FitchRatings

Banks
Universal Commercial Banks
Switzerland

Zuercher Kantonalbank

Key Rating Drivers

Support Drives Ratings: Zuercher Kantonalbank's (ZKB) Issuer Default Ratings (IDRs) are driven by support from its guarantor and sole owner, the Canton of Zurich (AAA/Stable/F1+). ZKB's Shareholder Support Rating (SSR) is equalised with the canton's Long-Term IDR. ZKB's Viability Rating (VR) reflects the bank's stable and resilient business model, conservative risk appetite, strong asset quality, funding and capitalisation, and adequate profitability.

Cantonal Guarantee: The canton guarantees all of ZKB's non-subordinated liabilities according to a specific cantonal law (ZKB Law). ZKB's balance sheet is large relative to the canton's budgetary resources, but its stable and resilient business model, funding, and capital buffers mean that recapitalisation or liquidity support would be manageable in a realistic stress scenario.

Timely Support Expected: The canton's guarantee does not explicitly address the timeliness of support, but we believe that support would be provided in a timely fashion, given ZKB's high importance for the canton and the potential repercussions of a systemically important bank's failure for the Swiss financial sector. The canton's constitution requires it to have a cantonal bank, making the owner more likely to support the bank in financial distress.

Strong Regional Franchise: ZKB's VR is supported by the bank's leading franchise in deposit-taking and residential mortgage lending in the Canton of Zurich, where the bank's operations are concentrated. Geographic concentration is mitigated by Zurich's economic strength and ZKB's diversified business model, covering retail and commercial banking. ZKB is also the third-largest fund provider and one of the largest asset managers in Switzerland.

Material Real Estate Exposure: ZKB's impaired loans ratio is very low compared with international peers. Its main risk stems from its large real estate exposure in Zurich. We believe loan quality would be resilient to a significant decline in property values due to the bank's strict underwriting standards and moderate loan-to-value ratios. ZKB's non-mortgage exposure, which comprises 10% of gross loans, is more vulnerable to adverse economic conditions. We expect ZKB's impaired loan ratio to remain below 1% in 2024 and 2025.

Declining Earnings on Lower Rates: Our assessment of ZKB's profitability reflects its long record of adequate, stable and fairly diversified earnings, with a material share of trading income. Operating profitability increased significantly in 2023 (1.9% of risk-weighted assets) benefitting from rising interest rates and slow deposit repricing. With policy rates declining, we expect operating profitability to decline in 2024, but to remain above 1.5%.

Strong Capitalisation: ZKB's common equity Tier 1 (CET1) ratio improved to 17.4% at end-2023 due to robust earnings. The canton's guarantee covers half of ZKB's gone-concern capital requirement, which will be fully phased in at 7.86% in 2026. The remaining half is mainly covered with bail-in debt (CHF1.8 billion at end-1Q24) and undrawn endowment capital (CHF1 billion).

Stable Funding: The large and mostly granular deposit base underpins the bank's funding , despite some more concentrated corporate and institutional deposits. Wholesale funding needs are moderate and benefit from the bank's cantonal guarantee and investors' perception of ZKB as a safe haven in times of market uncertainty. As a domestic systemically important bank, ZKB is subject to more stringent liquidity requirements, which it comfortably complies with.

Recovery and Resolution Plan: ZKB has a recovery and resolution plan approved by the Swiss banking supervisor. According to this plan, the canton could be required to provide around CHF3 billion of capital to recapitalise ZKB. Fitch believes the provision of this capital would be manageable for the canton given its strong financial position, and would not on its own drive negative action on the canton's ratings, or trigger a reassessment of our support assumptions.

Ratings

Foreign Currency	
Long-Term IDR	AAA
Short-Term IDR	F1+
Viability Rating	a+
Shareholder Support Rating	aaa

Sovereign Risk (Switzerland)	
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 Zuercher Kantonalbank at 'AAA'; Outlook Stable (July 2024)

Fitch Affirms Switzerland at 'AAA'; Outlook Stable (April 2024)

Global Economic Outlook (June 2024)

Fitch Affirms Canton of Zurich at 'AAA'; Outlook Stable (May 2024)

Swiss Domestic Banks - Peer Review 2024 (January 2024)

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Rating Sensitivities

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

A downgrade of the Canton of Zurich's IDRs would result in a downgrade of ZKB's IDRs and SSR. A material increase in the canton's contingent liabilities, which are dominated by ZKB, could put pressure on ZKB's IDRs and SSR. Contingent liabilities could increase, for instance, because of sustained growth in the bank's balance sheet in excess of the canton's GDP growth, or due to a material delay by the canton in promptly addressing a potential capital shortfall at ZKB.

