FitchRatings

Banks
Universal Commercial Banks
Germany

ProCredit Holding AG

Key Rating Drivers

Shareholder Support Drives IDRs: ProCredit Holding AG's (PCH) Shareholder Support Rating (SSR) of 'bbb' drives its Long-Term Issuer Default Rating (IDR). The SSR is driven by Fitch Ratings' view of a high probability of external support being forthcoming to PCH from its largest international financial institution (IFI) shareholder, KfW (AAA/Stable).

We use KfW's ratings as an anchor to our support assessment, although we expect other IFI shareholders, including the European Bank for Reconstruction and Development (EBRD; AAA/Stable) and DOEN Foundation, could also contribute to any required support. This reflects the strategic nature of the IFIs' investment in PCH, their role in the governance structure and a record of liquidity and capital support.

High Propensity to Support: The wide notching between the ratings of KfW and PCH is driven by our view that potential support could be constrained by KfW's only 13.2% stake in PCH, its limited synergies with PCH, and that reputational risks would be contained for KfW in case of a PCH default. Nevertheless, we believe capital or liquidity support would be made available to PCH as long as PCH's business model sustainably aligns with IFI shareholders' mission and corporate governance remains effective.

High SME Exposure; Strong Governance: Fitch assesses PCH on a consolidated basis. Its Viability Rating (VR) considers its specialised business model focused on responsible financing, primarily to SMEs, with a geographical footprint largely in south and eastern Europe (SEE). Our assessment also reflects the group's prudent corporate governance and risk management, and strong through-the-cycle asset quality.

Sustained Loan Book Quality: PCH's asset quality is generally strong and compares well with the respective markets its subsidiaries operate in. The group's impaired loans ratio decreased to 2.6% at end-1Q24 (end-2022: 3.2%), and we expect it to remain largely stable in the medium term, reflecting disciplined risk-management practices and growth ambitions. Nevertheless, PCH's asset quality is sensitive to developments in its Ukrainian subsidiary, although the latter's loan book has materially decreased over the past two years.

Strengthened Profitability; Potential Volatility: PCH's key profitability ratios are moderate by international standards and prone to swings due to its business model. The group's operating profit (1Q24: 2.5% of risk-weighted assets) benefitted from lower loan impairment charges and a wider net interest margin (NIM). We expect the ratio to moderate slightly to about 2% over the next two years, due to strategic transformation costs and a slightly lower NIM, but to stay structurally stronger than in recent years (four-year average: 1.4%).

Moderate Capitalisation: The group's common equity Tier 1 (CET1) ratio of 14.3% at end-1Q24 was reasonable, but remains only adequate in the context of the operations in less stable economies, which are more susceptible to unexpected events. We expect PCH's CET1 ratio to remain broadly flat at about 14% over the next two years due to accelerated, but less capital-intensive, loan portfolio growth, and moderate internal capital generation.

Diversified Funding, Reasonable Liquidity: Our assessment of the group's funding and liquidity considers the generally nominal standalone deposit franchises of its subsidiaries, established relationships with IFI creditors, and reasonable liquidity, which is managed centrally. Deposit funding has increased in recent years, supporting a decrease in the gross loans/customer deposits ratio to 86% at end-1Q24 (107% at end-2021). Liquidity is well-managed across the group and adequate buffers are held at the group level.

Ratings

Foreign Currency	
Long-Term IDR	BBB
Short-Term IDR	F2
Long-Term IDR (xgs)	BB(xgs)
Short-Term IDR (xgs)	B(xgs)
Viability Rating	bb
Shareholder Support Rating	bbb

Sovereign Risk (Germany)	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA

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

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Fitch Affirms ProCredit Holding AG and ProCredit Bank AG at 'BBB'; Outlook Stable (May 2024)

ProCredit Holding AG - Ratings Navigator (May 2024)

Sovereign Data Comparator (March 2024)

KfW (November 2023)

European Bank for Reconstruction and Development (December 2023)

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Rating Sensitivities

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

A weakening in our assessment of potential support available to PCH from KfW, for example, due to a material decrease in its stake accompanied by a negative change in its support stance, could lead to downgrades of PCH's IDRs and SSR, unless offset by support from another highly-rated shareholder.

PCH's VR would be downgraded if we expected a sustained weakening in the CET1 ratio to below 12% or an increase of its impaired loans ratio above 5%.

