FitchRatings

Banks
Universal Commercial Banks
Italy

UniCredit S.p.A.

Ratings

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

Sovereign Risk (Italy)	
Long-Term Foreign-Currency IDR	BBB
Long-Term Local-Currency IDR	BBB
Country Ceiling	AA

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 2023)

Related Research

Global Economic Outlook (December 2023)

Fitch Affirms UniCredit at 'BBB'; Outlook Stable (November 2023)

DM100 Banks Tracker – End-1H23 (November 2023)

Large European Banks Quarterly Credit Tracker (October 2023)

What Investors Want to Know: Southern European Banks (June 2023)

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Key Rating Drivers

Geographic Diversification, Adequate Financial Profile: The ratings reflect UniCredit S.p.A.'s international footprint, with big operations in strong economies (Germany and Austria), which Fitch Ratings considers a business model strength, and a leading position in its Italian home market. The ratings also reflect improved profitability and our expectation that the rigorous risk approach will mitigate asset quality pressures at times of uncertainty for its operating environments, and that it will maintain capital ratios commensurate with its ratings.

Pan-European Franchise: UniCredit has a pan-European presence in commercial banking, ranking among the leading banks by total assets in the markets in which it operates. The group's overall credit profile is influenced by its Italian operations, which account for a large part of its activities and revenue, despite its geographic diversification in Germany, and central and eastern Europe. Slowing economic growth will affect business growth and asset quality in 2024, but the impact should be manageable and unlikely to affect its medium-term financial targets.

Moderate Risk Profile: UniCredit's risk appetite is moderate overall and is supported by good central oversight, which mitigates the complexity of the group's presence in a large number of jurisdictions. Market risk is well managed, including average appetite for Italian sovereign bond holdings, which accounted for close to 0.75x common equity Tier 1 (CET1) capital at end-September 2023.

Stable Asset Quality, Modest Deterioration Expected: The bank's gross impaired loan ratio of 2.7% at end-September 2023 is almost in line with its European peers. The broadly stable trend in the ratio over the past two years benefitted from the economic recovery and government support measures - particularly in Italy. We expect asset quality to weaken in the next 12 months-24 months due to modest economic growth, but it is unlikely that the ratio will exceed 3.5% given conservative underwriting and continued impaired loan disposals.

Improved Revenue, Lower Diversification: UniCredit's fees and commissions represent a lower portion of operating income than most of its domestic and European peers' but we expect the development of insurance and wealth management under outstanding agreements to result in greater net commission income over the next three years.

We expect UniCredit's operating profit/risk-weighted assets (RWAs) to reduce (9M23: 4.3%), benefiting from potentially peak interest rate levels and low loan impairment charges (LICs), and stabilise above 2% on a sustained basis, well above the average of the past four years (1%).

Adequate Capitalisation: UniCredit's capitalisation is adequate relative to regulatory requirements and the bank's medium-term CET1 ratio target (12.5%-13.0%). Our assessment of UniCredit's capitalisation also factors in improved earnings generation capacity, low capital encumbrance by unreserved impaired loans, well-managed market risks and the adequate capitalisation of international subsidiaries.

In 2024, we expect the bank's CET1 ratio to remain well above the end-plan target, thanks to internal capital generation and decreasing RWAs and after the EUR6.5 billion planned capital distribution, unless the bank allocates excess capital to extraordinary shareholder distributions or M&A initiatives within next year.

Diversified Funding, Sound Liquidity: UniCredit has well-established deposit franchises in retail and commercial banking in its European core markets. The loans/deposits ratio is sound and hovers around 90%. It has strong access to a large investor base through funding sources that are well diversified by geography and product. UniCredit's liquidity is sound, with large liquid assets, well above the total wholesale funding maturing within 12 months.

Rating Sensitivities

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

UniCredit's ratings are sensitive to a downgrade of Italy's sovereign rating or to the economic and banking prospects of its core markets.

The ratings could also be downgraded if asset quality deteriorates as a result of unexpected severe setbacks in the economies of the group's key countries, significantly affecting the group's financial metrics. This could be the case if the impaired loan ratio increases and stays well above 4% on a sustained basis, and operating profit falls persistently below 1.5% of RWAs, especially if the CET1 ratio falls below the bank's target of 12.5%-13.0% without any prospects of a recovery over the short term.

