FitchRatings

Danske Bank A/S

Key Rating Drivers

High Credit Quality: Danske Bank A/S's ratings reflect its strong universal banking franchise in Denmark and increasingly across the Nordic region. Danske's strong pan-Nordic focus provides stable revenue generation across a wide range of products, while taking on low levels of risk. Its strong financial profile is underpinned by its stable and diversified funding, solid capitalisation and stable asset quality. This offsets its subdued profitability, which has remained under pressure since 2019.

Potential AML Fine: In April, Danske began final discussions with the US and Danish authorities regarding past anti-money-laundering (AML) control deficiencies in its Estonian branch, which are likely to result in a fine for the bank. Danske's earnings and robust capital surplus, which Fitch Ratings expects to be maintained, are sufficient to absorb a potentially large fine.

Leading Danish Bank: Danske is the largest bank in Denmark and the second largest in the Nordic region. It is a growing challenger in Sweden, Norway and Finland, and also has a small franchise in Northern Ireland. Its revenue has been broadly stable, with a business model focused on traditional commercial banking, and capturing a larger share of its customers' spending by offering wealth and life insurance products.

Low Risk Profile: Fitch expects Danske's risk profile to remain resilient to the current economic downturn due to its consistently low-risk and tested underwriting standards. Danske's loan book is diversified by industry and geography, and is prudently collateralised with conservative loan/value (LTV) ratios. At end-June 2022, 60% of Danske's credit exposure was to low-risk sectors, dominated by mortgage loans, which is a natural asset-quality stabiliser due to historically low levels of impaired loans and muted credit losses.

Stable Asset Quality: Danske enters the economic slowdown with strong asset-quality metrics. Its impaired loans ratio is weaker than at highly rated Nordic peers', but it has been broadly stable since 2018. In 1H22, its Stage 3 credit exposure decreased by 24% and its impaired loans ratio modestly improved to 2%. We expect the latter to rise to about 2.5% by end-2023, but loan impairment charges (LICs) should be contained, due to prudent collateralisation and large adjustments to impairment models (about 30bp of loans).

Profitability Turnaround: The bank's profitability has recently suffered from expensive compliance investments, deposit margin pressure and higher funding cost than peers'. The improvement in the interest rate environment and a gradual completion of remediation projects should increasingly support Danske's profitability. In 2022, we expect a weak operating profit on risk-weighted assets (RWAs) due to subdued trading, insurance and fee income, but the ratio should sustainably improve to above 2% in 2023 despite higher LICs.

Solid Capitalisation: Danske's risk-weighted capital ratios compare well with those of Nordic and international peers, but should be seen in light of a potentially sizeable fine for the bank. At end-June 2022, its strong common equity Tier 1 (CET1) ratio of 17.1% was well above the regulatory requirement of 12.6%. The requirement will gradually increase by about 180bp by June 2023 due to the activation of countercyclical buffers in Denmark, Sweden and Norway. Danske's leverage ratio is moderate, but still adequate in light of the low-risk profile of the bank.

Stable Diversified Funding: Danske is reliant on wholesale funding, like most Nordic banks due to structural deposit shortage in the region. Its well-diversified funding base and an established presence in international debt markets has been resilient to the negative news from the AML investigations and economic downturns, enabling the bank to execute its funding plan. The bank's low refinancing risk is underpinned by well-spread maturities, a strong captive domestic investor base and ample liquidity surplus.

Banks
Universal Commercial Banks
Denmark

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Derivative Counterparty Rating	A+(dcr)
Viability Rating	a
Government Support Rating	ns
Sovereign Risk	
Long-Term Foreign- and 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 (September 2022)

Related Research

Global Economic Outlook (September 2022)

Fitch Affirms Denmark at 'AAA'; Outlook Stable (August 2022)

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Rating Sensitivities

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

Fitch could downgrade the bank's ratings if its CET1 ratio surplus over its requirement decreases materially below 250bp (about EUR3 billion), coupled with durably deteriorated profitability and asset quality, which could be triggered by a more severe and prolonged economic downturn than we currently expect.

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

A rating upgrade would require the completion of the AML investigations and clarification of potential fines, an expected CET1 ratio of at least 15% net of AML settlements and a successful implementation of the bank's transformation plan. The latter would have to be demonstrated by a durable recovery in the operating profit/RWAs at least 2.5%.

