FitchRatings

Banks
Universal Commercial Banks
Belgium

KBC Group NV

Key Rating Drivers

Sound Business Profile: KBC Group NV's ratings are underpinned by its leading franchises in commercial banking and insurance in Belgium and the Czech Republic, strong and diversified earnings, solid capitalisation, and sound funding and liquidity. The ratings also incorporate KBC's operations in less developed and more volatile operating environments in central and eastern Europe (CEE), despite its conservative risk appetite and sound risk-adjusted profitability.

Ratings Reflect Consolidated Group: Fitch Ratings believes that the failure risk of KBC and its main subsidiary KBC Bank (90% of group assets) is substantially the same, given the high integration of insurance and banking operations. KBC is the group's holding company and its Viability Rating (VR) is equalised with KBC Bank's VR. The group is regulated on a consolidated basis and holding company double leverage is generally maintained at below 120%. Liquidity is managed centrally and the fungibility of capital is high.

Strong Franchise in Core Countries: KBC is one of the largest banking groups in Belgium, a market leader in the Czech Republic, and has a well-established market footprint in Slovakia, Bulgaria and Hungary. KBC's stable business model is underpinned by insurance and asset management franchises, which provide good cross-selling opportunities and revenue diversification, contributing to the group's strong profitability.

Moderate Risk Appetite: The group's generally conservative risk appetite is supported by the dominance of its fairly low-risk Belgian operations and stability in its Czech operations. Exposure to some CEE countries could lead to potential earnings and asset-quality volatility but these risks should be contained, given the strong integration of risk controls and credit standards within the group. Prudent management of insurance risks leads to low risk of potential losses in this business segment.

Stable Asset Quality: We expect KBC's impaired loans ratio to be slightly over 2% at end-2024 and end-2025, which compares favourably with those of Belgian peers, in light of material exposure to CEE countries. The bank's ratio has improved materially in the past couple of years due to the sale of its Irish impaired loans and tightened underwriting. The group's large SME and corporate lending poses moderate asset-quality risks.

Robust Earnings Generation: KBC's profitability is a rating strength and compares favourably with that of peers. The group's earnings generation has been resilient, even in a low interest rate environment, due to its sound business and geographic diversification, more moderate reliance on net interest income than western European peers, integrated bancassurance business, and sound pricing power in home markets. We expect KBC's operating profit/risk-weighted assets (RWAs) ratio to weaken to about 3% in 2024 from 3.4% in 2023 and remain at this level in 2025.

Solid Capital Buffers: Capitalisation is strong, reflecting robust internal capital generation, and is in line with similarly-rated peers. We expect KBC's fully-loaded common equity Tier 1 (CET1) ratio will remain above 15% in 2024 and 2025, which provides comfortable buffers above its regulatory minimum capital requirements.

Sound Funding and Liquidity: KBC's funding and liquidity profile is a rating strength, underpinned by a stable and diversified retail and SME deposit franchise base that is the main source of funding. We expect the bank's consolidated loans/deposit ratio to remain below 90% in 2024 and 2025. All subsidiaries, except for Slovakia, are self-funded. KBC has good access to wholesale funding markets, upcoming maturities are reasonably balanced and an ample liquidity buffer adequately mitigates refinancing risk.

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Viability Rating	a
Government Support Rating	ns

Sovereign Risk (Belgium)	
Long-Term Foreign-Currency IDR	AA-
Long-Term Local-Currency IDR	AA-
Country Ceiling	AAA

Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Fitch Affirms KBC Group NV at 'A'; Outlook Stable (June 2024)

Global Economic Outlook (June 2024)

Fitch Affirms Belgium at 'AA-'; Outlook Negative (February 2024)

Fitch Revises Czech Republic's Outlook to Stable; Affirms at 'AA-' (February 2024)

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Rating Sensitivities

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

KBC's and KBC Bank's ratings are mainly sensitive to a substantial and durable deterioration in asset quality, translating into erosion of the bank's profitability and capital generation. This could be signalled by a potential increase in the impaired loans ratio to above 3%, operating profit durably below 3% of RWAs and our expectation that the group's fully-loaded CET1 ratio falls below 14% without prospects of a swift recovery.

An adverse change in KBC's risk appetite could be negative for the ratings, for example, if the contribution of more volatile CEE countries to KBC's earnings grows rapidly, as this could imply an increase in exposure to weaker operating environments.