The Short-Term Issuer Default Rating (IDR) would be downgraded by one notch if our assessment of funding and liquidity were lowered from the current 'bbb+'.

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

An upgrade would be contingent on an upgrade of Italy's sovereign rating and a higher assessment of the operating environment for Italian banks, reflecting sustained improvements in economic conditions in Italy. It should be accompanied by an operating profit/RWAs improvement sustainably above 2.5%, without significantly altering the group's risk profile, capitalisation and funding and liquidity positions.

Other Debt and Issuer Ratings

Rating level	Rating
Deposits	BBB+/F2
Senior preferred debt	BBB/F2
Senior non-preferred debt	BBB-
Tier 2 subordinated	BB+
Additional Tier 1 notes	BB-

Source: Fitch Ratings

The long-term deposit rating is one notch above UniCredit's Long-Term IDR. This is because there is full depositor preference in Italy and we believe the bank has sufficient combined buffers of junior and senior debt that result in a lower probability of default on deposits relative to its Long-Term IDR. The one-notch uplift also reflects our expectation that the bank will maintain sufficient buffers to comply with the minimum requirement for own funds and eligible liabilities (MREL).

The 'F2' short-term deposit rating is the baseline option for a 'BBB+' long-term deposit rating because the funding and liquidity score is not high enough to achieve the higher equivalent short-term rating.

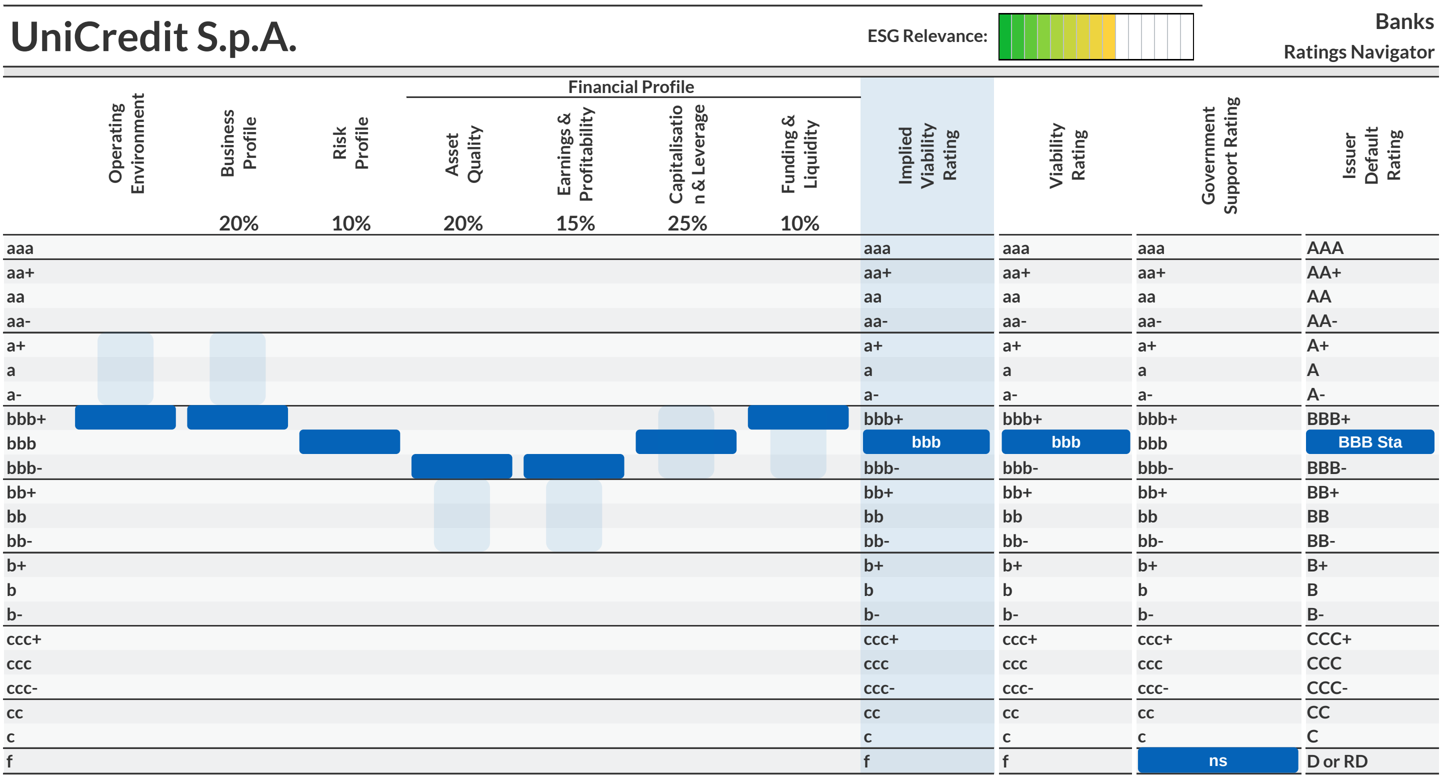
UniCredit's senior preferred debt is rated in line with its Long-Term IDR because we expect it to use senior preferred debt to meet its MREL.

