FitchRatings

**Banks**
Wholesale Commercial Banks
**Germany**

# Aareal Bank AG

## Ratings

**Aareal Bank AG**

| | |
|---|---|
| Long-Term IDR | BBB |
| Short-Term IDR | F2 |
| Derivative Counterparty Rating | BBB+(dcr) |
| Viability Rating | bbb |
| Government Support Rating | ns |

**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 Aareal at 'BBB'; Outlook Stable (October 2024)

Sale of Aareon Neutral to Aareal's Rating (June 2024)

German Banks' Commercial Real Estate: Credit Losses to Stay High (February 2024)

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## Key Rating Drivers

**Concentrated CRE Business**: Aareal Bank AG's ratings reflect the bank's concentrated core business as a medium-sized international commercial real estate (CRE) lender, which exposes the bank to sector risks despite geographic diversification. The ratings also reflect cyclical asset quality, adequate operating profitability that provides a sufficient buffer to absorb high loan impairment charges (LICs) in the coming quarters, and sound capitalisation, adequate funding and liquidity.

**Tested Underwriting Standards**: Aareal mainly finances properties in prime locations. The underwriting standards and collateralisation of its loan book are broadly in line with market practice. The bank's risk profile is also underpinned by its centralised, sophisticated risk control framework and good record of impaired loans work-out, which we view as crucial for weathering the current challenging conditions in most real estate markets.

**Asset Quality Stabilising**: Asset quality has varied, reflecting the bank's strategic sector concentrations. Pressure from the past year has mostly been from the sizeable US office portfolio, which is by far the biggest contributor to the 3.7% impaired loans ratio (Stage 3/gross loans) at end-1H24. However, it showed good capacity to manage its non-performing loan portfolio through workouts and sales. We expect these to continue offsetting further moderate inflows of impaired loans in 2H24 and 2025, which drives the stable asset quality outlook.

**Adequate Profitability**: Aareal's total income generation will moderately decrease following the sale of Aareon, its former IT subsidiary. However, Aareon's overall profit contribution was limited. In addition, higher net interest income due to solid margins in its structured property portfolio and material interest income in its banking subsector (where Aareal holds housing industry deposits) in 1H24 could well absorb a temporarily higher level of LICs, leading to an operating profit/risk-weighted assets (RWAs) ratio of 2.7%.

**Sound Capitalisation**: Aareal's common equity Tier 1 (CET1) ratio of 19.3% (including discontinued operations) at end-1H24 comfortably exceeds regulatory requirements. It provides an adequate cushion, considering the bank's property finance business model with high single-borrower and sector concentrations. However, continuing risk on CRE markets drive our negative outlook on the score. The ratio will be temporarily boosted by the expected net gain on the sale of Aareon. Over time, we believe it will be paid out to shareholders.

**Diversified Funding**: Aareal's funding profile is sound and benefits from its established covered bond franchise, which is its main funding source. It is supplemented by stable deposits from the institutional housing sector, which reduce the bank's reliance on unsecured debt market funding and retail term deposits collected through independent online platforms.

## Rating Sensitivities

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

Aareal's ratings would likely be downgraded if the bank's impaired loans ratio increases above 6% for an extended period with no credible reduction plan, or if heightened LICs weigh on its operating profitability, lowering its operating profit/RWAs ratio to below 0.5% in the longer term. This could result from further severe stress in the US office property market, and a spill-over to European property markets.

Far higher funding costs triggered by a material loss of deposits in the housing sector or signs of challenges to access the wholesale funding market could also impair Aareal's profitability and funding and result in a downgrade.

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

An upgrade of Aareal's ratings would be contingent on a sustainable recovery of US office property markets and a resilient asset quality in the bank's other property segments and regions. An upgrade would also be contingent on the bank further strengthening its profitability, with an operating profit/RWAs ratio sustainably above 2%, combined with an impaired loans ratio of around 3%, while maintaining sound capitalisation.

