

Kommunalkredit Austria AG

Key Rating Drivers

Business Model Constrains Ratings: Kommunalkredit Austria AG's (KA) Issuer Default Ratings (IDRs) and Viability Rating (VR) reflect its established niche franchise in infrastructure and energy (I&E) finance, an experienced management team, profitability well above peers' and a strong asset quality record.

The ratings are underpinned by a robust risk-management framework and adequate funding and liquidity. The bank's VR is constrained by Fitch Ratings' assessment of its business profile given its small, albeit growing, equity base relative to concentration risks in its I&E portfolio.

Successful Record; Experienced Management: KA's concentrated but robust business model focuses on its niche franchise in European I&E financing and on municipal finance (mainly in Austria). KA's highly experienced management team has a successful record in these businesses, with above-average returns while maintaining strong asset-quality metrics. Fitch believes that the expected change in KA's ownership – agreed in February 2023 and likely to be completed in 1H24 – supports KA long-term focus and growth trajectory.

Uneven Risk Profile: Our assessment of the bank's risk profile incorporates its appetite for sub-investment grade-rated, opportunistic infrastructure and project-finance transactions, supplemented by low-risk municipal financing, although the latter is gradually declining as a share of its total loans. KA's underwriting standards and risk-control framework have so far mitigated inherent project risks in infrastructure assets, as demonstrated by an impaired loan ratio significantly below that of peers with concentrated loan books.

Strong Asset-Quality Metrics: KA's asset quality benefits from its low-risk public-sector portfolio. However, the higher-risk exposures in its concentrated and growing I&E segment increases the risk of further loan impairments in the medium term as its loan book seasons. KA's asset quality moderately deteriorated at end-2023, but is significantly better than most peers, mitigated by above-average historical recovery rates and low correlation between the financed asset classes.

Above-Average Profitability: KA's profitability is a rating strength and well above peers'. KA's financial performance in 2023 was strong, driven by the expansion of its loan book in combination with solid margins, limited credit losses and a competitive cost base. Our assessment also reflects concentration of revenues in the I&E segment. We believe KA can maintain healthy profitability above peers' in 2024 and 2025, but the bank's concentrated credit exposures mean that few loan losses could affect earnings materially.

Small Capital Base: KA maintains capital ratios with adequate buffers over its minimum capital requirements despite its small equity base. KA is targeting a capital increase of EUR100 million from its new owner once the ownership control procedure has been finalised by the respective authorities, FMA and ECB, which will likely be in 1H24.

Fitch expects KA's new owners to follow a supportive dividend strategy, which will allow KA to further increase its capital base via strengthened internal capital generation over the mid-term. This drives our positive outlook on KA's capitalisation.

Stable Funding and Sound Liquidity: The bank's funding profile is stable, which we expect to persist in the current rate environment. KA's broadening recourse to retail and wholesale deposit, albeit confidence-sensitive, supports further declining loans-to-deposits ratios. The funding profile is supplemented by KA's capital-market activities, including covered bond and senior debt issuance. KA's liquidity is sound, prudently managed, and underpinned by the bank's solid liquidity buffers.

Ratings

Foreign Currency	
Long-Term IDR	BBB-
Short-Term IDR	F3

Viability Rating bbb-

Government Support Rating ns

Sovereign Risk (Austria)

Long-Term Foreign-Currency IDR	AA+
Long-Term Local-Currency IDR	AA+
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Positive
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

[Bank Rating Criteria \(September 2023\)](#)

Related Research

[Fitch Revises Kommunalkredit Austria's Outlook to Positive; Affirms IDR at 'BBB-' \(February 2024\)](#)

[Kommunalkredit Austria AG - Update \(December 2023\)](#)

Analysts

Roger Schneider
+49 69 768076 242
roger.schneider@fitchratings.com

Patrick Rioual
+49 69 768076 114
patrick.rioual@fitchratings.com

Rating Sensitivities

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

A downgrade of the IDRs and VR is unlikely in the short term, as indicated by the Positive Outlook.

