FitchRatings

Banks
Retail & Consumer Banks
Denmark

Nykredit Realkredit A/S

Key Rating Drivers

Strong Credit Profile: Nykredit Realkredit A/S's ratings reflect its low-risk profile, shown by its healthy and resilient through-the-cycle asset quality and robust capitalisation. They also reflect its leading mortgage lending franchise in Denmark, moderate profitability dependent predominantly on net interest income, and very high wholesale funding reliance.

Leading Franchise: Nykredit is a leading Danish mortgage lender with a high and stable market share of 45%. The group provides a full range of services that supplement its core mortgage products, including banking products (8% market share in lending) through Nykredit Bank A/S, which has a deposit licence.

Low Risk Profile: The bank's underwriting standards are prudent; its risk controls are robust and its market risk exposure is low. Credit risk exposure is dominated by mortgage lending with tight origination standards underpinned by conservative Danish covered bond and mortgage lending legislation. Its loan book is geographically concentrated in Denmark and strongly linked to the performance of the Danish economy and real estate market.

Resilient Asset Quality: Nykredit's asset quality is a rating strength, underpinned by low arrears and defaults, prudent collateralisation and underwriting standards, contained growth and low levels of loan impairment charges (LICs) through the cycle. At end-June 2023, the bank's large buffer of allowances – on top of what was already accounted for by its internal model – mainly related to geopolitical risks and agriculture, would have been sufficient to absorb credit losses of 14bp of loans.

We expect impaired loans to moderately increase due to the current economic downturn, and the impaired loans ratio to reach 1.3% by end-2023 and 1.5% by end-2024 (end-1H23: 1.2%).

Moderate Profitability: The bank's results benefit from healthy and recurring revenue, tight cost control and historically contained LICs. We expect operating profit to increase to almost 3% of risk-weighted assets (RWAs) in 2023 and 2024, reflecting higher net interest income from Nykredit Bank and the debt securities portfolio, which will offset most of the negative impact from rising LICs and RWA inflation.

Robust Capitalisation: Nykredit's capitalisation is underpinned by its low-risk business model, limited exposure to high-risk assets, and a solid capital surplus over regulatory minimums. We also consider Nykredit's high product concentration and potential ordinary support from its majority shareholder, Forenet Kredit. The bank has sufficient cushion to absorb losses and RWA inflation from likely rating migrations due to the economic downturn. Its regulatory leverage ratio of about 5% is acceptable and comparable to that of similarly rated banks.

Low Refinancing Risk: Nykredit relies extensively on wholesale funding as mortgage lending is by law entirely funded by covered bonds in Denmark. We believe the risk of Nykredit not being able to access the covered bond market is low due to strong demand for these bonds from Danish financial institutions, insurance companies and pension funds. Refinancing risk is mitigated by the bank's low share of short-term debt maturities and significant liquidity.

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Viability Rating	a
Government Support Rating	ns
Sovereign Risk (Denmark)	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (September 2023)

Related Research

Global Economic Outlook (September 2023)

Fitch Affirms Denmark at 'AAA'; Outlook Stable (May 2023)

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Rating Sensitivities

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

Fitch believes the bank's financial profile is likely to remain resilient against the current economic slowdown, with limited asset-quality deterioration and manageable LICs. We would downgrade Nykredit's ratings if we expect its impaired loans ratio to increase durably above 2.5% and its common equity Tier (CET1) capital ratio to durably shrink below 14%. This could be due to a more severe and prolonged economic downturn than we expect.

Negative pressure on the ratings would also arise from an adverse change in investor sentiment materially affecting Nykredit's ability to access competitively priced funding or from weaker liquidity management. Increased reliance on international debt investors who may prove less stable during financial stress, or increasing risk appetite – particularly at Nykredit Bank – would also put negative pressure on the ratings.

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

An upgrade of Nykredit's ratings would be contingent on a strengthened earnings contribution by Nykredit Bank that is sustainable and translates into materially stronger earnings capacity for the group.

Other Debt and Issuer Ratings

Rating level	Rating
Long- and short-term senior preferred debt	A+/F1
Senior non-preferred debt	A
Subordinated debt and Tier 2 capital notes	BBB+
Additional Tier 1 notes	BBB-

Source: Fitch Ratings

Short-Term IDR

Nykredit's Short-Term IDR of 'F1' is the lower of two options mapping to a Long-Term IDR of 'A'. This reflects our assessment of the bank's funding and liquidity factor at 'a', compared with the minimum level of 'aa-' for a Short-Term IDR of 'F1+'.