## Other Debt and Issuer Ratings

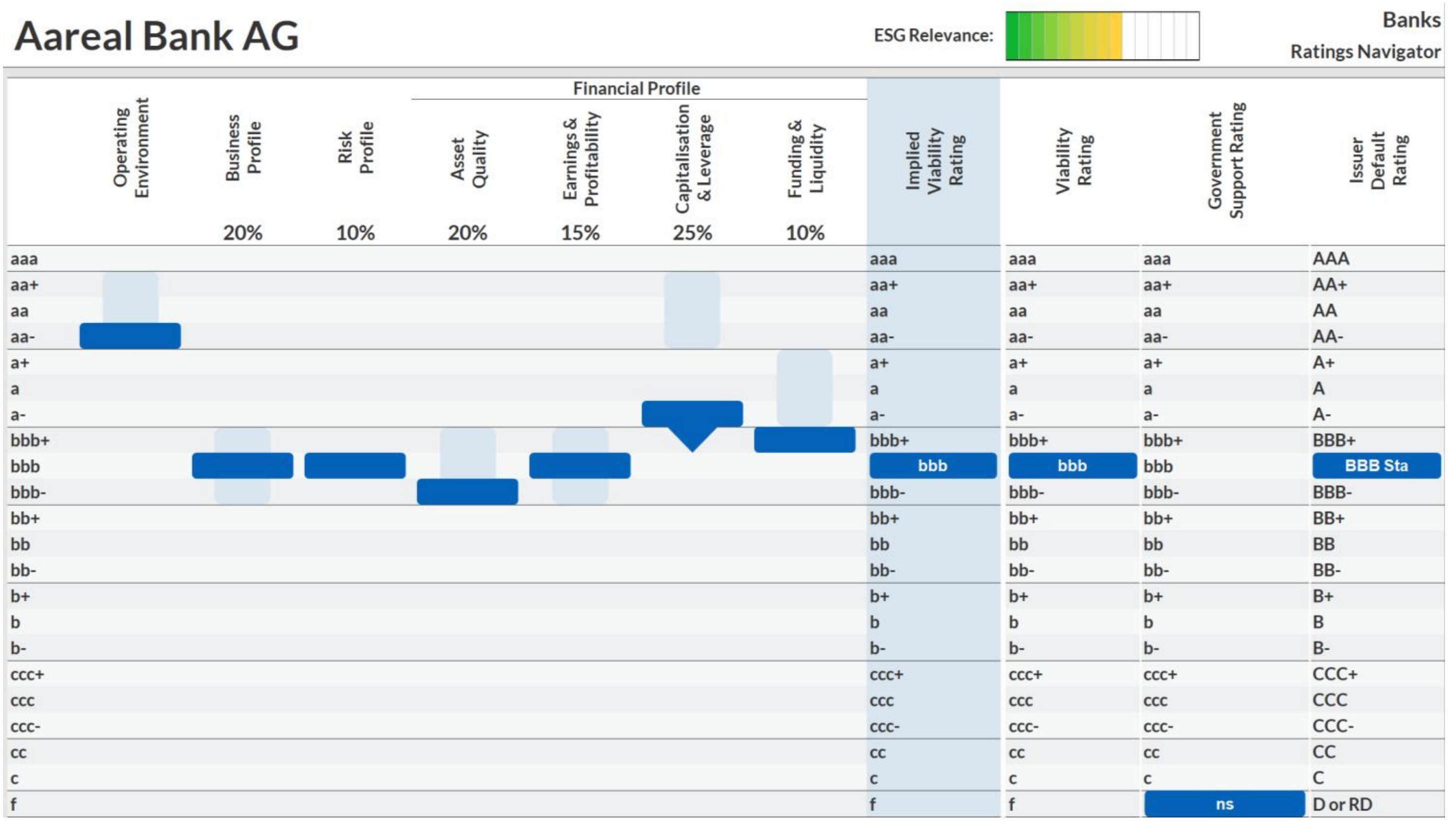
| Rating Level | Rating |
|---|---|
| Deposits: long-term/short-term | BBB+/F2 |
| Senior preferred: long-term/short-term | BBB+/F2 |
| Senior non-preferred: long-term | BBB |
| Subordinated (Tier 2): long-term | BB+ |
| Subordinated (AT1): long-term | BB- |