ZKB's IDRs and SSR are also sensitive to changes to the bank's relationship with the canton, especially if the ZKB Law was amended in a way that would weaken the guarantee's effectiveness or that casts doubt on the timeliness of support. However, we view this scenario as unlikely.

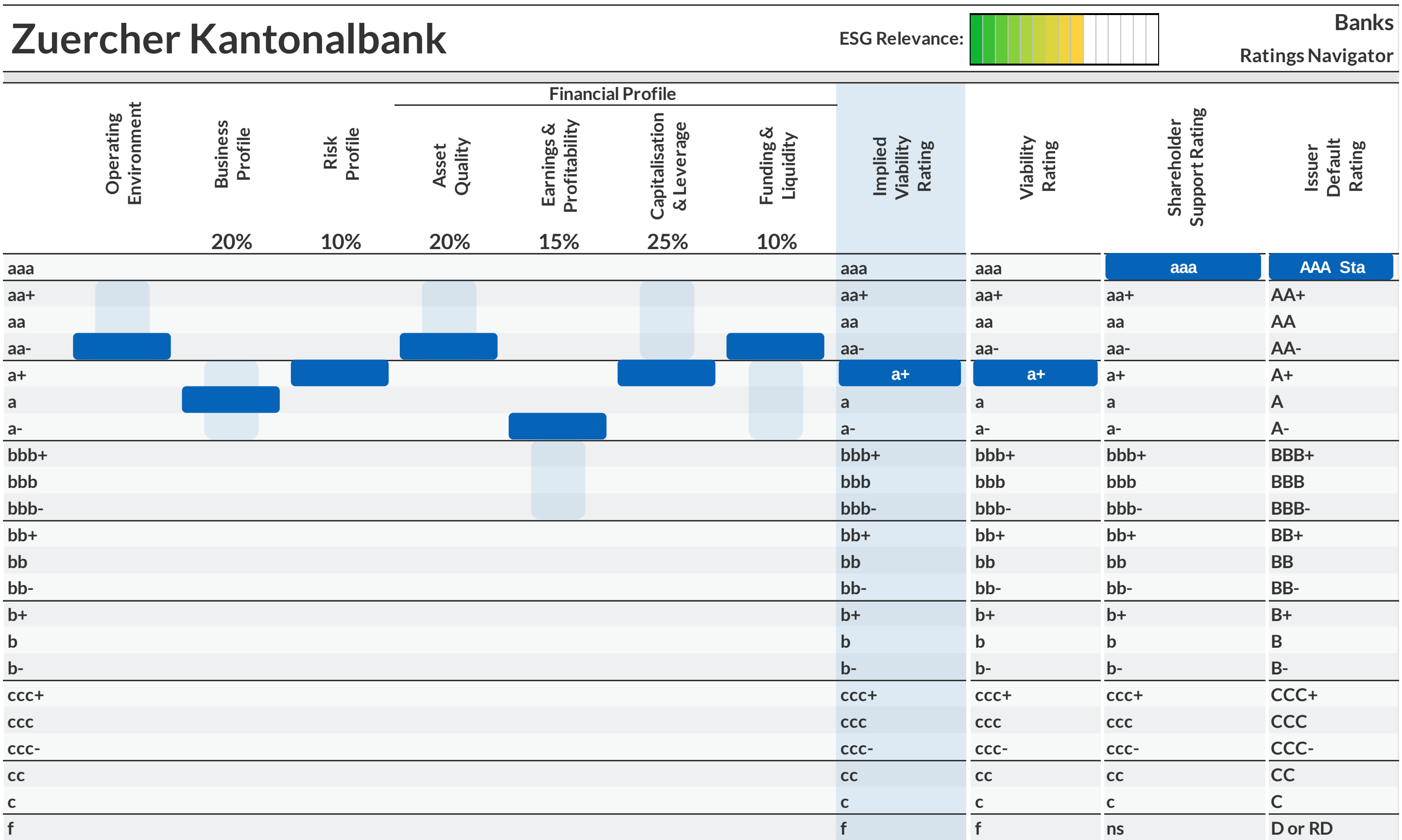
We would likely downgrade the VR if large real estate-related losses, which could arise from a sharp drop in residential property prices in Zurich, led to a CET1 ratio materially below 16%, or an impaired loans ratio durably above 2%. The rating would also come under pressure if profitability deteriorated durably, or if the bank increased its risk appetite, which could be indicated by higher loan growth or by greater exposure to interest-rate risk in the loan book.

