

Credit Europe Bank N.V.

Key Rating Drivers

Exposure to Vulnerable Industries: Credit Europe Bank N.V.'s (CEB) ratings mainly reflect its weak asset quality and profitability. The bank's business model induces material exposure to counterparties in emerging markets and to cyclical industries. This has resulted in subdued revenues and relatively high loan impairment charges in recent years. The bank also benefits from stable and experienced management and generally stable retail deposit funding and adequate capital levels, although the capital remains exposed to asset-quality shocks.

Niche Franchise: The bank's niche but established franchise in international trade finance, corporate lending and project finance is a relative rating strength. The bank has not had any large fraud cases, which have affected its peers with international trade finance activities, but it still has sizeable exposure to the tourism sector, largely in Turkey. Fitch Ratings believes this exposure remains a potential source of impairments for CEB, especially if the resumption in tourism flows falls short of expectations.

Material Impaired Assets: CEB's asset-quality metrics are more volatile than larger peers' due to geographic, industry and borrower concentrations. The bank's impaired loan ratio (comprising Stage 3 loans) was 8.9% at end-2020, broadly stable compared with 2019, despite the economic fall-out from the pandemic. CEB's coverage of impaired loans with loan loss allowances is weak compared with peers.

Cyclical Profitability: CEB's earnings depend on global trade volumes, commodity prices and its US dollar funding spread as most of its international trade finance business is US dollar-denominated, while its funding is predominantly in EUR. We expect the bank's profitability to recover in 2021, although not to pre-crisis levels. Volume growth in its core commodity trade finance franchise will not fully offset subdued activity in the bank's corporate and retail lending. The bank's weak earnings have little capacity to absorb potential asset quality stress.

Weak Capital Flexibility: CEB's common equity Tier 1 (CET1) ratio was 16% at end-2020, stable compared with 2019. The bank can scale down its risk-weighted assets quickly and strengthen its solvency ratios owing to the short maturities of exposures in some parts of its business. Regulatory capital requirements are well covered, although the buffer is small in light of business concentrations and the low provision coverage of Stage 3 and Stage 2 exposures.

Stable Funding: CEB's main source of funds is a granular deposit base collected online in the Netherlands, Germany and Romania to a lesser extent. These funds are complemented by deposits from international banks and corporates originating from its trade finance and corporate banking operations. CEB has very limited recourse to wholesale debt funding.

Rating Sensitivities

Asset Quality Stress: We would be likely to downgrade CEB's ratings if its impaired loan ratio remained materially above 10% for an extended period of time, especially if provision coverage is kept at low levels. A prolonged period of losses or near break-even profitability would also be rating negative.

Stronger Financial Metrics: A durable improvement in CEB's operating profit/risk-weighted assets above 1%, together with a significant reduction in the bank's Stage 3 and Stage 2 loans and exposure to borrowers in cyclical industries would be rating positive. It will be equally important to preserve current capital levels and reduce capital vulnerability to asset quality shocks by bringing the provision coverage of impaired loans closer to industry averages.

Ratings

Foreign Currency

| | |
|----------------|----|
| Long-Term IDR | B+ |
| Short-Term IDR | B |

| | |
|------------------|----|
| Viability Rating | b+ |
|------------------|----|

| | |
|----------------------|----|
| Support Rating | 5 |
| Support Rating Floor | NF |

Sovereign Risk

| | |
|---|-----|
| Long-Term Foreign-and Local-Currency IDRs | AAA |
| Country ceiling | AAA |

Outlooks

| | |
|---|----------|
| Long-Term Foreign-Currency IDR | Negative |
| Sovereign Long-Term Foreign-and Local-Currency IDRs | Stable |

Applicable Criteria

[Bank Rating Criteria \(February 2020\)](#)

Related Research

[Fitch Affirms Credit Europe Bank at 'B+'; Outlook Negative \(June 2021\)](#)

[Global Economic Outlook - June 2021](#)

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Debt Rating Classes

| Rating level | Rating |
|---------------------|--------|
| Tier 2 subordinated | B-/RR6 |

Source: Fitch Ratings

CEB's Tier 2 subordinated debt is rated two notches below the banks' Viability Rating, reflecting poor recovery prospects for this type of debt. This is owing to high levels of senior-ranking liabilities (comprising mainly insured retail and corporate deposits) and weak asset quality. This is reflected in the 'RR6' recovery rating assigned to the notes. CEB's subordinated debt rating is sensitive to changes in the Viability Rating (VR).