UniCredit's senior non-preferred notes are rated one notch below the bank's Long-Term IDR. This is to reflect the risk of below-average recoveries arising from the use of senior preferred debt to meet resolution buffer requirements, and the combined buffer of additional Tier 1, Tier 2 and senior non-preferred debt being unlikely to exceed 10% of RWAs. For the same reasons, the senior preferred notes are rated in line with the Long-Term IDR.

The Tier 2 subordinated debt is rated two notches below the Viability Rating (VR) to reflect the prospects of poor recoveries in resolution given the notes' subordination.

Additional Tier 1 notes are rated four notches below the VR, comprising two notches for loss severity relative to senior unsecured creditors and two notches for incremental non-performance risk. The latter reflects the instruments' fully discretionary interest payment.

Ratings Navigator



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

VR - Adjustments to Key Rating Drivers

The Operating Environment score of 'bbb+' has been assigned below the 'a' implied category score due to the following adjustment reasons: Sovereign Rating (negative) but above the 'bbb+' score typically assigned to domestic Italian banks because of the following adjustment reason: International Operations (positive).

The Business Profile score of 'bbb+' has been assigned below the 'a' implied category score due to the following adjustment reason: Business Model (negative).

The Asset Quality score of 'bbb-' has been assigned above the 'bb' implied category score due to the following adjustment reason: Historical and Future Metrics (positive).

The Earning and Profitability score of 'bbb-' has been assigned above the 'bb' implied category score due to the following adjustment reason: Historical and Future Metrics (positive).

Company Summary and Key Qualitative Factors

Operating Environment

Limited Growth in Eurozone, Recovery in Central and Eastern Europe

Fitch's forecast envisages limited growth for the eurozone in 2023 and 2024. Euro area 3Q23 GDP was weaker than expected and a further mild contraction is expected in 4Q23, while in 2024 growth forecast is mainly driven by consumption as disinflation leads to an improvement in real wages. ECB tightening is weighing on credit growth. Limited growth is expected in UniCredit's largest markets of Italy and Germany for 2024, while in the central and eastern Europe countries in which the group operates economies should recover or maintain momentum.

Italy's GDP growth has slowed a lot from 3.7% in 2022. The economy avoided a contraction in 3Q23 but expanded by far less than expected after a sharp contraction in 2Q23. We now expect a limited increase in 2023 and 2024, and for it to pick up only in 2025. We expect investment to decline in 2024 from high levels. Household investment, which was a growth driver in 2022 has since faded as government incentives for household renovation are phasing out. Public investments under NextGenerationEU-funded National Recovery and Resilience Plan programme should pick up but not by enough to prevent a decline in investment in 2024.

Business Profile

Geographically Diversified Franchise, Italy Influences Overall Assessment

UniCredit is present in 13 core markets, ranking among the leading banks by total assets in its largest regions of Italy, Germany, central Europe (Austria, Czech Republic, Slovakia, Hungary and Slovenia), eastern Europe (Bosnia, Bulgaria, Croatia, Romania and Serbia) and Russia. The bank provides retail services, commercial and investment banking and transaction banking services directly and relies on strategic partnerships in asset management (Amundi) and insurance (Allianz), while unit-linked products are managed under onemarkets' new own brand.