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

The Long-Term IDR is at the highest level on Fitch's scale and cannot be upgraded.

An upgrade of the VR is unlikely given the concentration of ZKB's business model on the Canton of Zurich, resulting in large exposure to the local property market. An upgrade would also require an improvement in the bank's profitability.

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 earnings and profitability score of ‘a-’ has been assigned above the ‘bbb’ category implied score, due to the following adjustment reason: earnings stability (positive).

The capitalisation and leverage score of ‘a+’ has been assigned below the ‘aa’ category implied score, due to the following adjustment reason: capital flexibility and ordinary support (negative).

The funding and liquidity score of ‘aa-’ has been assigned above the ‘a’ category implied score, due to the following adjustment reason: liquidity access and ordinary support (positive).

Company Summary and Key Qualitative Factors

Business Profile

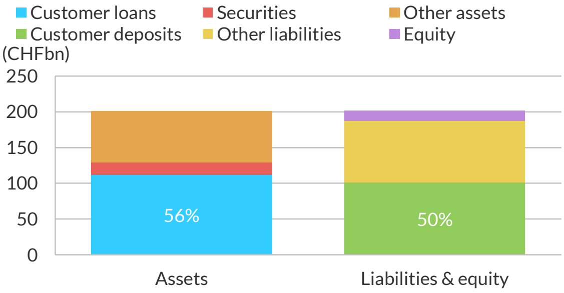
ZKB is the largest cantonal bank in Switzerland and the third-largest banking group by assets. ZKB's public mandate, set out in the ZKB Law, governs its focus on the Zurich region. The law prescribes the bank's activities, focused on providing full banking services to local households and SMEs, as well as helping the canton's economic and social development by supporting access to residential property. Accordingly, ZKB operates the densest branch network in the Canton of Zurich and has a leading regional franchise, with shares of 30%–40% in retail deposits and mortgage lending.

Beyond Zurich, ZKB mostly lends to Swiss SMEs and export-focused companies, but the bank's national-level market shares are modest. ZKB is also the third-largest fund provider in the country and one of the largest asset managers in Switzerland. The bank's domestic private-banking franchise is niche. Its international private banking operations are also small and will become even more modest once the agreed sale of the bank's private-banking subsidiary in Austria (EUR3.1 billion of client assets) is complete.

The bank's cantonal owners maintain good oversight of ZKB's activities, including through board representation, and the bank is ultimately supervised by the canton's parliament. In combination with the ZKB Law, this helps to support the stability of ZKB's business model and strategy, also constraining the bank's ability to expand its business activities. This has delivered a stable performance record through the cycle. At the same time, we believe that ZKB's management is independent and not subject to undue political influence.

