FitchRatings

Banks
Universal Commercial Banks
Germany

Landesbank Baden-Wuerttemberg

Key Rating Drivers

Support Drives IDRs: Landesbank Baden-Wuerttenberg's (LBBW) Issuer Default Ratings (IDRs) and Shareholder Support Rating (SSR) are aligned with the IDRs of the German savings bank group, Sparkassen-Finanzgruppe (Sparkassen) (SFG, A+/Stable/F1+). This reflects Fitch Ratings' view of a very high probability of support from SFG if needed. We believe SFG's revised Institutional Protection Scheme (IPS), with clear rules for addressing weaknesses at member banks, including Landesbanken, has resulted in an increased propensity for SFG to provide timely support.

We believe support would also be available from its other owners, the state of Baden-Wuerttemberg (BW) and the City of Stuttgart, but LBBW's SSR does not factor in support from its public sector owners as it is based on the lowest of the owners' ratings. We use SFG's Long-Term IDR as the anchor rating as support would need to be forthcoming from both SFG and its public owners to avoid triggering state-aid considerations and resolution under the German Recovery and Resolution Act if LBBW fails. The Stable Outlook on LBBW's Long-Term IDR mirrors that on SFG.

Large German Corporate Bank: LBBW's Viability Rating (VR) reflects the bank's wholesale-driven business model with focus on corporate clients, with high sector concentrations and moderate earnings-generation capacity compared with international peers. This is balanced by its good asset quality, adequate capitalisation, and access to the savings banks' excess liquidity.

High Sector Concentrations: LBBW's strong regional corporate-banking franchise benefits from BW's large economy. However, this regional focus leads to concentrations on cyclical industries and, to some extent, on large borrowers, in particular in commercial real estate (CRE). Stiff competition in most of LBBW's business lines limits the bank's pricing power and weighs on its profitability.

Good Asset Quality: LBBW's impaired loans ratio deteriorated slightly in 2023 as a result of the economic downturn, rising rates and inflation. We expect loan impairment charges (LICs) and impaired loans to rise in 2024 from their previously exceptionally low levels, but for the four-year average gross impaired loans ratio to remain below 2% in the medium term. Large buffers of precautionary loan loss allowances should absorb a large portion of LICs.

Moderate Profitability: We expect LBBW's operating profits/risk-weighted assets (RWAs) ratio to have peaked in 2023 and to decline slightly in 2024 due to tighter net interest margins, in line with further expected policy rate cuts in the eurozone, slightly rising LICs and cost inflation. We believe LBBW's revenue will gradually improve in the medium term as the bank executes its growth strategy, compensating for regulatory RWAs inflation. We expect the bank's four-year average operating profit to remain above 1.0% of RWAs.

Adequate Capitalisation: LBBW's common equity Tier 1 (CET1) ratio increased to 14.9% at end-2023, due to profit retention as well as a decline in RWAs. We view this level as adequate, but not strong, for the bank's business model, which exposes LBBW to potential cyclical performance swings. Profit retention will be key in offsetting higher RWAs from the execution of the bank's growth strategy and the phasing-in of final Basel III rules.

Sound Funding and Liquidity: LBBW is primarily wholesale funded, which is reflected in a moderately higher loans/deposits ratio than commercial bank peers. However, the bank benefits from moderate capital market funding requirements, due to the bank's reliable placement capacity within the savings bank sector. Its liquidity position is sound, underpinned by a large portfolio of cash and liquid securities.

Ratings

Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1+
Derivative Counterparty Rating	AA-(dcr)
Viability Rating	bbb+
Shareholder Support Rating	a+
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

Fitch Upgrades LBBW's IDR to 'A+'/Stable; Affirms VR at 'bbb+' (July 2024)

Fitch Affirms Sparkassen-Finanzgruppe at 'A+'; Outlook Stable (April 2024)

Global Economic Outlook (June 2024)

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Rating Sensitivities

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

A downgrade of SFG's IDRs would likely lead to a downgrade of LBBW's IDRs and SSR.

