FitchRatings

**Banks**
Universal Commercial Banks
**Germany**

# Sparkassen-Finanzgruppe Hessen-Thueringen

## Ratings

**Foreign Currency**

| | |
|---|---|
| Long-Term IDR | A+ |
| Short-Term IDR | F1+ |
| Viability Rating | a+ |
| Government Support Rating | ns |

**Sovereign Risk**

| | |
|---|---|
| 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

Fitch Affirms Sparkassen-Finanzgruppe Hessen-Thueringen at ‘A+’; Outlook Stable (April 2024)

Global Economic Outlook (March 2024)

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## 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 improved profitability.

**Strong Mutual Support:** SFG-HT is not a legal entity but a network that comprises 48 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).

**Conservative Risk Profile:** SFG-HT’s risk profile has been sound, reflecting prudent underwriting standards, a high share of collateralised lending and a fairly standardised product offering. Interest-rate risk persists due to structural unhedged asset-liability mismatch but has moderated because the rise in interest rates stopped. SFG-HT’s large exposure to commercial real estate (CRE), mainly through Helaba, leaves it vulnerable to the current CRE downturn.

**Sound but Deteriorating Asset Quality:** SFG-HT’s asset quality deteriorated in 2023 due to pressure on Helaba’s CRE portfolio. We expect SFG-HT’s impaired-loans ratio to deteriorate further in 2024 as a result of the economic downturn and ongoing stress in the CRE market, but for it to remain below 3%. SFG-HT’s asset quality benefits from a high share of collateralised lending and a fairly standardised product offering, which is a mitigating factor.

**Sound, improved Profitability:** The group’s operating profit increased significantly to about 1.6% of risk-weighted assets (RWAs) due to higher net interest margins and valuation gains on securities after interest rate-induced valuation losses in 2022. Fitch Ratings expects profitability to decline in 2024 due to a repricing of the deposit base and heightened loan impairment charges.

**Strong Capitalisation:** SFG-HT’s capitalisation is a rating strength. Based on Fitch’s estimates, SFG-HT’s common equity Tier 1 (CET1) ratio increased to above 18% in 2023, thanks to higher net income and reduced RWAs at Helaba. We expect healthy internal capital generation to strengthen SFG-HT’s capital reserves and maintain its CET1 capital ratio above 16% in the medium term.

**Strong Funding and Liquidity:** The savings banks’ large and granular retail deposit base underpins the group’s strong funding and liquidity profile. The ‘F1+’ Short-Term IDR is the higher of two options mapping to the ‘A+’ Long-Term IDR and reflects the group’s ‘aa-’ score for funding and liquidity. Helaba diversifies the group’s funding profile by providing access to international unsecured and secured funding markets.

## Rating Sensitivities

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

We could downgrade the ratings if we expect the group's operating profit/RWAs ratio to durably fall below 0.7% 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 CRE exposure. The Short-Term IDRs are sensitive to changes in the Long-Term IDR and to a revision of the funding and liquidity score to below 'aa-'.

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

An upgrade would require a material improvement in SFG-HT's business profile, which Fitch does not currently expect. A materially stronger business profile would need to materialise from significantly higher earnings generation and better cost efficiency on a sustained basis, while having 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 | 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.

