FitchRatings

Banks
Retail & Consumer Banks
Austria

Addiko Bank AG

Key Rating Drivers

Addiko Bank AG's ratings reflect the bank's business profile as a specialised lender focused on unsecured lending to retail clients and small businesses in the south eastern Europe (SEE) region, where economies are more volatile. The ratings also reflect the group's adequate risk profile, improving asset quality and earnings. Capitalisation, liquidity and funding are rating strengths.

The Stable Outlook on Addiko's Long-Term Issuer Default Rating (IDR) reflects Fitch Ratings' view that labour market indicators in Addiko's largest markets should remain resilient in the next two years despite slower economic growth. However, high inflation is likely to lead to a moderate increase in impaired loans and loan impairment charges (LICs). The latter are likely to be offset by higher lending margins due to rising interest rates.

Niche Business Model: Our assessment of Addiko's business profile considers the group's small but growing franchise, which we believe has critical mass in all markets. It also reflects Addiko's positioning as a challenger, with clear unique selling points (speed and modern digital offering) affording the group some pricing power. The bank's business plan and strategy benefit from its knowledge of local markets and record in its key banking segments. Our assessment also reflects Addiko's small operations and a less diversified business model than larger peers.

Unsecured Lending: Addiko's risk profile is driven by its exposure to unsecured consumer and SME lending in SEE. We view the bank's underwriting criteria as in line with local industry practice. However, these have not yet been tested in a prolonged economic downturn.

Improving Asset Quality: Addiko's asset quality reflects its positive performance in recent years. Addiko had reduced its impaired loans ratio to 4.3% at end-1H23 (end-2015: 25%) through portfolio sales and settlements. We expect the four-year average impaired loan ratio to remain close to 5% over the next two years, as it writes off non-performing loans (NPLs) in Croatia and Slovenia.

We expect LICs/gross loans to increase to about 100bp–130bp in 2024, which is adequately covered by pre-impairment profit. LICs have remained below that level in the past five years and benefitted from loan loss allowance reversals in wind-down portfolios.

Weak but Improving Profitability: Addiko's profitability is weak, but improving, on the back of its successful restructuring, supported by a solid record of cost management, lower LICs and improving net interest margins, which we expect to continue in the next two years. Our assessment also reflects the bank's dependence on less diversified revenues from less stable operating environments and a potential, albeit limited, burden from additional provisions for legacy Swiss franc-denominated loans.

Solid Capitalisation: Addiko's capitalisation is a rating strength in light of its high risk-weight density, which translates into an above-average leverage ratio. Our assessment also reflects the bank's high and stable capital adequacy targets and improving pre-impairment profitability.

Stable Deposits Underpin Funding: Addiko is mainly funded by retail deposits sourced locally, which is positive for our assessment of funding and liquidity, which is also supported by its healthy structural liquidity position. Addiko has no reliance on external wholesale funding. We view the bank's intention not to access the wholesale market in the medium term as credible given its liquidity buffer and established depositor base. Addiko's 'B' Short-Term IDR is the only option that maps to a 'BB' Long-Term IDR on Fitch's rating scale.

Ratings

Long-Term IDR	BB
Short-Term IDR	B
Viability Rating	bb
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	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Fitch Rates Addiko 'BB'; Outlook Stable (August 2023)

Analysts

Marco Diamantini
+49 69 768076 114
marco.diamantini@fitchratings.com

Markus Glabach
+49 69 768076 195
markus.glabach@fitchratings.com

Rating Sensitivities

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

We would downgrade the ratings following substantial capital erosion, which could be caused by a materialisation of legal risks, from aggressive dividend distribution or from asset-quality deterioration (including materially larger write-offs).