Pressure on the ratings could arise if the bank incurs multiple sizeable defaults in its project-finance portfolio, leading to weaker capitalisation, or if it relaxes its limits and underwriting standards to enable further opportunistic lending to higher-risk projects, more aggressive project-financing structures or junior financing.

We could also downgrade the ratings if aggressive risk-weighted asset (RWA) growth without matching capital increases results in an increasing use of KA's large exposure limit. A downgrade could also result from significant deterioration in the bank's ability to syndicate its lending commitments to a sizeable pool of external investors.

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

An upgrade of the IDR and the VR could result from an extended record of business model stability and require earnings and profitability to remain resilient over the next one to two years, with KA's operating profit/RWAs ratio remaining above 3%. An upgrade would also require an impaired loan ratio below 3% and evidence that the bank will not relax its current risk appetite.

An upgrade would also be contingent on KA sustainably strengthening its capital base, beyond the expected capital injection from its new owners in 2024, leading to a reduction in concentration risks.

Other Debt and Issuer Ratings

Rating level	Rating
Senior preferred: Long term	BBB-

Source: Fitch Ratings

KA's 'F3' Short-Term IDR is the only option mapping to a 'BBB-' Long-Term IDR.

KA's long-term senior preferred (SP) debt rating is aligned with the bank's Long-Term IDR. This reflects Fitch's expectation that KA will not be subject to a minimum requirement for own funds and eligible liabilities, and that the bank will not build and maintain buffers of junior and senior non-preferred debt sustainably in excess of 10% of its RWAs.

Ratings Navigator

Kommunalkredit Austria AG



Banks
Ratings Navigator

	Operating Environment	Business Profile	Risk Profile	Financial Profile			Implied Viability Rating	Viability Rating	Government Support Rating	Issuer Default Rating
				Asset Quality	Earnings & Profitability	Capitalisation & Leverage				
		20%	10%	20%	15%	25%	10%			
aaa								aaa	aaa	AAA
aa+								aa+	aa+	AA+
aa								aa	aa	AA
aa-								aa-	aa-	AA-
a+								a+	a+	A+
a								a	a	A
a-								a-	a-	A-
bbb+								bbb+	bbb+	BBB+
bbb								bbb	bbb	BBB
bbb-								bbb-	bbb-	BBB-Pos
bb+								bb+	bb+	BB+
bb								bb	bb	BB
bb-								bb-	bb-	BB-
b+								b+	b+	B+
b								b	b	B
b-								b-	b-	B-
ccc+								ccc+	ccc+	CCC+
ccc								ccc	ccc	CCC
ccc-								ccc-	ccc-	CCC-
cc								cc	cc	CC
c								c	c	C
f								f	ns	D or RD

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 operating environment score of 'a+' is below the 'aa' category implied score due to the following adjustment reason: international operations (negative).

The business profile score of 'bbb-' is above the 'bb' category implied score due to the following adjustment reason: strategy and execution (positive).

The asset quality score of 'bbb' is below the 'aa' category implied score due to the following adjustment reason: concentrations (negative).

The earnings and profitability score of 'bbb+' is below the 'a' category implied score due to the following adjustment reason: revenue diversification (negative).

The capitalisation and leverage score of 'bb+' is below the 'a' category implied score due to the following adjustment reason: size (negative); risk profile and business model (negative).

The funding and liquidity score of 'bbb-' is above the 'bb' implied category score due to the following adjustment reason: historical and future metrics (positive).

Company Summary and Key Qualitative Factors

Operating Environment

The European market for infrastructure and energy (I&E) has been growing consistently and proved largely resilient to a deteriorating macroeconomic environment. Nevertheless, 2023 was a year of consolidation after a record year in 2022, with a transaction volume estimated at EUR283 billion. It reflected central banks' interest rate increases and higher refinancing risks. However, long-term growing demand to fund the energy transition, digitalisation, zero-emission mobility, elderly care and public health all underpin growth prospects of this sector. It is also facilitated by European supranational funding support under the EU 'Green Deal'. The sector's historically low default rates and low correlation with macroeconomic performance further benefit I&E investments.