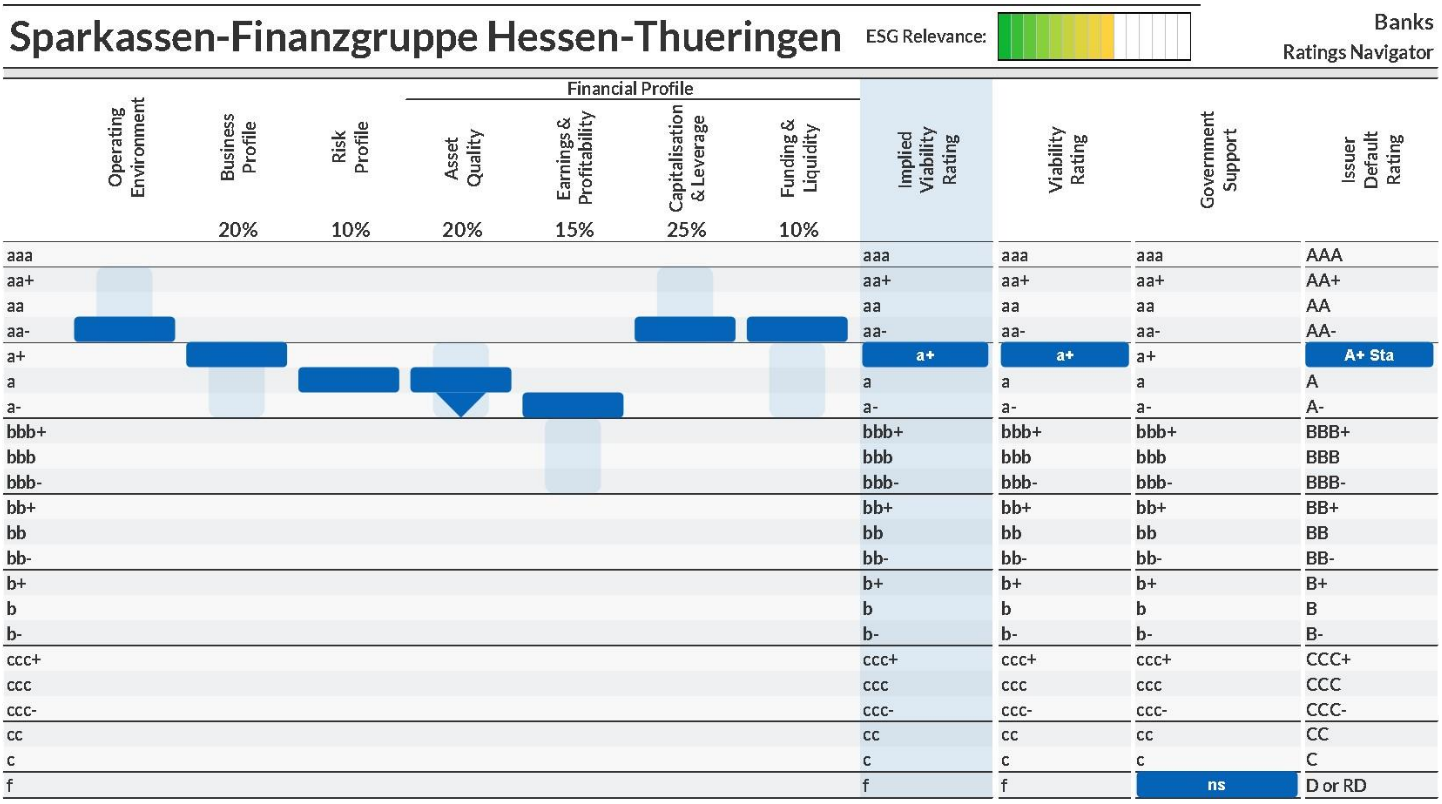
### Helaba's State-Guaranteed Senior Unsecured and Subordinated Notes

The 'AAA' ratings 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 ‘bbb’ implied category score due to the following adjustment reason: risk-weight calculation (positive).

The funding & liquidity score of ‘aa-’ has been assigned above the ‘a’ implied category score 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 32 savings banks in Hesse and 16 in Thuringia (EUR152 billion total assets at end-2023) and Helaba (EUR202 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 has a volume of EUR600 million. 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. Helaba's risk profile as a wholesale commercial bank reflects a higher level of concentration risk especially through its exposure to cyclical CRE.

#### *Asset-Liability Duration Mismatch Drives Structural 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 the absence of widespread use of interest-rate hedging. However, as the rise in interest rates came to a halt, added by some pull-to-par effect, banks recovered unrealised valuation losses in 2023 in their local securities portfolios.

In the long term we believe virtually all valuation losses from the interest-rate increase in 2022 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.