Ratings Navigator

Credit Europe Bank N.V.



Banks
Ratings Navigator

| | Peer Ratings | Operating Environment | Company Profile | Management & Strategy | Risk Appetite | Asset Quality | Earnings & Profitability | Capitalisation & Leverage | Funding & Liquidity | Viability Rating | Support Rating Floor | Issuer Default Rating |
|------|--------------|-----------------------|-----------------|-----------------------|---------------|---------------|--------------------------|---------------------------|---------------------|------------------|----------------------|-----------------------|
| aaa | | | | | | | | | | aaa | AAA | AAA |
| aa+ | | | | | | | | | | aa+ | AA+ | AA+ |
| aa | | | | | | | | | | aa | AA | AA |
| aa- | | | | | | | | | | aa- | AA- | AA- |
| a+ | | | | | | | | | | a+ | A+ | A+ |
| a | | | | | | | | | | a | A | A |
| a- | | | | | | | | | | a- | A- | A- |
| bbb+ | | | | | | | | | | bbb+ | BBB+ | BBB+ |
| bbb | | | | | | | | | | bbb | BBB | BBB |
| bbb- | | | | | | | | | | bbb- | BBB- | BBB- |
| bb+ | | | | | | | | | | bb+ | BB+ | BB+ |
| bb | | | | | | | | | | bb | BB | BB |
| bb- | | | | | | | | | | bb- | BB- | BB- |
| b+ | | | | | | | | | | b+ | B+ | B+ |
| b | | | | | | | | | | b | B | B |
| b- | | | | | | | | | | b- | B- | B- |
| ccc+ | | | | | | | | | | ccc+ | CCC+ | CCC+ |
| ccc | | | | | | | | | | ccc | CCC | CCC |
| ccc- | | | | | | | | | | ccc- | CCC- | CCC- |
| cc | | | | | | | | | | cc | CC | CC |
| c | | | | | | | | | | c | C | C |
| f | | | | | | | | | | f | NF | D or RD |

Significant Changes

Recovery in the Operating Environment After Pandemic Stress

CEB's operating environment score of 'bb+' reflects that CEB is mainly exposed to potentially more volatile emerging and frontier markets, including Turkey or Romania, although the bank benefits from being incorporated and supervised in the Netherlands. Fitch has revised the outlook on the bank's operating environment score to stable from negative in June 2021 because there is sufficient headroom in the blended assessment to withstand potential deterioration in weaker emerging economies. Moreover, we believe the current uncertainty specific to some of CEB's businesses (such as trade finance, financing of the tourism sector) is already sufficiently reflected in the operating environment score at the current level.

We also take into consideration recently stabilised outlook for the Dutch operating environment score ('aa-') in June 2021. The Dutch operating environment is important for CEB in the context of its reliance on Dutch deposits and in terms of banking regulation.

| Bar Chart Legend | |
|---|--------------------|
| Vertical bars – VR range of Rating Factor | |
| Bar Colors – Influence on final VR | |
| ■ | Higher influence |
| ■ | Moderate influence |
| ■ | Lower influence |
| Bar Arrows – Rating Factor Outlook | |
| ↑ | Positive |
| ↓ | Negative |
| ↕ | Evolving |
| □ | Stable |

Company Summary and Key Qualitative Assessment

Niche Trade Finance and Corporate Banking Franchise

CEB is a niche bank with long-standing experience in international trade finance. In this segment, the bank's product suite includes letters of credit pre- and post-export financing as well as receivables financing. CEB has limited market share compared to larger banks but benefits from well-established customer relationships with large commodity traders. CEB is also active in marine finance where it finances cargo vessels during and after their construction phase, and in commercial real estate (e.g. hotels, retail, logistics).

CEB funds its activities with online savings gathered in the Netherlands, Germany and Romania, in addition to bank and corporate deposits. The bank also has a small Romanian subsidiary, which is mainly active in residential mortgage lending and credit cards.

Experienced and Stable Management Team

CEB's management is highly experienced in the bank's key business areas and has been very stable with most of the management team serving at the bank in different capacities for about 20 years. We believe there is some reliance on key individuals, especially in corporate banking given CEB's hands-on approach in this particular segment.

CEB's corporate governance aligns to Dutch regulatory standards and is commensurate with the bank's smaller size. Loans to related parties are meaningful at about EUR160 million (about 30% of CET1 capital) and mainly to companies owned by the parent, the Fiba group holding. Related party transactions are however conducted at arm's length and must be approved by all three independent members of CEB's supervisory board.