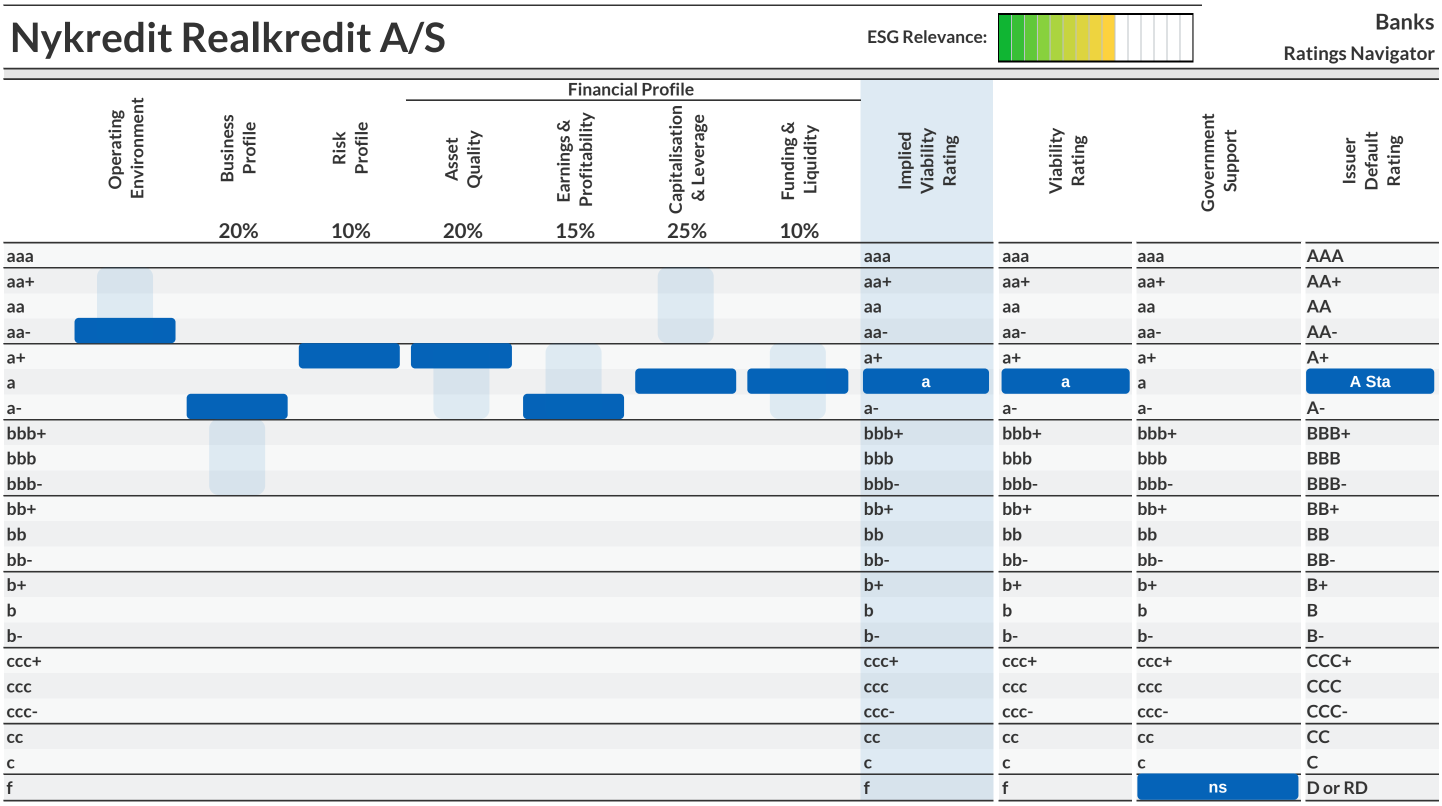
Derivative Counterparty Rating, Deposits and Senior Debt

Nykredit's long-term senior preferred debt rating of 'A+' is one notch above its Long-Term IDR. This reflects the protection that accrues to senior preferred creditors from the bank's junior bank resolution debt and equity buffers. The short-term senior preferred debt rating of 'F1' is the only option mapping to the bank's respective long-term ratings.