A potential lowering of the Belgian banks' 'aa-'/negative operating environment score would most likely lead to a revision of KBC's own operating environment by one notch to 'a', but the bank's ratings would be unaffected, all else equal.

KBC's ratings could also be downgraded should the holding company's double leverage sustainably rise above 120% without a clear path to reduction, although this is not Fitch's expectation.

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

Positive changes for KBC's and KBC Bank's ratings would require a stabilisation of the operating environment assessment for Belgian banks and for the group. In this scenario, an upgrade would be contingent on a stronger business profile and a structural improvement in asset-quality and capitalisation metrics while maintaining risk appetite and strong profitability.

Other Debt and Issuer Ratings

Rating level	KBC Group NV	KBC Bank NV	KBC IFIMA S.A.
Senior unsecured debt	A/F1	A+/F1	A+/F1
Tier 2 subordinated debt	BBB+	-	BBB+
Additional Tier 1 notes	BBB-	-	-

Source: Fitch Ratings

KBC Group and KBC Bank

KBC Bank's Long-Term IDR and long-term senior unsecured debt are rated 'A+', which is one notch above the bank's VR, because Fitch believes the risk of default on senior obligations, as measured by the Long-Term IDR, is lower than the risk of the bank failing, as measured by its VR. The group adopts a single-point-of-entry resolution strategy with bail-in as the preferred resolution tool. KBC is the resolution entity, which meets the group's minimum requirements for own funds and eligible liabilities (MREL). MREL instruments issued by KBC and channelled to KBC Bank rank junior to third-party senior creditors.

KBC's and KBC Bank's Short-Term IDR and short term senior unsecured debt rating of 'F1' is the lower of two options that map to their respective long-term ratings, reflecting our 'a+' assessment of funding and liquidity.

KBC Bank's Derivative Counterparty Rating (DCR) is aligned with its Long-Term IDR because, under Belgian legislation, derivative counterparties have no preferential status over other senior obligations in a resolution.

The subordinated Tier 2 debt securities issued by KBC are notched down twice from its VR, reflecting baseline notching for this type of debt under Fitch's criteria.

KBC's additional Tier 1 (AT1) notes are rated four notches below its VR, reflecting poor recoveries of these securities given their deep subordination (two notches) as well as incremental risk of non-performance relative to the VR due to fully discretionary coupons (two notches). Our assessment is based on the bank operating with a CET1 ratio that is comfortably above maximum distributable amount thresholds, and our expectation that this will continue.

KBC IFIMA S.A.