Other Debt and Issuer Ratings

Rating level	Rating
Long- and short-term deposits and senior preferred debt	A+/F1
Senior non-preferred debt	A
Tier 2 subordinated debt	BBB+
Additional Tier 1 notes	BBB-

Source: Fitch Ratings

Danske's Derivative Counterparty Rating (DCR) and its long-term senior preferred debt and deposit ratings are one notch above the Long-Term Issuer Default Rating (IDR), and its long-term senior non-preferred debt is aligned with its Long-Term IDR. This reflects the protection that could accrue to senior creditors from the bank's more junior bank resolution debt and equity buffers. We expect Danske's resolution debt buffer to remain comfortably above 10% of RWAs in the long term, adjusted for Realkredit Danmark A/S (A/Stable/a), its domestic mortgage bank subsidiary, which is excluded from Danske's resolution strategy. At end-June 2022, these buffers were equivalent to 19% of RWAs.

The bank's short-term senior preferred debt and deposit ratings are mapped to their respective long-term ratings and also reflect our assessment of the bank's funding and liquidity at 'a+'.

The DCR, the senior preferred and non-preferred debt ratings and the deposit ratings are sensitive to changes in the bank's IDRs. They are also sensitive to Danske maintaining a buffer of subordinated and senior non-preferred debt of at least 10% of RWAs, or could be downgraded otherwise.

Danske's Tier 2 debt is rated two notches below its Viability Rating (VR) to reflect the poor recovery prospects of this type of debt. Additional and legacy Tier 1 securities are rated four notches below the VR to reflect their poor recovery prospects (two notches) and high risk of non-performance (an additional two notches). Fitch's assessment is based on an expectation that the bank will continue operating with a CET1 capital ratio comfortably above its maximum distributable amount.

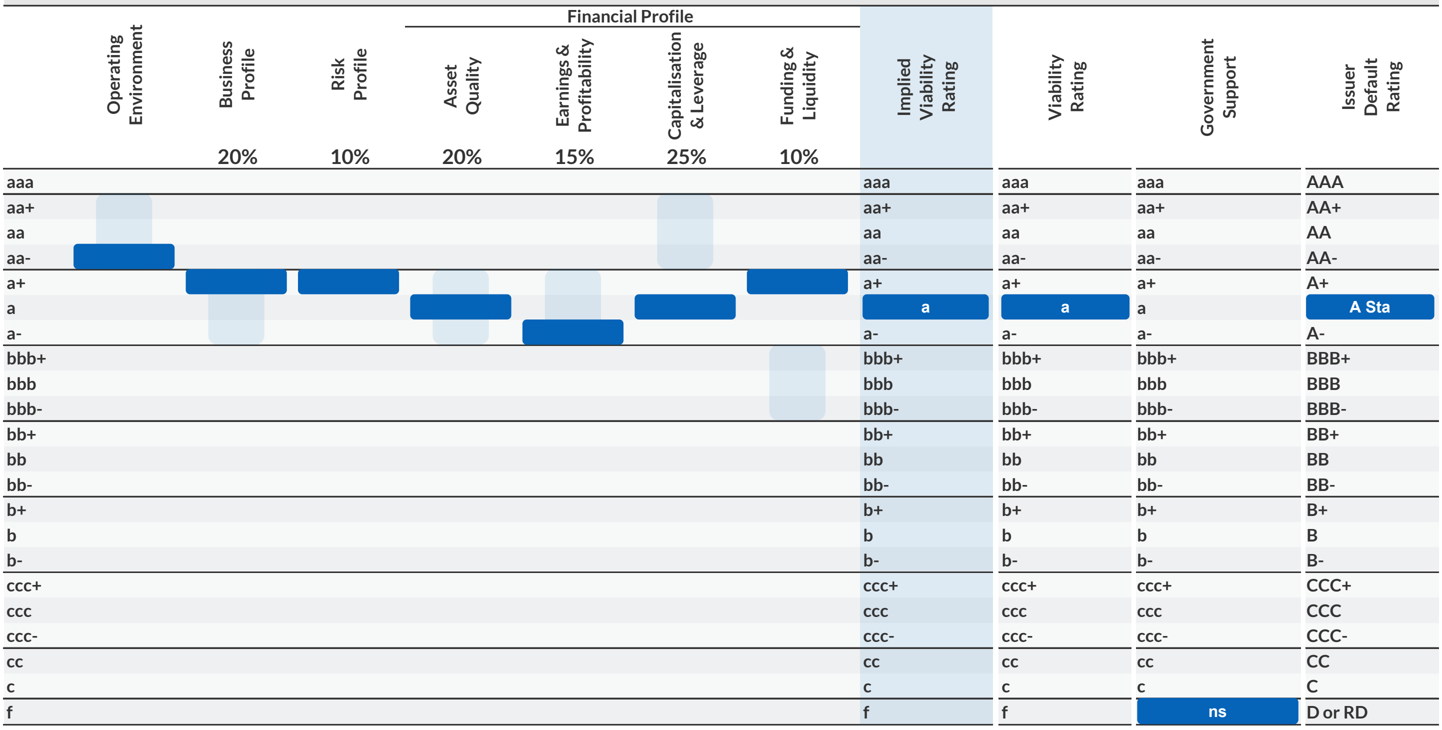
The Tier 2 and Tier 1 debt ratings are sensitive to changes in Danske's VR. The ratings of the Tier 1 securities are also sensitive to Fitch's assessment of their incremental non-performance risk relative to the risk captured in Danske's VR.