Strategy to Streamline Operations, Improve Risk Profile

CEB's strategic targets are centred on a tightening of its risk appetite, improvements in asset quality and maintaining adequate buffer above regulatory capital requirements. CEB also plans on re-focusing on traditional trade finance activities and being more involved in commercial real estate transactions in developed countries. The bank is restructuring and has closed its small private banking operation in Switzerland due to a lack of scale and will be winding down its Dubai subsidiary in 2021.

Risk Appetite Commensurate with Business Model

CEB's risk appetite is above average and reflects a business model with portfolio concentrations by sector and obligors and exposure to emerging markets. Oil and derivatives, tourism and commercial real estate are the bank's main corporate sector concentrations and respectively represent 160%, 70% and 80% of the bank's CET1 capital. CEB's deep sector knowledge and hands-on approach with significant senior management involvement, as well as the short-term nature of trade finance transactions, mitigate these risks.

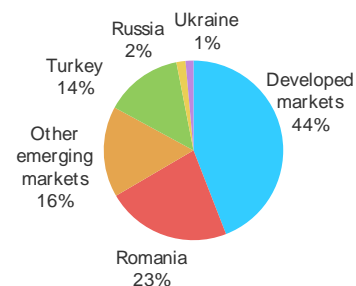
Since the pandemic outbreak, the bank has sharpened its underwriting criteria in certain corporate segments, lowered its limits with higher risk countries and significantly increased portfolio monitoring for the more vulnerable sectors in its portfolio, such as leisure and tourism.

CEB has no appetite for traded markets risk. However, the bank has exposure to foreign currency risk as a significant portion of its loan book is denominated in US dollars and Romanian leu. The bank has appropriate hedges in place to limit the impact from adverse movements in the relevant currency pairs on its earnings.

Credit quality in CEB's investment portfolio, which is mainly held for liquidity purposes, is moderate. The portfolio is dominated by securities rated at least BBB (about 80% share), with a small exposure to the sovereign debt of peripheral European and/or Eastern European countries.