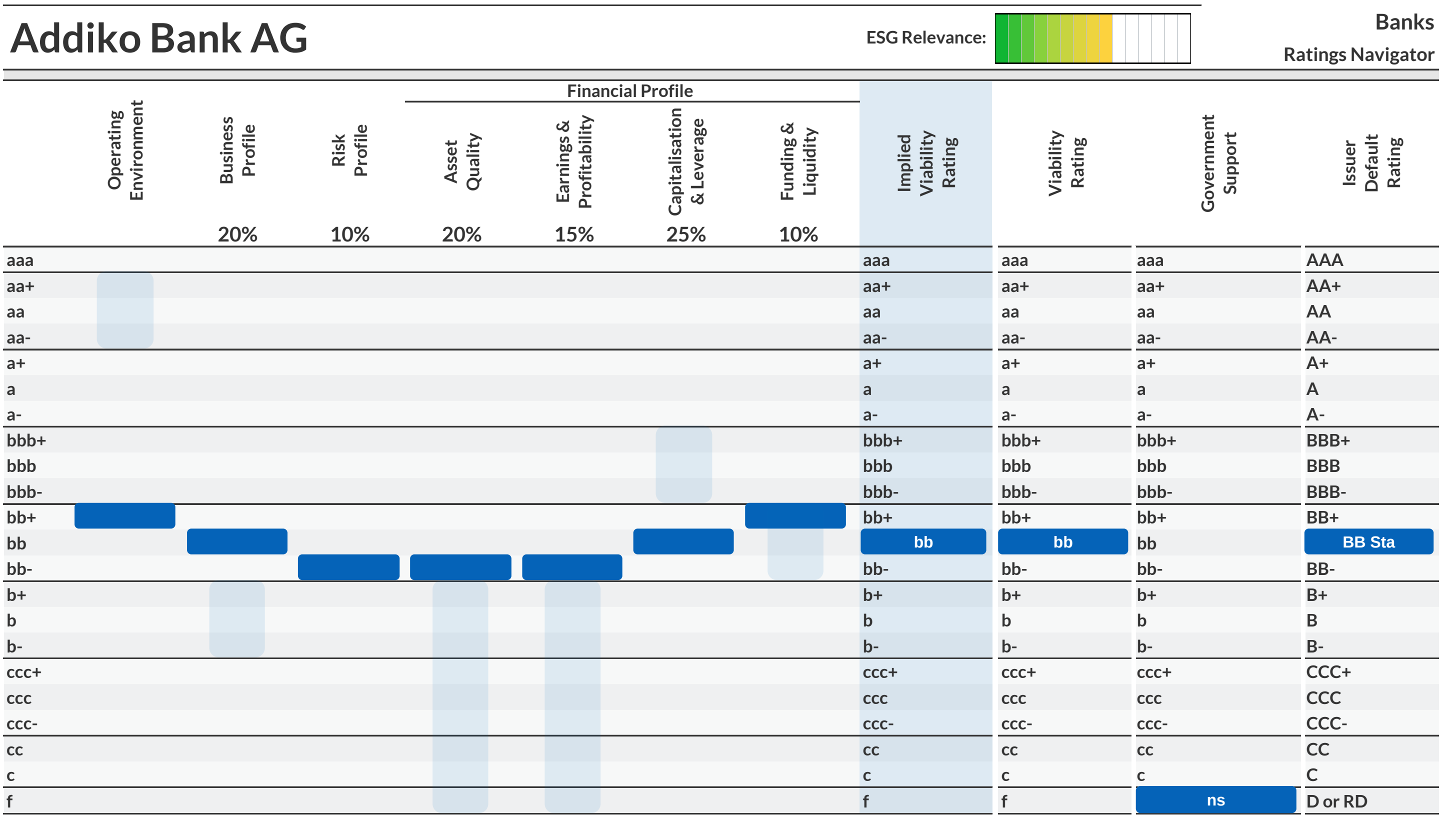
In addition, we could downgrade the ratings if strategic objectives shift, growth acceleration results in a negative deviation from current underwriting standards and investment policies, or due to failure to maintain operating profit at least at 1.25% of risk-weighted assets (RWAs).

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

An upgrade would require a record of operating profit close to 2.5% of RWAs, indicating a sustained strengthening of Addiko's business profile, while maintaining an impaired loans ratio at or below about 5% and a common equity Tier 1 ratio of close to 20%.

An upgrade could also result from a material improvement in the operating environment, as a result of a shift in business expansion towards markets Fitch deems more stable, notably Croatia or Slovenia.

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+' has been assigned below the 'aa' category implied score, due to the following adjustment reason: international operations (negative).

The business profile score of 'bb' has been assigned above the 'b' category implied score, due to the following adjustment reason: strategy and execution (positive).

The asset quality score of 'bb-' has been assigned above the 'b and below' category implied score, due to the following adjustment reason: historical and future metrics (positive).