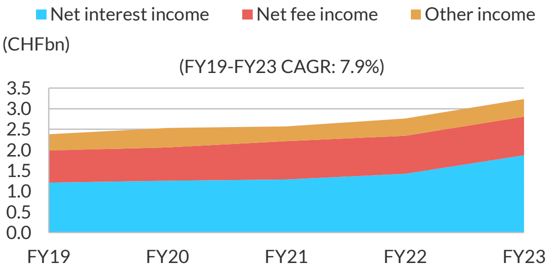
Balance Sheet

End-2023



Source: Fitch Ratings, Fitch Solutions, ZKB

Revenue Breakdown



CAGR: compound annual growth rate
Source: Fitch Ratings, Fitch Solutions, ZKB

Risk Profile

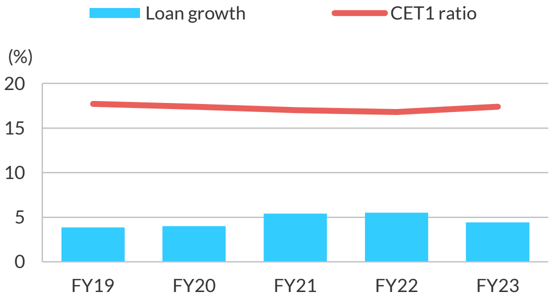
ZKB's public mandate drives the bank's conservative risk appetite. Fitch considers ZKB's underwriting standards to be low-risk and conservative, to the benefit of its stable and sound loan quality. The bank is proactive in tightening its lending policies based on market changes. ZKB also bases its loan/value calculations on indexed property values, providing an extra buffer in the event of a significant market price correction. ZKB has limited risk appetite for non-recourse commercial real estate lending outside the residential sector.

The bank pursues organic growth in its investment and asset-management business to further strengthen its income diversification and to reduce the share of net interest income to less than 50% of total operating income. We believe the bank's expertise is sufficiently advanced to cope with expected volume increases.

Although the ZKB Law allows for bank operations outside its home region, subject to not taking any excessive risks or negatively affecting the bank's provision of services locally, we do not expect ZKB to significantly grow its balance sheet outside the canton. Locally it has been growing faster than the rest of the market – which we expect will continue.

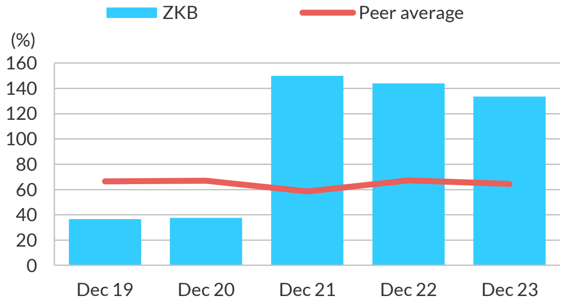
ZKB's interest-rate risk in the banking book (IRRBB) is broadly in line with that of Swiss peers. The bank's interest rates exposure serves as a strategic hedge against declining interest rates. Unrealised losses in its held-to-maturity debt portfolio are very low (0.8% of CET1 capital at end-2023). The bank has managed IRRBB well so far. Trading is client-driven and covers various asset classes, such as foreign exchange (mainly francs to euros), interest-rate and credit derivatives, equities, commodities, structured products and other securities.

Loan Growth



Source: Fitch Ratings, Fitch Solutions, ZKB

Loan Loss Allowances/Impaired Loans



Source: Fitch Ratings, Fitch Solutions, banks

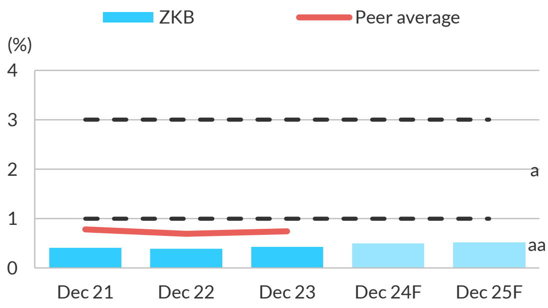
Financial Profile

Asset Quality

ZKB's main risk stems from its large real-estate exposure in Zurich, with about three-quarters of end-2023 gross customer loans consisting of residential mortgage loans, including rental properties. Fitch believes this concentration on real estate is adequately mitigated by the Canton of Zurich's strong economic fundamentals and the stability of ZKB's asset-quality metrics. The bigger part of mortgage loans is to private individuals, with a median loan/value ratio of 44% at end-2023, of which about two-thirds are for owner-occupied properties. Loan quality would therefore be resilient to a significant decline in residential property values, but a severe price correction would put pressure on the VR.