We expect Nykredit's resolution debt buffer to remain comfortably above 10% of RWAs in the long term, and at end-June 2023, the buffer was 13% of RWAs. For the same reason, Nykredit's long-term senior non-preferred debt is equalised with the Long-Term IDR, reflecting Fitch's view that the default risk of the notes is equivalent to that of the IDR and their average recovery prospects.

Nykredit's Tier 2 subordinated debt and additional Tier 1 (AT1) securities are notched down from its VR. We rate the Tier 2 debt two notches below the VR to reflect the poor recovery prospects of this type of debt. The AT1 securities are four notches below the VR to reflect the poor recovery prospects of these securities (two notches) as well as their high risk of non-performance (two notches). Our assessment is based on the bank operating with a CET1 ratio that is comfortably above maximum distributable amounts thresholds and our expectation that this will continue.

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 'a-' is above the 'bbb' category implied score due to the following adjustment reason: market position (positive).

The capitalisation and leverage score of 'a' is below the 'aa' category implied score due to the following adjustment reasons: risk profile and business model (negative).

Company Summary and Key Qualitative Factors

Operating Environment

Nykredit's operations are concentrated in Denmark, which presents very good opportunities for banks to be consistently profitable. The economic environment and sovereign credit profile are strong and structural weaknesses are very limited, underpinned by strong levels of employment and a healthy sovereign fiscal position. We envisage a moderate economic slowdown due to higher interest rates and cost of living pressures. Fitch expects Danish GDP growth of 0.9% and 1.3% in 2023 and 2024, respectively, but positive revisions to the forecast are likely in the near term due to the strong performance in 1H23.

Danish banks are in a strong position to weather the current economic downturn given their prudent capitalisation levels and strong asset quality. We expect a moderate rise in bankruptcies, largely coming from financially weaker corporates in sectors worst-hit by the rapid rise in interest rates and higher commodity prices, such as parts of the agriculture, manufacturing and construction sectors. Residual risk is limited due to conservative provisioning and underwriting standards. Liquidity in the banking sector is ample and we anticipate wholesale funding markets (namely covered bonds) to operate normally.

Danish household debt is high in an international context, due to the high ownership of dwellings financed by mortgage loans. The high inflation and aggressive rise in interest rates will continue to dampen real spending power. However, it should be manageable for most Danish households as they accumulated sizeable savings during the pandemic and we do not expect a material rise in unemployment. Lower house prices may result in weaker consumer spending due to the impact on household wealth, but this has been moderate so far.

Business Profile

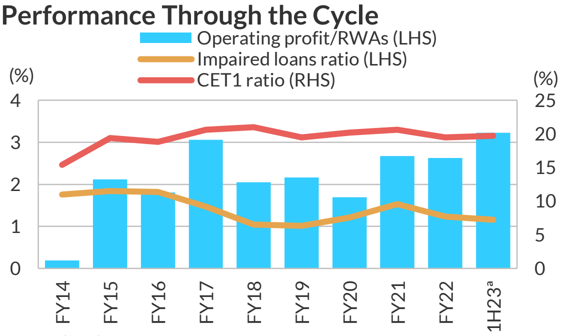
Nykredit's own franchise is underpinned by fully-owned Totalkredit A/S, the largest provider of residential mortgage loans in Denmark. Nykredit's mortgage lending is (by law) financed entirely through covered bonds, and is a large international issuer of these bonds.

The bank's management aims to grow and gradually diversify its franchise in Denmark, although Fitch expects this to be achieved without a material increase in the bank's risk appetite. This is because growth is focused on broadening the bank's product offering with existing clients.

Totalkredit originates loans through about 40 partner banks and offers the lowest administration margins in the market on the most popular types of mortgage loans. Competitive pricing is Nykredit's competitive advantage. A sizeable portion of the dividend paid to Forenet Kredit (the majority owner holding an almost 80% stake) is channelled back through the bank to borrowers in the form of discounts on their mortgage loan repayments and other products.