LBBW's VR would likely be downgraded if we expect the bank's impaired loans ratio to rise to and remain above 3%, or if the CET1 ratio falls durably below 13%.

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

An upgrade of SFG's IDRs would likely lead to an upgrade of LBBW's IDRs.

An upgrade of the bank's VR would require a stronger franchise with a more diversified revenue base and significantly lower sector and single-name concentrations. An upgrade would also be contingent on a structural improvement of LBBW's profitability, with average operating profit above 2% of RWAs, without material increase in risk appetite.

Other Debt and Issuer Ratings

Rating Level	Rating
Deposits and senior preferred debt	AA-/F1+
Senior non-preferred debt	A+
Guaranteed senior and subordinated debt	AAA
Subordinated debt	A-

Source: Fitch Ratings

LBBW's Short-Term IDR is the higher of two ratings mapping to its Long-Term IDR, and is equalised with SFG's Short-Term IDR to reflect our view that propensity to support is more certain in the short term.

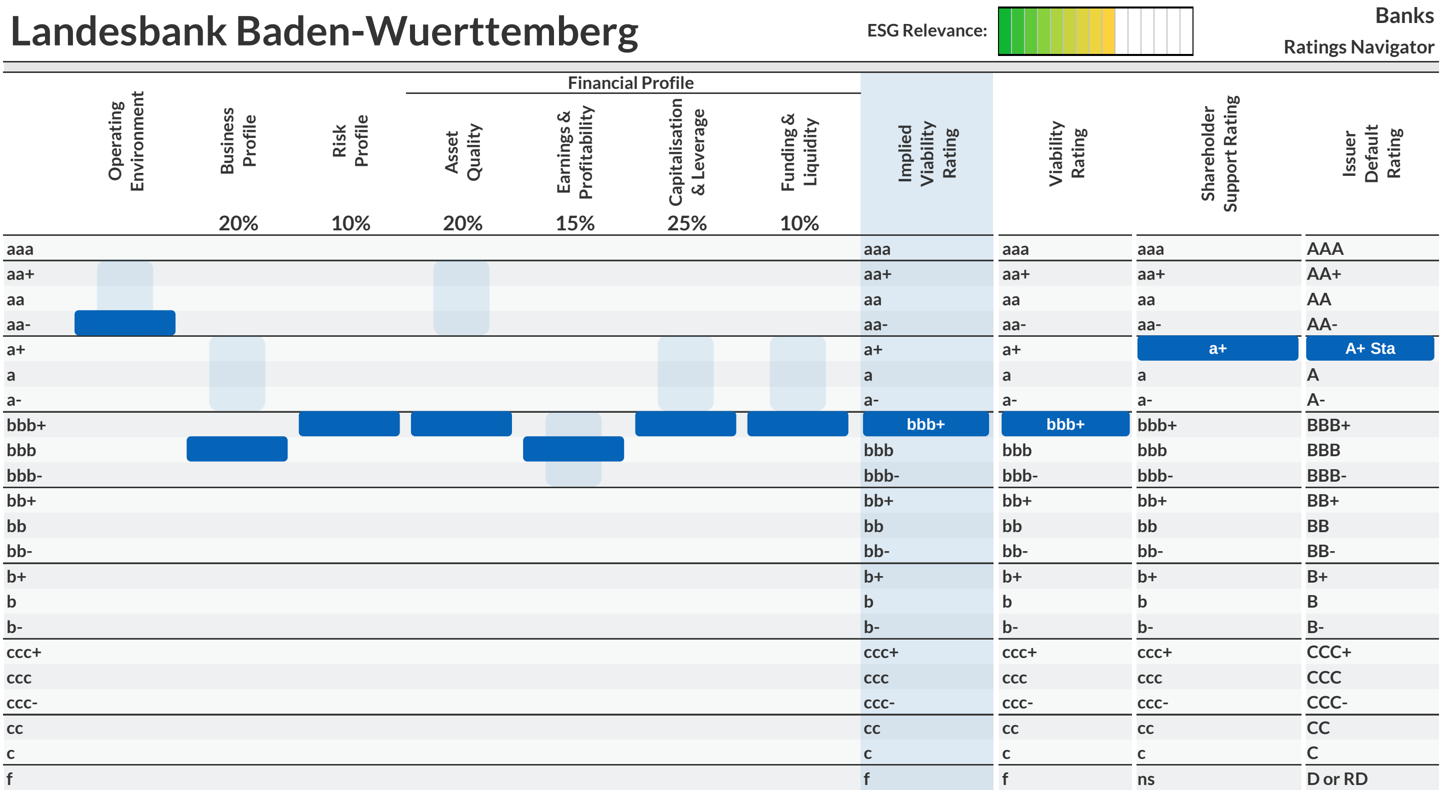
LBBW's Derivative Counterparty Rating (DCR), long-term deposit rating and senior preferred debt ratings are one notch above its Long-Term IDR. This reflects the protection of preferred creditors arising from the bank's large resolution buffers, including senior non-preferred and more junior debt. For the same reason, the senior non-preferred debt rating is in line with the bank's Long-Term IDR.