Credit Exposure

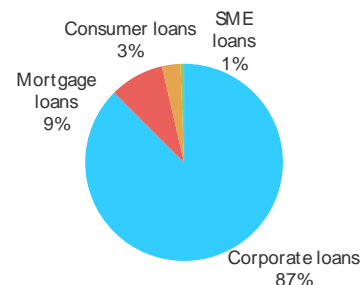
By region; EUR4.7bn at end-2020



Source: Fitch Ratings, CEB

Gross Loans

by Type; EUR2.7bn at end-2020



Source: Fitch Ratings, CEB

Summary Financials and Key Ratios

| | 31 Dec 20 | | 31 Dec 19 | 31 Dec 18 | 31 Dec 17 |
|--|-----------------------|-----------------------|---|-----------------------|-----------------------|
| | Year end | Year end | Year end | Year end | Year end |
| | (USDm) | (EURm) | (EURm) | (EURm) | (EURm) |
| | Audited - unqualified | Audited - unqualified | Audited - unqualified (emphasis of matter) | Audited - unqualified | Audited - unqualified |
| Summary income statement | | | | | |
| Net interest and dividend income | 118 | 97.1 | 120.0 | 165.4 | 286.5 |
| Net fees and commissions | 29 | 23.9 | 31.0 | 29.0 | 53.2 |
| Other operating income | 36 | 29.4 | 28.4 | 0.8 | 59.1 |
| Total operating income | 183 | 150.4 | 179.4 | 195.2 | 398.8 |
| Operating costs | 148 | 121.3 | 139.3 | 129.2 | 246.8 |
| Pre-impairment operating profit | 35 | 29.1 | 40.1 | 66.0 | 152.0 |
| Loan and other impairment charges | 37 | 30.6 | 1.9 | 29.2 | 116.2 |
| Operating profit | -2 | -1.5 | 38.2 | 36.8 | 35.8 |
| Other non-operating items (net) | 5 | 4.3 | -24.0 | -358.0 | -18.7 |
| Tax | -2 | -1.9 | -5.4 | 5.3 | 2.0 |
| Net income | 6 | 4.7 | 19.6 | -326.5 | 15.1 |
| Other comprehensive income | -14 | -11.5 | 17.2 | 240.9 | -25.3 |
| Fitch comprehensive income | -8 | -6.8 | 36.8 | -85.6 | -10.2 |
| Summary balance sheet | | | | | |
| Assets | | | | | |
| Gross loans | 3,245 | 2,667.0 | 2,832.3 | 2,891.3 | 4,695.9 |
| - of which impaired | 289 | 237.3 | 258.1 | 310.8 | 376.1 |
| Loan loss allowances | 97 | 79.6 | 66.4 | 164.3 | 208.5 |
| Net loans | 3,148 | 2,587.4 | 2,765.9 | 2,727.0 | 4,487.4 |
| Interbank | 248 | 204.0 | 187.9 | 432.0 | 538.1 |
| Derivatives | 230 | 189.2 | 169.8 | 189.9 | 236.4 |
| Other securities and earning assets | 1,042 | 856.8 | 750.6 | 759.0 | 810.3 |
| Total earning assets | 4,669 | 3,837.4 | 3,874.2 | 4,107.9 | 6,072.2 |
| Cash and due from banks | 810 | 666.1 | 737.2 | 651.8 | 829.2 |
| Other assets | 393 | 322.9 | 308.7 | 323.5 | 471.1 |
| Total assets | 5,872 | 4,826.4 | 4,920.1 | 5,083.2 | 7,372.5 |
| Liabilities | | | | | |
| Customer deposits | 3,805 | 3,127.2 | 3,401.7 | 3,649.8 | 4,899.0 |
| Interbank and other short-term funding | 824 | 677.2 | 482.8 | 416.5 | 632.0 |
| Other long-term funding | 149 | 122.1 | 133.1 | 130.1 | 662.5 |
| Trading liabilities and derivatives | 201 | 165.4 | 164.5 | 182.7 | 203.6 |
| Total funding | 4,978 | 4,091.9 | 4,182.1 | 4,379.1 | 6,397.1 |
| Other liabilities | 99 | 81.1 | 72.5 | 76.2 | 100.7 |
| Preference shares and hybrid capital | 50 | 40.8 | 44.6 | 43.8 | n.a. |
| Total equity | 745 | 612.6 | 620.9 | 584.1 | 874.7 |
| Total liabilities and equity | 5,872 | 4,826.4 | 4,920.1 | 5,083.2 | 7,372.5 |
| Exchange rate | USD1 = EURO0.821963 | | USD1 = EURO0.89015 | USD1 = EURO0.873057 | USD1 = EURO0.83382 |

Source: Fitch Ratings, Fitch Solutions, Central Europe Bank N.V.

Summary Financials and Key Ratios

| | 31 Dec 20 | 31 Dec 19 | 31 Dec 18 | 31 Dec 17 |
|---|-----------|-----------|-----------|-----------|
| Ratios (annualised as appropriate) | | | | |
| Profitability | | | | |
| Operating profit/risk-weighted assets | 0.0 | 1.0 | 0.9 | 0.6 |
| Net interest income/average earning assets | 2.6 | 3.1 | 3.4 | 4.5 |
| Non-interest expense/gross revenue | 80.1 | 77.1 | 66.5 | 62.0 |
| Net income/average equity | 0.8 | 3.3 | -43.9 | 1.7 |
| Asset quality | | | | |
| Impaired loans ratio | 8.9 | 9.1 | 10.8 | 8.0 |
| Growth in gross loans | -5.8 | -2.0 | -38.4 | -12.6 |
| Loan loss allowances/impaired loans | 33.5 | 25.7 | 52.9 | 55.4 |
| Loan impairment charges/average gross loans | 1.1 | 0.0 | 0.8 | 2.2 |
| Capitalisation | | | | |
| Common equity Tier 1 ratio | 16.0 | 15.7 | 14.8 | 14.2 |
| Tangible common equity/tangible assets | 11.8 | 11.9 | 11.3 | 11.6 |
| Basel leverage ratio | n.a. | n.a. | n.a. | 11.9 |
| Net impaired loans/common equity Tier 1 | 26.1 | 31.5 | 25.1 | 19.9 |
| Funding and liquidity | | | | |
| Loans/customer deposits | 85.3 | 83.3 | 79.2 | 95.9 |
| Liquidity coverage ratio | 453.0 | 509.1 | n.a. | n.a. |
| Customer deposits/funding | 78.8 | 83.7 | 86.1 | 79.1 |
| Net stable funding ratio | 150.0 | 150.0 | n.a. | n.a. |

Source: Fitch Ratings, Fitch Solutions, CEB, Central Europe Bank N.V.