# Financial Profile

## Asset Quality

### *Increase in Impaired Loans*

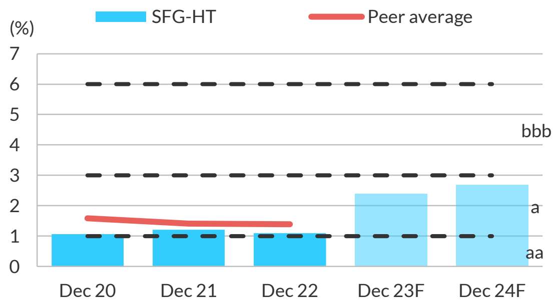
SFG-HT's asset quality weakened in 2023 amid a gradually worsening operating environment in Germany. Fitch estimates that SFG-HT's impaired-loans ratio has increased to about 2.4% at end-2023 (end 2022: 1.1%), which is a sharper increase than the German banking sector average. The inflow of new impaired loans came predominantly from Helaba's commercial real estate segment. However, SFG-HT continues to benefit from its focus on German retail customers, municipalities and mortgages, and Helaba's smaller corporate loan book than other Landesbanken.

Given the economic downturn in Germany and ongoing pressure on the CRE segment, we expect an increase in impaired loans for 2024. We expect little pressure on retail mortgage loans, given their robust collateralisation and borrowers' good repayment behaviour.

Helaba's CRE business (end-2023: EUR37 billion; 16% of Helaba group's total credit exposure) includes inherently high loan concentrations, which, in our view, is mitigated by adequate provisioning and strong collateralisation. Half of the CRE portfolio consists of office buildings in Europe and North America, the latter accounting for about 18% of the office portfolio. Retail properties account for 14% of CRE exposure, with the majority located in Germany. At end-2023, Helaba had EUR2.9 billion impaired loans in its CRE portfolio, against which it created EUR556 million precautionary provisions. In addition, EUR388 million post-model-adjustments mainly referred to risks from the CRE portfolio. Fitch expects Stage 3 inflows in the CRE development, office and retail properties portfolios to continue in 2024 as construction costs surged, valuations are adjusted downwards and loans come up for refinancing. While LICs are likely to be significantly above the historical average, they should not lead to outsized losses in the next two years, due to the portfolio's collateralisation (59% of CRE loans had a loan-to-value ratio below 60%, and 30% had a loan-to-value ratio between 60% and 75% at end-2023)

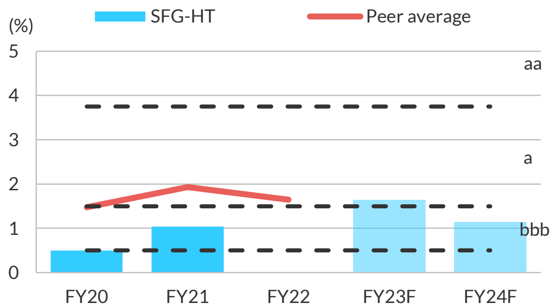
Helaba's corporate loan book (26% of total credit exposure at end-2023) is vulnerable to adverse economic developments due to the expected recession in Germany, as it is exposed to cyclical industries (such as retail) and industries (energy and manufacturing) that could be subject to high energy prices and supply issues.

**Impaired Loans/Gross Loans**




Source: Fitch Ratings, Fitch Solutions, banks

**Operating Profit/Risk-Weighted Assets**




Source: Fitch Ratings, Fitch Solutions, banks

## Earnings and Profitability

### *Improved Profitability Driven by Slow Deposit Reprising*

We expect SFG-HT to achieve an operating return on RWAs of over 1% through the cycle, which we consider good when taking the group's high RWA-density into account, resulting from the savings banks' use of the standardised approach to assess their credit risks into consideration. In 2023, SFG-HT's operating profit/RWAs ratio is likely to have increased to 1.6%, after being 0% in 2022.

SFG-HT's 2023 pre-impairment profit has significantly improved, supported by the higher net interest margins at Helaba and the savings banks. Helaba's pre-tax income increased by 14% (yoy), due to a 30% increase in net interest income (NII), despite higher LICs. The reported LICs of EUR448 million were mainly driven by loan-loss provisions for the commercial real estate portfolio.

The savings banks reported a high 2023 pre-impairment profit (excluding valuations) of EUR1.6 billion (2022: EUR1.1 billion), driven by their increased net interest margin, which benefitted from a slow repricing of their deposit base. In addition, savings banks benefitted from pull-to-par effects in their securities portfolio after valuation losses in 2022 due to the sharp increase in interest rates.