LBBW's short-term deposit and senior preferred debt ratings are the only short-term ratings mapping to the long-term deposit and senior preferred ratings, respectively.

The 'AAA' ratings of LBBW's grandfathered state-guaranteed senior unsecured and Tier 2 subordinated notes reflect our view of the creditworthiness of the state of Baden-Wuerttemberg, which is closely linked to that of Germany (AAA/Stable), and our expectation that Baden-Wuerttemberg will honour its guarantee.

The rating of LBBW's non-guaranteed Tier 2 subordinated debt is notched down twice from LBBW's Long-Term IDR to reflect poor recoveries in case of non-performance. Fitch uses LBBW's Long-Term IDR rather than its VR as the anchor rating because we expect shareholder support from SFG to be extended to the bank's Tier 2 instruments under the revised statutes, which we believe has reduced the likelihood of regulatory resolution measures at LBBW.

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 business profile score of 'bbb' has been assigned below the 'a' implied category score, due to the following adjustment reason: business model (negative).

The asset quality score of 'bbb+' has been assigned below the 'aa' implied category score, due to the following adjustment reason: concentrations (negative).

The capitalisation and leverage score of 'bbb+' has been assigned below the 'a' implied category score, due to the following adjustment reason: internal capital generation and growth (negative).

The funding and liquidity score of 'bbb+' has been assigned below the 'a' implied category score, due to the following adjustment reason: deposit structure (negative).

Business Profile

LBBW is a public-sector-owned wholesale bank that focuses on corporate and asset-based finance in addition to its statutory roles as the core bank for Baden-Wuerttemberg's public sector and central institution for the savings banks in Baden-Wuerttemberg, Rhineland-Palatinate and Saxony. The size and profit contribution of its retail activities, which are primarily concentrated in Stuttgart and Baden-Wuerttemberg, are small compared to those of universal banks of a similar size, although their profit contribution has increased. LBBW has also expanded its asset and wealth management in recent years as part of its nationwide growth strategy.

LBBW's strong regional corporate banking franchise benefits from Baden Wuerttemberg's large economy, which is similar in size to Belgium's. However, this regional focus leads to large concentrations in cyclical industries and, to some extent, on large borrowers, in particular in the commercial real estate, automotive, consumer and industrial goods sectors. LBBW's nationwide franchise is weaker. Strong competition in German corporate business limits LBBW's pricing power. Its modest international franchise is largely concentrated in western Europe, but the bank supports its corporate clients globally in key international financial centres. We view the gradual reduction of LBBW's exposure to combustion engine-focused automotive suppliers, and its expansion into sectors where it had previously been less active – such as pharmaceuticals or healthcare, technology, media and telecommunication (TMT), electronics and utilities – as credit positive as this increases diversification.