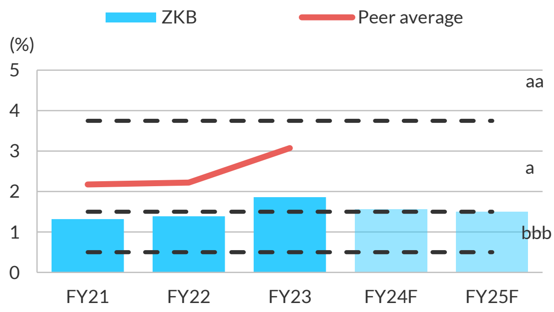
Loan impairment charges (LICs) increased in 2023 but remain low. Value adjustments for expected credit losses showed releases again, but are smaller than in 2022, as customer preference for variable-rate mortgages with shorter durations reversed in the second half of the year. Impaired loans made up 0.4% of gross loans at end-2023. We expect Switzerland's GDP growth to pick up in 2024 and inflation to fall to 1.2%. We therefore expect only a slight increase in LICs in 2024 and that the impaired loans ratio will remain below 1% in 2024 and 2025.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

ZKB's universal banking model provides good earnings diversification, with net fees and commissions income (NCI) generally accounting for more than a third of the bank's revenue, and trading activities contributing a material proportion as well.

The bank's record profit of CHF1.2 billion in 2023 was driven by significant growth of net interest income (NII), which benefitted from policy rate increases throughout 2023, slow deposit repricing and above-market-average mortgage lending growth. With only moderate increase in operating expenses (5%) and still low LICs, the operating profit/risk-weighted assets (RWAs) ratio increased significantly to 1.9%.

We expect ZKB's operating profitability to moderate this year but remain above 1.5% of its RWAs. With the policy rate declining, we expect net interest income to decrease – but to remain above the level of 2022, supported by growth in new business volumes on the back of recovering GDP and improving credit conditions. We expect the expansion of the bank's investment product offering to support NCI growth in 2024 and 2025 and trading income to remain material as the bank has well-established franchises in several trading segments and structured products.

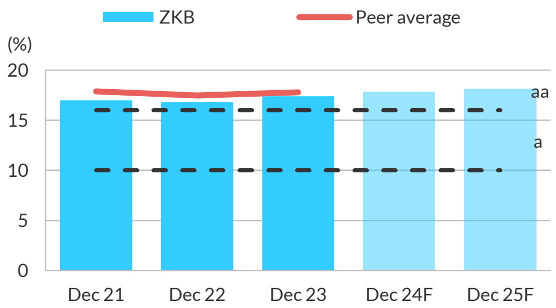
We forecast moderate increases in operating costs on the back of continued IT investments and higher staff numbers. The bank's management continues to focus on cost control, but we believe ZKB's cost base will remain heavier and less flexible than that of many peers given the cantonal mandate, which limits the bank's ability to close branches to reduce headcount. We do not expect significant asset-quality deterioration, given prudent underwriting standards, a high share of secured exposures and robust labour markets.

Capital and Leverage

ZKB's strong CET1 ratio (end-2023: 17.4%) was well above the going-concern capital requirement of 13.8% (including the countercyclical capital buffer). We expect the CET1 ratio to improve further in the next two years and the dividend pay-out ratio to decrease to compensate for the 15% OECD tax, introduced in 2024, leaving the level of the total distribution to the canton unchanged.

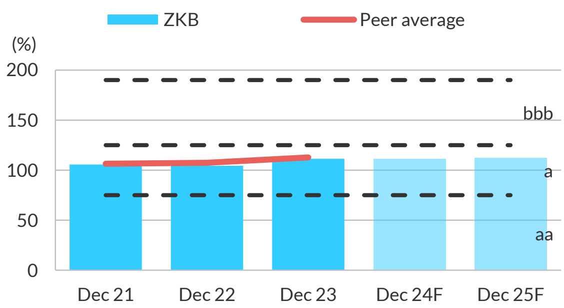
In addition to dividends, ZKB pays the canton a financial compensation of CHF20 million–CHF30 million a year for its guarantee. The canton's guarantee also covers half of ZKB's gone-concern capital requirement, which will be fully phased in at 7.86% of RWAs in 2026, corresponding to CHF6.2 billion at 2023 RWAs. The other half is mostly covered by ZKB's undrawn endowment capital of CHF1 billion, which is reserved entirely for the bank's recovery and resolution planning and by bail-in bonds, which ZKB started issuing in 2023 as detailed regulation governing the issuance of bail-in bonds by cantonal banks has been put in place.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