Nykredit's business model is less diverse than that of higher-rated peers, but it has a healthy balance between low risk appetite and stable income. About 60% of the core income (mortgage lending, commercial banking, and wealth management) is sourced from mortgage lending, but the bank is continuously working on improving diversification. Commercial banking and wealth management activities through Nykredit Bank account for 7% of total lending, but its contribution to the group's core income has reached about 40% in 1H23.

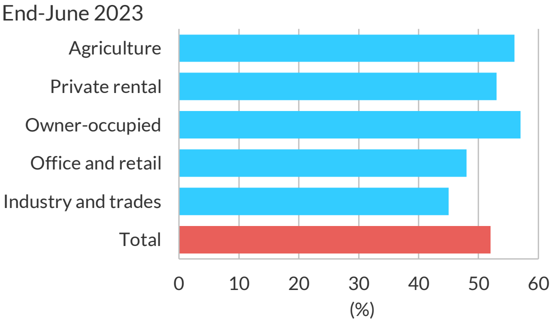
Performance Through the Cycle



[a] Annualised
Source: Fitch Ratings, Fitch Solutions, Nykredit

Average LTV

End-June 2023



Source: Fitch Ratings, Nykredit

Risk Profile

Total loans were mostly split between personal (end-1H23: 58%) and business (35%) mortgage loans, with the remainder predominantly made up of diversified non-retail loans from Nykredit Bank. Credit risk outside the loan book is low. Nykredit invests its surplus liquidity in highly rated (mainly 'AAA') and liquid covered bonds issued by domestic mortgage banks.

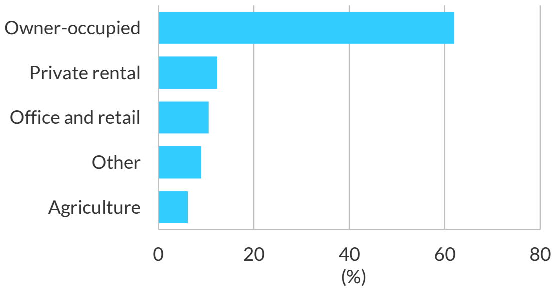
Nykredit's strong ability to control credit risk is demonstrated by its low credit losses through the cycle. It observes tight underwriting standards for mortgage loans, underpinned by the conservative Danish covered bond legislation and regulatory constraints set by the Danish FSA. Nykredit applies a loan-to-value (LTV) cap of 80% for most mortgage loans and 60% for riskier lending, such as financing agricultural, office or retail properties. Single-name concentration in the mortgage book is moderate. The regulations for mortgage banks cap the sum of the 20 largest exposures at the bank's CET1 capital level.

We expect credit expansion to remain low for the rest of 2023 and the property prices to stabilise around the current levels. The fast increase of interest rates has led to significant refinancing by customers with fixed-rate mortgages (mainly during 2022), which are carried at fair value, to reduce their debt. A significant share of these customers have opted for variable-rate loans. We do not believe that this has materially changed the retail mortgage lending profile due to prudent underwriting criteria, with stress testing of customer repayment capacity coupled with mostly low LTVs. Interest fixation periods in variable-rate lending are still long by international standards and are usually at least one year.

Nykredit's market risk exposure is low. The structural interest rate risk in the banking book is insignificant because there is no interest rate mismatch between mortgage loans and covered bonds, and both are carried at fair value. Nykredit's trading activity is small and appropriately hedged. At end-June 2023, Nykredit held a small portfolio of equities, which represented about 9% of CET1 capital.

Mortgage Lending Split by Sector

End-June 2023



Source: Fitch Ratings, Nykredit

Financial Profile

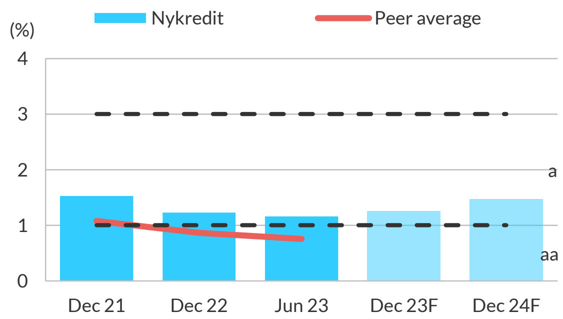
Asset Quality

Nykredit's asset quality metrics have been strong in recent years, with an impaired loans ratio of 1.2% at end-1H23. The bank's asset quality is underpinned by strong collateralisation and underwriting standards. We expect the impaired loans ratio to deteriorate modestly to 1.3% by end-2023, and 1.5% by end-2024, due to the impact from the economic downturn, coupled with higher interest rates and inflationary pressure. LICs should be contained by low LTVs and the sizeable buffer of allowances beyond what is provided by the internal model (14bp of loans).