Ratings Navigator

Danske Bank A/S

ESG Relevance:

Banks
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’ is below the ‘aa’ category implied score due to the following adjustment reasons: risk profile and business model (negative).

The funding and liquidity score of ‘a+’ is above the ‘bbb’ category implied score due to the following adjustment reasons: liquidity coverage (positive) and non-deposit funding (positive).

Company Summary and Key Qualitative Factors

Operating Environment

The Nordic economic environments and sovereign credit profiles are strong with very limited structural weaknesses, which presents very good opportunities for the region's banks to be consistently profitable. Strong levels of employment, savings buffers accumulated through the pandemic, and sufficient fiscal space by Nordic sovereigns mitigates the risk of a sharp economic downturn. We have materially reduced our 2023 growth expectations to about 0.5% in Sweden and Denmark, 2% in Norway and -0.6% in Finland. The recession in Finland should be short-lived with a limited impact on unemployment.

Nordic banks enter the economic downturn from a strong position given swift post-pandemic economic recovery in 2021. The banks' residual risks from the pandemic are low and adequately cushioned by coronavirus-related provisions, which Fitch expects to be gradually used to cushion asset-quality deterioration. Their robust capital ratios offer large loss absorption capacity that could withstand a severe stress. Liquidity in the banking sectors is ample and we anticipate wholesale funding markets to operate normally.

Nordic household indebtedness is high in an international context, due to high house ownership financed by mortgage loans. The high inflation, aggressive rise in long-term interest rates will dampen real spending power, but should be manageable for Nordic households, which have accumulated sizeable savings during the pandemic.

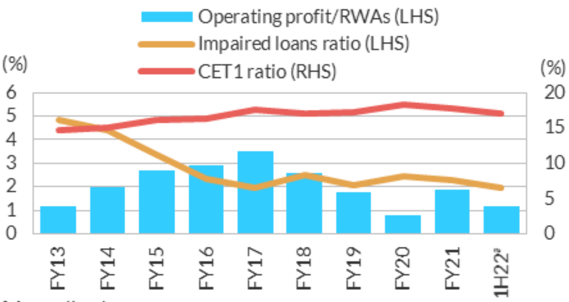
We expect a moderate rise in bankruptcies largely coming from financially weaker SMEs in the sectors worst-hit by the pandemic, as well as vulnerable to higher commodity and energy prices and the interest rate rise cycle. This should also increase appetite for bank credit, which has been dampened during the pandemic by government liquidity support measures and loan schemes.

Business Profile

Domestic mortgage financing is mainly carried out through Danske's largest subsidiary, Realkredit Danmark, which represents about 40% of group loans. Danske also provides investment banking and capital markets, asset management, private banking, real estate brokerage, and leasing services. It has a significant Nordic fixed-income and currency business, in particular in interest rate swaps, cash management and trade finance. Danske also owns Denmark's second-largest life insurer/pension company.