The bank's client-driven capital markets business is complementary to its corporate business, and is a sizeable – but volatile – revenue source. LBBW's acquisition of certain activities from other Landesbanken over the past two years have strengthened its role as the main centre of competence and infrastructure provider for market activities within SFG. LBBW plans to increase and diversify its revenue by gaining market shares in debt capital markets and corporate finance, while leveraging on its know-how to service asset and wealth management customers. In particular, it expects to benefit from its strengthened positioning as a bank for sustainable credit and investments. However, this could be challenged by the competition in these segments from domestic and foreign peers.

Since taking over the specialist CRE bank Berlin Hyp AG (Berlin Hyp; A+/Stable/F1+) from SFG in 2022, LBBW became Germany's largest CRE lender. According to LBBW, Berlin Hyp will continue to operate as an independent subsidiary, but we expect integration and synergies to increase. LBBW also benefits from Berlin Hyp's presence in France and the Benelux countries, which complements LBBW's foreign businesses in the UK and North America, and from Berlin Hyp's close cooperation with savings banks nationwide.

Risk Profile

LBBW's underwriting standards, risk monitoring and reporting are in line with domestic industry practice. Market risk is driven by interest rate and credit spread risk, while foreign exchange, commodity and equity risks are not material.

Like most German peers, LBBW has an open interest rates position. The impact of rising interest rates is negative on net interest income (EUR864 million in the 200bp parallel-up scenario, with a one-year horizon and constant balance).

LBBW also books the large majority of its bonds portfolio at fair value through other comprehensive income, with adequate interest rate hedging. Unrealised gains in the bank's bonds portfolio at end-2023 were not material.

Financial Profile

Asset Quality

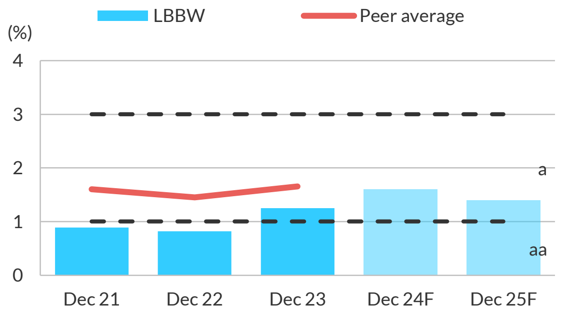
LBBW's impaired loans ratio increased to 1.3% at end-2023, but remains one of the lowest in Germany. The increase was mainly driven by the bank's CRE segment among the challenging market conditions in 2023. Pressure on asset quality could arise from LBBW's exposure to cyclical industries, which are also sensitive to global supply chain disruptions, input price shocks and structural changes, particularly in its large CRE portfolio. We expect impaired loans to increase further in 2024 and then to start declining in 2025 among improved economic conditions, with the impaired loan ratio below 2% at a level that we consider to be manageable for the bank.

Impaired loans are almost fully covered by loan loss allowances, which LBBW supplemented with post-model adjustments; in addition, high quality collateral mitigates downside risks. The bank's total Stage 2 gross exposure ratio was about 11% at end-2023; however, we believe this does not indicate heightened risk but a conservative loan classification, as almost half of the exposure classified as Stage 2 was internally rated investment-grade.

We view LBBW's EUR71 billion CRE exposure (5x CET1), in particular office and retail properties (38% and 11% of the CRE portfolio at end-2023, respectively), as particularly vulnerable to refinancing and revaluation risk, due to continued challenging conditions in these CRE segments. At end-2023, 70% of the portfolio had a loan-to-value ratio of below 60%, although we expect that this is partly driven by property revaluations lagging behind price declines. The CRE Stage 3 exposure ratio remains low (end-2023: 1%), but has increased (end-2022: 0.3%). We believe there is still some headroom against asset quality deterioration, which will be partially absorbed by LBBW's precautionary provisions (Stage 1 and Stage 2 loan loss allowances accounted for 68bp of LBBW's gross loans at end-2023).

