Fitch Ratings

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, demonstrated by its healthy and resilient through-the-cycle asset quality and robust capitalisation. They also reflect its leading mortgage lending franchise in Denmark, good profitability 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 strength, underpinned by low arrears and defaults, prudent collateralisation and underwriting standards, contained growth and low of loan impairment charges (LICs) through the cycle. We expect the impaired loans ratio (end-September 2024: 1.1%) to slightly increase towards 1.3% by end-2026, due to the lagged impact from affordability pressures in recent years and a small expected increase in unemployment.

At end-September 2024, the bank's large buffer of allowances – on top of what was already accounted for by its internal model – mainly related to ESG, geopolitical risks and agriculture, would have been sufficient to absorb credit losses of 14bp of loans.

Resilient Profitability: We expect the bank's four-year average operating profit to remain above 2.5% of RWAs through the economic cycle. The bank's results will continue to benefit from healthy and recurring revenue, tight cost control and low LICs. Loan growth has started to pick up, which we expect to continue as demand recovers as interest rates reduce. Net fee income should also benefit from the bank's strategic focus to grow its wealth management business, which we expect will cushion some of the impact from declining interest rates.

Robust Capital: Nykredit's common equity Tier 1 (CET1) ratio of 19.9% at end-September 2024 is strong compared with peers' and above the bank's minimum target of above 15.5%. It provides a reasonable cushion against a more adverse economic environment and offers a reasonable buffer over regulatory requirements.

Our assessment of Nykredit's capitalisation also reflects its low-risk business model, and limited exposure to high-risk assets, which mitigates its exposure to high product concentration and exposure to the Danish real-estate market. We also consider potential ordinary support from Nykredit's majority shareholder, Forenet Kredit.

High Reliance on Wholesale Funding: 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.

Fitch believes the deep Danish covered bond market will also continue to function well, even in more adverse environments, such as during the pandemic and during recent stress periods in 2022 and 2023. Refinancing risk is mitigated by the bank's low share of short-term debt maturities, and significant buffers of high-quality liquid assets, including Danish government bonds and covered bonds.

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 (March 2024)

Related Research

Nykredit's Acquisition of Spar Nord to Strengthen Revenue Diversification (December 2024)

Fitch Upgrades Nykredit Realkredit A/S to 'A+'; Outlook Stable (November 2024)

Global Banks' Vulnerability to CRE Stress (November 2024)

Fitch Affirms Denmark at 'AAA'; Outlook Stable (November 2024)

Nykredit's Deal with DCCA Aims to Increase Residential Mortgage Competition (October 2024)

Global Economic Outlook (December 2024)

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Rating Sensitivities

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

We would downgrade Nykredit's ratings if we expect its impaired loans ratio to increase durably above 2.0% or if its CET1 capital ratio reduces towards 17% due to pressure from deteriorating asset quality or weaker earnings generation. We could also downgrade its ratings if operating profit declines below 2% of RWAs on a sustained basis without clear recovery prospects.

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 that may prove less stable during financial stress, or increasing risk appetite – particularly at Nykredit Bank A/S – 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 is unlikely in light of the bank's limited size, business model and geographical diversification.

Other Debt and Issuer Ratings

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

Source: Fitch Ratings

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+'.

Nykredit's long-term senior preferred debt rating of 'AA-' 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 mapped from the respective long-term rating and reflects our assessment of the bank's funding and liquidity.

We expect Nykredit's resolution debt buffer to remain comfortably above 10% of RWAs in the long term. It was 16% of RWAs at end-September 2024. 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 Nykredit's 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 comfortably above maximum distributable amounts thresholds, and our expectation that this will continue.