Source: Fitch Ratings

Aareal's Derivative Counterparty Rating (DCR), long-term deposit and senior preferred debt ratings are one notch above the Long-Term IDR, and the long-term senior non-preferred debt rating is aligned with the Long-Term IDR. This reflects the large and sustainable layer of non-preferred and junior debt that provides preferred creditors and counterparties with additional protection in a resolution. The short-term senior preferred and deposit ratings are the lower of the two options mapping to the respective long-term ratings.

The Tier 2 debt rating is two notches below the VR to reflect the poor recovery prospects of these instruments. The AT1 notes are rated four notches below the VR (two notches for loss severity and two for non-performance risk) to reflect our expectation that Aareal will maintain large capital buffers above the notes' mandatory coupon omission triggers.

## Ratings Navigator




The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

## VR - Adjustments to Key Rating Drivers

The capitalisation and leverage score of ‘a-’ has been assigned below the ‘aa’ implied category score due to the following adjustment reason(s): risk profile and business model (negative).

The funding and liquidity score of ‘bbb+’ has been assigned below the ‘a’ implied category score due to the following adjustment reason(s): non-deposit funding (negative).

## Company Summary and Key Qualitative Factors

### Business Profile

Aareal is a medium sized private equity owned bank and one of the few independent pure CRE lenders remaining in Germany, as most German CRE specialists operate as part of larger banking groups or are members of large institutional protection schemes. The bank operates in two core segments: structured property finance (SPF) and banking and digital solutions (BDS). SPF provides CRE lending in around 20 countries in Europe, Asia and North America. Target clients include property companies, institutional investors and, to a lesser extent, owners of residential property portfolios.

Aareon, Aareal's software subsidiary and the German market leader in integrated enterprise resource planning systems for the housing sector, is accounted for as a discontinued operation following the owners' decision to sell it.

The bank's above-average geographic diversification, with only 7% of its loan book in Germany, mitigates vulnerability to the CRE market's cyclicality and also allows the bank to capture higher margins in foreign CRE markets compared to domestic-focused peers. Taking advantage of this moderate reliance on single jurisdictions, Aareal also has a sound record of flexible capital allocation in response to local-market developments. The bank's expertise in structuring cross-border loans backed by multi-assets is a competitive strength that support its lending margins.

Aareal's BDS segment supplies software solutions and banking services to the institutional housing sector, for which Aareal also manages stable deposits (end-1H24: EUR13.8 billion; equivalent to about a third of the bank's total funding). In combination with covered bond funding, these deposits are a fundamental pillar of the bank's business model because they lower its reliance on unsecured market funding, which is more expensive compared to that of most CRE peers.

Fitch does not expect that the agreed sale of Aareon will materially affect the bank's business profile. This is because Aareon does not perform a core activity for the commercial real estate lender and its profit contribution has been negligible in the past few years. Aareon and Aareal will continue to cooperate closely through a joint venture, which provides clients with specialist expertise around payment software solutions for the property sector and related industries. We expect a sufficiently high level of stability among Aareal's BDS clients, who are not directly affected by the sale of Aareon, which is important to maintain strength in Aareal's funding profile.

### Risk Profile

High sector and single-name concentration characterises the risk profile. The CRE exposure from hotel (end-1H24: 36%), office (28%), and retail (14%) property creates vulnerabilities to global property market sector stress. Aareal mainly finances ring-fenced, income-producing properties in prime locations with short average terms. Its credit standards at underwriting and the collateralisation of its loan book (average LTV of 56% on its performing portfolio at end-1H24) are broadly in line with market practice.