The loan portfolio predominantly consists of mortgage loans (93% at end-June 2023), but is well diversified across Denmark with a small average ticket size. The concentration towards mortgage lending brings a significant exposure to the property market. Residential property prices in Denmark reached a trough in 1H23 after an approximate 10% decline since the peak in 2Q22. Lower expected inflation in 2024, together with higher wages and a reduction in mortgage rates, should stabilise home prices, although a small correction remains possible in 2H23.

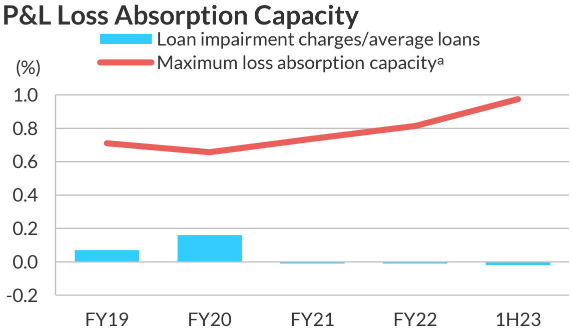
The impaired loans ratio at Nykredit Bank (end-1H23: about 3%) was higher than at the mortgage bank (about 1%) due to a higher risk appetite. Additionally, the bank had healthy specific coverage by loan loss allowances of almost 70% at end-June 2023, and a well-diversified loan book. The lower reserve coverage of impaired loans at the mortgage bank (end-1H23: 16%) reflects robust collateralisation with prudent LTVs, high granularity and historically low LICs. The Danish legislative framework enforces creditor rights and incentives mortgage repayment.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

P&L Loss Absorption Capacity



[a] Pre-impairment operating profit/average loans
Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

The bank's overall profitability is moderate, mainly because of thin margins (partly due to the mutual ownership business model), but it is mitigated by its low-risk business model, healthy and recurring revenue, tight cost control and historically contained credit losses. The bank's income is predominantly sourced from net interest income. Mortgage loans in Denmark are funded by covered bonds, the cost of which is directly passed on to borrowers, while Nykredit charges administrative margins. As a result, administrative margins at the mortgage bank have not benefitted from the increased interest rates.

Lending at Nykredit Bank has continued to grow, primarily through lending to large corporates, and the subsidiary's net interest margin benefits from a deposit surplus over lending. The subsidiary's contribution to the group's core income has increased significantly to about 40% in 1H23. This comprises revenue from lending and deposits (26% of group core income) and wealth management. The former benefitted from interest rate hikes, volume growth, but further increase will be challenging due to competition and a likely higher pass-through of interest rates hikes to deposits. Nykredit also benefits from the repricing of a sizeable debt securities portfolio of DKK91 billion (at end-June 2023), which we expect to continue into 2024.

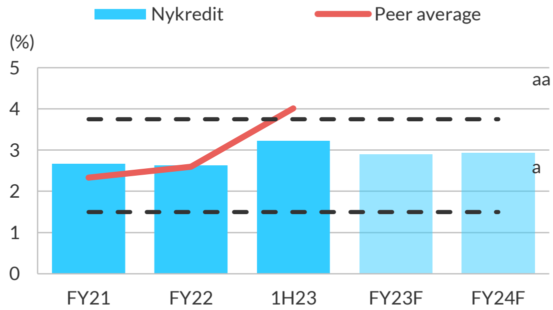
Nykredit's strong cost efficiency benefits from economics of scale due to the limited product width, automation and synergies with partner banks. We expect Nykredit to maintain high cost efficiency and its cost/income ratio to remain below 35% in 2023 and 2024, despite inflationary pressure.

Capital and Leverage

At end-June 2023, the bank's CET1 ratio of 19.7% was comfortably above its capital policy target of 15%–16%, or about 630bp above the CET1 ratio requirement. In our assessment we also consider ordinary support from the bank's main owners, who combined have earmarked DKK24.1 billion of capital (corresponding to about 560bp of RWAs) at end-June 2023 to recapitalise the bank if needed.