Structurally, SFG-HT's profitability will continue to benefit from the higher interest rates as its NII is likely to reflect the improving income resulting from its securities portfolios and higher-margin new business, as indicated in Fitch's forecast for the 2024 operating return on RWAs. Pull-to-par effects will continue to affect results positively over the coming years. However, operating profitability will be slightly diluted by cost inflation and increasing LICs, primarily due to the ongoing weakness in the CRE segment.

## Capital and Leverage

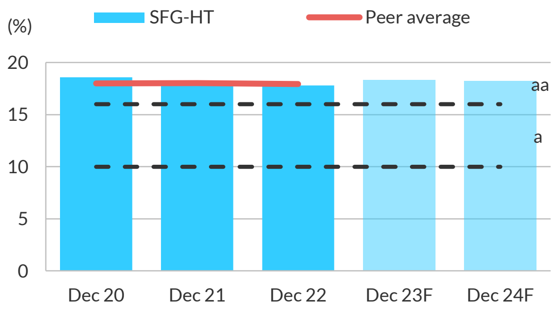
### *Stable Capitalisation*

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 each bank's solvency levels.

We expect SFG-HT's consolidated IFRS CET1 ratio to have increased to above 18% at end-2023, which is well above most German and European peers despite the savings banks' conservative RWA calculation. The group's capital predominantly consists of retained earnings due to the savings banks' high profit retention.

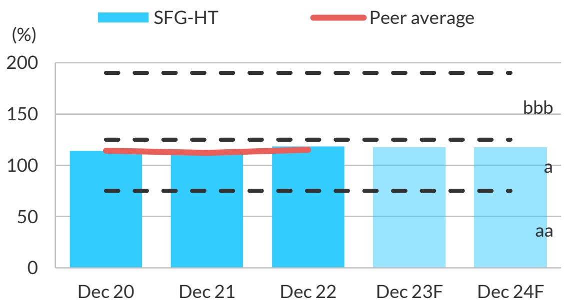
Helaba's CET1 ratio improved to 14.7% at end-2023 (end-2022: 13.5%), due to decreased RWAs and profit retention. This level still provides a comfortable buffer over regulatory requirements, but slightly dilutes SFG-HT's CET1 ratio.

**CET1 Ratio**




Source: Fitch Ratings, Fitch Solutions, banks

**Gross Loans/Customer Deposits**




Source: Fitch Ratings, Fitch Solutions, banks

## 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. Deposits have shifted a little from sight to term deposits in 2023, a trend we expect to continue.

Helaba's large unsecured debt and covered bond funding inflates SFG-HT's loans-to-deposits ratio (on average about 116% 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 differ materially 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), Raiffeisen Group (a+). Financial year (FY) end for all banks is 31 December unless otherwise stated.