Aareal has no risk appetite for CRE developments, and retains only a small legacy development portfolio, equal to less than 1% of total loans. The bank uses interest rate and cross-currency swaps to hedge its loans and securities investments, minimising market risks.

## Financial Profile

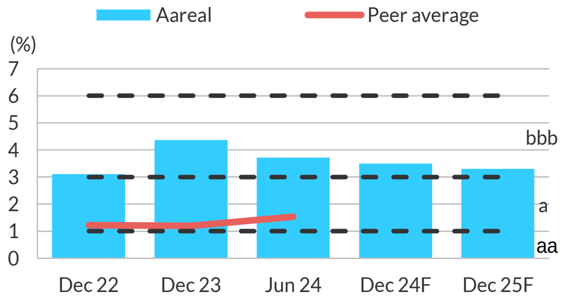
### Asset Quality

Our assessment of Aareal's asset quality factors in the cyclical performance of CRE markets and high single-borrower and sector concentration in its CRE loan book. The asset quality metrics have also been historically weaker than those of its domestic focused peers, reflecting a stronger presence in more volatile CRE markets such as southern Europe (9% of CRE loans) and the US (23%). Aareal is not exposed to the property market in China.

The US office portfolio has come under big pressure since late 2022 due to higher interest and vacancy rates, which lowered collateral valuations and borrowers' debt-servicing capacity. Aareal has taken measures including sales and work outs in 2023 and 1H24 to mitigate the rise in its impaired loans ratio. Consequently, impaired loans volumes declined to EUR1.4 billion at end-1H24 (end-2023: EUR1.6 billion) despite further inflows of impaired loans.

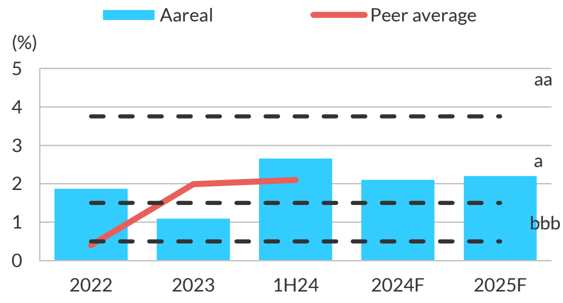
A further EUR300 million of impaired loans are set to be resolved in 2H24, and we expect the bank to continue reducing these loans in 2025, in line with its target of reducing the non-performing exposure ratio to around 3%. This should be supported by declining US dollar interest rates, offsetting new defaults, which we expect to remain sustained in upcoming quarters. Asset quality in the bank's other portfolios have been resilient.

### Impaired Loans/Gross Loans




Source: Fitch Ratings, Fitch Solutions, banks

### Operating Profit/Risk-Weighted Assets




Source: Fitch Ratings, Fitch Solutions, banks

## Earnings and Profitability

Aareal's operating profit was resilient in 1H24, despite a continued high level of LICs. LICs totalled EUR163 million, equivalent to 1% of gross loans, in 1H24. They were largely driven by new defaults in the US office portfolio, but also included EUR43 million additions to existing management overlays. Aareal aims for an operating profit of EUR250 million–300 million in 2024 (excluding Aareon), above the EUR221 million of 2023. We believe that profitability should improve in the next two years as LICs should moderate from 2025.

Aareal's net interest income (NII), the bank's main revenue source, rose 11% yoy in 1H24, supported by high interest rates on the price-inelastic BDS housing industry deposits, loan growth and improved gross margins. BDS lowers the sensitivity of the bank's profits to cyclical downturns of the CRE markets as its profitability positively correlates with interest rates. BDS's contribution to the operating profit increased to 45% in 1H24 and we believe it will remain an important pillar to Aareal's profits. Aareal has a lean cost base. Its cost/income ratio of below 35% is very competitive, even in an international context.