The VR could also be downgraded if the holding company's IFRS common equity double-leverage was expected to rise above 120% for a sustained period.

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

The IDRs could be upgraded if PCH's strategic importance for KfW increased, or if another IFI shareholder with a strong credit profile and a very high propensity to support PCH increased its share above KfW's.

Fitch does not expect a VR upgrade in the medium term unless the group's operating environment score improves. This could lead to an upgrade if it was combined with PCH maintaining good asset quality, sustained improvement in profitability and significant strengthening of capitalisation.

Other Debt and Issuer Ratings

Rating Level	Rating
Long-term subordinated debt	BB-

Source: Fitch Ratings

Subordinated Debt

The Tier 2 subordinated debt is rated one notch below the VR. The VR is used as the anchor rating for this instrument as it best indicates the risk of the issuer becoming non-viable, and reflects our view that extraordinary support from PCH's international financial institutions shareholder is less likely to fully extend to non-senior obligations. The rating is notched down once for loss severity, rather than our baseline two notches, from the VR to reflect our view that a large or full loss is likely to be mitigated by institutional support.

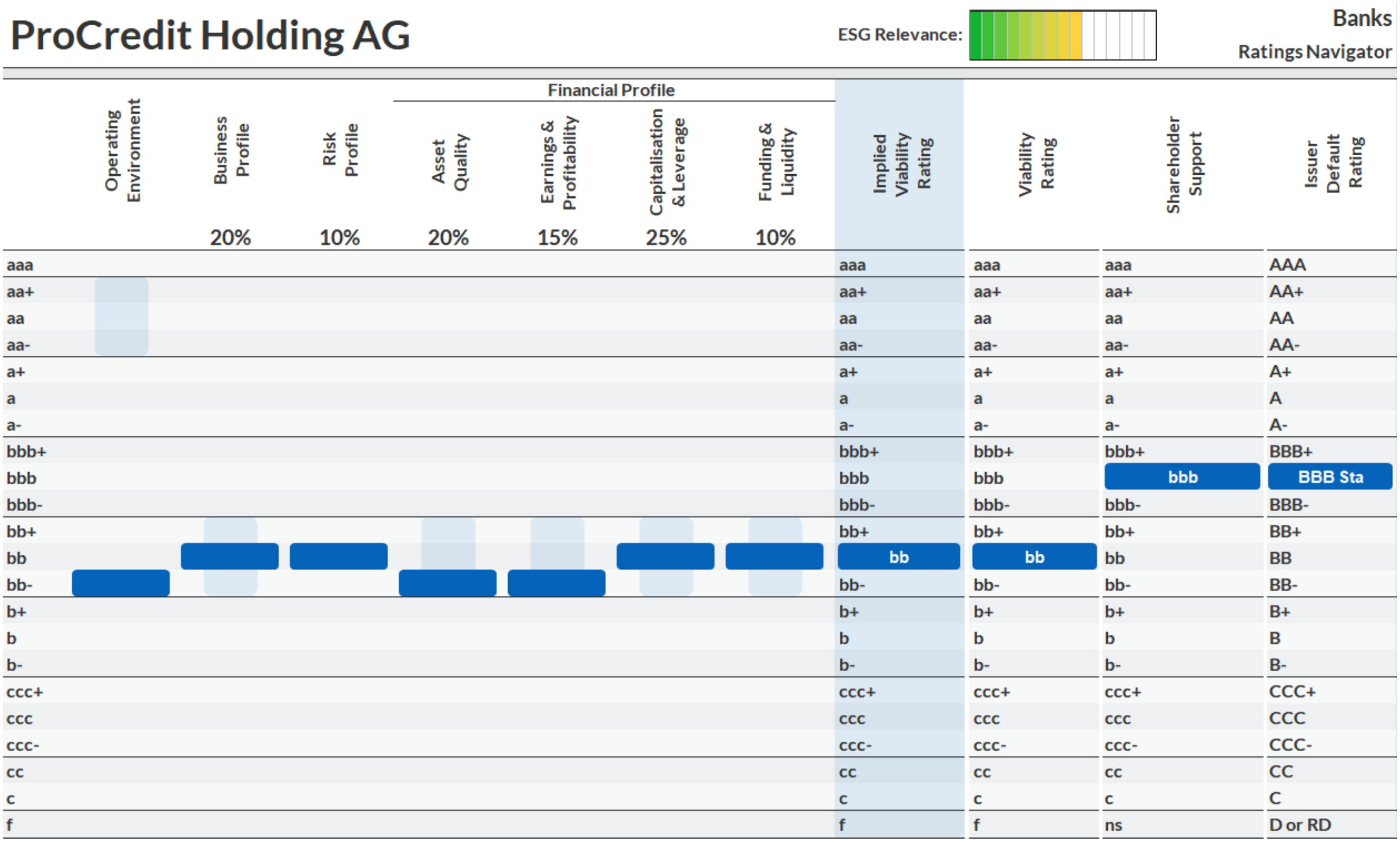
PCH's subordinated debt rating is primarily sensitive to a change in the anchor rating. It is also sensitive to a revision in Fitch's assessment of potential loss severity in case of non-performance, including revised view that partial support could mitigate losses.