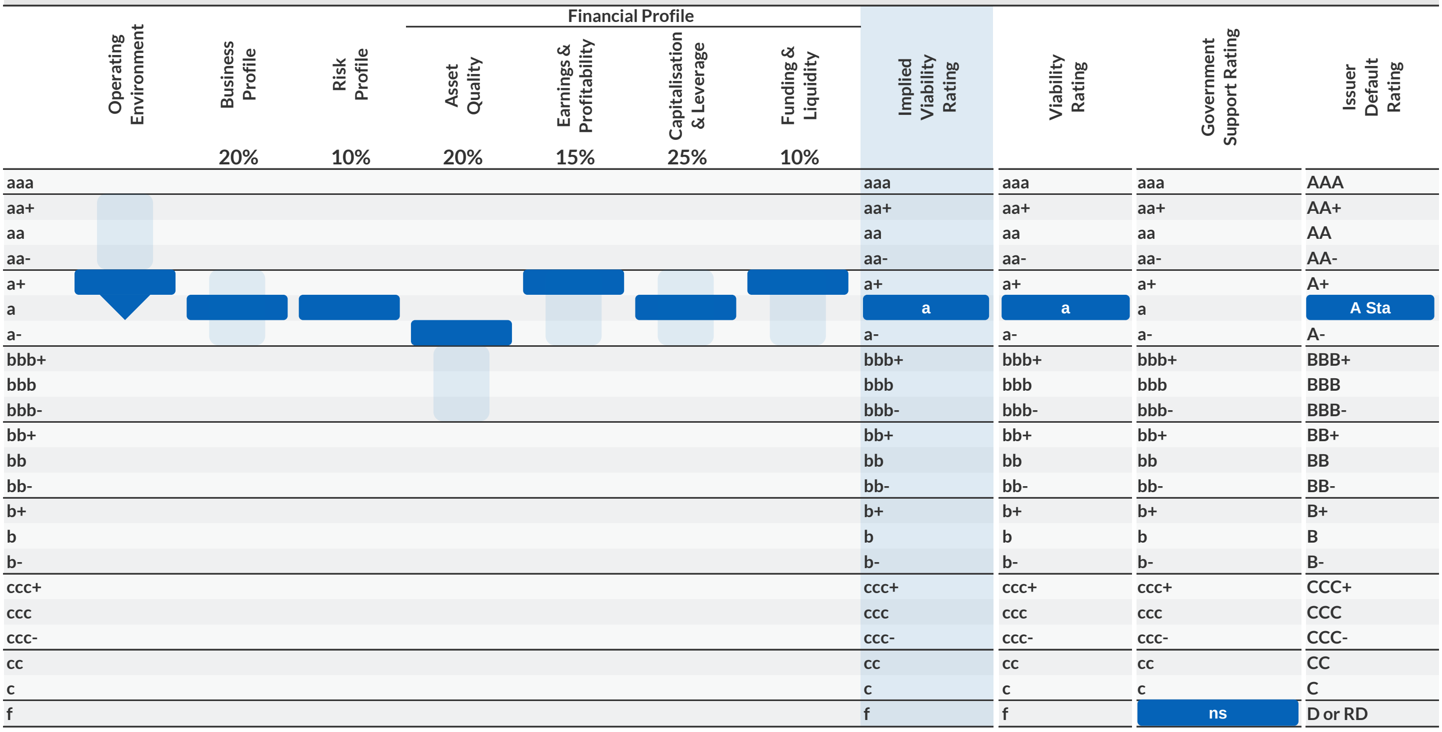
KBC IFIMA S.A.'s senior debt is aligned with KBC Bank's IDRs, as the debt is guaranteed by KBC Bank and we believe that KBC Bank will ensure these obligations are met. Subordinated debt issued by KBC IFIMA S.A. and guaranteed by KBC Bank on a subordinated basis is rated two notches below KBC Bank's VR to reflect poor recovery expectations.

Ratings Navigator

KBC Group NV

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 operating environment score of 'a+' is below the 'aa' implied category score and below the 'aa-' score of domestic Belgian banks due to the following adjustment reason: international operations (negative).

The asset quality score of 'a-' is above the 'bbb' implied category score due to the following adjustment reason: impaired loan formation (positive).

Company Summary and Key Qualitative Factors

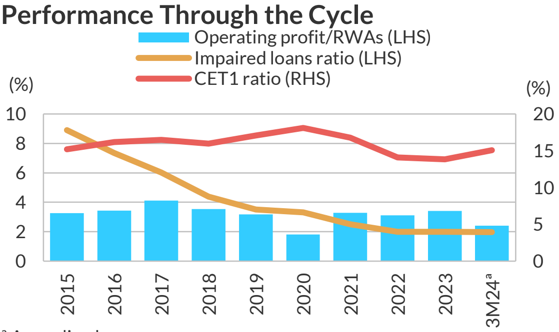
Business Profile

KBC is the second-largest bank by assets in Belgium and the largest bank in Czech Republic. Both countries are KBC's home markets, with market shares in loans and deposits at about 20% and a strong foothold in insurance and asset management. This provides the group with a competitive advantage, stable income streams and cost synergies. At end-March 2024 KBC's assets under management equalled EUR258 billion, of which 90% were in Belgium. In 2023, Belgium contributed 58% to the group's income, followed by Czech Republic (20%) and other markets (20%), predominantly in the CEE region.

KBC's business model is stable and diverse by product and geography, with a focus on retail, SME and mid-cap clients. The bank's diversified income streams allowed it to maintain strong and stable profitability during the recent period of low interest rates. The banking arm is the dominant part of the group and represents around 90% of the group's total assets and equity, and historically contributed about 85% to the group's profits.

The group has a solid presence in the CEE region, with just over a 10% market share in loans and deposits in Slovakia and Hungary, and almost two times higher market share in Bulgaria, recently increased due to acquisitions. Banking and insurance activities in the CEE region are less developed than in Belgium and the Czech Republic, due to lower levels of country wealth, but at the same time provide very good growth prospects. In Belgium and Czech Republic KBC's strategy is mostly focused on a further optimisation of its already strong bank-insurance business model using an innovative and digital offer. In the CEE region the group is focused on organic growth and selective bolt-on acquisitions and increasing digital capabilities and the use of modern technology in insurance and banking products.