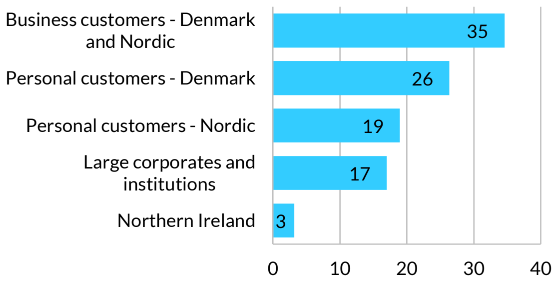
The Danish operations generate about a third of revenue, followed by the Nordic personal and business customers and large corporates and institutions. Income for Nordic personal and business customers was particularly resilient during the pandemic due to a solid contribution from Sweden and Norway, in line with the bank's strategy to expand into the medium-sized corporate and retail segments across the other Nordic countries.

Performance Through the Cycle



ª Annualised
Source: Fitch Ratings, Danske

Loans by Segment (%)
(End-June 2022)



Source: Fitch Ratings, Danske

Risk Profile

Danske's underwriting standards focus on cash-flow generation and client selection. The bank has been proactively capturing emerging risks through a more holistic risk management framework, in particular making use of portfolio analysis, stress tests and concentration limits on selected industries. We believe the bank's prudent risk management framework over time will strengthen loan portfolio resilience to a stress scenario. Customer lending is about half of total assets. The rest consists of debt securities (mainly held for liquidity purposes), insurance assets and well-collateralised repo lending and derivatives. Market and insurance risk are well-controlled using advanced methods.

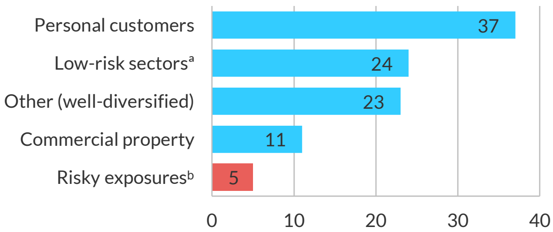
Danske's credit exposure is dominated by low risk retail segment (37% share of credit exposure at end-June 2022), financial and public-sector companies, housing cooperatives and pharmaceutical industry, which together represented 60% of credit exposure.

Retail exposure is concentrated in Denmark in the mortgage bank subsidiary. At end-June 2022, the domestic fixed and variable-rate mortgage loans were almost evenly split in the outstanding balance. In 1H22 new disbursements were dominated by variable-rate loans, but this trend does not materially impact Danske's retail lending profile. This reflects prudent LTV ratios, stress testing of repayment capacity at considerably higher rates and still fairly long interest rate fixation periods in variable lending by international standards (at least one year on average). Outside Denmark, retail lending is mainly via partnerships with labour organisations, targeting mostly well-educated professionals with salaries above the market average, which translates into low credit losses.

Commercial property lending (11% of credit exposure) has been flat for the past five years and underwriting was based on stressed cash flows. Danske has been mainly focusing on residential real estate projects and as a result only about a third of the commercial property exposure is in the more vulnerable office and retail segment, for which the bank tightened its underwriting standards in 2020. This exposure is concentrated in the largest Nordic cities and should continue to perform as companies gradually reprice their rental agreements, absent recession stress. The rest of the corporate loan portfolio is well diversified by industry, and Fitch views obligor concentration as satisfactory. Danske also has good and improving geographical loan diversification.

We expect subdued retail loan growth due to higher rates and lower property prices, but the demand in the non-retail segment could pick up, assuming no prolonged economic stress. Danske's recent loan growth was driven by expansion in the Nordic countries (mainly in low-risk retail and business lending in Sweden and Norway), while the domestic portfolio growth suffered from reputational issues and high competition. In 1H22, the loan book decreased due to portfolio cleaning and lower valuation of mortgage loans in Denmark, which are carried at fair value.