Ex-Government Support Ratings

PCH's 'BB(xgs)' Long-Term IDR (xgs) is in line with the bank's VR. Its 'B(xgs)' Short-Term IDR (xgs) is the only option mapping to its Long-Term IDR (xgs).

PCH's Long-Term IDR (xgs) has the same sensitivities as the bank's VR.

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

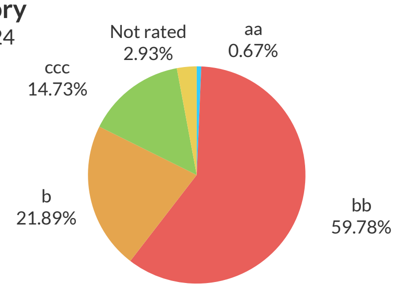
The operating environment score of ‘bb-’ is below the ‘aa’ implied category score due to the following adjustment reason: international operations (negative).

Company Summary and Key Qualitative Factors

Operating Environment

Our assessment of the ProCredit Group operating environment is based on the weighted average loan exposure approach; the 'bb-' operating environment score reflects the group's operations in mostly more volatile and less advanced economies, with moderate to weak income levels and significant structural weaknesses. However, we have also factored in the benefits from the holding company being headquartered in Germany, which includes the high-quality supervision of the consolidated group by the European and German regulator (BaFin) and access to the German deposit and capital markets.

Loan Distribution by Operating Environment Category
End-1Q24



Source: Fitch Ratings, PCH

Business Profile

Focus on MSMEs; Operations Concentrated in South-Eastern Europe

ProCredit Group's traditional banking model is heavily weighted towards lending to SMEs in relatively weak economies and relies on net interest income making up over 80% of revenue. The group's business strategy is focused on the continued sustainable financing of formalised and established small and medium-sized companies and agricultural producers, while expanding the retail franchise (including among micro-enterprises). The role of the holding company is to provide equity and debt financing to group banks to support ordinary business, to encompass a clear mission, product offering and risk-management framework and policies, and to oversee subsidiaries' performance. PCH wholly owns the stakes in all group banks.

Although PCH's subsidiary banks generally lack a strong franchise and pricing power in any particular geography (usually having low single-digit market shares, except double-digits in Kosovo), the ProCredit brand is well-recognised and the bank is perceived as an SME lender on the local markets. ProCredit Group has established itself as a client-focused institution that builds long-term relationships, has proper digital capabilities and has well-qualified staff.

Banks are increasingly deposit-funded, with well-established access to IFI funding and guarantee programmes, while the rest is funded by the parent and ProCredit Bank AG (PCBDE). PCBDE is based in Germany and serves as the group's treasury arm, a hub for liquidity operations and the clearing of international payments.

Presence in Ukraine Remains Residual Downside Risk, Although Reduced

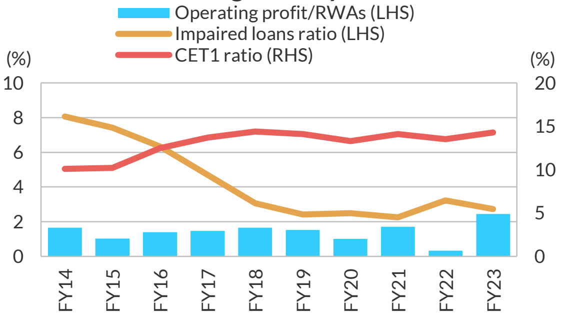
Ukraine is one of the strategic markets for PCH, accounting for 7% of loans following a selective reduction by about 40% since the start of the war, and exposure is equivalent to 45% of the group's CET1 capital at end-1Q24. We believe the residual risks for the group from PCBU's operations are manageable if spread over time. Recently, about 7% of the Ukrainian bank's loan portfolio was classified as impaired.