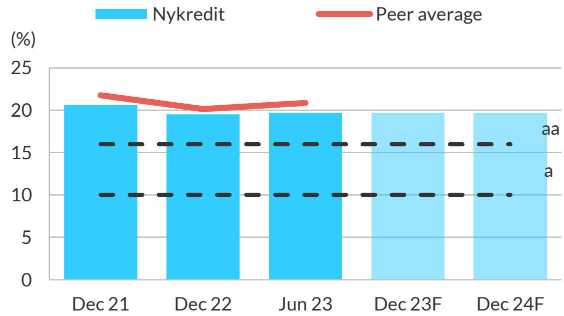
The bank's low RWA density of about 27% at end-June 2023 reflects low levels of arrears and LTVs in the loan book. RWAs have increased since 2021, despite loan book contraction – mainly due to implementation of new EBA regulations and IRB model updates. We do not expect further material regulatory-driven RWA inflation.

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

Nykredit issues covered bonds (almost 90% of all funding) on an ongoing basis, and loan origination is not dependent on available liquidity. The bank's refinancing risk is mitigated by the efficient Danish covered bond market (including through numerous stress periods), refinancing auctions that are distributed quarterly, and loan pricing, promoting loans with less frequent refinancing periods. Nykredit's gross loans/customer deposits plus covered bonds ratio has been stable in recent periods, and equalled about 100% at end-June.

The covered bond law transfers the refinancing risk at adjustable-rate bonds (about 25% share) to the investor in the event of a failed auction, but this has not been tested yet. Consequently, it is important for Nykredit to maintain a significant liquidity portfolio to ensure investor confidence. This may be particularly important in the case of foreign investors (about 20% of all covered bond investors at end-July 2023). Nykredit issues long-term unsecured debt only for regulatory purposes to observe its debt buffer requirement.

High balance sheet encumbrance is mitigated by Nykredit's strong loan book quality and sizeable liquidity buffer that comfortably covers unsecured funding. Alongside mortgage bonds, the group has access to diversified funding sources.

About Fitch Forecasts

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

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

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'aa' category. Light-blue columns represent Fitch's forecasts.

Peer average includes Realkredit Danmark A/S (VR: a), Landshypotek Bank AB (a), Nationwide Building Society (a), Svenska Handelsbanken AB (aa), Swedbank AB (aa-), Yorkshire Building Society (a-), de Volksbank N.V. (a-). Financial year end for Nationwide Building Society is 4 April. Latest average uses FY22 data for Nationwide Building Society.

Financials

Financial Statements

	30 Jun 23		31 Dec 22	31 Dec 21	31 Dec 20
	6 months - interim (USDm)	6 months - interim (DKKm)	Year end (DKKm)	Year end (DKKm)	Year end (DKKm)
	Unaudited	Unaudited	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	1,136	7,785	12,394	11,440	11,287
Net fees and commissions	12	82	88	174	68
Other operating income	315	2,160	5,271	5,345	3,467
Total operating income	1,463	10,027	17,753	16,959	14,822
Operating costs	468	3,210	6,319	6,340	5,759
Pre-impairment operating profit	995	6,817	11,434	10,619	9,063
Loan and other impairment charges	-17	-115	-80	-115	2,272
Operating profit	1,011	6,932	11,514	10,734	6,791
Other non-operating items (net)	0	0	0	0	0
Tax	225	1,539	2,060	1,864	1,118
Net income	787	5,393	9,454	8,870	5,673
Other comprehensive income	2	15	-72	-18	-27
Fitch comprehensive income	789	5,408	9,382	8,852	5,646
Summary balance sheet					
Assets					
Gross loans	204,516	1,401,735	1,388,603	1,466,970	1,432,087
- Of which impaired	2,372	16,256	17,053	22,450	17,343
Loan loss allowances	1,286	8,817	9,051	9,270	9,786
Net loans	203,230	1,392,918	1,379,552	1,457,700	1,422,301
Interbank	1,216	8,337	3,416	3,795	40,953
Derivatives	945	6,477	8,004	16,935	22,364
Other securities and earning assets	19,901	136,399	147,180	145,265	153,471
Total earning assets	225,292	1,544,131	1,538,152	1,623,695	1,639,089
Cash and due from banks	7,077	48,504	49,659	40,129	16,146
Other assets	1,986	13,612	12,318	9,649	10,532
Total assets	234,355	1,606,247	1,600,129	1,673,473	1,665,767
Liabilities					
Customer deposits	15,622	107,070	107,392	92,697	88,113
Interbank and other short-term funding	3,151	21,597	34,117	33,126	24,485
Other long-term funding	195,900	1,342,681	1,326,347	1,433,654	1,429,971
Trading liabilities and derivatives	2,283	15,649	19,164	8,781	21,747
Total funding and derivatives	216,956	1,486,997	1,487,020	1,568,258	1,564,316
Other liabilities	3,185	21,832	16,280	11,624	11,677
Preference shares and hybrid capital	548	3,756	3,751	3,729	3,753
Total equity	13,666	93,662	93,078	89,862	86,021
Total liabilities and equity	234,355	1,606,247	1,600,129	1,673,473	1,665,767
Exchange rate		USD1 = DKK6.8539	USD1 = DKK6.994	USD1 = DKK6.5749	USD1 = DKK6.1138