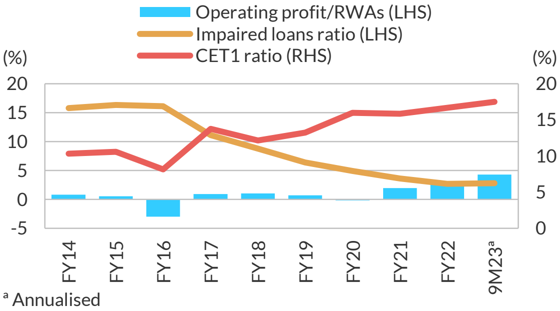
Fitch views UniCredit's overall credit profile as influenced by its Italian activities despite its geographic diversification. These account for about a quarter of total assets and around 40% of operating income.

Good Execution of Medium-Term Strategy

UniCredit's strategic plan for 2022-2024 focuses on growing its client franchise across Europe by simplifying processes, integrating client sectors and harmonising its service model under a common organisational structure for the 13 banks of the group. These initiatives will be accompanied by a significant redesign of the group digital architecture.

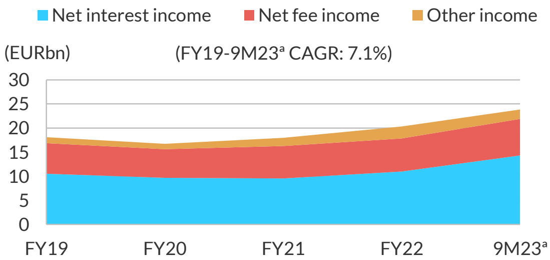
The bank expects to deliver a return on tangible equity of 17% in 2023, well in advance of the original target of about 10% in 2024, supported by higher-than-expected interest rates, low loan impairment charges (LICs) and strict control over operating costs despite inflation.

Performance Through the Cycle



a Annualised
Source: Fitch Ratings, Fitch Solutions, Unicredit

Revenue Breakdown



CAGR: compound annual growth rate
a Annualised
Source: Fitch Ratings, Fitch Solutions, Unicredit

Risk Profile

Disciplined Risk Profile, Well-Managed Market Risks

Underwriting standards express an average risk appetite that we expect to remain consistent over economic cycles.

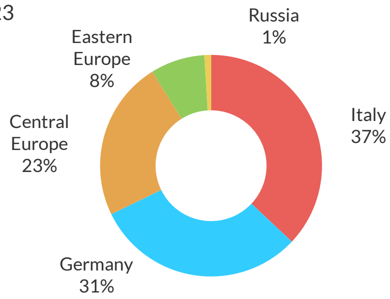
UniCredit's impaired loan ratio stabilised at around 3% following the completion of its de-risking plan in 2021. The combination of benign credit-risk environment and tight underwriting standards, which focus on better-rated borrowers and capital-light transactions, led to a material reduction in new impaired loan inflows and decreasing LICs and RWAs over the past two years.

The bank adopts a conservative policy on loan loss reserves, as highlighted by loan coverage ratios, which are at the high end of domestic peers', and management overlays accounting for about 40bp of gross loans, which represent a good cushion to absorb expected asset-quality deterioration in 2024.

UniCredit's loan book shrank this year (-4% in 9M23 versus +3.7% in 2022), reflecting weak credit demand due to the economic slowdown. We expect subdued economic activity to result in declining gross loans also in 2024, although they should recover in 2025 as growth picks up in the countries in which the group operates.

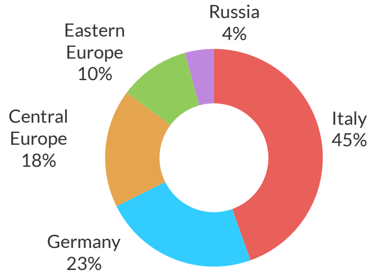
Market risks are low and managed within conservative limits. In terms of interest risks, UniCredit maintains positive, albeit reducing, sensitivity to higher interest rates. The bank estimated at end-June 2023 a positive net interest income sensitivity above 2% to a parallel increase of interest rates of 100bp, down from close to 3% at end-2022. Exposure to Italian sovereign bonds has decreased to well below 100% of CET1 capital since 2019 and was equal to about 76% at end-9M23.

Loan Book by Segment
End-9M23



Source: Fitch Ratings, Unicredit

Revenue by Segment
9M23



Source: Fitch Ratings, Unicredit

Financial Profile

Asset Quality

Diversified Loan Book

UniCredit's loan book is well diversified by geography, industry and borrower, with Italy remaining its largest market, accounting for nearly 40% of total loans. Diversification also results from a large part of loans being granted to retail borrowers and from commercial and investment banking loans being well diversified by industry.