Credit Risk Exposure (%)
(End-June 2022)



[a] Public, financial and pharmaceutical sector, housing cooperatives
[b] Agriculture, shipping, oil and gas, hotels, transportation, HORECA
Source: Fitch Ratings, Danske

Financial Profile

Asset Quality

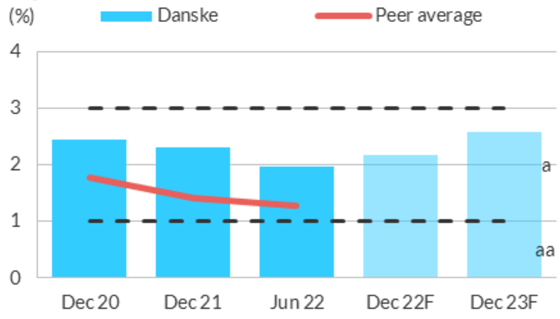
At end-June 2022, sectors vulnerable to the economic downturn, such as oil-related industries, pig breeding, transportation, hotels, restaurants and leisure, represented a small 2% of credit exposure. Danske's direct exposure to Russia, Ukraine and the Baltics is negligible.

Fitch expects credit quality in lending to personal customers, about 55% concentrated in Denmark and dominated by residential mortgage loans, to remain solid. At end-June 2022, the impaired loans ratio in retail lending was 1.2%. The bank has been stress-testing retail customers' repayment capacity in all four markets in the event of a material rise in interest rates. We expect a moderate fall in residential property prices from 2H22, which should be viewed as a healthy cool-off after a pandemic-driven surge in prices in 2020-2021 (this was less pronounced in Finland). This correction should still result in home prices higher than pre-pandemic levels.

We expect the Nordic property management companies to perform well. A large share of this segment is concentrated in residential real estate, which should remain resilient to the economic slowdown. Office and retail spaces remain the most vulnerable segments due to heightened risk of prices falling, but most lending is at low LTVs. Refinancing risk at commercial real estate companies is manageable, despite notable widening of funding spreads, because Nordic banks are able to temporarily replace short-term borrowing needs.

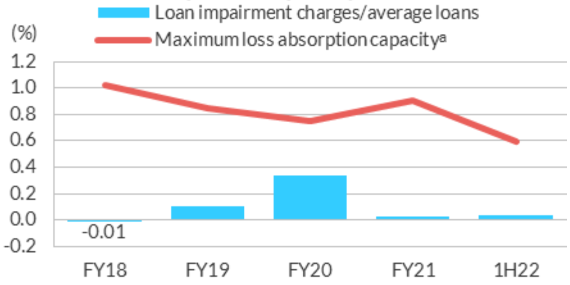
In 1H22, credit losses represented only 4bp of loans. They should remain low in 2H22 and we expect them to increase to about 15bp in 2023. Danske's solid loss absorption capacity is underpinned by a large adjustment to its impairment model, which was DKK6 billion at end-June 2022 and covered downside risk from high inflation, interest rate rises and indirect implications from the war in Ukraine.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions

P&L Loss Absorption Capacity



[a] Pre-impairment operating profit/average loans
Source: Fitch Ratings, Fitch Solutions

Earnings and Profitability

Danske's profitability is solid by international standards, but considerably weaker than its highly rated Nordic peers. The bank's revenue has been broadly resilient, despite its idiosyncratic and cyclical challenges, such as margin pressure in the highly competitive Nordic markets and the economic downturn. Moreover, higher funding costs, partly due to sustained issuance of senior non-preferred instruments, and high expenses related to investments in AML controls and the bank's large transformation plan have weakened its cost-efficiency and profitability.

The current interest rate rise cycle is a tailwind for Danske's revenue and it will support its net interest income in 2H22 and more meaningfully in 2023, when assets are repriced at considerably higher rates. Fitch believes the bank's commitment to deliver tangible cost reductions in 2024 is realistic, but the cost base guidance of DKK23.5 billion appears highly ambitious in light of inflationary pressure.

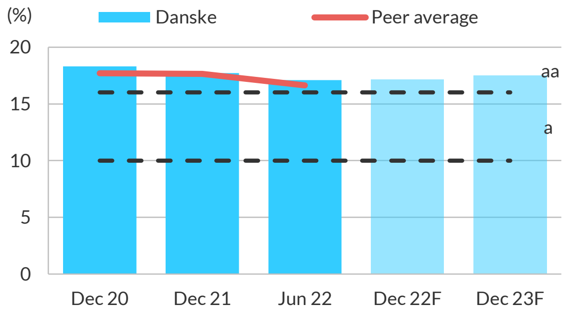
Danske's 1H22 results suffered from inflated costs and subdued trading and insurance income, in line with our expectations. Consequently, in July the bank lowered its net profit guidance by DKK3 billion to DKK10 billion-DKK12 billion, which we believe is achievable. The revised profit guidance includes additional DKK1.25 billion costs related to the settlement of errors identified in its legacy debt collection case.