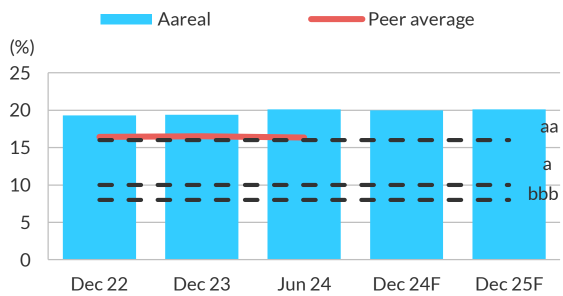
The consolidated net loss of EUR8 million in 1H24 was primarily due to about EUR150 million booked transaction costs related to the Aareon sale. The expected approximate EUR2 billion net gain from the transaction will be booked upon closing and will boost net income in 2024.

## Capitalisation and Leverage

Aareal's pro-forma CET1 (end-1H24: 20.1%) and total capital (24.0%; excluding discontinued operations) ratios are a rating strength compared with peers. A high profit retention rate has boosted the bank's capital ratios in recent years, but we expect pay-outs to increase. Aareal's pro-forma leverage ratio of 6.9% is also strong in light of the balance sheet's collateralisation. This offers room to absorb regulatory risk-weighted assets inflation from the phasing in of final Basel III rules. Aareal reported a fully-applied final Basel III CET1 ratio of 15% at end-1H24.

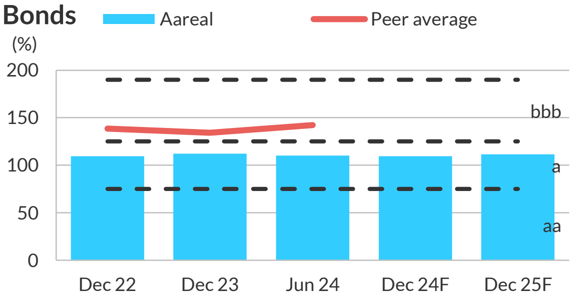
We believe that Aareal will ultimately distribute the net gain of the sale of Aareon to its shareholders subject to the approval of its supervisors. However, until the full-pay out, the additional capital will increase the bank's financial flexibility, strengthening its loss-absorbing capacity while volatile market conditions persist.

### CET1 Ratio




Source: Fitch Ratings, Fitch Solutions, banks

### Gross Loans/Customer Deposits+Covered Bonds




Source: Fitch Ratings, Fitch Solutions, banks

## Funding and Liquidity

Aareal's funding benefits from its established covered bond franchise (EUR12.6 billion outstanding at end-1H24) in addition to deposits, which are primarily granular and stable rental security and operational deposits from the institutional housing sector (end-1H24: EUR13.8 billion). This differentiates Aareal from its peers, and lowers its long-term unsecured market funding needs (EUR7.5 billion senior preferred and non-preferred bonds outstanding at end-1H24) and overall funding costs. The institutional housing deposits are supplement by retail deposits raised online, which further grew by EUR900 million to EUR3.5 billion in 1H24. Aareal also holds a smaller portion of wholesale deposits (EUR1.1 billion end-1H24).

The bank's market funding capacity proved solid also in 1H24, when the funding spreads of German CRE lenders widened. Aareal raised EUR1.2 billion on the capital market in 1H24, including a benchmark covered bond and a debut 'green' senior non-preferred benchmark transaction. It also issued EUR400 million Tier 2 debt in September 2024.

Aareal's liquidity profile is robust. The bank holds a EUR7.8 billion bond portfolio with high credit quality – 90% of assets are rated 'AA-' to 'AAA'. Part of the portfolio is pledged as collateral for repo transactions. Aareal's average liquidity coverage ratio in 1Q24 and 2Q24 remained strong in 1Q24 (192%) and 2Q24 (239%). The over-collateralisation in its mortgage covered bond pool of over 20% (on a present value basis) at end-1H24 provides an additional means of liquidity in case of need.

### 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 economic forecasts, sector outlook 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.