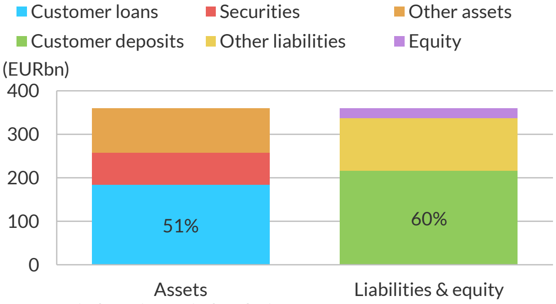
Performance Through the Cycle



ª Annualised
Source: Fitch Ratings, Fitch Solutions, KBC

Balance Sheet

End-March 2024



Source: Fitch Ratings, Fitch Solutions, KBC

Risk Profile

KBC's risk profile is strong and benefits from a good control of banking and insurance activities, and moderate risk appetite. Loans represent about 50% of assets and we consider KBC's underwriting standards to be of high quality, supported by the predominance of credit exposures in Belgium and the Czech Republic. In other CEE countries the local credit standards are low-risk and more stringent than industry standards, underpinned by centralised group oversight. Loan growth has been moderate in recent years, with a spike in 2022, amplified by acquisition of a bank in Bulgaria. KBC focuses on small bolt-on acquisitions that individually have a small impact on the group's solvency.

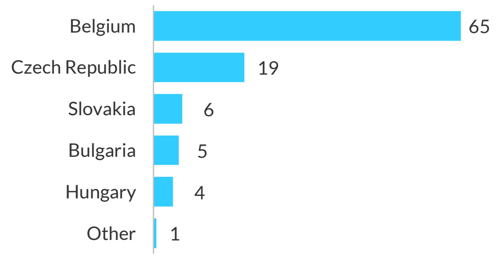
Belgian and Czech residential mortgage loans represented a high 22% and 10%, respectively, of group loans at end-March 2024, including off-balance-sheet guarantees. Mortgage origination is conservative, which translates into limited exposure to leveraged borrowers. In Belgium, KBC complies with the Belgian National Bank's guidelines aimed at reducing new production of high-leverage loans with loan/value (LTV; over 90%) and debt service/income (over 50%) ratios. Lending is based on borrowers' repayment capacity. Residential mortgage loans have low-risk features and modest sensitivity to interest rate cycles, as they are fully amortising and mainly have fixed interest rates.

Single-name and sector concentration is moderate due to prudent limits, set at country level and monitored on an ongoing basis. At end-March 2024, the share of real estate and construction represented almost 5% and 7% of total exposure (loans and guarantees), respectively (80% and 55% of CET1 capital, respectively). Concentrations by asset type are closely monitored, resulting in good diversification of the real-estate book. KBC's appetite for riskier real-estate development projects is low.

Securities (around 20% of the group's assets) include the bank's treasury and the insurance subsidiary's investment portfolios. The former comprises high-quality liquid bonds, mainly sovereign exposures to home and core countries. Investment risk in the insurance subsidiary is well managed, in our view, because the investment portfolio is mainly focused on investment-grade bonds and low-risk mortgage loans. Most of the life insurance products are unit-linked with market risk borne by clients.

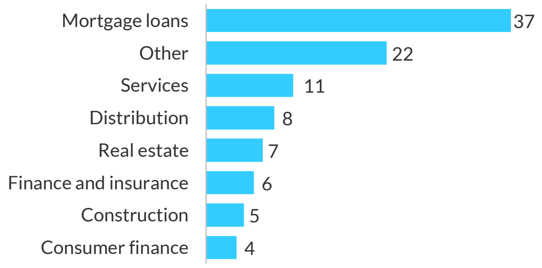
At end-2023, the unrealised losses in the group's debt securities portfolio at amortised cost equalled EUR2.4 billion (14% of fully loaded CET1 capital). The valuation gap is material due to less systematic hedging, but 50% lower compared with end-2022. It is unlikely to be realised in our opinion due to a low ample liquidity buffer and limited refinancing needs, underpinned by a granular and stable retail deposit base.