We believe the group is committed to its subsidiary, and therefore, potential cumulative losses for the group from its operations in Ukraine could be greater than PCH's current equity stake (EUR76 million at end-1Q24).

Experienced Management, Reasonable Performance Tested by Market Challenges

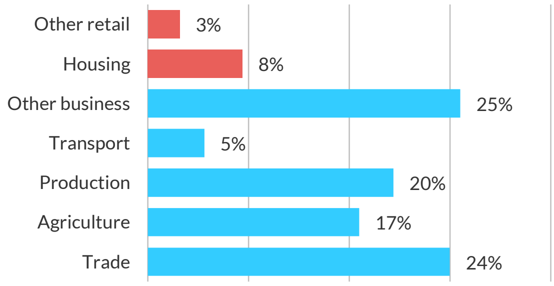
ProCredit Group's performance has been supported by its experienced management, strong corporate governance and a clearly defined strategy. PCH sets guidelines for commercial, risk, capital and funding strategies and the local management deploys the group's guidance adapting the set of objectives to the specifics of local markets. The in-house academies enhance the corporate culture and provide training programmes for management and staff. The group has generally met its key financial targets, though execution was variable across the banks.

Performance Through the Cycle



Source: Fitch Ratings, Fitch Solutions, PCH

Gross Loan Book by Sector



End-2023
Source: Fitch Ratings, PCH

Risk Profile

ProCredit Group's risk appetite balances its prudent underwriting standards, reasonable control framework and selective and geographically-diversified organic growth. However, these cannot fully contain the risks to the group's business model from markets that are inherently riskier than its German base. Its organic growth appetite remains high, but we believe that the group's control environment is suitably adapted to handle higher business volumes. The group's new strategy is pivoting to serve smaller SMEs, micro-businesses, and a wider group of private individuals, aiming for higher margins, better reciprocity and further growth potential in these segments. We expect this direction change will have neutral impact on the overall risk profile, falling within the scope of the current assessment.

ProCredit Group's conservative approach to risk management has been reflected in limited exposure to risky economic sectors, a good degree of diversification by country and borrower, and cash-flow-based loan underwriting process, supplemented by strong collateralisation. Subsidiaries' business model, management and strategy are strongly influenced by its parent and by their integration into the group.

SME exposures (close to 90% of loan portfolio at end-1Q24) are mostly long-term investment loans concentrated in trade, manufacturing and agricultural sectors, with a growing proportion of green lending. The group's loan portfolio is granular (the top 25 customer loans were below 5% of total loans), but with naturally higher single-name concentrations at the smaller subsidiaries. Lending to private individuals is primarily related to mortgage-backed housing loans.

Foreign-currency (FC) risks arise primarily from PCH's FC equity holdings in subsidiary banks, and are difficult to hedge. This exposes PCH's regulatory capital to changes in exchange rates of local currencies against the euro through a translation reserve in equity. Lending by subsidiary banks in FC (mostly the euro) is meaningful and typical for banks operating in SEE. This puts unhedged borrowers' repayments at risk in the event of a sharp depreciation of the local currency, but is mitigated by the evaluation of the borrowers' debt service capacity under the stress scenarios in the underwriting process, and, in some countries, by reliable currency pegs to the euro (Bosnia and Herzegovina, Bulgaria, Kosovo and North Macedonia).

Financial Profile

Asset Quality

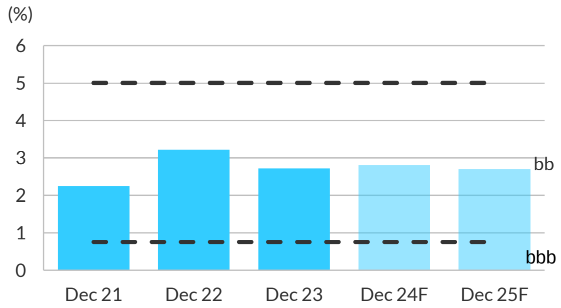
ProCredit Group's fairly conservative risk appetite and prudent underwriting standards support its sound asset quality. Despite the challenging macroeconomic environment and direct exposure in Ukraine through its subsidiary, the group's loan portfolio performed reasonably well, as reflected by the impaired loans ratio of 2%–3.5% over the past four years, and exceeded our expectations. We still consider the ongoing Russia–Ukraine war as a major downside risk, although the bank's vulnerability has decreased with the reduction of the portfolio in Ukraine to EUR456 million net of provisions, and the relatively high precautionary reserves at the group level (EUR64 million).