The earnings and profitability score of 'bb-' has been assigned above the 'b and below' category implied score, due to the following adjustment reason: historical and future metrics (positive).

The capitalisation and leverage score of 'bb' has been assigned below the 'bbb' category implied score, due to the following adjustment reason: risk profile and business model (negative).

Company Summary and Key Qualitative Factors

Operating Environment

Addiko's operating environment (OE) score is the average of the OE scores of its markets of operations, using loan exposures as weights. The OE score reflects the group's operations across SEE, including countries with more volatile and less advanced economies and modestly developed banking sectors and capital markets. This is mitigated by some geographic diversification in the region and a developed regulatory and legal framework in Austria, where the bank is headquartered, and key corporate functions, including liquidity management, are centralised.

Operating Environment by Markets of Operations

OE Score	Markets	Loans (EURm, end-2022)	(%)
aa-	Austria	0	0
bbb	Slovenia	990	29
bbb-	Croatia	1,115	32
bb-	Serbia	598	17
b	Bosnia & Herzegovina	584	17
No score	Montenegro	164	5

Source: Fitch Ratings, Addiko

Business Profile

Addiko was established in 2015 through the acquisition of the SEE business of the former Hypo Alpe Adria Bank by the European Bank of Reconstruction and Development and by Advent International, a US private equity investor. In 2019, Addiko was listed on the Vienna Stock Exchange. Around 57% of the bank's shares are in free float.

The group's parent bank, Addiko Bank AG, is a fully-licensed bank in Austria regulated by the ECB and the Austrian Financial Market Authority (FMA). It has six subsidiaries, in Croatia, Slovenia, Bosnia & Herzegovina (where it operates through two banks), Serbia and Montenegro. Unlike the larger Italian and Austrian banks with subsidiaries in SEE, which generate only a minor share of the respective group's business in the region, Addiko exclusively focuses on Balkan countries. This exposes the bank to risks arising from geographical concentration in a region where macroeconomic shocks can be highly correlated.

Addiko is a niche bank with market shares of between 3% and 10% in consumer and small business lending in most of the countries in which it operates, serving about 0.8 million customers through digital banking and a network of 154 branches. We believe this is a sufficient mass to achieve scale in this business. A modern digital interface and above-average speed in time to cash affords the group some pricing power in consumer lending. Similarly, the bank is well-positioned to serve small and micro businesses (up to EUR1.5 million turnover) with standardised products, while it has exited relationship-based lending to larger SMEs.

The bank invests in the development of its digital offering so as to expand its business. Over the past two years, Addiko has introduced various digital initiatives, including end-to-end digital lending for consumer clients, lending via partnerships (i.e. point-of-sale financing), buy-now-pay-later services via a fintech partner, and digital lending for micro-SMEs. Addiko's non-core business includes mortgage lending, and its public sector and large corporate lending portfolios that had been originated prior to 2016 are in run down, thereby providing liquidity and capital for the growth of its unsecured, higher-yielding consumer and small business lending.

Risk Profile

Addiko has reduced concentration risk over the past four years by winding-down most of its non-core medium and large corporate loan books, a large portion of which was non-performing. Its risk profile is now driven by its exposure to unsecured consumer and SME lending in SEE.

Addiko also remains exposed to legal claims related to Swiss-franc-denominated mortgages originated before 2009, but we view this as manageable for the bank – even in a worst-case outcome. The exposure to Swiss franc loans was reduced to EUR63 million at end-1H23 (1.8% of gross loans) from EUR1.2 billion at end-2015. Over half of the loan exposure in 2015 was to Croatian borrowers and has already been impaired following the enactment of a conversion law. Croatian borrowers are potentially entitled to request additional default interest on overpaid amounts until the conversion date, which would drive additional legal costs in 2023, but these should be covered by the bank's profits. In 2022, also Slovenia passed a law to convert Swiss franc loans, which would have led to up to EUR110 million estimated damage (15% of CET1 capital, 79% of the Swiss franc loan volume outstanding in 2015) according to Addiko, but the law was declared unconstitutional by the Slovenian constitutional court.

