driven by all segments. While retail mortgage lending dominated new lending in recent years, 2022 SME lending likewise had a strong growth rate of 6.1%.

Structurally, SFG-HT's profitability will benefit from the higher interest rates as its net interest income (NII) is likely to reflect improving income resulting from its securities portfolios and higher-margin new business, as indicated in Fitch's forecast for the 2023-2024 operating return on RWAs. Pull-to-par effects will also gradually positively affect results over the coming years. However, bottom-line profits will partly be diluted by cost inflation and increasing LICs, due to the recessionary environment and high inflation in Germany.

Improvements in NII will also depend on new business volumes and consequently SFG-HT's ability to reprice its asset side, as a significant portion of lending is fixed rate, particularly mortgage loans. Fitch expects a prolonged re-pricing cycle as mortgage origination remains low in 2023. At the same time, we expect loan book growth to remain slightly positive, because the back book that will mature over the coming quarters was originated at times of low growth rates. SFG-HT's net interest margin remains sensitive to an unexpected substantial increase in retail deposit pricing, which could tighten its net interest income and drag on SFG-HT's overall profitability.

Capital and Leverage

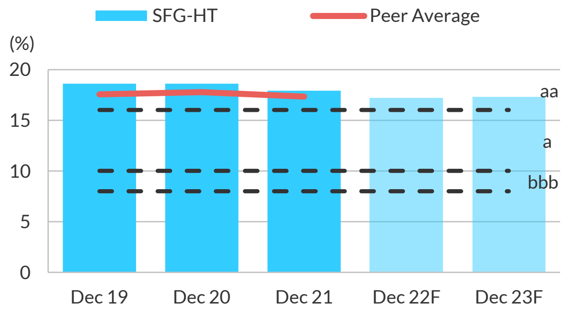
Stable Capitalisation

SFG-HT does not manage capital centrally and is not subject to group regulatory requirements or resolution planning. Each savings bank has its own regulatory requirement, which does not take the mutual support mechanism into account. Capitalisation varies by bank, but the group's risk monitoring function oversees their solvency levels.

We expect SFG-HT's consolidated IFRS CET1 ratio to remain close to 17% at end-2022, which remains well above most German and European peers despite the savings banks' conservative RWA calculation. The group's capital predominantly consists of retained earnings, thanks to the savings banks' high profit retention.

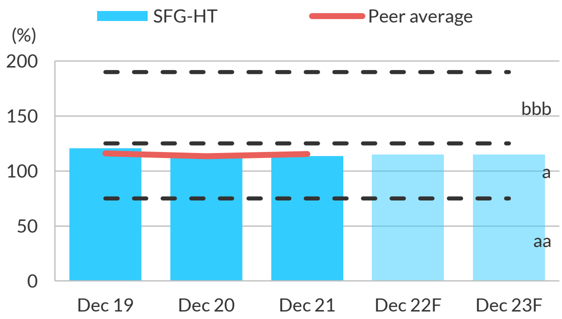
Helaba's CET1 ratio moderately declined to 13.5% at end-2022, due to an increase in its RWAs and OCI losses. This level still provides a comfortable buffer over regulatory requirements, but slightly dilutes SFG-HT's CET1 ratio. On a solo basis, the savings banks reported a CET1 ratio of 17.4% (end-2021: 17.2%) and total capital ratio of 18.5%.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions

Funding and Liquidity

Diversified Funding and Ample Liquidity

The group's deposit base benefits from stable granular deposits, driven by German households' still high savings rates and reluctance to invest in marketable securities. We expect SFG-HT to defend its leading and resilient regional deposit market share thanks to its strong brand recognition and client relationships. However, the current high inflation is likely to dent households' savings rates and, consequently, SFG-HT's deposit growth.

Helaba's large unsecured debt and covered bond funding inflates SFG-HT's loans-to-deposits ratio (on average about 115% over the past four years), but also diversifies the group's funding and provides established wholesale market access. Helaba, which funds its new lending with market funding of comparable duration, benefits from an established base of international investors. In addition, privileged access to the savings banks network enables Helaba to place issues with savings banks' retail clients or savings banks for their own security portfolios.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics under 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 Sparkassen-Finanzgruppe (Sparkassen) (VR: a+), Genossenschaftliche FinanzGruppe (aa-), Desjardins Group (aa-), Credit Agricole (a+), Groupe BPCE (a+), Credit Mutuel Alliance Federale (a+), Svenska Handelsbanken AB (aa). Latest average uses FY22 data for Desjardins Group, Credit Agricole, Groupe BPCE, Svenska Handelsbanken AB, and 1H22 data for Credit Mutuel Alliance Federale.