Key Financial Metrics – Latest Developments

Material Tourism Exposure May Drive Impaired Loan Inflows

The bank's exposure to the tourism sector is sizeable at about 12% of gross loans and we believe this remains a potential source of impairments for CEB. Tourist arrivals in Turkey, where most of the bank's tourism exposure is concentrated, were below expectations in 1Q21 and a recovery to pre-crisis levels may be delayed by renewed restrictions on international travel. We believe this sector exposure, together with revisions in statistical models, is also the key driver for the increase in the bank's Stage 2 ratio. The ratio reached a high 20% of gross loans at end-2020 (from 13% at end-2019).

CEB's impaired loans mainly stem from its corporate lending activities in Turkey and from a legacy mortgage loan portfolio in Romania. Concentrations are high in CEB's loan portfolio, which amplifies movements in asset quality. CEB's coverage of impaired loans with loss allowances is weaker than peers' and will increase the bank's loss given default in the event of shifts in collateral valuations.

CEB's liquidity portfolio is tilted towards lower investment grade securities and its interbank placements are predominantly to low, and non-investment, grade financial institutions, which is in line with peers that are active in international trade finance.

Uncertain Recovery Path for Profitability

CEB's profitability is volatile due to the cyclical nature of its business model but it is comparable with that of specialist trade finance banks. CEB's revenues fell about 15% yoy in 2020 because the near standstill in global trade flows for part of the year and the bank's reduced risk appetite negatively affected credit volumes. Higher loan loss provisioning to anticipate impaired loan inflows led CEB to record a loss on an operating basis, despite a focus on cost control.

We expect the bank's profitability will not recover to pre-crisis levels in 2021, as volume growth in its core commodity trade finance franchise will likely not fully offset subdued activity levels in its corporate and retail banking businesses. Increasing hedging costs and price rigidity for online deposits will also limit revenue growth, in our view, and the outlook for loan impairment charges remains uncertain.

Small Capital Buffers Relative to Risk Concentrations

CEB's regulatory capital requirements are well covered on a risk-weighted assets basis. CEB has relative flexibility in managing down its risk-weighted assets due to the short maturities of its international trade finance exposures. However, we consider the bank's buffer to be small in nominal terms, considering the low level of provision coverage for Stage 3 and Stage 2 loans and some of its riskier sector concentrations, such as tourism.

The bank's capital buffers also benefit from the transitional implementation of the IFRS9 accounting standard, which we estimate adds close to 70bp to its CET1 ratio. We view positively that dividend pay-outs have been moderate historically, and that CEB's shareholder is not pressuring for short-term returns. We believe that ordinary parental support is possible given a number of capital injections in recent years.

Stable Funding and Adequate Liquidity

CEB's funding mainly comprises granular retail savings as well as deposits from international banks and corporates originating from its trade finance and corporate banking operations. We believe that CEB's retail deposit franchise is not relationship-based and lacks depth. CEB has no recourse to wholesale debt funding with the exception of one externally placed Tier 2 bond of USD150 million. Borrowings from ECB and related parties are minimal.

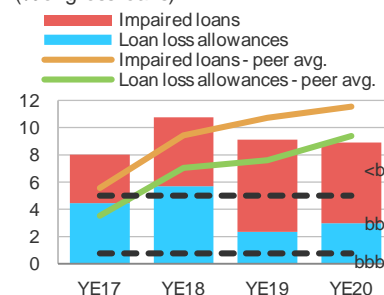
At end-2020 CEB had about EUR0.7 billion of 'AAA' to 'A-' rated central bank deposits and securities (15% of assets), enough to cover outflows of nearly 30% of its retail deposit base. The bank's liquidity is not fully fungible between local entities in our view, but the bank ensures its subsidiaries in foreign countries are mostly self-funded either with retail or corporate deposits.

Note on Charts

Black dashed lines in the charts represent indicative quantitative ranges and corresponding implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'bb' category.