Business Profile

Limited Impact from Pending Ownership Change

In February 2023, Altor Equity Partners, a long-term-oriented Nordic financial investor with EUR11 billion assets under management, announced its intention to acquire an 80% stake in KA. The current owners, private investor firm Interritus Limited, and Trinity Investments Designated Activity Company, will remain shareholders of KA, with each holding a 9.9% stake. The remaining 0.2% share is held by the Austrian Association of Municipalities.

The closing of the transaction is still pending as necessary regulatory approvals have not yet been granted. This is now expected before end-1H24. We have not identified a negative impact on KA's business during this period, as demonstrated by solid new business of EUR1.8 billion in 2023. Altor's strategic commitment remains unchanged, including the targeted EUR100 million capital increase at closing of the transaction. Fitch believes that the expected change in KA's ownership supports KA long-term focus and growth trajectory, and also supplements the bank's services, for example by extending the footprint of KA's infrastructure debt funds to Nordic investors.

Experienced Niche I&E Lender

KA is a small but well-recognised lender in the European I&E segment. Its specialist knowledge, agility and opportunistic approach to the market supports its business generation and a pricing capacity for complex transactions at the higher end of the market, despite increasing competition in the sector. Since its privatisation in 2015, KA has successfully transformed its traditional municipal finance-based business model into a focus on energy and renewables, social, transport, and digital infrastructure finance. Its commitments in I&E have grown strongly over the past three years, from EUR146 million in 2016 to above EUR1.5 billion. KA ranked consistently high in I&E lenders' league tables by number of transactions in Europe, in a market dominated by large universal banks.

KA has also extended its advisory capacity for project sponsors, including to international financing institutions. Such long-term relationships are essential to secure recurring business. KA additionally provides investment solutions through its senior debt fund Fidelio, which is independently managed from the bank. The fund is not leveraged and does not benefit from any liquidity or credit guarantee from KA.

The bank's traditional expertise in municipal finance, largely in Austria, remains the second pillar of its business strategy and is an important element to balance risks in its overall business.

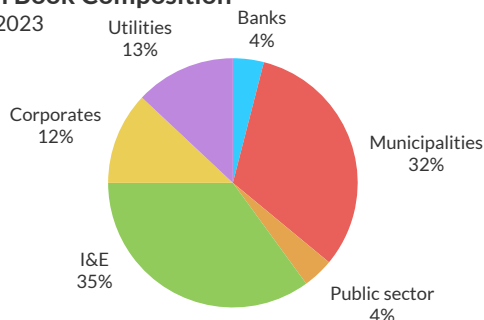
Balance-Sheet-Light Business Model

KA arranges primary market deals, which it structures and syndicates to partners, targeting final holds of EUR10 million to EUR35 million. It places and pre-places most of the syndicated volumes within 120 days from closing the transactions. We view KA's syndication pipeline as adequately granular and diversified by investor and geography.

We expect KA's new business in renewables, social and digital infrastructure to continue to grow in 2024 and beyond. Its balance sheet volume has exceeded EUR5 billion in 2023, and we expect that the bank is likely to be required to adapt to tighter regulatory requirements, including potential MREL in the medium term.

Loan Book Composition

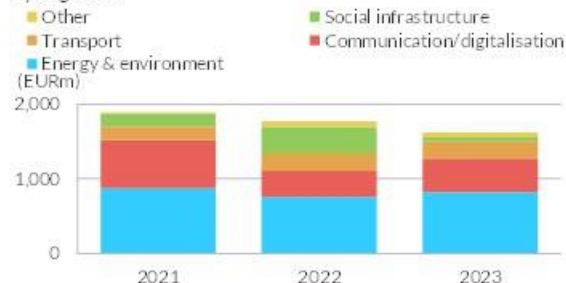
End-2023



Source: Fitch Ratings, KA

I&E New Business Development

By segment



Source: Fitch Ratings, Kommunalkredit

Risk Profile

KA is mainly exposed to project risk in the I&E segment, which represents an increasing proportion of its loan book, and to syndication risk. Risk controls benefit from KA’s highly experienced management and senior staff, on which, however, the bank’s business model is highly dependent. The targeting of rapid new-business growth, planned small equity participations and selected higher-risk I&E financing in recent years confirm a risk appetite above that of peers, but its set risk limits and the embedded risk-culture appear reasonable, in Fitch’s view.