Loan Split by Countries[a] (%)
End-March 2024



[a] includes guarantees
Source: Fitch Ratings, Fitch Solutions, KBC

Loan Split by Sectors[a] (%)
End-March 2024



[a] includes guarantees
Source: Fitch Ratings, Fitch Solutions, KBC

Financial Profile

Asset Quality

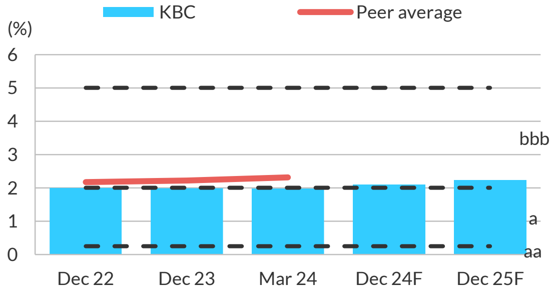
KBC's loans are mainly concentrated in Belgium and the Czech Republic with a record of sound impaired loans ratio and loan impairment charges (LICs), which we expect to continue. At end-March 2024, the impaired loans ratio was 2.1% in Belgium, 1.4% in Czech Republic, Slovakia and Hungary and 2.3% in Bulgaria. The group's ratio of 2% should be seen in light of the bank's recent exit from Ireland and an only-moderate approximate 50%-share of impaired loans more than 90 days overdue.

Resilient residential mortgage loans are an asset quality stabiliser, as evidenced in a low group impaired loan ratio. We expect good performance of mortgage loans due to a high share of fixed-rate loans in Belgium, strict underwriting in the CEE with relatively low debt-to-service ratios coupled with stable labour markets and house prices.

We expect broadly stable asset quality in SME and corporate lending, which benefits from good diversification by sectors and geography. Commercial real estate lending is primarily concentrated in Belgium and Luxembourg (68%) and the Czech Republic (20%), with a conservative weighted-average LTV of about 50%. The impaired loan ratio was moderately above the group's total impaired loan ratio, but below the EU average. Exposure to the retail and office segments was moderate.

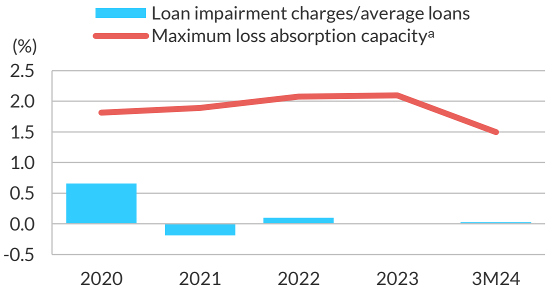
We expect the group's LICs in 2024 at 17bp and around 20bp of gross loans in 2025. In 1Q24 the annualised LICs represented a modest 3bp of gross loans, but excluding a release of the management overlay for geopolitical and macroeconomic risks the ratio was about 10bp. The remaining management overlay of EUR223 million could cushion about 12bp LICs.

Impaired Loans/Gross Loans



F - Forecast
Source: Fitch Ratings, Fitch Solutions, banks

P&L Loss Absorption Capacity



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

Earnings and Profitability

KBC's business and geographic diversification underpin its strong profitability, which compares well with similarly-rated peers, also including the recent period of low interest rates. The group's operating profit/RWAs ratio has been consistently above the domestic sector average in the past decade, at close to 3%. Belgium and the Czech Republic are the group's key contributors to the group's earnings stability. KBC's well-established presence in the CEE region with low saturation by mortgage lending and insurance products means we expect it will grow further.

We expect KBC's operating profit/RWAs ratio to weaken slightly to about 3% in 2024 (2023: 3.4%), due to a higher level of LICs, which were close to zero in 2023. In 1Q24, the annualised operating profit/RWAs ratio of 2.4% was distorted by an upfront recognition of annual charge of several bank and insurance taxes. We estimate that the ratio would be about 3.5%, assuming even distribution of taxes in 2024.

KBC's net interest income should be unchanged in 2024, benefitting from increasing reinvestment yields in bond portfolios and a pick-up in loan growth. The bank is less reliant on net interest income than most large banks in western Europe. In 1Q24, the bank's net interest income was up by almost 1% quarter-over-quarter.