Source: Fitch Ratings, Fitch Solutions, Nykredit

Key Ratios

	30 Jun 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.2	2.6	2.7	1.7
Net interest income/average earning assets	1.0	0.8	0.7	0.7
Non-interest expense/gross revenue	32.0	35.6	37.4	38.9
Net income/average equity	11.7	10.5	10.1	6.9
Asset quality				
Impaired loans ratio	1.2	1.2	1.5	1.2
Growth in gross loans	1.0	-5.3	2.4	5.2
Loan loss allowances/impaired loans	54.2	53.1	41.3	56.4
Loan impairment charges/average gross loans	0.0	0.0	0.0	0.2
Capitalisation				
Common equity Tier 1 ratio	19.7	19.5	20.6	20.2
Fully loaded common equity Tier 1 ratio	19.7	19.5	n.a.	n.a.
Tangible common equity/tangible assets	5.7	5.7	5.2	5.0
Basel leverage ratio	5.1	5.1	4.8	4.8
Net impaired loans/common equity Tier 1	8.7	9.3	15.9	9.3
Funding and liquidity				
Gross loans/customer deposits	1,309.2	1,293.0	1,582.5	1,625.3
Gross loans/customer deposits + covered bonds	101.4	101.9	100.8	98.4
Liquidity coverage ratio	373.0	283.0	591.0	771.0
Customer deposits/total non-equity funding	7.2	7.3	5.9	5.7
Net stable funding ratio	152.0	149.0	157.0	n.a.

Source: Fitch Ratings, Fitch Solutions, Nykredit

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	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
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

Nykredit's Government Support Rating of 'ns' reflects Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event of the bank becoming non-viable. The EU's Bank Recovery and Resolution Directive provides a framework for resolving banks that will require senior creditors to participate in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

Subsidiaries and Affiliates

Nykredit Bank A/S

Rating level	Rating
Long-Term IDR	A/Stable
Short-Term IDR	F1
Shareholder Support Rating	a
Long- and short-term senior unsecured debt	A+/F1
Long- and short-term deposit ratings	A+/F1

Source: Fitch Ratings

Nykredit Bank's IDRs and Shareholder Support Rating are aligned with Nykredit's IDRs. This reflects a very high probability of support from Nykredit, if needed, in light of the subsidiary's core role within the group and high reputational risk for Nykredit if Nykredit Bank defaults. We have not assigned a VR to Nykredit Bank because it does not have a meaningful standalone franchise that could exist without the ownership of the parent given the close integration into the larger group.

Nykredit Bank's long-term senior preferred debt and deposits are rated one notch above its Long-Term IDR, because Fitch expects preferred creditors to be protected by Nykredit's resolution buffers.

Nykredit Bank's short-term senior preferred debt and deposit ratings are mapped to their respective long-term ratings and also reflect our assessment of the group's funding and liquidity.

Nykredit Bank's ratings are sensitive to changes in Nykredit's ratings.

Environmental, Social and Governance Considerations

FitchRatings **Nykredit Realkredit A/S**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Nykredit Realkredit A/S has 5 ESG potential rating drivers
- Nykredit Realkredit A/S 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 result in 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'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to 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 our ESG relevance scores, visit www.fitchratings.com/esg.

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.