KA focuses on financing projects with resilient and proven business models and technologies, mostly during the operational phase, with low market risk. The underwriting of large tickets is mitigated by extensive project due-diligence and the application of conservative covenants. Projects in lower-rated countries involve reputable western European sponsors or financing in cooperation with development banks and export credit agencies’ (ECA) coverage.

Financial Profile

Asset Quality

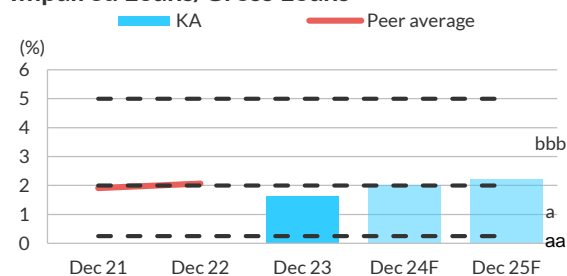
KA’s impaired loan ratio was close to 0% since its privatisation in 2015, but in 2023 the bank accumulated a small number of defaults resulting in an impaired loan ratio of 1.6%. Part of the loan volumes are ECA covered, which is not reflected in our calculation. However, accounting for the Export Credit Agency collateral, the net non-performing exposure is low at about 1%.

Despite this very favourable track record, our assessment of the bank’s asset quality also reflects the bank’s large exposures to single borrowers and a medium-term reduction of its low-risk municipal loan portfolio, which made up about a third of the loan book at end-2023.

The bank’s I&E portfolio has a high share of projects rated sub-investment-grade, and the majority of these loans have not fully seasoned. We hence believe that more impairments are likely to materialise over time and borrowers’ higher refinancing costs could put some pressure on KA’s asset quality.

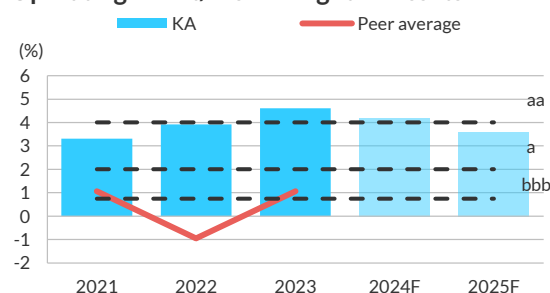
However, considering that transactions are mainly tailor-made, and loans are spread across various segments and geographies, we expect limited systemic risks in the portfolio. We believe that KA’s disciplined underwriting will continue to result in a low impaired loans ratio when compared to peers. The I&E segment’s above-average historical recoveries should also limit credit losses. We also expect KA to maintain its capacity to actively syndicate loans to limit its final take.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

KA's operating profit/RWAs ratio increased further to 4.5% at end-2023 (end-2022: 3.9%), and is well above peers'.

Net interest income (NII), the banks key revenue source rose 53% yoy reflecting a combination of higher rates and volumes, stronger margins and a positive contribution from the acquisition of a portfolio from a third-party bank in 2022. KA's NII is sensitive to higher interest rates, and benefits from a high share of floating-rate exposure in I&E. Its focus on medium-sized transactions with a high complexity drives its above-average net interest margins.

We also expect fee and commission income, up 29% yoy, to increase in the coming years, along with the growth of the I&E business. Fee income comprises placement and origination fees, servicing and asset management fees through the Fidelio debt platform and advisory fees from its consulting business Kommunalkredit Public Consulting (KPC).

KA's cost base is rising at rates well above most peers and inflation because the bank needs to consistently hire highly qualified staff to sustain growth and also invested in its IT infrastructure. Nevertheless, we expect KA to maintain a lean overall cost structure, which compensates adequately for limited economies of scale given the bank's small size.