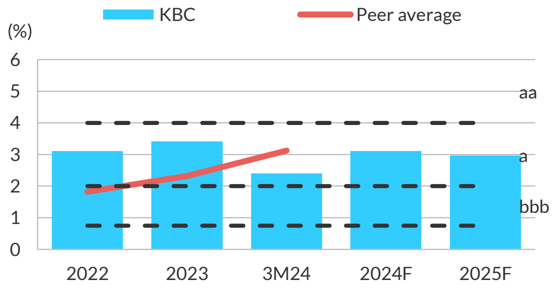
KBC's cost control has been strong, although its cost/income ratio is higher than that of international peers, which reflects additional bank and insurance taxes, and the recently changed presentation of insurance results. In 2024 we expect the cost/income ratio to improve to 63% (2023: 64%). Excluding bank and insurance taxes, we expect a stable ratio of 58%.

Capitalisation and Leverage

KBC's transitional CET1 ratio stood at 13.8% at end-2023, and we forecast it to reach about 14.5% at end-2024 and end-2025. The group's fully-loaded CET1 ratio was higher, at 15.2%, at end-2023 because it includes net profit reduced by expected dividend payouts.

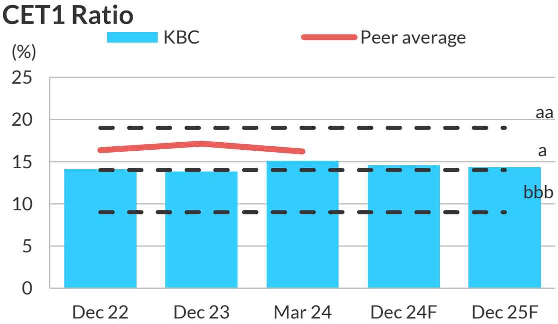
We forecast KBC's underlying fully-loaded CET1 ratio at almost 16% in 2024, but somewhat lower in 2025, net of the 50% dividend payout. The Basel IV implementation in 2025 will be broadly neutral for the bank's CET1 ratio. In our opinion, any surplus over 15% will be distributed, which translates into a structural fully-loaded CET1 ratio of about 15%, including the application of the Danish compromise. This level provides a comfortable buffer to satisfy KBC's growth appetite and the minimum requirement of 11%. KBC's assessment of capitalisation also reflects its historic robust internal capital generation. Over the past decade, KBC's net profit/RWAs ratio averaged about 2.5%, including a trough in 2020 at 1.4%.

Operating Profit/Risk-Weighted Assets



F - Forecast
Source: Fitch Ratings, Fitch Solutions, banks

CET1 Ratio



F - Forecast
Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

KBC's funding is sourced predominantly from deposits, about 70% of funding, underpinned by the group's leading franchises in Belgium (60% of all deposits) and the Czech Republic (25%). Deposit quality is also high in smaller CEE subsidiaries, given KBC's relationship-based business model and significant retail focus.

Group deposits shrank by almost 4% in 2023, due to a EUR5.7 billion outflow in September in Belgium stemming from competitively priced state bond issuance and lowered withholding tax. This outflow did not weaken KBC's liquidity and we expect the bank to recover the majority of lost deposits in September 2024, when the state bonds mature.

KBC has good access to wholesale funding through various instruments, including senior unsecured, covered bonds and structured notes. KBC's liquidity is sound and prudential ratios are well above minimum requirements, which limits short-term refinancing risk. In 1Q24, high-quality liquid assets averaged EUR102 billion (about 28% of assets at end-March 2024) and were split almost fifty-fifty between cash and central bank receivables and highly rated bonds, the amount of which reflects their current market value.

Additional Notes on Charts

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

To the extent Fitch is aware of material non-public information with respect to future events such as planned recapitalizations 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 boundaries for indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'a' category. Light-blue columns represent Fitch's forecasts.

Peer average includes Belfius Bank SA/NV (VR: a-), ING Belgium NV/SA (a-), Danske Bank A/S (a+), Erste Group Bank AG (a). Unless otherwise stated, financial year (FY) end is 31 December for all banks in this report. Latest average uses FY23 data for Belfius Bank SA/NV, ING Belgium NV/SA.