ZKB's large and mostly granular deposit base underpins its funding profile, despite some concentrated corporate and institutional deposits. The bank's loans/deposits ratio increased to pre-pandemic levels in 2023 (111%), as calculated by Fitch. We do not expect it to significantly increase further. ZKB's wholesale funding needs are moderate and diversified, and benefit from ordinary support via the bank's cantonal guarantee and investor perception of ZKB as a safe haven.

Deposit repricing was slow last year, benefitting ZKB's margins and NII. SNB has lowered its policy rate twice this year and we expect the bank to reprice the deposits accordingly. Since mid-2021, ZKB has been required to report its net stable funding ratio, which, at 118% at end-1Q24, comfortably exceeded regulatory requirements.

As a domestic systemically important bank (D-SIB), ZKB is subject to a minimum 135% average liquidity coverage ratio requirement. The bank meets this requirement through high-quality liquid assets, which equalled CHF46 billion at end-2023 (end-2022: CHF59 billion), the most significant portion of which was in the form of the central bank deposits. The Swiss government imposed stricter liquidity requirements for D-SIBs from 2024, including a 90-day stress horizon. ZKB's liquidity coverage ratio averaged 148% in 1Q24.

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 its *Bank Rating Criteria*. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market.

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

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

Peer average includes Basler Kantonalbank (VR: a), Raiffeisen Group (a+), UBS Switzerland AG (a), Santander UK Group Holdings plc (a), de Volksbank N.V. (a-), Swedbank AB (aa-).

Financials

Financial Statements

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	(USDm)	(CHFm)	(CHFm)	(CHFm)	(CHFm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	2,188	1,870.0	1,421.0	1,287.0	1,258.0
Net fees and commissions	1,100	940.0	926.0	926.0	806.0
Other operating income	508	434.0	423.0	371.0	488.0
Total operating income	3,795	3,244.0	2,770.0	2,584.0	2,552.0
Operating costs	2,019	1,726.0	1,693.0	1,594.0	1,664.8
Pre-impairment operating profit	1,776	1,518.0	1,077.0	990.0	887.2
Loan and other impairment charges	57	49.0	18.0	39.0	39.0
Operating profit	1,719	1,469.0	1,059.0	951.0	848.2
Other non-operating items (net)	-262	-224.0	8.0	0.0	24.8
Tax	8	7.0	8.0	9.0	8.0
Net income	1,448	1,238.0	1,059.0	942.0	865.0
Fitch comprehensive income	1,448	1,238.0	1,059.0	942.0	865.0
Summary balance sheet					
Assets					
Gross loans	131,948	112,776.0	108,017.0	102,365.0	97,120.0
- Of which impaired	570	487.0	425.0	418.0	500.0
Loan loss allowances	761	650.0	612.0	627.0	188.0
Net loans	131,188	112,126.0	107,405.0	101,738.0	96,932.0
Interbank	3,979	3,401.0	2,937.0	3,173.0	3,396.0
Derivatives	1,133	968.0	1,190.0	1,272.0	1,593.0
Other securities and earning assets	50,721	43,351.0	46,520.0	43,645.0	33,032.0
Total earning assets	187,020	159,846.0	158,052.0	149,828.0	134,953.0
Cash and due from banks	46,456	39,706.0	40,302.0	40,883.0	52,154.0
Other assets	1,997	1,707.0	1,437.0	1,394.0	1,257.0
Total assets	235,473	201,259.0	199,791.0	192,105.0	188,364.0
Liabilities					
Customer deposits	118,699	101,452.0	103,351.0	96,777.0	92,609.0
Interbank and other short-term funding	58,653	50,131.0	49,791.0	39,300.0	39,661.0
Other long-term funding	29,091	24,864.0	25,473.0	38,608.0	36,286.0
Trading liabilities and derivatives	6,648	5,682.0	5,702.0	3,059.0	5,721.0
Total funding and derivatives	213,091	182,129.0	184,317.0	177,744.0	174,277.0
Other liabilities	3,900	3,333.0	2,175.0	1,687.0	1,437.0
Preference shares and hybrid capital	1,789	1,529.0	n.a.	n.a.	n.a.
Total equity	16,694	14,268.0	13,299.0	12,674.0	12,650.0
Total liabilities and equity	235,473	201,259.0	199,791.0	192,105.0	188,364.0
Exchange rate		USD1 = CHF0.8547	USD1 = CHF0.9303	USD1 = CHF0.9202	USD1 = CHF0.88985