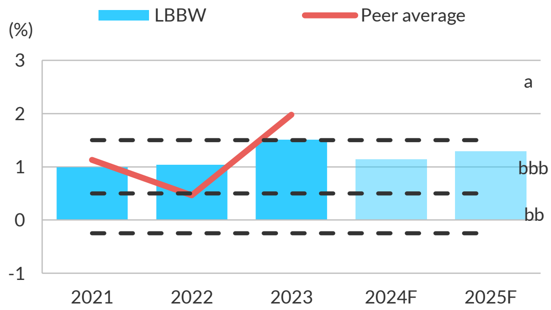
Fitch also expects impaired loans to increase in the bank's corporate portfolio due to the weaker economy in 2024. LBBW's large corporate loan book is reasonably diversified by sector. However, the bank's exposure to cyclical industries, in particular automotive, CRE and industrial goods, is higher than that of its peers.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

LBBW posted a high pre-tax profit of almost EUR1.4 billion in 2023, in line with the performance of German peers. Operating income increased by 20%, due to higher interest income as well as good business growth – in particular in the corporate customers and private customers or savings banks segments. The increase in operating expenses, mainly due to the first-time inclusion of Berlin Hyp for the whole year, was more than offset by the increase in revenue.

LICs increased slightly in 2023, mainly driven by further precautionary post-model adjustments for the real estate and project finance segment (EUR97 million out of EUR107 million additional model adjustments). We expect LICs to rise slightly further in 2024 due to continued risks in the CRE market, but that they will remain manageable for the bank.

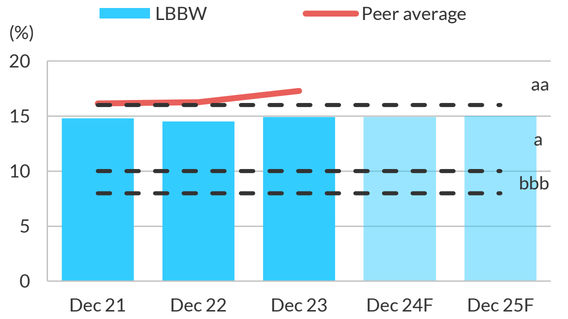
LBBW's cost/income ratio (CIR) of 59.6% in 2023 is reasonable for LBBW's wholesale business model. However, maintaining this CIR sustainably over the coming years, in particular as interest rates fall again, will also depend on the bank's ability to contain further cost inflation.

Capitalisation and Leverage

LBBW's fully loaded CET1 ratio (end-2023: 14.6%) has sufficient buffers over the regulatory requirement (10.56%) to absorb potential cyclical performance swings. We expect LBBW to manage its CET1 ratio above 14% in the coming two years. LBBW's fully-loaded total capital ratio of 20.1% benefits from the large Tier 2 debt buffer. We expect this buffer to decline gradually as we believe the bank will replace maturing Tier 2 with senior non-preferred debt. LBBW's fully-loaded Basel leverage ratio (end-2023: 4.6%) is adequate and on the same level as in the previous year.

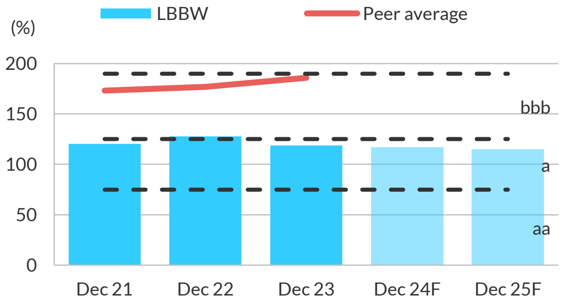
We expect profit retention will improve in the medium term along with earnings, assuming LBBW will continue to distribute EUR200 million–EUR300 million a year. Stronger profit retention will be key to offsetting higher RWAs from the execution of the bank's growth strategy and the phasing-in of the Basel output floor, starting in 2025.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

LBBW's reliance on wholesale deposits and market funding is mitigated by its membership in SFG's institutional support scheme. This ensures a nationwide privileged access to the savings banks' excess liquidity. At the same time, about half of LBBW's deposits from banks are pass-through funding from development banks. LBBW also has a well-established capital markets franchise across a diversified range of products. The bank significantly exceeds its minimum requirement for own funds and eligible liabilities of 25.58% of RWAs owing to its large stock of legacy senior non-preferred debt. As legacy senior non-preferred debt matures, we expect the resolution buffers to decline gradually, but to remain comfortably above required levels.