Financials

Financial Statements

	31 Mar 24		31 Dec 23	31 Dec 22	31 Dec 21
	3 months - 1st quarter (USDm) Reviewed - unqualified	3 months - 1st quarter (EURm) Reviewed - Unqualified	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified
Summary income statement					
Net interest and dividend income	1,479	1,376	5,532	5,221	4,496
Net fees and commissions	660	614	2,349	2,218	1,836
Other operating income	772	718	2,916	2,518	1,221
Total operating income	2,911	2,708	10,797	9,957	7,553
Operating costs	2,163	2,012	6,949	6,378	4,461
Pre-impairment operating profit	748	696	3,848	3,579	3,092
Loan and other impairment charges	17	16	-17	154	-333
Operating profit	731	680	3,865	3,425	3,425
Other non-operating items (net)	n.a.	n.a.	314	63	-7
Tax	187	174	778	670	804
Net income	544	506	3,401	2,818	2,614
Other comprehensive income	-1	-1	495	217	401
Fitch comprehensive income	543	505	3,896	3,035	3,015
Summary balance sheet					
Assets					
Gross loans	200,097	186,154	186,087	180,671	162,300
- Of which impaired	3,956	3,680	3,694	3,616	4,081
Loan loss allowances	2,614	2,432	2,474	2,619	2,573
Net loans	197,483	183,722	183,613	178,052	159,727
Interbank	2,713	2,524	2,779	4,254	7,920
Derivatives	2,097	1,951	2,511	2,486	5,290
Other securities and earning assets	123,317	114,724	114,123	100,810	109,030
Total earning assets	325,610	302,921	303,026	285,602	281,967
Cash and due from banks	48,624	45,236	34,530	51,427	40,653
Other assets	12,168	11,320	9,365	17,516	17,726
Total assets	386,402	359,477	346,921	354,545	340,346
Liabilities					
Customer deposits	232,470	216,271	216,423	224,407	199,476
Interbank and other short-term funding	49,424	45,980	37,213	45,343	47,868
Other long-term funding	35,305	32,845	28,689	21,361	22,378
Trading liabilities and derivatives	6,179	5,748	6,825	8,179	7,478
Total funding and derivatives	323,377	300,844	289,150	299,290	277,200
Other liabilities	37,316	34,716	33,511	33,437	40,069
Preference shares and hybrid capital	1,881	1,750	2,250	1,500	1,500
Total equity	23,827	22,167	22,010	20,318	21,577
Total liabilities and equity	386,402	359,477	346,921	354,545	340,346
Exchange rate		USD1 = EUR0.930319	USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173

Source: Fitch Ratings, Fitch Solutions, KBC

Key Ratios

	31 Mar 24	31 Dec 23	31 Dec 22	31 Dec 21
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.4	3.4	3.1	3.3
Net interest income/average earning assets	1.8	1.8	1.8	1.6
Non-interest expense/gross revenue	74.3	64.3	64.0	59.0
Net income/average equity	9.2	15.9	14.0	12.3
Asset quality				
Impaired loans ratio	2.0	2.0	2.0	2.5
Growth in gross loans	0.0	3.0	11.3	-0.6
Loan loss allowances/impaired loans	66.1	67.0	72.4	63.1
Loan impairment charges/average gross loans (bp)	3	0	10	-19
Capitalisation				
Common equity Tier 1 ratio	15.1	13.8	14.1	16.8
Fully loaded common equity Tier 1 ratio	14.9	15.2	15.3	15.5
Tangible common equity/tangible assets	5.5	5.6	5.1	5.6
Basel leverage ratio	5.5	5.2	4.9	6.5
Net impaired loans/common equity Tier 1	7.3	7.8	6.4	8.6
Funding and liquidity				
Gross loans/customer deposits	86.1	86.0	80.5	81.4
Liquidity coverage ratio	162.0	159.0	152.0	167.0
Customer deposits/total non-equity funding	72.6	75.7	76.4	73.1
Net stable funding ratio	139.0	136.0	136.0	148.0

Source: Fitch Ratings, Fitch Solutions, KBC

Support Assessment

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

KBC's and KBC Bank'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 that KBC or KBC Bank become 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 participating in losses, if necessary, instead of, or ahead of, a bank receiving sovereign support.

Environmental, Social and Governance Considerations

FitchRatings **KBC Group NV**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

KBC Group NV has 5 ESG potential rating drivers				ESG Relevance to Credit Rating
KBC Group NV 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.	key driver	0	issues	5
Governance is minimally relevant to the rating and is not currently a driver.	driver	0	issues	4
	potential driver	5	issues	3
	not a rating driver	4	issues	2
		5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

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

Social (S) Relevance Scores

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

Governance (G) Relevance Scores

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

CREDIT-RELEVANT ESG SCALE

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

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

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

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