Source: Fitch Ratings, Fitch Solutions, ZKB

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.9	1.4	1.3	1.2
Net interest income/average earning assets	1.2	0.9	0.9	0.9
Non-interest expense/gross revenue	53.4	61.4	62.0	65.6
Net income/average equity	9.0	8.2	7.5	7.0
Asset quality				
Impaired loans ratio	0.4	0.4	0.4	0.5
Growth in gross loans	4.4	5.5	5.4	4.0
Loan loss allowances/impaired loans	133.5	144.0	150.0	37.6
Loan impairment charges/average gross loans	0.0	0.0	0.0	0.0
Capitalisation				
Common equity Tier 1 ratio	17.4	16.8	17.0	17.4
Tangible common equity/tangible assets	7.1	6.7	6.6	6.7
Basel leverage ratio	6.6	6.2	6.2	6.2
Net impaired loans/common equity Tier 1	-1.2	-1.5	-1.7	2.6
Funding and liquidity				
Gross loans/customer deposits	111.2	104.5	105.8	104.9
Gross loans/customer deposits + covered bonds	99.8	93.7	94.7	94.0
Liquidity coverage ratio	147.0	146.0	160.0	160.0
Customer deposits/total non-equity funding	56.0	56.7	54.8	53.4
Net stable funding ratio	117.0	124.0	118.0	n.a.

Source: Fitch Ratings, Fitch Solutions, ZKB

Support Assessment

Shareholder Support	
Parent IDR	AAA
Total Adjustments (notches)	0
Shareholder Support Rating	aaa
Shareholder ability to support	
Shareholder Rating	AAA/ Stable
Shareholder regulation	Equalised
Relative size	1 Notch
Country risks	Equalised
Shareholder propensity to support	
Role in group	Equalised
Reputational risk	Equalised
Integration	1 Notch
Support record	Equalised
Subsidiary performance and prospects	Equalised
Legal commitments	Equalised

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

ZKB's SSR is based on support from the Canton of Zurich, the bank's guarantor and sole owner, and is equalised with the canton's IDRs. The canton guarantees all of ZKB's non-subordinated liabilities according to the ZKB Law. ZKB's balance sheet is large relative to the canton's budgetary resources, but Fitch believes the bank's stable and resilient business model, funding and capital buffers would mean manageable recapitalisation or liquidity support needs in a realistic stress scenario.

The canton's guarantee does not explicitly address the timeliness of support, but Fitch believes that support, if necessary, would be provided in a timely fashion, given ZKB's high importance for the canton and the potential repercussions of a failure for the Swiss financial sector.

ZKB's strategic importance is underpinned by the bank's mandate to provide financial services to individuals and companies in the canton. The bank's nationwide and international activities are limited. The Canton of Zurich's constitution also requires the canton to have a cantonal bank, making the institutional owner more likely to support the bank in financial distress.

As a D-SIB, ZKB has a Swiss emergency plan that was approved by FINMA this year. The plan requires the canton to commit a large volume of contingent capital relative to its own resources. We believe that the provision of this contingent capital, if needed, would be manageable for the canton given its strong financial position, and would not on its own drive a negative action on the canton's ratings, or trigger a reassessment of our support assumptions underpinning ZKB's IDRs.

Environmental, Social and Governance Considerations

FitchRatings **Zuercher Kantonalbank**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Credit-Relevant ESG Derivation				ESG Relevance to Credit Rating
Zuercher Kantonalbank has 5 ESG potential rating drivers	key driver	0	issues	5
Zuercher Kantonalbank 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.	driver	0	issues	4
Governance is minimally relevant to the rating and is not currently a driver.	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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