Loan underwriting criteria are standardised across the group, cash-flow based and automated. We view loan underwriting criteria as broadly in line with those of local peers. Addiko's investment book amounted to EUR1.1 billion at end-1H23 and mainly includes central European and SEE sovereign bonds with an average maturity of four years. Bonds added after 1Q22 (31% of the portfolio) are classified as hold-to-collect with negligible unrealised losses, whilst older ones are at fair value with a EUR71 million negative reserve in equity. Addiko's market risk is low and relates primarily to foreign-currency risk from Addiko's equity holding in its subsidiary in Serbia.

Financial Profile

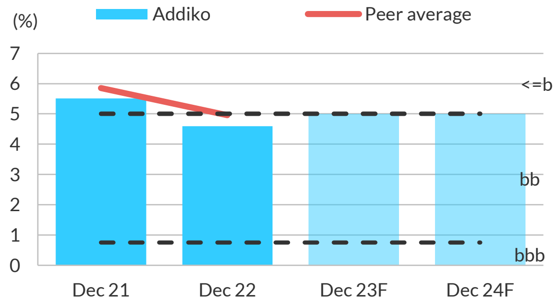
Asset Quality

Consumer and SME lending accounted for 47% and 38% of Addiko's loan book at end-1H23, respectively. We expect LICs/gross loans to increase to 100bp–130bp in 2024, which is adequately covered by pre-impairment profits. LICs have remained below that level in the past five years due to loan loss allowance reversals in wind-down portfolios. The latter include mortgage (12% of loans), large corporates (3%) and public finance (2%) loans. Higher-than-expected unemployment, sharp increases in interest rates, or inflation in Addiko's markets would likely result in higher LICs.

We expect Addiko's impaired loans ratio to remain close to 5% over the next two years because the bank can sell impaired consumer loans in all of its markets, with the exceptions of Serbia and Bosnia. Addiko reduced its volume of non-performing exposure to EUR159 million at end-1H23 (2018: EUR404 million) following an active reduction of its legacy impaired loans through portfolio sales and work-outs.

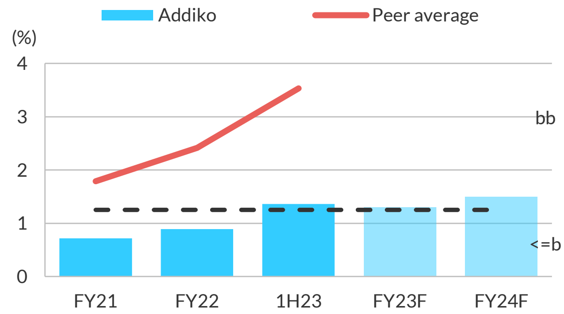
Coverage of Stage 3 loans with specific loan loss allowances was 79% at end-1H23, while the overall impairment coverage is solid at above 100%, inflated by Stage 2 loans provisions and management overlays to address uncertainties and volatility in the macroeconomic environment.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

Addiko's profitability still lags behind that of peers that have comparable business profiles in the SEE region, even after adjusting for the bank's higher RWA density. We expect Addiko's profitability to improve and its operating profit/RWA to increase towards 2% in the next three years (2022: 0.9%), driven by loan growth and higher-yielding new business, which should offset deposit repricing, cost inflation and the expected increase in LICs from the current low level.

Operating profits in 1H23 (1.4% of RWAs) were supported by increased net interest income (up 28% yoy), in turn driven by higher loan volumes and deposits repricing at a much slower rate than for the bank's loan book and liquidity holdings. As a result, Addiko's reported net interest margin increased to 3.7% in 1H23 (1H22: 3.0%). Fee and commission income slightly declined, mainly driven by the lost FX business from Croatia following the introduction of the euro in January 2023. Operating expenses increased 5.0% yoy, driven by wage and energy prices inflation, preload of audit costs and residual costs for the euro implementation project in Croatia.

The bank's business model, based on a high share of recurring lending business in the consumer/SME segment, reduces revenue volatility. Net interest income accounted on average for 75% of revenue over the past four years, while net commission income originates mostly from payments, account management and credit cards.