The dashed lines represent indicative ranges and implied scores for Fitch's core financial metrics for banks operating in environments scored in the 'aa' category. F represents Fitch's forecasts. The peer averages include Berlin Hyp AG (VR: bbb+), Landesbank Saar (bbb-), IKB Deutsche Industriebank AG (bbb-), de Volksbank N.V. (a-) and NIBC Bank N.V. (bbb+). Unless otherwise stated, financial year (FY) end is 30 June 2024 for all banks in this report. Latest average uses FY23 data for Berlin Hyp AG, Landesbank Saar.

# Financials

## Financial Statements

| | 30 June 2024 | | 31 December 2023 | 31 December 2022 | 31 December 2021 |
|---|---|---|---|---|---|
| | 1st half (USDm) | 1st half (EURm) | 12 months (EURm) | 12 months (EURm) | 12 months (EURm) |
| **Summary income statement** | | | | | |
| Net interest and dividend income | 569 | 530 | 978 | 702 | 597 |
| Net fees and commissions | -2 | -2 | 307 | 277 | 245 |
| Other operating income | -6 | -6 | -62 | 23 | -38 |
| Total operating income | 561 | 522 | 1,223 | 1,002 | 804 |
| Operating costs | 191 | 178 | 633 | 571 | 516 |
| Pre-impairment operating profit | 370 | 344 | 590 | 431 | 288 |
| Loan and other impairment charges | 175 | 163 | 441 | 192 | 133 |
| Operating profit | 194 | 181 | 149 | 239 | 155 |
| Other non-operating items (net) | -146 | -136 | – | – | – |
| Tax | 57 | 53 | 101 | 86 | 87 |
| Net income | -9 | -8 | 48 | 153 | 68 |
| | | | | | |
| **Summary balance sheet** | | | | | |
| **Assets** | | | | | |
| Gross loans | 35,620 | 33,150 | 33,698 | 31,720 | 31,723 |
| – Of which impaired | 1,322 | 1,230 | 1,470 | 985 | 1,505 |
| Loan loss allowances | 433 | 403 | 424 | 487 | 489 |
| Net loans | 35,187 | 32,747 | 33,274 | 31,233 | 31,234 |
| Interbank | 1,788 | 1,664 | 2,976 | 1,914 | 1,264 |
| Derivatives | 1,369 | 1,274 | 1,538 | 1,825 | 1,132 |
| Other securities and earning assets | 7,174 | 6,677 | 6,084 | 5,329 | 6,705 |
| Total earning assets | 45,518 | 42,362 | 43,872 | 40,301 | 40,335 |
| Cash and due from banks | 1,782 | 1,658 | 977 | 5,424 | 6,942 |
| Other assets | 2,438 | 2,269 | 1,984 | 1,606 | 1,451 |
| Total assets | 49,738 | 46,289 | 46,833 | 47,331 | 48,728 |
| | | | | | |
| **Liabilities** | | | | | |
| Customer deposits | 18,817 | 17,512 | 17,169 | 16,895 | 15,109 |
| Interbank and other short-term funding | 960 | 893 | 1,634 | 1,981 | 6,109 |
| Other long-term funding | 21,924 | 20,404 | 20,898 | 21,050 | 21,705 |
| Trading liabilities and derivatives | 2,883 | 2,683 | 2,683 | 3,514 | 1,882 |
| Total funding and derivatives | 44,583 | 41,492 | 42,384 | 43,440 | 44,805 |
| Other liabilities | 1,629 | 1,516 | 1,149 | 633 | 862 |
| Preference shares and hybrid capital | 322 | 300 | 300 | 300 | 300 |
| Total equity | 3,203 | 2,981 | 3,000 | 2,958 | 2,761 |
| Total liabilities and equity | 49,738 | 46,289 | 46,833 | 47,331 | 48,728 |
| Exchange rate | | USD1 = EUR0.930665 | USD1 = EUR0.912742 | USD1 = EUR0.937559 | USD1 = EUR0.884173 |