Fitch forecasts PCH will maintain its impaired loans ratio below 3% in 2024 and 2025, with mild lagged effects of the challenging macroeconomic environment, offset by normalised loan growth.

At end-1Q24, the coverage of impaired loans with specific loan-loss allowances was a reasonable 58% for the group, and higher – at about 85% - in Ukraine. The overall impairment coverage was solid at close to 120%, inflated by Stage 2 loan provisions and the management's overlays.

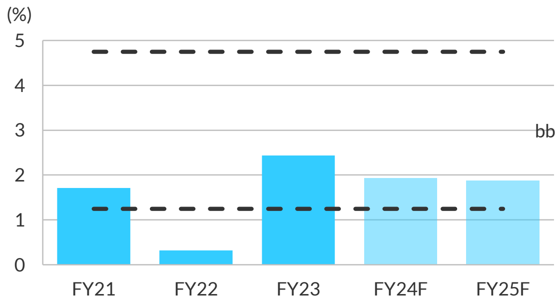
Non-loan assets (about 38% of total assets at end-2023) are held mostly for liquidity-management purposes and largely reflect sovereign risk of the countries in which the group operates. They mainly comprised cash and balances at central banks and local government bonds or bills, mostly with up to 12 months maturity.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

ProCredit Group's through-the-cycle profitability has been volatile amid challenges in some of its operating countries. Nonetheless, it has consistently been supported by loan volume growth and by the bank's asset quality, which is generally better than peers. Pre-impairment profitability in 2023 and 1Q24 continued to perform well, as key interest rates across all markets remained cyclically high, supporting the net interest margin (NIM), while loan growth remained moderate, excluding Ukraine.

Fitch expects ProCredit Group's profitability metrics, expressed by the operating profit/risk-weighted assets (RWAs) ratio, to moderate over the next two years to about 2%, barring adverse events in Ukraine. This expectation is driven partly by a mild decrease in NIM as the interest rates begin to decline, which will be counterbalanced by the group's increased emphasis on micro and smaller SMEs. Lending to these client groups is higher-margin and more capital-efficient. Additionally, planned investments in the new strategy will also play a role. The bank's expertise in SME lending and its cautious approach to entering new segments should help to maintain loan impairment charges at below 40bp in the medium term.

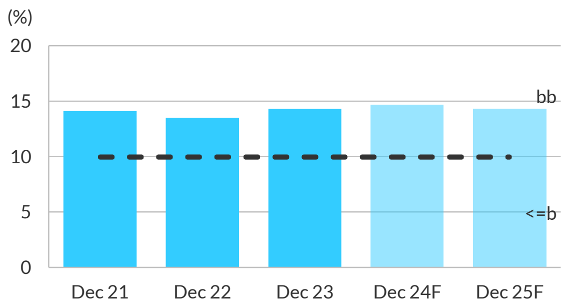
Capital and Leverage

PCH's capitalisation is underpinned by moderate loss-absorption capacity through pre-impairment profit and conservative risk management, resulting in low levels of problem loans. At end-1Q24, the reported CET1 ratio (14.3%) and total capital adequacy ratio (TCR, 15.7%) provided reasonable buffers over the regulatory minimum requirements (9.3% and 14.3%, respectively). The group's TCR increased by about 2pp following the issuance of green Tier 2 bonds that took place in April 2024.

PCH has maintained fairly stable capitalisation, supported by reduced profit distributions. The stability of PCH's capitalisation in the past two years has been supported by temporary reduction of dividend pay-outs and plausible RWA optimisation. The group's leverage remains adequate, as measured by tangible common equity/tangible assets (9.8%). RWAs are likely to be slightly lower as the group is constantly working on increasing RWA efficiency. PCH's general policy is to distribute about a third of profits.