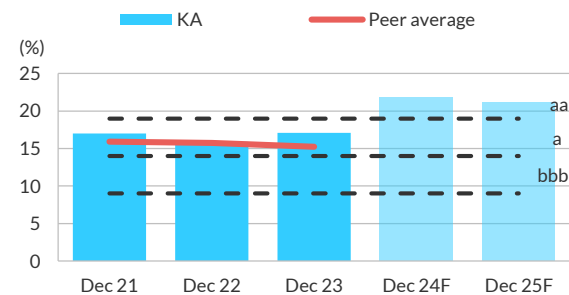
We expect some moderation in KA's profitability metrics in 2024 from the exceptionally high levels in 2022 and 2023, but believe it to remain well above peers.

Capital and Leverage

KA's common equity Tier 1 (CET1) ratio (end-2023: 17.9%, on a solo basis) comfortably exceeded its minimum regulatory requirement, and also KA's management targets. In 2023, KA again demonstrated its capacity to accrue sufficient capital from its earnings to counterbalance rising RWAs. Including the expected increase, KA's CET1 ratio is likely to stay above current levels in the foreseeable future and would temporarily exceed 20%, as the bank will use this capital for future growth. Fitch expects KA's new owners to follow a supportive dividend strategy.

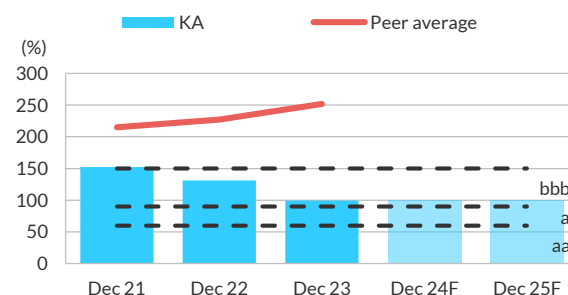
However, our assessment of KA's capitalisation and leverage also takes the absolute level of capital into account, which is still small in light of the bank's business risk. Our positive outlook on capitalisation expresses our view that KA's total amount of capital will be further growing in the next two years. Additional authorised capital that is available in the bank and our expectation of above-average earnings also underpin this view.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/ Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

KA's loan book has been become increasingly deposit-funded as KA is able to attract online term deposits from corporates, municipalities and retail clients in Austria and in Germany. These comprised about 62% of its total funding at end-2023, and have materially reduced the bank's loans-to-deposits ratio over the past five years. Strong inflows in 2023 (retail deposits up 65% yoy) also mitigated the impact from high spread volatility on capital markets. However, despite their granularity Fitch considers this source of funding to be price- and confidence-sensitive.

We expect KA to continue to focus on deposit growth in 2024, but also to ensure sufficient diversity of its funding profile through wholesale issuance. The bank developed a sustainable funding framework to broaden its investor base and attract additional investors. KA has had good access to the covered bond market which comprises about a fifth of its funding at end-2023. However, its cover pool (which consists mainly of gradually maturing Austrian municipal loans) provides fewer opportunities for significant issuance. The bank can also issue unsecured debt under its EUR2 billion debt issuance programme.

KA's assets and liabilities are well matched, avoiding broader maturity transformation, which also benefits the bank's increasing net stable funding ratio of 135% at end-2023. The bank keeps its balance sheet fairly liquid, comprising cash held at the central banks supplemented by a sizeable portion of unencumbered highly quality liquid assets (HQLAs) and ECB-eligible credit claims. Combined, these represent almost 30% of total assets at end-2023.

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 macroeconomic 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, when 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 'a' category. Light-blue columns represent Fitch's forecasts.

Peer average includes Landesbank Saar (VR: bbb-), Triodos Bank N.V. (bbb), IKB Deutsche Industriebank AG (bbb-).