Significant Changes from Last Review

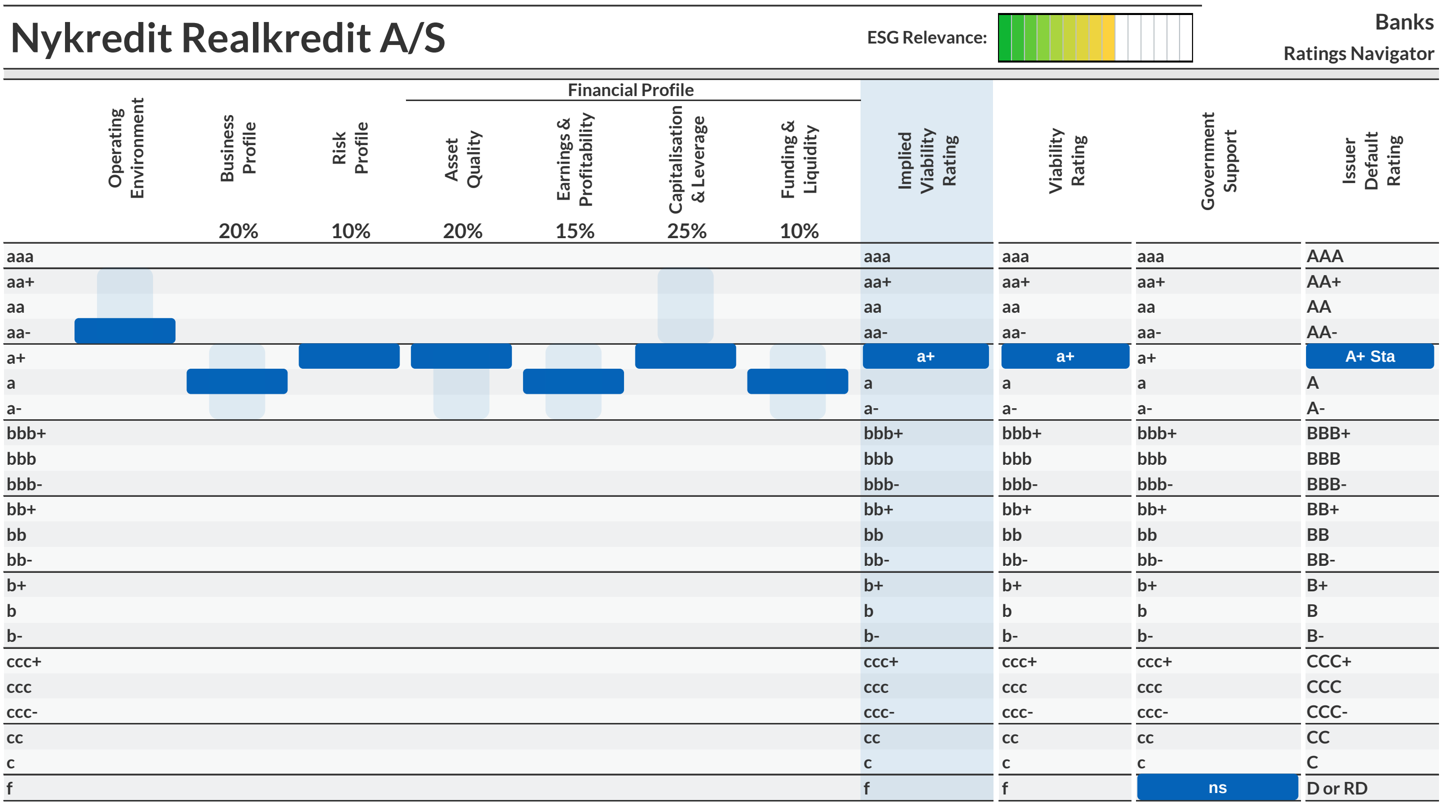
Nykredit announced on 10 December 2024 that it had agreed with Spar Nord Bank to make a voluntary public tender offer to acquire all shares in Spar Nord Bank. The board of Spar Nord Bank intends to recommend that shareholders accept the offer. The offer, subject to regulatory approvals and other conditions, is expected to be completed in the first half of 2025.