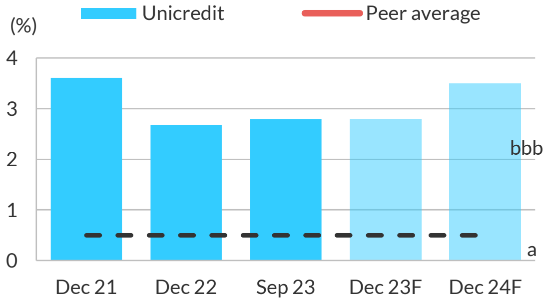
UniCredit has reduced its on- and offshore Russian exposure to EUR2.9 billion, after considering export credit agency guarantees, down by 73% since March 2022.

The group's credit exposure to commercial real estate, which is split between Italy (23% of total), Germany (32%), central Europe (33%) and eastern Europe (12%), was equal to EUR35 billion at end-9M23, accounting for a moderate 8% of total loans or 69% of CET1 capital. It had an average loan-to-value of about 50%, which is prudent in our opinion, and a contained gross non-performing exposure ratio of 4%.

During 2023, the default rate stabilised at 0.8%, which is better than before pandemic (end-2019: 1.2% excluding non-core assets) as a result of the benign economic environment, tight credit standards and robust monitoring framework. We expect a deterioration in the ratio over the next 24 months, due to the weaker macroeconomic backdrop, but it should remain manageable and below 1.5%.

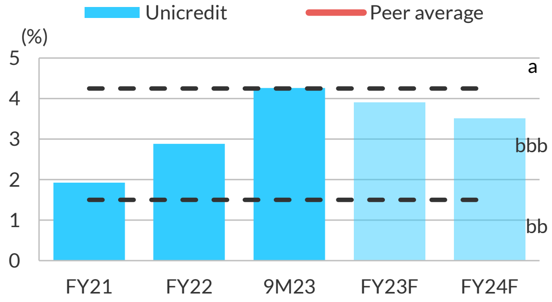
At end-9M23, stage 2 loans were a quite high 17.5% of total gross loans (end-2022: 18.3%), which is high compared to domestic peers but not a source of concern as it follows strict loan reclassification. Coverage of stage 2 loans at 4.9% compares well with domestic peers. Overall loan loss allowance coverage relative to gross impaired loans was high at 91%, including about EUR900 million of provisions booked against its Russian exposure.

Impaired Loans/Gross



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

Peak Profits Driven by Rate Environment, Low LICs to Moderate from 2024

UniCredit's operating profit/RWAs of 4.3% in 9M23 was strong compared to its domestic and international peers' and was driven by a 22% increase in operating income yoy and the sharp reduction of LICs (down 82% yoy), while costs were almost stable despite inflation. Revenue growth was driven mainly by activities in Italy (up 25% yoy) and Austria (up 46%), while Germany grew more slowly (14% yoy) due to higher institutional funding costs.

LICs, reducing to 7bp of average gross loans (9M22: 29bp), benefitted from the benign credit risk environment resulting in historically low new impaired loan inflows, which we do not consider sustainable over the medium term. We expect LICs to grow to a manageable level of 25-30bp of gross loans in the next two years as default rates will increase due to the economic slowdown.

We expect UniCredit's operating profit to settle below 3% of RWAs in the next two years due to lower net interest income from increased deposit pass-through, especially in Italy, which should be mitigated by higher fee income from the development of non-lending activities, and higher LICs. However, we expect the impact of deteriorating asset quality to remain manageable thanks to strong risk discipline and the stock of EUR1.75 billion management overlays, set aside since 1Q22, which the bank would be pressured to use over the next 24 months.

Capital and Leverage

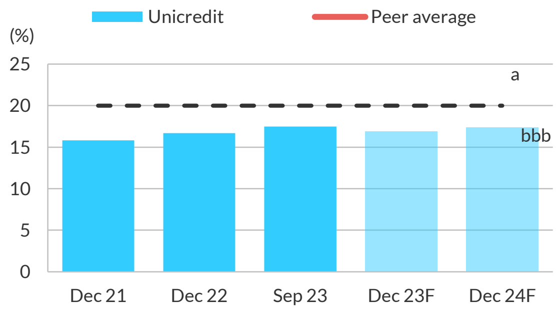
Buffers to Remain Satisfactory Despite Distributions

The phased-in CET1 ratio increased in 9M23, due to earnings retention, 6% reduction of RWAs and net of capital distributions (including EUR3.3 billion 2022 share buybacks).