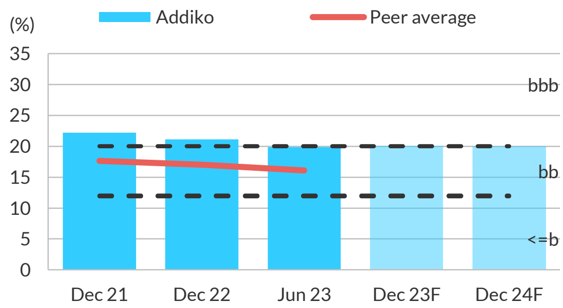
Capital and Leverage

Addiko has no additional Tier 1 or Tier 2 instruments outstanding, and its total capital (TC) ratio was equal to its CET1 ratio (both 19.9% at end-1H23). The management is aiming for a TC ratio above 18.6% at end-2023. This provides some headroom over Addiko's TC requirement (14.16%) and its Pillar 2 guidance (1H23: 3.25%). The TC requirement will likely rise in 2024 following a 25bp raise in the systemic risk buffer (which Addiko has appealed) and the planned increase of the countercyclical buffers in Croatia and Slovenia, which could add between 29bp and 46bp.

Addiko's use of the standardised approach for most of its RWAs limits the vulnerability of Addiko's capital ratios to negative rating migration. Fitch believes that Addiko's standardised approach also understates the bank's capitalisation compared with peers with similar risk profiles that make extensive use of the internal rating-based approach. Addiko's Basel leverage ratio of 11.5% at end-1H23, which is much stronger than that of peers, illustrates this.

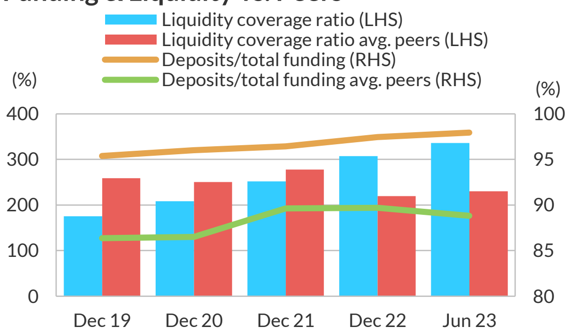
Organic capital generation is modest given the bank's shareholder-friendly dividend policy, but sufficient to match business-driven RWA growth. Capital fungibility across the group is limited to annual profits, as special dividends are subject to lengthy approval processes involving local regulators.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Funding & Liquidity vs. Peers



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

Addiko's funding is dominated by a stable, granular deposit base, which accounts for 98% of its total funding at end-2022. In particular, Addiko benefits from its brand recognition in SEE, where it inherited household deposits from Hypo Alpe Adria, and collection of online deposits in Germany and Austria.

Addiko is not subject to a minimum requirement for own funds and eligible liabilities (MREL) at group level. MREL applies to its Croatian subsidiary and is covered with local own funds. Moreover, the bank expects its Slovenian subsidiary to also become subject to MREL, in which case it would downstream eligible liabilities to cover the EUR5 million gap. We do not expect Addiko to issue debt instruments as long as it can finance its growth with deposits.

Liquidity is managed prudently and Addiko's high liquid assets was nearly 40% of total assets at end-1H23. The bank has also repaid in full its central bank tenders (TLTRO) in 2022, and subsidiaries are mostly funded locally.

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 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.

Peer average includes Banca Transilvania S.A. (VR: bb+), United Bulgarian Bank AD (bb), ProCredit Holding AG & Co. KGaA (bb), Nova Kreditna banka Maribor d.d. (bbb-), Erste & Steiermarkische Bank d.d. (bb+), Alior Bank S.A. (bb).