The acquisition of Spar Nord will benefit Nykredit's business profile and earnings, as it will further increase income diversification and subsequently strengthen earnings stability and internal capital generation. It will strengthen Nykredit's personal and business customer base, increasing the market shares in bank lending and deposits to 13% and 11%, from 8% and 6%, respectively. According to calculations by Nykredit, this would make Nykredit Bank Denmark's third-largest bank, with a diversified loan portfolio and revenue.

We believe that there are no material execution risks, as Nykredit and Spar Nord Bank already share common operational platforms and products, facilitating a smooth integration process. The combination will also generate cost synergies from 2026, particularly in corporate and support functions, while maintaining a strong local presence and customer service.

We estimate that Nykredit's CET1 ratio will decline towards 17% when the transaction is completed in 1H25 (end-3Q24: 19.9%). This decrease is mainly due to the addition of Spar Nord's risk-weighted assets and the deduction of goodwill created by the transaction. Following the transaction, we expect Nykredit to gradually build up capital and operate with a comfortable buffer over a 17% CET1 ratio.

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 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

Business Profile

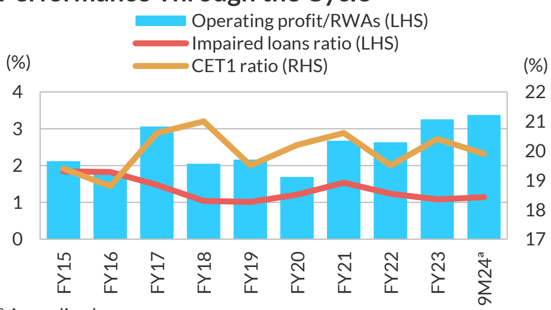
Nykredit's franchise is underpinned by the fully-owned Totalkredit A/S, the largest provider of residential mortgage loans in Denmark. Nykredit's mortgage lending is, by law, financed entirely through covered bonds, and it is a large international issuer of these bonds. Nykredit also carries out commercial banking and wealth management activities through another wholly-owned subsidiary, Nykredit Bank.

Nykredit has a strategic priority to growing and gradually improving the diversification of its franchise in Denmark beyond its strong market position in mortgage lending, focusing on expanding its wealth-management business and commercial banking activities through Nykredit Bank. Core revenues from non-mortgage activities have grown to just above 40% of total core income in 9M24, from 28% in 2019, supporting earnings diversification. We believe that the growth of Nykredit's commercial banking activities have not let to a material increase of the bank's risk appetite as this growth is mostly focused on broadening the bank's product offering with existing clients. However, Nykredit remains less diversified than higher rated peers due to its concentration to the Danish market.

Totalkredit originates loans through 41 partner banks and offers the lowest administration margins in the market on the most popular types of mortgage loans. Customer-friendly pricing is Nykredit's competitive advantage, as 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 reached an agreement with the Danish competitions authority during the autumn of 2024 to ease the conditions for partner banks to leave the partnership and to allow partner banks to collaborate with other banks more freely in some areas. Fitch does not believe that this will have a material impact on Totalkredit, and, subsequently, Nykredit's business profile. This reflects our view that incentives for partner banks to leave the partnership will remain low, supported by the strong commercial offering of Totalkredit and moderate integration.

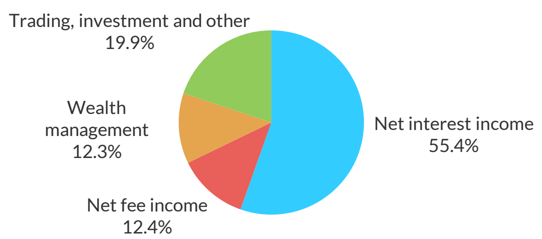
Performance Through the Cycle



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

Income Split by Source

9M24, based on management commentary



Source: Fitch Ratings, Nykredit

Risk Profile

Total loans were mostly split between personal (end-September 2024: 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 predominantly in highly rated (mainly 'AAA') and liquid Danish and other European government and covered bonds.