Capital and Leverage

We believe that Danske has sufficient loss-absorption capacity to cushion a sizeable potential AML-related fine from US and Danish authorities. In 4Q20, the US authorities cleared the bank of sanctions breaches relating to Estonia. In our opinion, this reduces the risk of a fine of a size that would erode Danske's capital ratios to a level no longer commensurate with its 'a' VR. After the settlement, Danske is likely to reassess its capital plan and we believe its revised CET1 ratio target will remain close to 16%, which is comfortably commensurate with a capitalisation assessment in the ‘a’ category.

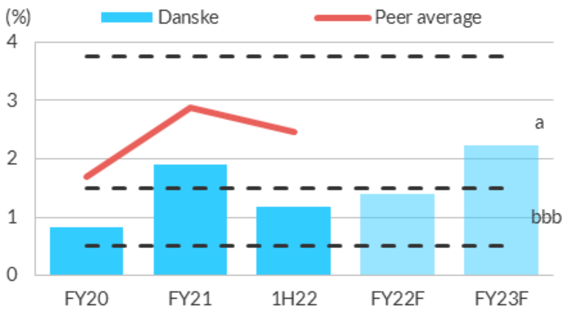
At end-1H22, Danske's capital surplus equalled almost DKK39 billion, but it will gradually shrink by June 2023 due to a higher countercyclical buffer requirement and RWAs growth from regulatory and model changes. We expect Danske to maintain a CET1 ratio at least 250bp above the requirement (DKK22 billion or about EUR3 billion), which provides sizeable buffer to absorb a potential large AML-related fine. Danske’s Pillar 2 capital requirement includes DKK10 billion (about EUR1.3 billion) earmarked for a potential liability related to the Estonian AML case. In the near term, the bank could also generate at least EUR2 billion of capital, assuming full retention of its normalised net profit.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions

Funding and Liquidity

Like most Nordic banks, Danske relies extensively on wholesale funding, which is dominated by covered bonds. Fitch expects continued strong demand for Danish mortgage bonds, due to the supportive dynamics of this market and its long record of high quality. Danske’s senior and covered bonds are well diversified by currency.

Beside its large local investor base, Danske also issues senior debt internationally. The cost of wholesale funding improved in 2021 as senior non-preferred spreads tightened below the levels observed pre-pandemic, but this process was reversed in early 2022 due to the war and policy rate hike cycles. At end-June 2022, Danske’s liquidity buffer (DKK591 billion) fully covered its refinancing needs in 2022 and 2023.

At end-June 2022, customer deposits accounted for 43% and were mainly concentrated in Denmark. The remaining funding is mainly sourced from stable covered bonds (31% share). The structural shortage of deposits in Denmark is neutral for the bank’s mortgage lending as Danske does not use own liquidity to generate loans given the passthrough between covered bond investors and borrowers in the Danish mortgage lending model.

About Fitch Forecasts

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 economic forecasts, sector outlook and company-specific considerations. As a result, they 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 acquisitions, 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 implied scores for banks operating in environments scored in the ‘aa’ category. The light-blue columns represent Fitch’s forecasts. The peer averages include Nordea Bank Abp (VR: aa-), Cooperatieve Rabobank U.A. (a+), Skandinaviska Enskilda Banken AB (publ) (aa-), ING Groep N.V. (a+), Svenska Handelsbanken AB (aa), Lloyds Banking Group plc (a), ABN AMRO Bank N.V. (a), Swedbank AB (aa-) and Credit Agricole (a+).