The end-9M23 CET1 ratio provides a significant buffer of about 750bp above the 10.03% requirement, putting the group in a good position to withstand even a significant economic downturn. The phased-in regulatory leverage ratio of 6.07% at end-9M23 was at the higher end of its international peers and well above the 3.5% minimum requirement. The group complies with its consolidated MREL with some margin. As UniCredit's resolution strategy assumes a single point of entry resolution approach, the parent bank is the sole issuer of MREL instruments in the group. These are downstreamed to subsidiaries as necessary.

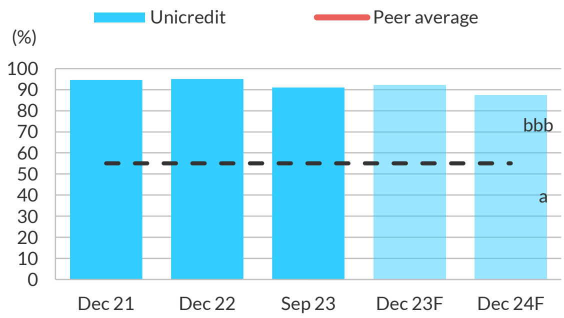
Net impaired loans relative to CET1 capital were close to 2% at end-9M23 (down from 16% at end-2019) – this was one of the lowest levels domestically and in line with large European bank averages. We do not think this level is sustainable over time but we also think that a ratio below 10% would be consistent with our current capitalisation assessment.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

Stable Deposit Franchise, Sound Liquidity

Customer deposits account for over half of UniCredit's total funding. The bank's deposit base has been resilient, including during periods of market volatility, reflecting a diversified deposit franchise, notably in Italy, Germany and Austria, accounting for about 80% of consolidated customer deposits.

We expect the loans/deposits ratio of around 90% to be maintained over the medium term, with slowing loans growth likely to provide an offset to lower deposit inflows due to the impact of higher inflation on customers' saving capabilities and growing appetite for higher-yield investments other than deposits. In 9M23, customer deposits decreased by about 4.5% but the pace of reduction slowed in 3Q23.

Since December 2022, the bank repaid EUR94 billion of its EUR107 billion ECB's TLTRO funding. UniCredit's liquidity coverage ratio fell slightly following the repayment of the central bank facility but remained comfortably above the regulatory minimum.

We believe refinancing of medium-term maturities of wholesale debt is manageable in view of UniCredit's liquidity buffers and the bank's resilient access to debt capital markets.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics under Fitch's *Bank Rating Criteria*. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market.

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

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'bbb' category. Light-blue columns represent Fitch's forecasts. Peer average includes Intesa Sanpaolo S.p.A. (VR: bbb), Credito Emiliano S.p.A. (bbb), Banco BPM S.p.A. (bbb-), CaixaBank S.A. (bbb+), Banco Santander S.A. (a-), Banco Bilbao Vizcaya Argentaria S.A. (bbb+) and Caixa Geral de Depositos S.A. (bbb).