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 of 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. Credit expansion has accelerated following subdued levels in past years, supported by lower interest rates, and we expect growth to remain moderate in upcoming years.

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-September 2024, Nykredit held a small portfolio of equities, which represented just below 10% of CET1 capital.

Financial Profile

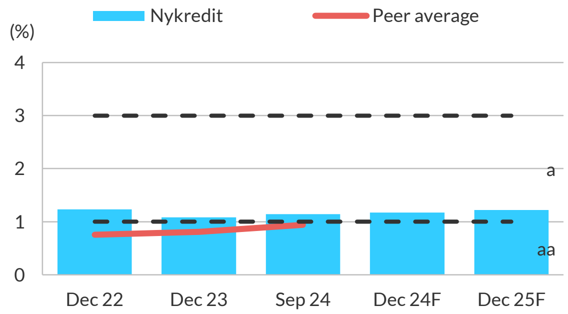
Asset Quality

Nykredit's asset quality metrics have been strong in recent years, with an impaired loans ratio of 1.1% at end-September 2024. We expect the impaired loans ratio to slightly increase towards 1.3% by end-2026, due to a lagged impact from higher interest rates and inflation, coupled with a small increase in unemployment. LICs should be contained by low LTVs and the sizeable buffer of allowances beyond what is provided by the internal model (14bp of loans at end-3Q24).

Nykredit's loan book is well diversified across Denmark with a small average ticket size, which we believe balances out its concentration on the domestic real estate market. Residential property prices have recovered following a 10% drop during 2022 and 2023, and Fitch expects nominal house prices to continue to grow moderately over the next few years.

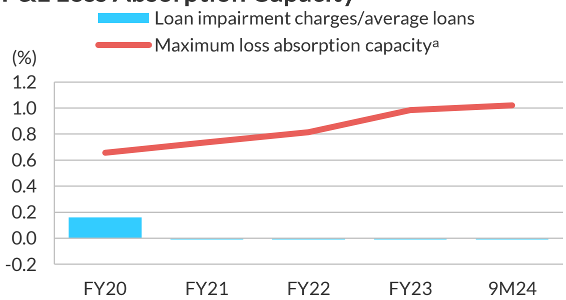
The impaired loans ratio at Nykredit Bank (end-September 2024: about 3%) was higher than at the mortgage bank (about 1%) due to a higher risk appetite and greater focus on corporate and SME lending. Credit risk at Nykredit Bank is mitigated by a healthy specific coverage by loan loss allowances of around 50% at end-September 2024, and a well-diversified loan book. The lower reserve coverage of impaired loans at the mortgage bank (end-September 2024: 12%) reflects robust collateralisation with prudent LTVs, high granularity and historically low LICs. Fitch believes that the reserve coverage is adequate. Credit losses are also mitigated by a risk-sharing agreement with partner banks for loans originated through Totalkredit, and the Danish legislative framework that enforces creditor rights and incentivises 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 in mortgage lending (partly due to the mutual ownership business model), but this 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, which are accounted for as net interest income, have not benefitted from the increased interest rates. Nykredit's income from commercial banking activities and from the sizeable debt securities portfolio (DKK90 billion at end-September 2024) have started to soften in light of declining interest rates, which we expect to continue.

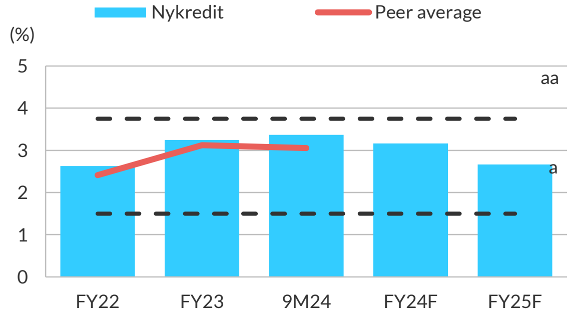
Nykredit's strong cost efficiency benefits from economics of scale due to the focused product offering, automation, and synergies with partner banks. We expect Nykredit to maintain high cost efficiency and its cost/income ratio to remain comfortably below 40% during our two-year forecast horizon.