## Financials

### Financial Statements

| | 31 Dec 22 | | 31 Dec 21 | 31 Dec 20 | 31 Dec 19 |
|---|---|---|---|---|---|
| | (USDm) | (EURm) | (EURm) | (EURm) | (EURm) |
| **Summary income statement** | | | | | |
| Net interest and dividend income | 3,622 | 3,396 | 2,970 | 2,895 | 2,935 |
| Net fees and commissions | 1,445 | 1,355 | 1,285 | 1,177 | 1,114 |
| Other operating income | -374 | -351 | 812 | 294 | 782 |
| Total operating income | 4,693 | 4,400 | 5,067 | 4,366 | 4,831 |
| Operating costs | 3,822 | 3,583 | 3,295 | 3,339 | 3,302 |
| Pre-impairment operating profit | 871 | 817 | 1,772 | 1,027 | 1,529 |
| Loan and other impairment charges | 869 | 815 | 366 | 400 | 188 |
| Operating profit | 2 | 2 | 1,406 | 627 | 1,341 |
| Other non-operating items (net) | 5 | 5 | 4 | 97 | 130 |
| Tax | 25 | 23 | 272 | 169 | 323 |
| Net income | -17 | -16 | 1,138 | 555 | 1,148 |
| | | | | | |
| **Summary balance sheet** | | | | | |
| **Assets** | | | | | |
| Gross loans | 213,882 | 200,527 | 190,490 | 187,006 | 183,935 |
| – Of which impaired | 2,347 | 2,200 | 2,300 | 2,000 | 1,653 |
| Loan loss allowances | 1,551 | 1,454 | 1,317 | 1,124 | 824 |
| Net loans | 212,331 | 199,073 | 189,173 | 185,882 | 183,111 |
| Interbank | 13,774 | 12,914 | 13,859 | 17,053 | 15,558 |
| Derivatives | 13,102 | 12,284 | 16,120 | 23,467 | 19,417 |
| Other securities and earning assets | 55,847 | 52,360 | 61,080 | 64,292 | 66,303 |
| Total earning assets | 295,054 | 276,631 | 280,232 | 290,694 | 284,389 |
| Cash and due from banks | 53,154 | 49,835 | 47,327 | 37,307 | 20,051 |
| Other assets | 5,350 | 5,016 | 4,425 | 4,232 | 4,525 |
| Total assets | 353,559 | 331,482 | 331,984 | 332,233 | 308,965 |
| | | | | | |
| **Liabilities** | | | | | |
| Customer deposits | 180,653 | 169,373 | 167,590 | 163,859 | 152,595 |
| Interbank and other short-term funding | 76,648 | 71,862 | 70,203 | 63,880 | 51,052 |
| Other long-term funding | 47,811 | 44,826 | 45,357 | 49,012 | 49,914 |
| Trading liabilities and derivatives | 18,143 | 17,010 | 19,835 | 26,342 | 26,959 |
| Total funding and derivatives | 323,255 | 303,071 | 302,985 | 303,093 | 280,520 |
| Other liabilities | 4,279 | 4,012 | 4,495 | 5,016 | 4,878 |
| Preference shares and hybrid capital | 27 | 25 | 25 | 543 | 591 |
| Total equity | 25,997 | 24,374 | 24,479 | 23,581 | 22,976 |
| Total liabilities and equity | 353,559 | 331,482 | 331,984 | 332,233 | 308,965 |
| Exchange rate | | USD1 = EUR0.937559 | USD1 = EUR0.884173 | USD1 = EUR0.821963 | USD1 = EUR0.89015 |

Source: Fitch Ratings, Fitch Solutions, SFG-HT

## Key Ratios

| | 31 Dec 22 | 31 Dec 21 | 31 Dec 20 | 31 Dec 19 |
|---|---|---|---|---|
| **Ratios (%; annualised as appropriate)** | | | | |
| | | | | |
| **Profitability** | | | | |
| Operating profit/risk-weighted assets | 0.0 | 1.0 | 0.5 | 1.1 |
| Net interest income/average earning assets | 1.2 | 1.0 | 1.0 | 1.1 |
| Non-interest expense/gross revenue | 81.9 | 65.8 | 76.9 | 68.9 |
| Net income/average equity | -0.1 | 4.7 | 2.4 | 5.1 |
| | | | | |
| **Asset quality** | | | | |
| Impaired loans ratio | 1.1 | 1.2 | 1.1 | 0.9 |
| Growth in gross loans | 5.3 | 1.9 | 1.7 | 13.4 |
| Loan loss allowances/impaired loans | 66.1 | 57.3 | 56.2 | 49.9 |
| Loan impairment charges/average gross loans | 0.2 | 0.2 | 0.2 | 0.1 |
| | | | | |
| **Capitalisation** | | | | |
| Common equity Tier 1 ratio | 17.8 | 17.8 | 18.6 | 18.6 |
| Tangible common equity/tangible assets | 6.9 | 7.1 | 6.9 | 7.2 |
| | | | | |
| **Funding and liquidity** | | | | |
| Gross loans/customer deposits | 118.4 | 113.7 | 114.1 | 120.5 |
| Liquidity coverage ratio | 197.2 | 176.8 | 194.3 | 204.0 |
| Customer deposits/total non-equity funding | 58.4 | 58.3 | 58.1 | 58.2 |

Source: Fitch Ratings, Fitch Solutions, SFG-HT

## 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. |

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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