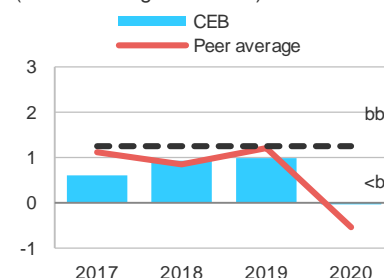
Peer average includes Credit Europe Bank N.V. (VR: 'b+'), Crown Agents Bank Limited (bb), Union de Banques Arabes et Francaises - U.B.A.F. (bb-), Banque de Commerce et de Placements SA (bbb-), Credit Europe Bank (Russia) Ltd (bb-), Arap Turk Bankasi A.S. (b+), Banca UBAE S.p.A. (b+), FIMBank p.l.c. (b) and Fibabanka Anonim Sirketi (b)

Asset Quality (% of gross loans)



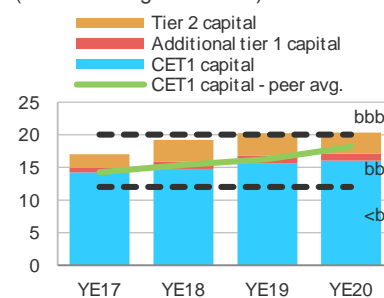
Source: Fitch Ratings, banks

Operating Profit (% of risk-weighted assets)



Source: Fitch Ratings, banks

Regulatory Capital (% of risk-weighted assets)



Source: Fitch Ratings, banks

Sovereign Support Assessment

| Support Rating Floor | | Value | | |
|---|----------|-----------|----------|--|
| Typical D-SIB SRF for sovereign's rating level (assuming high propensity) | | A+ to A- | | |
| Actual country D-SIB SRF | | NF | | |
| Support Rating Floor: | | NF | | |
| Support Factors | Positive | Neutral | Negative | |
| Sovereign ability to support system | | | | |
| Size of banking system relative to economy | | | ✓ | |
| Size of potential problem | ✓ | | | |
| Structure of banking system | | | ✓ | |
| Liability structure of banking system | | ✓ | | |
| Sovereign financial flexibility (for rating level) | | ✓ | | |
| Sovereign propensity to support system | | | | |
| Resolution legislation with senior debt bail-in | | | ✓ | |
| Track record of banking sector support | | ✓ | | |
| Government statements of support | | | ✓ | |
| Sovereign propensity to support bank | | | | |
| Systemic importance | | | ✓ | |
| Liability structure of bank | | ✓ | | |
| Ownership | | | ✓ | |
| Specifics of bank failure | | ✓ | | |

CEB's Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign if CEB becomes non-viable. This reflects the bank's lack of systemic importance in the Netherlands, as well as the implementation of the EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism. These provide a framework for resolving banks, which is likely to require senior creditors participating in losses, if necessary, instead or ahead of a bank receiving sovereign support.

Environmental, Social and Governance Considerations

FitchRatings Credit Europe Bank N.V.

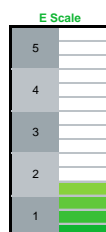
Banks
Ratings Navigator

Credit-Relevant ESG Derivation

| Credit Europe Bank N.V. has 5 ESG potential rating drivers | | | Overall ESG Scale | |
|---|---------------------|---|-------------------|---|
| <ul style="list-style-type: none"> Credit Europe Bank N.V. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating. Governance is minimally relevant to the rating and is not currently a driver. | key driver | 0 | issues | 5 |
| | driver | 0 | issues | 4 |
| | potential driver | 5 | issues | 3 |
| | not a rating driver | 4 | issues | 2 |
| | | 5 | issues | 1 |

Environmental (E)

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



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

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

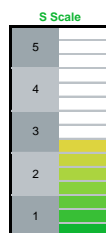
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

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

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

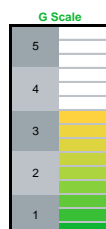
Social (S)

| General Issues | S Score | Sector-Specific Issues | Reference |
|--|---------|--|--|
| Human Rights, Community Relations, Access & Affordability | 2 | Services for underbanked and underserved communities; SME and community development programs; financial literacy programs | Company Profile; Management & Strategy; Risk Appetite |
| 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; Company Profile; Management & Strategy; Risk Appetite |
| Labor Relations & Practices | 2 | Impact of labor negotiations, including board/employee compensation and composition | Company Profile; Management & Strategy |
| Employee Wellbeing | 1 | n.a. | n.a. |
| 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 | Company Profile; Financial Profile |



Governance (G)

| General Issues | G Score | Sector-Specific Issues | Reference |
|------------------------|---------|--|--|
| Management Strategy | 3 | Operational implementation of strategy | Management & Strategy |
| 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 | Management & Strategy; Earnings & Profitability; Capitalisation & Leverage |
| Group Structure | 3 | Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership | Company Profile |
| Financial Transparency | 3 | Quality and frequency of financial reporting and auditing processes | Management & Strategy |



| 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. |

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