Financials

	30 Sep 23		31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
	9 months	9 months	12 months	12 months	12 months	12 months
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)	(EURm)
	Unaudited	Unaudited	Audited – unqualified	Audited – unqualified	Audited – unqualified	Audited – unqualified
Summary income statement						
Net interest and dividend income	11,399	10,760	11,061	9,442	9,702	10,563
Net fees and commissions	6,007	5,670	6,687	6,703	5,957	6,318
Other operating income	1,520	1,435	3,759	1,070	1,358	1,577
Total operating income	18,926	17,865	21,507	17,215	17,017	18,458
Operating costs	8,875	8,377	11,795	12,278	12,869	12,421
Pre-impairment operating profit	10,052	9,488	9,712	4,937	4,148	6,037
Loan and other impairment charges	264	249	2,022	1,679	4,656	3,489
Operating profit	9,788	9,239	7,690	3,258	-508	2,548
Other non-operating items (net)	-149	-141	-398	-1,475	-1,948	1,805
Tax	2,522	2,381	819	-343	322	862
Net income	7,116	6,717	6,473	2,126	-2,778	3,491
Other comprehensive income	n.a.	n.a.	-297	1,823	98	1,368
Fitch comprehensive income	7,116	6,717	6,176	3,949	-2,680	4,859
Summary balance sheet						
Assets						
Gross loans	452,882	427,489	442,254	442,085	430,663	442,493
– Of which impaired	12,687	11,976	12,602	16,196	21,132	28,135
Loan loss allowances	11,629	10,977	11,697	13,129	17,685	21,014
Net loans	441,253	416,512	430,557	428,956	412,978	421,479
Interbank	57,535	54,309	10,077	15,715	26,478	30,212
Derivatives	-3,931	-3,711	35,918	45,489	52,850	43,581
Other securities and earning assets	249,733	235,731	214,355	233,527	243,602	269,751
Total earning assets	744,589	702,841	690,907	723,687	735,908	765,023
Cash and due from banks	92,546	87,357	131,191	158,354	161,904	54,668
Other assets	37,551	35,446	35,675	35,186	33,644	35,956
Total assets	874,687	825,644	857,773	917,227	931,456	855,647
Liabilities						
Customer deposits	497,522	469,626	493,649	478,997	462,254	422,845
Interbank and other short-term funding	146,121	137,928	149,617	187,258	210,969	185,694
Other long-term funding	98,048	92,551	94,399	105,454	106,251	90,489
Trading liabilities and derivatives	28,441	26,846	33,133	56,874	59,551	63,311
Total funding and derivatives	770,132	726,951	770,798	828,583	839,025	762,339
Other liabilities	37,937	35,810	23,478	25,994	25,648	25,711
Preference shares and hybrid capital	n.a.	n.a.	6,100	6,595	6,841	5,812
Total equity	66,618	62,883	57,397	56,055	59,942	61,785
Total liabilities and equity	874,687	825,644	857,773	917,227	931,456	855,647
Exchange rate		USD1 = EUR0.943931	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015

Source: Fitch Ratings, Fitch Solutions, UniCredit

	30 Sep 23	31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (%; annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	4.3	2.5	1.0	-0.2	0.7
Net interest income/average earning assets	2.0	1.5	1.2	1.2	1.4
Non-interest expense/gross revenue	46.9	55.6	65.7	76.9	68.5
Net income/average equity	14.9	11.0	3.5	-4.6	6.1
Asset quality					
Impaired loans ratio	2.8	2.9	3.7	4.9	6.4
Growth in gross loans	-3.3	0.0	2.7	-2.7	-3.5
Loan loss allowances/impaired loans	91.7	92.8	81.1	83.7	74.7
Loan impairment charges/average gross loans	0.1	0.4	0.4	1.1	0.8
Capitalisation					
Common equity Tier 1 ratio	17.5	16.7	15.8	16.0	13.2
Fully loaded common equity Tier 1 ratio	17.2	16.0	15.0	15.1	13.2
Tangible common equity/tangible assets	7.4	5.2	4.7	5.1	5.7
Basel leverage ratio	6.1	6.1	5.7	6.2	5.5
Net impaired loans/common equity Tier 1	2.0	1.8	6.0	7.0	16.5
Funding and liquidity					
Gross loans/customer deposits	91.0	89.6	92.3	93.2	104.7
Gross loans/customer deposits + covered bonds	83.4	83.8	86.3	89.1	96.3
Liquidity coverage ratio	157.0	161.0	182.0	178.0	143.0
Customer deposits/total non-equity funding	63.1	65.4	60.4	57.9	58.1
Net stable funding ratio	132.0	130.0	134.0	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, UniCredit

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	bbb to bb+
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	BBB/ Stable
Size of banking system	Neutral
Structure of banking system	Neutral
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

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

No Government Support

UniCredit's Government Support Rating of 'No Support' (ns) reflects Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event that the bank becomes non-viable.

The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that requires senior creditors to participate in losses, if necessary, instead of, or ahead of, a bank receiving sovereign support. In addition, Fitch's assessment of support reflects the bank's still very limited domestic retail deposit market share and specialised lending franchises.

Environmental, Social and Governance Considerations

Overall ESG

5
4
3
2
1

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.

Environmental (E)

General Issues	Score	Impact	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	Score	Impact	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	Score	Impact	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

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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