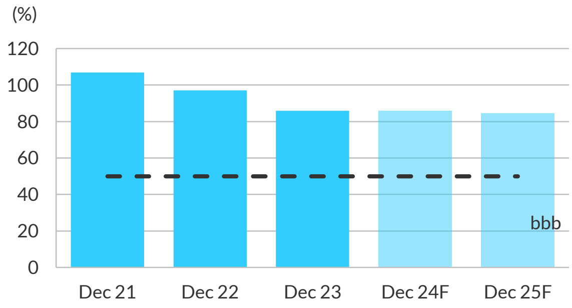
We believe that PCH's capital metrics could be more prone to fluctuations due to inherent risks in the markets where the group operates, also resulting in fluctuations in the fair-value reserve and translation component of its equity (both of which are difficult to predict).

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

The group accelerated the development of its subsidiaries' self-financing capabilities, which resulted in a reduced loans/deposits ratio of 86% at end-1Q24 (end-2021: 107%). Customer deposits represented 84% of the group's funding. A stable 64% of these were cheap current and savings accounts. Most of the group's subsidiaries have only nominal deposit franchises and lack pricing power; the quality of their deposit base is supported by its high granularity.

The funding profile is complemented by well-established and adequately diversified long-term loans from IFIs, directly extended to PCH's subsidiaries and partly guaranteed by the holding, senior unsecured and subordinated debts issued by PCH, and by interbank funding.

Liquidity has been managed cautiously across the group and complies with the rules prescribed on the national level for subsidiary banks. The liquidity coverage ratio was solid at 193% at end-1Q24, comfortably above the regulatory requirement. The group's pool of high-quality liquid assets was nearly 27% of total assets at end-1Q24.

We view PCH's standalone liquidity buffers as sufficient in the medium term in light of the scheduled repayments, considering both an amendment of its debts' cross-default clause and potential stress at its Ukrainian subsidiary. Moreover, PCH should also be able to mobilise external liquidity and refinancing sources, in case of need.

Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics as 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 'bb' category. Light-blue columns represent Fitch's forecasts. Financial year (FY) end is 31 December for all banks unless otherwise stated.

Financials

Financial Statements

	31 Mar 24		31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
	3 months - 1st quarter	3 months - 1st quarter	Year end	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)	(EURm)
	Not disclosed	Not disclosed	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement						
Net interest and dividend income	97	90.1	337.2	264.6	222.0	201.6
Net fees and commissions	15	14.1	57.5	54.7	50.9	47.4
Other operating income	3	3.0	19.4	22.8	12.2	4.9
Total operating income	115	107.2	414.1	342.1	285.1	253.9
Operating costs	71	66.2	248.0	217.8	182.6	171.4
Pre-impairment operating profit	44	41.0	166.1	124.3	102.5	82.5
Loan and other impairment charges	0	0.3	15.3	104.8	6.5	28.6
Operating profit	44	40.7	150.8	19.5	96.0	53.9
Other non-operating items (net)	n.a.	n.a.	-0.8	-1.7	-1.5	-1.8
Tax	8	7.2	36.6	1.3	14.9	10.7
Net income	36	33.5	113.4	16.5	79.6	41.4
Other comprehensive income	5	4.2	1.0	-3.4	28.0	-53.8
Fitch comprehensive income	41	37.7	114.4	13.1	107.6	-12.4
Summary balance sheet						
Assets						
Gross loans	6,894	6,413.8	6,226.5	6,107.7	5,924.4	5,254.3
- Of which impaired	179	166.6	169.2	196.7	133.2	130.8
Loan loss allowances	211	196.6	196.8	214.9	131.4	122.7
Net loans	6,683	6,217.2	6,029.7	5,892.8	5,793.0	5,131.6
Interbank	531	493.7	372.1	280.5	252.6	236.5
Derivatives	9	8.8	8.1	12.7	1.3	0.5
Other securities and earning assets	875	813.6	762.4	491.2	422.7	347.6
Total earning assets	8,098	7,533.3	7,172.3	6,677.2	6,469.6	5,716.2
Cash and due from banks	2,343	2,179.4	2,347.6	1,939.7	1,545.5	1,405.3
Other assets	262	244.1	229.1	209.2	200.8	207.8
Total assets	10,703	9,956.8	9,749.0	8,826.1	8,215.9	7,329.3
Liabilities						
Customer deposits	8,013	7,454.6	7,254.2	6,289.5	5,542.3	4,898.9
Interbank and other short-term funding	1,191	1,108.3	1,127.7	1,318.6	1,313.7	230.6
Other long-term funding	311	289.5	286.4	285.6	440.6	1,357.1
Trading liabilities and derivatives	1	0.8	1.3	0.6	0.4	4.4
Total funding and derivatives	9,516	8,853.2	8,669.6	7,894.3	7,297.0	6,491.0
Other liabilities	88	82.2	95.6	62.4	62.6	58.6
Total equity	1,098	1,021.4	983.8	869.4	856.3	779.7
Total liabilities and equity	10,703	9,956.8	9,749.0	8,826.1	8,215.9	7,329.3
Exchange rate		USD1 = EUR0.930319	USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Source: Fitch Ratings, Fitch Solutions, PCH