LBBW's mortgage and public covered pools (about EUR32 billion at end-2023) also ensure a source of stable funding and liquidity if market conditions worsen. The bank also issues green bonds and social bonds.

LBBW's cash and liquidity portfolios stood at EUR75.6 billion at end-2023, providing substantial headroom to withstand outflows. The liquidity coverage ratio increased to 150.5% at end-2023 (end-2022: 144%).

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 boundaries for 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 Norddeutsche Landesbank Girozentrale (VR: bb+), Bayerische Landesbank (bbb+), Landesbank Saar (bbb-), IKB Deutsche Industriebank AG (bbb-), NIBC Bank N.V. (bbb+), UniCredit Bank GmbH (bbb+). Unless otherwise stated, financial year (FY) end is 31 December for all banks in this report.

Financials

Financial Statements

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
Summary income statement					
Net interest and dividend income	3,096	2,826	2,305	2,031	1,771
Net fees and commissions	645	589	628	598	538
Other operating income	679	620	446	372	381
Total operating income	4,421	4,035	3,379	3,001	2,690
Operating costs	2,626	2,397	2,169	1,928	1,861
Pre-impairment operating profit	1,795	1,638	1,210	1,073	829
Loan and other impairment charges	278	254	239	240	545
Operating profit	1,516	1,384	971	833	284
Other non-operating items (net)	-11	-10	902	-16	-32
Tax	414	378	363	399	80
Net income	1,091	996	1,510	418	172
Other comprehensive income	-104	-95	-6	180	-7
Summary balance sheet					
Assets					
Gross loans	159,653	145,722	140,965	112,644	104,481
– Of which impaired	2,001	1,826	1,156	1,002	935
Loan loss allowances	1,798	1,641	1,364	1,288	1,077
Net loans	157,855	144,081	139,601	111,356	103,404
Interbank	78,922	72,035	74,397	39,640	58,274
Derivatives	18,660	17,032	19,562	19,073	25,369
Other securities and earning assets	88,034	80,352	73,704	70,678	70,678
Total earning assets	343,471	313,500	307,264	240,747	257,725
Cash and due from banks	13,176	12,026	10,569	36,871	13,650
Other assets	8,523	7,779	6,341	4,726	5,074
Total assets	365,169	333,305	324,174	282,344	276,449
Liabilities					
Customer deposits	134,300	122,581	110,416	93,646	92,101
Interbank and other short-term funding	80,912	73,852	85,094	89,569	79,346
Other long-term funding	103,052	94,060	81,312	56,110	55,737
Trading liabilities and derivatives	23,095	21,080	26,188	23,533	29,508
Total funding and derivatives	341,359	311,573	303,010	262,858	256,692
Other liabilities	5,228	4,772	4,831	4,378	4,815
Preference shares and hybrid capital	1,795	1,638	1,636	1,656	1,695
Total equity	16,787	15,322	14,697	13,452	13,247
Total liabilities and equity	365,169	333,305	324,174	282,344	276,449
Exchange rate		USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Source: Fitch Ratings, Fitch Solutions, LBBW