Capitalisation and Leverage

The bank's CET1 ratio (end-3Q24: 19.9%) was comfortably above its capital policy target of 15.5%–16.5%, or 610bp above the CET1 ratio requirement. In our assessment we also consider ordinary support from the bank's main owners, who combined have earmarked about DKK29.5 billion of capital (corresponding to about 650bp of RWAs) at end-3Q24 to recapitalise the bank, if needed.

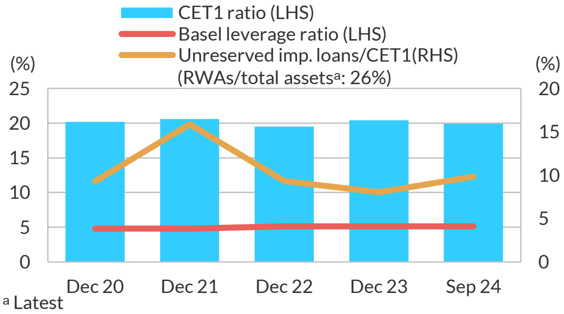
The bank's low RWA density of about 26% at end-September 2024 reflects low levels of arrears and LTVs in the loan book. We expect the RWA density to increase slightly in coming years due to the implementation of Basel IV; however, not at a magnitude that would materially affect Nykredit's capitalisation metrics.

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Capitalisation & Leverage Summary



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

Funding and Liquidity

Nykredit issues covered bonds (close to 90% of all funding) on a daily basis through a number of primary dealers, 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 101% at end-September 2024.

The Danish covered bond law transfers the refinancing risk at variable-rate bonds (about 60% of the covered bonds issued by Nykredit) 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 investors in Danish covered bonds at end-October 2024). Nykredit issues long-term unsecured debt for regulatory purposes only 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.

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. Peer average includes Realkredit Danmark A/S (VR: a), Landshypotek Bank AB (a), Nationwide Building Society (a), Swedbank AB (aa-), de Volksbank N.V. (a-), Raiffeisen Group (a+), National Bank of Canada (a+), Zuercher Kantonalbank (a+), Danske Bank A/S (a+). Unless otherwise stated, financial year (FY) end is 31 December for all banks in this report. Financial year-end for Nationwide Building Society is 4 April. Latest average uses 1H24 data for Realkredit Danmark A/S, Nationwide Building Society, de Volksbank N.V., Raiffeisen Group, Zuercher Kantonalbank.