Financial Statements

Summary Financials

	30 Jun 22		31 Dec 21	31 Dec 20	31 Dec 19
	6 months - interim	6 months - interim	Year end	Year end	Year end
	(USDm)	(DKKm)	(DKKm)	(DKKm)	(DKKm)
	Reviewed - unqualified(emphasis of matter)	Reviewed - unqualified(emphasis of matter)	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	1,897	13,586	26,774	28,118	27,892
Net fees and commissions	823	5,894	12,117	10,786	10,469
Other operating income	170	1,217	8,463	7,466	7,875
Total operating income	2,890	20,697	47,354	46,370	46,236
Operating costs	2,136	15,297	30,822	32,821	30,960
Pre-impairment operating profit	754	5,400	16,532	13,549	15,276
Loan and other impairment charges	51	365	141	7,090	1,730
Operating profit	703	5,035	16,391	6,459	13,546
Other non-operating items (net)	117	836	180	-155	276
Tax	184	1,320	3,651	1,715	-1,250
Net income	635	4,551	12,920	4,589	15,072
Other comprehensive income	-329	-2,358	326	-230	639
Fitch comprehensive income	306	2,193	13,246	4,359	15,711
Summary balance sheet					
Assets					
Gross loans	246,730	1,767,083	1,856,064	1,860,621	1,846,233
- Of which impaired	4,887	35,004	43,071	45,523	38,382
Loan loss allowances	2,767	19,820	20,381	20,599	19,248
Net loans	243,963	1,747,263	1,835,683	1,840,022	1,826,985
Interbank	16,193	115,974	33,422	31,453	82,040
Derivatives	58,764	420,868	260,224	379,566	293,980
Other securities and earning assets	214,095	1,533,350	1,434,026	1,489,002	1,410,811
Total earning assets	533,015	3,817,455	3,563,355	3,740,043	3,613,816
Cash and due from banks	29,277	209,680	293,386	320,702	99,035
Other assets	6,542	46,857	79,093	48,486	48,199
Total assets	568,834	4,073,992	3,935,834	4,109,231	3,761,050
Liabilities					
Customer deposits	161,689	1,158,015	1,169,829	1,195,319	964,533
Interbank and other short-term funding	45,204	323,752	320,913	372,010	494,769
Other long-term funding	143,159	1,025,307	1,125,248	1,136,861	1,211,058
Trading liabilities and derivatives	82,414	590,251	374,959	499,335	299,695
Total funding and derivatives	432,466	3,097,325	2,990,949	3,203,525	2,970,055
Other liabilities	110,249	789,602	753,427	727,948	610,473
Preference shares and hybrid capital	2,188	15,671	20,251	17,587	24,251
Total equity	23,931	171,394	171,207	160,171	156,271
Total liabilities and equity	568,834	4,073,992	3,935,834	4,109,231	3,761,050
Exchange rate		USD1 = DKK7.162	USD1 = DKK6.5749	USD1 = DKK6.1138	USD1 = DKK6.6759

Source: Fitch Ratings, Fitch Solutions, Danske

Key Ratios

	30 Jun 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.2	1.9	0.8	1.8
Net interest income/average earning assets	0.7	0.7	0.8	0.8
Non-interest expense/gross revenue	73.9	65.1	70.6	67.5
Net income/average equity	5.4	7.8	2.9	10.1
Asset quality				
Impaired loans ratio	2.0	2.3	2.5	2.1
Growth in gross loans	-4.8	-0.2	0.8	2.5
Loan loss allowances/impaired loans	56.6	47.3	45.3	50.2
Loan impairment charges/average gross loans	0.0	0.0	0.3	0.1
Capitalisation				
Common equity Tier 1 ratio	17.1	17.7	18.3	17.3
Tangible common equity/tangible assets	4.0	4.1	3.7	3.9
Basel leverage ratio	4.6	4.9	4.5	4.7
Net impaired loans/common equity Tier 1	10.3	14.9	17.3	14.4
Funding and liquidity				
Gross loans/customer deposits	152.6	158.7	155.7	191.4
Liquidity coverage ratio	154.6	163.7	154.0	140.1
Customer deposits/total non-equity funding	42.9	42.2	41.9	35.8
Net stable funding ratio	130.0	130.5	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Danske

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	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

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

Danske's Government Support Rating of 'no support' reflects Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event of the bank becoming non-viable. The EU's Bank Recovery and Resolution Directive provides a framework for resolving banks that will require senior creditors to participate in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

Environmental, Social and Governance Considerations

FitchRatings **Danske Bank A/S**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Danske Bank A/S has 6 ESG potential rating drivers

- Danske Bank A/S 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.
- Danske Bank A/S has exposure to 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 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	6	issues	3
not a rating driver	3	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

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	3	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

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.

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.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.