Financials

Financial Statements

	31 Dec 21		31 Dec 20	31 Dec 19	31 Dec 18
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
Summary income statement					
Net interest and dividend income	3,359	2,970	2,895	2,935	2,954
Net fees and commissions	1,453	1,285	1,177	1,114	1,029
Other operating income	918	812	294	782	229
Total operating income	5,731	5,067	4,366	4,831	4,212
Operating costs	3,727	3,295	3,339	3,302	3,258
Pre-impairment operating profit	2,004	1,772	1,027	1,529	954
Loan and other impairment charges	414	366	400	188	-4
Operating profit	1,590	1,406	627	1,341	958
Other non-operating items (net)	5	4	97	130	0
Tax	308	272	169	323	306
Net income	1,287	1,138	555	1,148	652
Summary balance sheet					
Assets					
Gross loans	215,444	190,490	187,006	183,935	162,203
- Of which impaired	2,601	2,300	2,000	1,653	1,900
Loan loss allowances	1,490	1,317	1,124	824	803
Net loans	213,955	189,173	185,882	183,111	161,400
Interbank	15,675	13,859	17,053	15,558	9,929
Derivatives	18,232	16,120	23,467	19,417	11,738
Other securities and earning assets	69,082	61,080	64,292	66,303	60,670
Total earning assets	316,942	280,232	290,694	284,389	243,737
Cash and due from banks	53,527	47,327	37,307	20,051	11,683
Other assets	5,005	4,425	4,232	4,525	3,356
Total assets	375,474	331,984	332,233	308,965	258,776
Liabilities					
Customer deposits	189,544	167,590	163,859	152,595	134,405
Interbank and other short-term funding	79,400	70,203	63,880	51,052	36,609
Other long-term funding	51,299	45,357	49,012	49,914	46,066
Trading liabilities and derivatives	22,433	19,835	26,342	26,959	14,956
Total funding and derivatives	342,676	302,985	303,093	280,520	232,036
Other liabilities	5,084	4,495	5,016	4,878	4,210
Preference shares and hybrid capital	28	25	543	591	543
Total equity	27,686	24,479	23,581	22,976	21,987
Total liabilities and equity	375,474	331,984	332,233	308,965	258,776
Exchange rate		USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057

Source: Fitch Ratings, Fitch Solutions, SFG-HT

Key Ratios

	31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.0	0.5	1.1	0.9
Net interest income/average earning assets	1.0	1.0	1.1	1.2
Non-interest expense/gross revenue	65.8	76.9	68.9	77.9
Net income/average equity	4.7	2.4	5.1	3.0
Asset quality				
Impaired loans ratio	1.2	1.1	0.9	1.2
Growth in gross loans	1.9	1.7	13.4	4.3
Loan loss allowances/impaired loans	57.3	56.2	49.9	42.3
Loan impairment charges/average gross loans	0.2	0.2	0.1	0.0
Capitalisation				
Common equity Tier 1 ratio	17.8	18.6	18.6	19.3
Total Capital Ratio	20.4	21.4	21.6	22.6
Tangible common equity/tangible assets	7.1	6.9	7.2	8.5
Funding and liquidity				
Gross loans/customer deposits	113.7	114.1	120.5	120.7
Liquidity coverage ratio	176.8	194.3	204.0	n.a.
Net stable funding ratio	120.1	n.a.	n.a.	n.a.
Customer deposits/total non-equity funding	58.3	58.1	58.2	60.4

Source: Fitch Ratings

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	A+ to A-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	**ns**
Government ability to support D-SIBs	
Sovereign Rating	AAA/ Stable
Size of banking system	Negative
Structure of banking system	Neutral
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Negative
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

The GSR of 'ns' reflects Fitch's view that senior creditors of the bank cannot rely on full extraordinary support from the sovereign if the bank becomes non-viable, due to the EU's Bank Recovery and Resolution Directive.

Environmental, Social and Governance Considerations

FitchRatings **Sparkassen-Finanzgruppe Hessen-Thueringen**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Sparkassen-Finanzgruppe Hessen-Thueringen has 5 ESG potential rating drivers

- Sparkassen-Finanzgruppe Hessen-Thueringen 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.

			Overall ESG Scale
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)

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	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 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 industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity'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 entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity'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 issuing entity'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 United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
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)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
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.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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