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.5	1.0	1.0	0.4
Net interest income/average earning assets	0.9	0.9	0.8	0.7
Non-interest expense/gross revenue	59.5	64.7	65.1	69.3
Net income/average equity	6.7	10.9	3.1	1.3
Asset quality				
Impaired loans ratio	1.3	0.8	0.9	0.9
Growth in gross loans	3.4	25.1	7.8	1.7
Loan loss allowances/impaired loans	89.9	118.0	128.5	115.2
Loan impairment charges/average gross loans	0.2	0.2	0.2	0.5
Capitalisation				
Common equity Tier 1 ratio	14.9	14.5	14.8	15.1
Fully loaded common equity Tier 1 ratio	14.6	14.1	14.6	14.8
Tangible common equity/tangible assets	4.5	4.4	4.7	4.7
Basel leverage ratio	4.6	4.6	5.1	4.7
Net impaired loans/common equity Tier 1	1.4	-1.5	-2.3	-1.1
Funding and liquidity				
Gross loans/customer deposits	118.9	127.7	120.3	113.4
Gross loans/customer deposits + covered bonds	91.8	99.5	105.0	96.9
Liquidity coverage ratio	150.5	144.2	141.1	135.4
Customer deposits/total non-equity funding	40.9	38.6	37.7	39.1
Net stable funding ratio	109.7	111.3	108.5	–

Source: Fitch Ratings, Fitch Solutions, LBBW

Support Assessment

Shareholder Support	
Shareholder IDR	A+
Total Adjustments (notches)	0
Shareholder Support Rating	a+
Shareholder ability to support	
Shareholder Rating	A+/ Stable
Shareholder regulation	Equalised
Relative size	1 Notch
Country risks	Equalised
Shareholder propensity to support	
Role in group	1 Notch
Reputational risk	Equalised
Integration	2+ Notches
Support record	Equalised
Subsidiary performance and prospects	1 Notch
Legal commitments	Equalised

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

Very High Probability of Support from SFG

LBBW's SSR reflects our view of very high support propensity and ability from its owners.

Fitch uses SFG's Long-Term IDR as the anchor rating for determining LBBW's support-driven ratings, the lower of the two owners' ratings. This is because Fitch believes support would need to be forthcoming from both SFG and BW to avoid triggering state-aid considerations and resolution under the German Recovery and Resolution Act if LBBW fails. Fitch believes that BW would participate in any support measures for the bank, but LBBW's SSR does not factor in support from the federal state.

Fitch's assumptions on support from SFG are underpinned by the provisions contained in the statutes of the IPS of SFG and the Landesbanken. In 2021, SFG initiated a reform of its IPS, which came into force in January 2024. In Fitch's view, the amendments to the statutes of the IPS have substantially strengthened its governance, risk monitoring capabilities and available funds.

Fitch believes that the reformed IPS, underpinned by a dedicated rulebook, now defines the responsibilities and timelines in a potential support scenario clearer. Decision making within the IPS is streamlined and more efficient and the role and powers of the IPS's central body have been strengthened under the revised statutes. The central body decides over recovery and support measures, including the raising of the required funds from the its members, with a simple majority within two weeks of the receipt of the request for intervention. We therefore believe that the IPS would provide support to a member in need in a timelier manner than before.

The risk-monitoring system was strengthened with quantitative triggers, allowing for an early identification of member with a deteriorating financial profile and enabling early intervention measures. This is also supported by a newly created internal audit unit within the IPS. In our view, this should result in timely interventions and avoid a protracted decision-making process that can result in late support measures.

The creation of an additional support fund as part of the reform, which we estimate will reach EUR5 billion–EUR6 billion by 2033, also improves the IPS's ability to support a larger number of members that may require capital support at the same time. This is in addition to SFG's sound pre-impairment operating profitability and strong capitalisation, which already provide it with sufficient financial flexibility to support the Landesbanken.

Fitch's support assumptions are also underpinned by LBBW's focus on its statutory roles, which include supporting the regional economy, as well as acting as the central institution for regional savings banks and as house bank for its federal state owners.

Environmental, Social and Governance Considerations

FitchRatings **Landesbank Baden-Wuerttemberg** — Banks Ratings Navigator

Credit-Relevant ESG Derivation

Landesbank Baden-Wuerttemberg has 5 ESG potential rating drivers

- Landesbank Baden-Wuerttemberg 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

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.

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

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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