Financials

Financial Statements	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	12 months (USDm)	12 months (EURm)	12 months (EURm)	12 months (EURm)	12 months (EURm)
Summary income statement					
Net interest and dividend income	211	192	126	79	77
Net fees and commissions	42	39	30	29	29
Other operating income	0	0	23	24	2
Total operating income	253	231	179	133	107
Operating costs	104	95	78	65	59
Pre-impairment operating profit	149	136	101	67	48
Loan and other impairment charges	1	1	2	0	0
Operating profit	149	136	99	67	48
Other non-operating items (net)	–	–	–	–	–
Tax	39	35	21	18	12
Net income	110	101	78	49	36
Other comprehensive income	10	9	-27	-10	-20
Summary balance sheet					
Assets					
Gross loans	3,610	3,295	2,789	2,603	2,428
– Of which impaired	59	53	0	0	0
Loan loss allowances	4	4	6	4	4
Net loans	3,606	3,292	2,783	2,599	2,423
Interbank	61	56	103	129	153
Derivatives	198	181	201	130	140
Other securities and earning assets	1,534	1,400	998	996	863
Total earning assets	5,399	4,928	4,086	3,853	3,579
Cash and due from banks	981	896	503	543	809
Other assets	51	47	39	31	35
Total assets	6,432	5,871	4,628	4,428	4,423
Liabilities					
Customer deposits	3,631	3,314	2,126	1,710	1,773
Interbank and other short-term funding	132	120	157	481	520
Other long-term funding	1,747	1,595	1,572	1,582	1,509
Trading liabilities and derivatives	187	171	199	169	223
Total funding and derivatives	5,697	5,200	4,054	3,942	4,025
Other liabilities	104	95	103	49	39
Preference shares and hybrid capital	68	62	62	62	–
Total equity	564	515	410	376	359
Total liabilities and equity	6,432	5,871	4,628	4,428	4,423
Exchange rate		USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Source: Fitch Ratings, Fitch Solutions, Kommunalkredit

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
(%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	4.6	3.9	3.3	2.8
Net interest income/average earning assets	4.3	3.2	2.1	2.1
Non-interest expense/gross revenue	41.0	43.6	50.0	55.1
Net income/average equity	21.8	20.3	13.3	10.4
Asset quality				
Impaired loans ratio	1.6	0.0	0.0	0.0
Growth in gross loans	18.1	7.2	7.2	-9.7
Loan loss allowances/impaired loans	6.9	–	–	–
Loan impairment charges/average gross loans	0.0	0.1	0.0	0.0
Capitalisation				
Common equity Tier 1 ratio	17.1	15.9	17.0	20.0
Tangible common equity/tangible assets	8.6	8.7	8.5	8.0
Net impaired loans/common equity Tier 1	9.9	-1.5	-1.3	-1.3
Funding and liquidity				
Gross loans/customer deposits	99.4	131.2	152.2	137.0
Gross loans/customer deposits + covered bonds	75.9	91.4	101.4	91.2
Liquidity coverage ratio	542.0	348.0	735.0	420.6
Customer deposits/total non-equity funding	65.1	54.3	44.6	46.6
Net stable funding ratio	135.0	129.0	122.0	117.5

Source: Fitch Ratings, Fitch Solutions, Kommunalkredit

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	AA+/ Stable
Size of banking system	Neutral
Structure of banking system	Neutral
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Negative
Liability structure	Negative
Ownership	Negative

The colours indicate the weighting of each KRD in the assessment.

■ Higher influence ■ Moderate influence ■ Lower influence

The government support rating reflects KA's lack of systemic importance and our view that the EU's resolution framework is likely to require senior creditors participating in losses, if necessary, instead or ahead of a bank receiving sovereign support. The IDRs do not factor in any support from KA's owners either, because Fitch generally considers that support from financial investors, while possible, cannot be relied upon.

Environmental, Social and Governance Considerations

FitchRatings Kommunalcredit Austria AG

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Kommunalcredit Austria AG has 5 ESG potential rating drivers

- ➔ Kommunalcredit Austria AG 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	Score	Issues	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 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

Score	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>.

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