Financials

Financial Statements

	30 Jun 23		31 Dec 22	31 Dec 21	31 Dec 20
	6 months - interim (USDm)	6 months - interim (EUR 000)	Year end (EUR 000)	Year end (EUR 000)	Year end (EUR 000)
Summary income statement					
Net interest and dividend income	117	108,100	176,400	169,500	174,700
Net fees and commissions	35	32,500	72,500	66,800	59,800
Other operating income	-4	-4,100	-7,400	-4,900	2,500
Total operating income	148	136,500	241,500	231,400	237,000
Operating costs	112	103,400	194,900	192,000	177,700
Pre-impairment operating profit	36	33,100	46,600	39,400	59,300
Loan and other impairment charges	10	9,100	15,400	13,300	48,400
Operating profit	26	24,000	31,200	26,100	10,900
Other non-operating items (net)	n.a.	n.a.	n.a.	-5,300	-4,600
Tax	5	4,500	5,500	7,200	4,900
Net income	21	19,500	25,700	13,600	1,400
Other comprehensive income	16	14,700	-84,500	-14,100	-10,900
Fitch comprehensive income	37	34,200	-58,800	-500	-9,500
Summary balance sheet					
Assets					
Gross loans	3,915	3,603,300	3,476,200	3,489,100	3,851,400
- Of which impaired	166	153,200	159,600	192,200	237,300
Loan loss allowances	196	180,000	183,500	210,400	266,700
Net loans	3,720	3,423,300	3,292,700	3,278,700	3,584,700
Interbank	52	48,000	89,200	5,700	56,500
Derivatives	5	5,000	5,000	1,100	3,100
Other securities and earning assets	1,230	1,132,100	1,083,800	1,048,800	967,100
Total earning assets	5,007	4,608,400	4,470,700	4,334,300	4,611,400
Cash and due from banks	1,227	1,129,400	1,382,900	1,361,700	1,156,300
Other assets	150	137,700	142,800	146,300	146,800
Total assets	6,384	5,875,500	5,996,400	5,842,300	5,914,500
Liabilities					
Customer deposits	5,268	4,848,500	4,959,600	4,708,200	4,728,100
Interbank and other short-term funding	111	101,700	128,600	174,700	196,300
Other long-term funding	n.a.	n.a.	n.a.	n.a.	n.a.
Trading liabilities and derivatives	4	3,300	3,100	2,300	4,900
Total funding and derivatives	5,382	4,953,500	5,091,300	4,885,200	4,929,300
Other liabilities	180	165,600	158,800	152,000	133,400
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	822	756,400	746,300	805,100	851,800
Total liabilities and equity	6,384	5,875,500	5,996,400	5,842,300	5,914,500
Exchange rate		USD1 = EUR0.920302	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Source: Fitch Ratings, Fitch Solutions, Addiko Bank AG

Key Ratios

	30 Jun 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (annualised as appropriate; %)				
Profitability				
Operating profit/risk-weighted assets	1.4	0.9	0.7	0.3
Net interest income/average earning assets	4.8	4.0	3.7	3.6
Non-interest expense/gross revenue	75.8	80.7	83.0	75.0
Net income/average equity	5.2	3.3	1.6	0.2
Asset quality				
Impaired loans ratio	4.3	4.6	5.5	6.2
Growth in gross loans	3.7	-0.4	-9.4	-6.9
Loan loss allowances/impaired loans	117.5	115.0	109.5	112.4
Loan impairment charges/average gross loans	0.5	0.4	0.5	1.2
Capitalisation				
Common equity Tier 1 ratio	19.9	21.1	22.2	20.3
Fully loaded common equity Tier 1 ratio	19.9	20.9	21.6	19.3
Tangible common equity/tangible assets	12.0	11.9	13.2	13.9
Basel leverage ratio	11.5	11.6	12.9	13.1
Net impaired loans/common equity Tier 1	-3.8	-3.3	-2.3	-3.6
Funding and liquidity				
Gross loans/customer deposits	74.3	70.1	74.1	81.5
Liquidity coverage ratio	335.8	307.4	252.1	208.5
Customer deposits/total non-equity funding	98.0	97.5	96.4	96.0
Net stable funding ratio	n.a.	170.5	162.6	149.3

Source: Fitch Ratings, Fitch Solutions, Addiko

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	
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AA+/ Negative
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	Neutral
Ownership	Neutral

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

The Government Support Rating of 'no support' reflects our view that the EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism provide a resolution framework that is likely to require senior creditors participating in losses instead of a bank receiving sovereign support. In addition, we do not factor in any support from Addiko's owners because we generally view that support from financial investors, while possible, cannot be relied on.

An upgrade of Addiko's GSR would require a higher propensity of sovereign support. While not impossible, this is highly unlikely due to the prevailing regulatory framework and Addiko's low systemic importance in Austria.

Environmental, Social and Governance Considerations

FitchRatings **Addiko Bank AG**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Addiko Bank AG has 5 ESG potential rating drivers

- Addiko Bank 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 result in a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

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

Social (S) Relevance Scores

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

Governance (G) Relevance Scores

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

CREDIT-RELEVANT ESG SCALE

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

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

The highest level of ESG credit relevance is a score of '3', 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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