Key Ratios

	31 Mar 24	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	2.5	2.4	0.3	1.7	1.0
Net interest income/average earning assets	4.9	4.9	4.0	3.7	3.7
Non-interest expense/gross revenue	61.8	59.9	63.7	64.1	67.5
Net income/average equity	13.4	12.1	1.9	9.7	5.3
Asset quality					
Impaired loans ratio	2.6	2.7	3.2	2.3	2.5
Growth in gross loans	3.0	2.0	3.1	12.8	9.5
Loan loss allowances/impaired loans	118.0	116.3	109.3	98.7	93.8
Loan impairment charges/average gross loans	0.0	0.3	1.7	0.1	0.6
Capitalisation					
Common equity Tier 1 ratio	14.3	14.3	13.5	14.1	13.3
Fully loaded common equity Tier 1 ratio	14.3	14.3	13.5	14.1	n.a.
Tangible common equity/tangible assets	10.0	9.8	9.6	10.2	10.4
Basel leverage ratio	8.8	8.8	8.9	9.3	9.3
Net impaired loans/common equity Tier 1	-3.3	-3.1	-2.2	0.2	1.2
Funding and liquidity					
Gross loans/customer deposits	86.0	85.8	97.1	106.9	107.3
Liquidity coverage ratio	193.0	177.9	155.0	158.4	153.0
Customer deposits/total non-equity funding	84.2	83.7	79.7	76.0	75.5
Net stable funding ratio	156.0	158.0	146.0	141.7	n.a.

Source: Fitch Ratings, Fitch Solutions, PCH

Support Assessment

Shareholder Support	
Shareholder IDR	AAA
Total Adjustments (notches)	-8
Shareholder Support Rating	bbb
Shareholder ability to support	
Shareholder Rating	AAA/ Stable
Shareholder regulation	1 Notch
Relative size	Equalised
Country risks	Equalised
Shareholder propensity to support	
Role in group	2+ Notches
Reputational risk	2+ Notches
Integration	2+ Notches
Support record	1 Notch
Subsidiary performance and prospects	Equalised
Legal commitments	2+ Notches

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

PCH's IDRs and SSR are driven by Fitch's view of a high likelihood of extraordinary support given to PCH from its largest IFI shareholder, KfW, to which Fitch anchors its support assessment. Nonetheless, we expect KfW to act in cooperation with the other IFI shareholders, EBRD and DOEN Foundation. These entities could provide further support, given the same strategic nature of their investment in PCH, which we view as long term, their role in governance structure, the alignment of the IFIs' missions of promoting economic and social development with ProCredit's impact-oriented strategy and geographical presence in emerging European countries, and a record of ordinary liquidity and capital support already provided to PCH and its subsidiaries.

The wide notching between the ratings of KfW and PCH is driven by the propensity to support being constrained by KfW's 13.2% minority stake, its limited synergies with PCH other than an aligned mission and strategic impact-orientation, and contained reputational risk in a PCH default. We believe support would be made available to cover temporary shortages of capital or liquidity as long as PCH continues to operate in a manner consistent with the objectives of its IFI shareholders, and maintains robust corporate governance. The wide notching also results from uncertainty regarding support being timely, given the fragmented nature of the shareholder structure.

Environmental, Social and Governance Considerations

FitchRatings **ProCredit Holding AG**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

ProCredit Holding AG has 5 ESG potential rating drivers

- ProCredit Holding 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.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entities, either due to their nature or the way in which they are being managed by the entities. 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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