Financials

Financial Statements

	30 Sep 24		31 Dec 23	31 Dec 22	31 Dec 21
	9 months - 3rd quarter	9 months - 3rd quarter	Year end	Year end	Year end
	(USDm)	(DKKm)	(DKKm)	(DKKm)	(DKKm)
Summary income statement					
Net interest and dividend income	1,787	11,902	15,973	12,394	11,440
Net fees and commissions	29	190	134	88	174
Other operating income	637	4,239	4,354	5,271	5,345
Total operating income	2,452	16,331	20,461	17,753	16,959
Operating costs	756	5,035	6,555	6,319	6,340
Pre-impairment operating profit	1,696	11,296	13,906	11,434	10,619
Loan and other impairment charges	-21	-141	-177	-80	-115
Operating profit	1,717	11,437	14,083	11,514	10,734
Tax	372	2,475	3,191	2,060	1,864
Net income	1,346	8,962	10,892	9,454	8,870
Summary balance sheet					
Assets					
Gross loans	227,524	1,515,193	1,458,691	1,388,603	1,466,970
- Of which impaired	2,597	17,292	15,815	17,053	22,450
Loan loss allowances	1,259	8,382	8,699	9,051	9,270
Net loans	226,265	1,506,811	1,449,992	1,379,552	1,457,700
Interbank	1,643	10,942	3,004	3,416	3,795
Derivatives	970	6,458	6,663	8,004	16,935
Other securities and earning assets	22,307	148,554	145,825	147,180	145,265
Total earning assets	251,185	1,672,765	1,605,484	1,538,152	1,623,695
Cash and due from banks	7,475	49,781	61,056	49,659	40,129
Other assets	2,166	14,423	15,065	12,318	9,649
Total assets	260,826	1,736,969	1,681,605	1,600,129	1,673,473
Liabilities					
Customer deposits	17,828	118,725	114,208	107,392	92,697
Interbank and other short-term funding	2,954	19,674	18,209	34,117	33,126
Other long-term funding	217,917	1,451,216	1,407,664	1,326,347	1,433,654
Trading liabilities and derivatives	1,775	11,820	15,956	19,164	8,781
Total funding and derivatives	240,474	1,601,435	1,556,037	1,487,020	1,568,258
Other liabilities	5,005	33,330	24,562	16,280	11,624
Preference shares and hybrid capital	570	3,799	3,759	3,751	3,729
Total equity	14,777	98,405	97,247	93,078	89,862
Total liabilities and equity	260,826	1,736,969	1,681,605	1,600,129	1,673,473
Exchange rate		USD1 = DKK6.6595	USD1 = DKK6.764	USD1 = DKK6.994	USD1 = DKK6.5749

Source: Fitch Ratings, Fitch Solutions, Nykredit

Key Ratios

	30 Sep 24	31 Dec 23	31 Dec 22	31 Dec 21
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.4	3.3	2.6	2.7
Net interest income/average earning assets	1.0	1.0	0.8	0.7
Non-interest expense/gross revenue	30.8	32.1	35.6	37.4
Net income/average equity	12.3	11.6	10.5	10.1
Asset quality				
Impaired loans ratio	1.1	1.1	1.2	1.5
Growth in gross loans	3.9	5.1	-5.3	2.4
Loan loss allowances/impaired loans	48.5	55.0	53.1	41.3
Loan impairment charges/average gross loans	0.0	0.0	0.0	0.0
Capitalisation				
Common equity Tier 1 ratio	19.9	20.4	19.5	20.6
Tangible common equity/tangible assets	5.5	5.7	5.7	5.2
Basel leverage ratio	5.1	5.1	5.1	4.8
Net impaired loans/common equity Tier 1	9.9	8.0	9.3	15.9
Funding and liquidity				
Gross loans/customer deposits	1,276.2	1,277.2	1,293.0	1,582.5
Gross loans/customer deposits + covered bonds	101.4	100.7	101.9	100.8
Liquidity coverage ratio	401	310	283	591
Customer deposits/total non-equity funding	7.4	7.4	7.3	5.9
Net stable funding ratio	156	147	149	157

Source: Fitch Ratings, Fitch Solutions, Nykredit

Support Assessment

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 if the bank becoming non-viable. The EU's Bank Recovery and Resolution Directive provides a framework for resolving banks that 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+
Short-term senior preferred debt	F1+
Long- and short-term deposit ratings	AA-/F1+

Source: Fitch Ratings

Nykredit Bank A/S's IDR 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 A/S defaults. We have not assigned a VR to Nykredit Bank A/S 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 A/S's long-term deposit rating is rated one notch above its Long-Term IDR, because Fitch expects preferred creditors to be protected by Nykredit's resolution buffers. The short-term deposit rating is mapped to the respective long-term rating.

The ratings of Nykredit Bank's short-term senior preferred debt program is mapped to its long-term rating.

Environmental, Social and Governance Considerations

FitchRatings **Nykredit Realkredit A/S**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

				ESG Relevance to Credit Rating
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.	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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