Source: Fitch Ratings, Fitch Solutions, Aareal

## Key Ratios

| | 30 June 2024 | 31 December 2023 | 31 December 2022 | 31 December 2021 |
|---|---|---|---|---|
| **Ratios (%; annualised as appropriate)** | | | | |
| | | | | |
| **Profitability** | | | | |
| Operating profit/risk-weighted assets | 2.7 | 1.1 | 1.9 | 1.2 |
| Net interest income/average earning assets | 2.5 | 2.4 | 1.7 | 1.5 |
| Non-interest expense/gross revenue | 34.1 | 51.9 | 56.9 | 64.0 |
| Net income/average equity | -0.5 | 1.6 | 5.3 | 2.5 |
| | | | | |
| **Asset quality** | | | | |
| Impaired loans ratio | 3.7 | 4.4 | 3.1 | 4.7 |
| Growth in gross loans | -1.6 | 6.2 | 0.0 | 6.3 |
| Loan loss allowances/impaired loans | 32.8 | 28.8 | 49.4 | 32.5 |
| Loan impairment charges/average gross loans | 1.0 | 1.4 | 0.6 | 0.4 |
| | | | | |
| **Capitalisation** | | | | |
| Common equity Tier 1 ratio | 19.3 | 19.4 | 19.3 | 18.2 |
| Tangible common equity/tangible assets | 5.9 | 4.8 | 4.9 | 4.9 |
| Basel leverage ratio | 6.7 | 6.4 | 6.0 | 5.5 |
| Net impaired loans/common equity Tier 1 | 30.1 | 39.3 | 20.2 | 43.7 |
| | | | | |
| **Funding and liquidity** | | | | |
| Gross loans/customer deposits | 189.3 | 196.3 | 187.8 | 210.0 |
| Gross loans/customer deposits + covered bonds | 110.0 | 112.2 | 109.3 | 115.5 |
| Liquidity coverage ratio | 239.0 | 203.7 | 207.4 | 255.4 |
| Customer deposits/total non-equity funding | 44.8 | 42.9 | 42.0 | 35.0 |

Source: Fitch Ratings, Fitch Solutions, Aareal

## Support Assessment

| Commercial Banks: Government Support | |
|---|---|
| Typical D-SIB GSR for sovereign's rating level (assuming high propensity) | A+ to A- |
| Actual jurisdiction D-SIB GSR | ns |
| Government Support Rating | ns |
| | |
| **Government ability to support D-SIBs** | |
| Sovereign Rating | AAA/ Stable |
| Size of banking system | Negative |
| Structure of banking system | Neutral |
| Sovereign financial flexibility (for rating level) | Positive |
| | |
| **Government propensity to support D-SIBs** | |
| Resolution legislation | Negative |
| Support stance | Negative |
| | |
| **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

Aareal's GSR of 'no support' reflects Fitch's view that senior creditors cannot rely on full extraordinary state support. This is driven by the EU's resolution framework that is likely to require senior creditors participating in losses, if necessary, instead, or ahead, of a bank receiving government support.

An upgrade of the GSR would require a higher propensity of sovereign support. While not impossible, the EU's resolution regime makes this highly unlikely, in Fitch's view.

## Environmental, Social and Governance Considerations

FitchRatings **Aareal Bank AG**

Banks
Ratings Navigator

### Credit-Relevant ESG Derivation

Aareal Bank AG has 5 ESG potential rating drivers
- Aareal 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.

| | | | Overall ESG Scale |
|---|---|---|---|
| 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)

| General Issues | E Score | Sector-Specific Issues | Reference | E Scale |
|---|---|---|---|---|
| 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 scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

**The Environmental (E), Social (S) and Governance (G) tables** break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

**The Credit-Relevant ESG Derivation table** shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with 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) and the Sustainability Accounting Standards Board (SASB).

**Sector references** in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

### Social (S)

| General Issues | S Score | Sector-Specific Issues | Reference | S Scale |
|---|---|---|---|---|
| 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)

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

**CREDIT-RELEVANT ESG SCALE**

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

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

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